



CHINA DAIRY CORPORATION LIMITED

15 December 2017

Rupa Kapadia
Adviser, Listings Compliance
ASX Compliance Pty Ltd
By email to: rupa.kapadia@asx.com.au

Dear Rupa

China Dairy Corporation Limited Response to ASX Query

China Dairy Corporation Limited (CDC or Company) refers to your letter dated 11 December 2017 and responds to your queries in the same order as raised.

1. Mr. Zhang is engaged by the Company as a consultant and corporate advisor to provide financial management services and to facilitate the communications between Australian service providers and company officeholders and the China based directors. In discharging this role, it is common for Mr. Zhang to receive directives from China based directors to communicate, on behalf China based directors, their instructions and information, to Australian service providers and company officers.

The Company confirms that Mr. Zhang is not acting as a shadow director of the Company and receives specific instructions from and acts in accordance with the directions and authority of China based CDC directors and the Board of CDC from time to time in discharging his responsibilities.

2. The Company has made enquiries with Mr Zhang in regards to the email sent to the Company's lawyers on 23 November 2017 (Email). The Company has been advised that the Email was sent by Mr. Zhang's personal assistant without Mr Zhang's knowledge at the time it was sent as he was travelling, and was sent on her misunderstanding that Mr Batten had retired as a director of CDC effective as at the close of the 10 November 2017 Board Meeting.

The Company has been informed of the following:

- (a) Mr. Zhang was travelling at the time on 23 November 2017;
- (b) to minimize any delay in communications, Mr. Zhang's personal assistant is, and was at the time, authorized by Mr. Zhang to access and, where appropriate and reasonably necessary in assisting Mr Zhang to perform and discharge his duties as a consultant and corporate adviser of the Company, send emails on his behalf, while he is travelling;

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- (c) at the 10 November 2017 Board Meeting, the CDC Board resolved that Mr. Batten would be retiring as a director and seeking re-election at the Annual General Meeting, to be held on 22 December 2017 (AGM);
- (d) however, it was misunderstood by Mr Zhang's personal assistant that Mr. Batten was retiring effective at the close of the Board Meeting held on 10 November 2017, and he therefore no longer had authority to engage with service providers on behalf of the Company;
- (e) Mr Zhang's personal assistant, via her access to Mr Zhang's emails during his absence, became aware that Mr Batten sought to retain the services of the Company's lawyers;
- (f) at the time, Mr Zhang's personal assistant was concerned about the Company's liability for the legal fees charged by the Company's lawyers for services provided at the request of Mr Batten, who she honestly believed at the time, had retired on 10 November 2017. In order to avoid such liability, Mr Zhang's personal assistant considered, at the time, necessary to bring to the attention of the Company's lawyers, her concern;
- (g) the Email was sent by Mr Zhang's personal assistant, in error, on the basis of her misunderstanding of the 10 November 2017 Board decision that Mr. Batten resigned as a director of the Company as at 10 November 2017; and
- (h) Mr Zhang had no knowledge of the Email (and its content) at or before it was sent.

As per the Company's notice of Annual General Meeting lodged with ASX on 21 November 2017, Mr. Batten will resign by rotation at the AGM to be held on 22 December 2017 and is seeking re-election.

The Company's lawyer responded to the email dated 23 November 2017 clarifying that Mr. Batten will remain a director of CDC until the time of the AGM and this clarification was accepted and is consistent with the 10 November 2017 Board Meeting and the understanding of Mr. Zhang and the Company.

3. The information provided to ASX about the Dividend Decision is not correct. The decision not to pay dividend was approved by four of the five directors of the Company and the statement in the Appendix 4E was authorized by the majority of the Board of Directors.



Mr. Zhang did not take part in the decision not to pay a dividend, this was a Board decision.

A decision on the payment of future dividends will be considered by the Board at a future date taking into consideration the prevailing performance, capital requirements and future development plans of the Company.

4. The Company does maintain a bank account in Hong Kong, the Company currently has \$7.57 million AUD in the bank account and Mr. Zhang is the signatory on the account as part of his engagement as the Company's consultant and corporate advisor and has the Company's continuous authority to operate the bank account, subject to the Company's internal control procedures noted below.

The Company's internal control procedures require that all payments made by Mr. Zhang from the Company's Hong Kong bank account must be pre-authorized by two Company directors.

