



DAQING DAIRY HOLDINGS LIMITED

大慶乳業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1007)

Executive Directors:

Mr. Ng Kwong Chue Paul
Mr. Wang Delin

Non-executive Director:

Ms. Kou Mei In

Independent non-executive Directors:

Mr. Sze Lin Tang
Mr. Qiu Xiaohua

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of

business in Hong Kong:
Room 2512, 25/F.
Cosco Tower
183 Queen's Road Central
Hong Kong

29 January 2016

To the Independent Shareholders

Dear Sir or Madam,

MANDATORY UNCONDITIONAL CASH OFFER BY



**FOR AND ON BEHALF OF THE OFFEROR TO ACQUIRE
ALL THE ISSUED SHARES (OTHER THAN THOSE ALREADY
OWNED BY THE OFFEROR AND PARTIES ACTING IN CONCERT
WITH IT) IN DAQING DAIRY HOLDINGS LIMITED**

INTRODUCTION

Reference is made to the Joint Announcement.

The Company was informed by the Vendor (the then controlling Shareholder) that on 4 May 2015, the Offeror and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Offeror has agreed to acquire and the Vendor has agreed to sell the Sale Shares, being 610,193,622 Shares, for a total Consideration of HK\$61,019,362.20, equivalent to HK\$0.10 per Sale Share. The Sale Shares represent approximately 60.39% of the 1,010,500,000 Shares in issue of the Company as at the date of the Joint Announcement. Completion took place on 11 May 2015.

Immediately following the Completion, the Offeror and parties acting in concert with it were interested in 610,193,622 Shares, representing approximately 60.39% of the entire issued share capital of the Company as at the Latest Practicable Date. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory cash offer for all the issued Shares other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it.

The purpose of this Composite Document is to provide you with, among other things, (i) information relating to the Offeror, the Offer and the Group; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Offer; and (iii) a letter of advice from VMS Securities to the Independent Board Committee in relation to the Offer and as to its acceptance.

Principal terms of the Offer

Head & Shoulders Securities, on behalf of the Offeror, is making the Offer to acquire all the issued Shares other than those already owned by the Offeror and parties acting in concert with it in accordance with the Takeovers Code on the following basis:

For each Offer Share HK\$0.10 in cash

The Offer Price of HK\$0.10 per Sale Share, which is the same as the original purchase price of the Sale Shares acquired by the Vendor, was agreed between the Vendor and the Offeror after arm's length negotiations having taken into account, amongst others, (i) the prolonged suspension of trading in the Shares since 22 March 2012; (ii) the subsequent development of the Company's situation as publicly disclosed in its announcements; and (iii) such acquisition of the controlling stake in the Company having proceeded on the basis that the Offeror was only able to assess the Company's difficult situation based on publicly available information and no guarantee, representation or warranty was given by the Vendor to the Offeror to assure any conditions (financial, operation or otherwise) of the Company including but not limited to continuity of existing business, status of financial statements and resumption of the trading of Shares on the Stock Exchange.

The Offer is unconditional in all respects and is not conditional upon acceptances being received in respect of a minimum number of Shares or any other conditions.

Effects of accepting the Offer

By validly accepting the Offer, the Shareholders will sell their tendered Shares to the Offeror free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the right to receive all dividends and other distributions, if any, declared, made or paid on or after the date on which the Offer is made, being the date of this Composite Document.

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) immediately prior to Completion; and (ii) immediately following Completion and as at the Latest Practicable Date.

	(i) Immediately prior to Completion		(ii) Immediately following Completion and as at the Latest Practicable Date	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
Vendor	610,193,622	60.39%	—	0.00%
The Offeror and parties acting in concert with it	—	—	610,193,622	60.39%
Public Shareholders	<u>400,306,378</u>	<u>39.61%</u>	<u>400,306,378</u>	<u>39.61%</u>
Total	<u>1,010,500,000</u>	<u>100.00%</u>	<u>1,010,500,000</u>	<u>100.00%</u>

INFORMATION ON THE GROUP

The Company is principally engaged in investment holding and was incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange.

Since the new Board was formed in September 2013, the Board has been encountering difficulties to gain a management control over the PRC Subsidiaries. Access to the PRC Subsidiaries by the new Board was denied and there has been a lack of cooperation by the existing management of the PRC Subsidiaries. Based on the information retrieved and the site inspection conducted by an independent PRC agency arranged by the forensic accountant in late 2014, the Board has reasonable belief that some of the members of the Group are still operating their ordinary business, i.e. production, marketing and sales of dairy products in the PRC. As disclosed in the previous announcements of the Company, the Company has engaged forensic accountant to conduct an investigation on the matters raised by the ex-auditors of the Company, Deloitte Touche Tohmatsu but the progress is not satisfactory given the lack of support by the management of the PRC Subsidiaries. Such forensic investigation has been temporarily halted due to insufficient financial resources of the Company. Given the lack of effective control by the Board over the operating subsidiaries of the Company, attempts have also been made by the Board to effect the change of the legal representatives of the PRC Subsidiaries but it is not optimistic that such change can be effected in a short period of time.

On 14 May 2015, the Stock Exchange issued a letter informing the Company that in view of, among others, the fact that: (a) all the Company's businesses are carried out by the PRC Subsidiaries; (b) the Company has been facing difficulties in exercising control over the PRC Subsidiaries; (c) the Company was refused by the PRC Subsidiaries to access to their offices and factories and was not provided with any information, books and records; and (d) the request for changing the PRC Subsidiaries' legal representatives was not entertained, the Company has lost its control on the PRC Subsidiaries and the Stock Exchange considers that the Company is unable to maintain a sufficient level of operations or assets required under rule 13.24 of the Listing Rules to support a continued listing. Accordingly, the Stock Exchange has decided to place the Company in the first delisting stage pursuant to Practice Note 17 to the Listing Rules. The first delisting stage expired on 13 November 2015.