Mr. Zhang was appointed signatory on the account at the Hong Kong bank in the presence of 4 out of 5 directors of the Company, including both Australian directors. The appointment of Mr Zhang, who is based in Southern part of China, was, and still is, considered by the Company necessary to facilitate any payment of Company's expenses out of the Company's bank account in Hong Kong, given the China based directors reside in northern China and may not be readily available to travel to Hong Kong.

5. The minutes of each Board Meeting held since 1 July 2016 are attached.
6. The Company is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.
7. The Company confirms that four of the five directors of the Company have approved the responses set out in the letter.

Yours faithfully

Mr. Enjia Liu
Chairman

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11 December 2017

Mr Justyn Stedwell
Company Secretary
China Dairy Corporation Limited

By email: justyn@stedwell.com.au

Dear Mr Stedwell,

China Dairy Corporation Limited (“CDC”)

ASX Limited (“ASX”) has received information from a credible source raising concerns about the governance of CDC. As you know, given the seriousness of those concerns, ASX has suspended trading in CDC’s securities under Listing Rule 17.3.4 on the basis that it is “appropriate” in the circumstances.

In particular, it has been suggested to ASX that Mr Xiaoran “John” Zhang, who is not a member of CDC’s board, is acting as a de facto director of CDC.

ASX has seen an email from Mr Zhang dated 23 November 2017 (the “23 November Email”) to lawyers acting for CDC asserting that Mr David Batten, one of the non-executive directors of CDC, announced his retirement at a board meeting on 10 November 2017. The email goes on to state that Mr Batten:

“... is no longer able to engage in any CDC-related activities on behalf of CDC, if he is seeking any work or personal contact with you, then any costs incurred will all be paid by himself, CDC will not make any payment of the fees.”

ASX notes that it has not received any notice from CDC under Listing Rule 3.16.1 regarding the retirement of Mr Batten as a director. ASX also notes that on 21 November CDC published a notice of annual general meeting which includes a resolution to re-elect Mr Batten as a director of the company and states that he has “retired as a Director in accordance with article 27(2) of the Company’s Articles of Association”. This is not consistent with Mr Batten having announced his retirement as a director on 10 November 2017.

It has also been suggested to ASX that Mr Zhang has unilaterally revoked a decision by the board of CDC to continue paying dividends on a 9 monthly basis and instead caused to be included in CDC’s Preliminary Final Report (“Appendix 4E”) lodged with ASX on 29 August 2017 a statement that:

“The directors do not propose to pay a final dividend for the year ended 30 June 2017. The Company is currently reviewing its capital requirements, investment and other growth opportunities. The Company will reassess dividend payment decision [*sic*] again when announcing its future results.” (the “Dividend Decision”).

It has further been suggested to ASX that Mr Zhang has arranged for himself to be appointed as a signatory on CDC’s bank account in Hong Kong and that he may even be the sole signatory.

In light of the above, ASX asks CDC to respond separately to each of the following questions and requests for information:

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1. What is the relationship between CDC and Mr Zhang and what role does he play in the management of CDC?
2. By what authority did Mr Zhang send the 23 November Email?
3. Is the information provided to ASX about the Dividend Decision correct? If so, by what authority did Mr Zhang reverse the decision of the Board to continue paying dividends on a 9 monthly basis? If not, who authorised the statement quoted above in the Appendix 4E?
4. Does CDC maintain a bank account in Hong Kong? If so, how much funds are presently held in that account and who are the signatories to the account? If Mr Zhang is a signatory to the account, who approved his appointment as a signatory?

[If CDC maintains more than one bank account in Hong Kong, please provide the information in this question for each bank account.]
5. Please provide a copy of the minutes for each meeting of the board of directors of CDC held since 1 July 2016. [This will not be for publication.]
6. Please confirm that CDC is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.
7. Please confirm that CDC's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of CDC with delegated authority from the board to respond to ASX on disclosure matters.

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and in any event, (ie before **9:30 a.m. AEDT on Friday, 15 December 2017**).

Please note that ASX regards these matters **most seriously**. If ASX does not receive a satisfactory response from CDC by the time and date above, it reserves the right to terminate CDC's admission to the official list pursuant to Listing Rule 17.12.

ASX also reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

When and where to send your response

Your response should be sent to me by e-mail at rupa.kapadia@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before and if it is to be published on the ASX Market Announcements Platform.

Notice to directors

Please ensure that a copy of this letter is provided to all of the directors of CDC, with a translation into Chinese for those directors who do not understand English.



If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely,

[Sent electronically without signature]

Rupa Kapadia

Adviser, Listings Compliance

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