On 19 November 2015, the Stock Exchange issued a letter to the Company stating that: (i) the first delisting stage has expired on 13 November 2015 but the Company has not submitted any resumption proposal before the deadline; and (ii) the Stock Exchange decided to place the Company in the second delisting stage under Practice Note 17 to the Listing Rules.

The second delisting stage will expire on 18 May 2016. The Company should provide a viable resumption proposal at least 10 Business Days before the second delisting stage expires (i.e. 3 May 2016) to:

- (i) demonstrate sufficient operations of assets under rule 13.24 of the Listing Rules;
- (ii) conduct forensic investigation on the issues raised by Deloitte Touche Tohmatsu, disclose the findings of the investigation and take any remedial actions;
- (iii) demonstrate that there is no reasonable regulatory concern about the character, level of due care and integrity the Company's management which will pose a risk to investors and damage market confidence;
- (iv) publish all outstanding financial results and address any audit qualifications;
- (v) demonstrate that the Company has put in place adequate financial reporting procedures and internal control systems to meet obligations under the Listing Rules; and
- (vi) inform the market of material information for the shareholders and the investors to appraise the Group's position.

It was further stated that the Stock Exchange may modify any of the resumption conditions above and/or impose further resumption conditions if necessary.

On 3 December 2015, the Company resolved to wind up its immediate Singapore incorporated subsidiary (i.e. Global Milk) as the Company was unable to ascertain the completeness and accuracy of its books and records so as to exercise management control

over such subsidiary; and that such Singapore subsidiary had failed to serve as an intermediate holding company to exercise an effective control over its operating subsidiaries in the PRC (i.e. the PRC Subsidiaries).

Reference is made to the announcements of the Company dated 29 March 2012 and 28 December 2012 with regards to the resignation of the then auditors, Deloitte Touche Tohmatsu, with effect from 21 March 2012 and the announcement dated 9 January 2013 with regards to extensive damages to the computers and financial documents of Da Qing Dairy Ltd.* (大慶乳品廠有限責任公司). In view of the above, the outstanding annual results for the four years ended 31 December 2011, 2012, 2013 and 2014 and interim results for the six months ended 30 June 2012, 2013, 2014 and 2015, were published on 21 January 2016 and the respective annual and interim reports were published on 25 January 2016.

As disclosed in the Group's consolidated financial statements for the year ended 31 December 2010, bank balances and cash amounted to approximately RMB11,523,000 were recorded on the statement of financial position of the Company at 31 December 2010. Except for bank balances of approximately RMB3,000, the Directors have been unable to locate the bank accounts and have no information as to the whereabouts of the bank balances and cash due to incomplete books and records of the Company and the unresponsiveness of the Company's previous management to the enquiry by the Board. In the event that the Board discovers any criminal element involved in the missing amount of RMB11,520,000, the Board will report to relevant regulatory authorities for further investigation.

INFORMATION ON THE OFFEROR AND ITS INTENTION REGARDING THE GROUP

Your attention is drawn to the letter⁵ from Head & Shoulders Securities in this Composite Document for the information on the Offeror and its intention regarding the Group. In particular, as stated in the letter from Head & Shoulders Securities, the Offeror has no intention to privatise the Group and intends to maintain the listing of the Shares on the Stock Exchange. The Offeror and the proposed new Directors to be nominated by the Offeror will jointly and severally undertake to the Stock Exchange that they will take appropriate steps to restore the minimum public float as required under the Listing Rules as soon as possible following the close of the Offer to ensure that sufficient public float exists for the Shares.

The Stock Exchange has stated that if, upon closing of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares until the prescribed level of public float is restored.

The Board is also aware of the Offeror's intention in relation to the Group and its employees and the proposed change of Board composition, and is willing to render co-operation with the Offeror and would continue to act in the best interests of the Group and the Shareholders as a whole.

RECOMMENDATION

The Independent Board Committee comprises all the independent non-executive Directors who have no direct or indirect interest in the Offer, namely Mr. Sze Lin Tang and Mr. Qiu Xiaohua, to advise the Independent Shareholders in relation to the terms and conditions of the Offer, in particular as to whether the terms of the Offer are, or are not, fair and reasonable and as to the acceptance of the Offer.

As Ms. Kou Mei In, the chairlady of the Company and the non-executive Director, is the wife of Mr. Kyan, who is the sole owner and director of the Vendor, therefore Ms. Kou Mei In has an indirect interest in the Offer and has not been included in the Independent Board Committee.

VMS Securities has been appointed by the Board after approval by the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee as to whether the Offer is, or is not, fair and reasonable and as to its acceptance.

Your attention is drawn to the letter of recommendation from the Independent Board Committee set out on pages 25 to 26 of this Composite Document and the letter of advice from VMS Securities set out on pages 27 to 44 of this Composite Document, which contains, among other things, its advice to the Independent Board Committee in relation to the Offer and the principal factors considered by it in arriving at its recommendation.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from Head & Shoulders Securities set out in this Composite Document, Appendix I to this Composite Document and the accompanying Form of Acceptance which contain further details of the Offer and the procedures for acceptance of the Offer. Your attention is also drawn to the additional information set out in the appendices to this Composite Document.

Yours faithfully,
For and on behalf of the Board
Daqing Dairy Holdings Limited


Kou Mei In
Chairlady

** For identification purposes only*