

5. OUR DAIRY PRODUCTS

As a supplier of dairy products, in particular on infant formula, we are well aware of our responsibility in supporting the healthy growth of infants and children. As such, every stage of our production processes aims to ensure our products are of high quality in order to provide the essential nutrition for the development of infants and children.

5.1 Research and Development

Ausnutria Hyproca is a leading supplier of goat milk products in the world and specialises in a complete chain of production from collecting fresh Dutch goat milk from farms to supplying finished goods.

The Group has its own research centre in the PRC and in the Netherlands to support the continuous improvement of existing products and innovation of new products. For example, since and after the research centre being accredited as a “Provincial Grade Enterprise Technology Centre” by the Hunan Economic and Information Technology Commission (湖南省經濟和信息化委員會) in 2014, the Group succeeded in applying as an entrepreneurial technology centre (省級企業技術中心) from the Development and Reform Commission of Hunan Province (湖南省發展和改革委員會) in November 2016. A post-doctoral research workshop (博士後工作流動站) was approved to be set up, allowing us to attract national experts to join the Group as research, development and technological consultants. Besides, the Group was also among one of the first batch of enterprises to be reaffirmed as “Hi-tech Enterprises (高新技術企業)” by Hunan Province, the PRC.

Furthermore, Ausnutria has formed an international research and development team with more than 30 nutrition, medical, dairy and food industry experts from both the PRC and overseas, to launch the cooperation in research and development of infant formula and nutrition products. Ausnutria has received a total of 46 registered patents so far, including 24 invention patents, 17 design patents and 5 utility model patents. In addition, we received 34 authorised patents (which will become registered patents upon receipt of the authorization letter), including 14 invention patents, 16 design patents and 4 utility model patents.



✧ Ausnutria Institute of Food and Nutrition located in Changsha, the PRC

The Group has entered into a ten-year agreement with the health science center of Peking University in the PRC to jointly establish the “Peking University · Ausnutria Maternal & Infant Nutrition Research Center (北大·澳優母嬰營養研究中心)” and to set up a team of experts which mainly consists of professors from the health science center of Peking University to kick off the research on breast milk base (breast milk bank, breast milk fatty acids, amino acids, etc), research on infant formula, clinical validation and popular science education. Under the collaboration, the Group continues to carry out series of research work and clinical trials of *Kabrita* during 2016. One of our research results revealed that goat milk-based powder is a good alternative to cow milk-based powder in a number of aspects, from nutrition and digestion to immune system development.



- ◇ Jointly establish the “Peking University · Ausnutria Maternal & Infant Nutrition Research Center (北大·澳優母嬰營養研究中心)” with the health science center of Peking University in the PRC

The toddler products of our key international brand, *Kabrita*, are already available in the market of the United States. As part of the long-term strategy of *Kabrita*, the Group has conducted clinical trials since 2014 to apply for the approval from the US Food and Drug Administration (the “FDA”) for the sale of *Kabrita* infant formula products in the United States. Further application work on this is proceeding as scheduled, and the FDA approval is expected to be granted in 2018.

New products developed in 2016



Kabrita Jing Ying Nutritional Children's goat milk formula

Kabrita Jing Ying is developed for picky eaters. It contains vitamins and minerals, pre- and probiotics, OPO and DHA, and is aimed at providing essential nutrients and eye-sight development.



Kabrita Kosher formula

Our well-known *Kabrita* Gold formula stage 1, 2 and 3 for customers living by Kosher standards.



Neolac Organic

Neolac Organic's milk formula is made from organic milk coming from Dutch organic farms only. Our farmers choose organic agriculture out of a passion for nature and animal welfare. *Neolac Organic* formula is enriched with special nutrients, such as organic GOS (prebiotic fibre) and unsaturated fatty acids, DHA and AA.



Kabrita Gold

The newly updated *Kabrita Gold* for the European Union market will comply with the newest European Food Safety Authority recommended nutritional guidelines.

Ausnutria has also established subsidiaries with independent third parties for the sale of *Kabrita* in Russia and the Commonwealth of Independent States (the "CIS"), Europe, the Middle East, the United States and Canada, etc. Aspiring to become a global market leader in goat milk-based infant nutrition products, the Group will continue to launch *Kabrita* in other major countries, and leverage the studies and clinical trials conducted by (i) the Maternal and Child Nutrition Research Centre; (ii) the clinical studies in Europe; and (iii) the in-house research and development team in the Netherlands.

5.2 Product Quality and Safety

Business with integrity is our core belief. Within our organisation, we ensure our products comply with all laws and regulations relating to consumer health and safety.

By adopting a quality management system, we are committed to providing our customers and consumers with safe and high quality products. We do not tolerate any risk in our product safety, and have set high standards for raw materials, ingredients, production and packaging. With synergies throughout the entire chain, we are able to maintain product safety and quality, producing a wide range of high-end products.

In particular, our production processes in the Netherlands are certified for a number of food safety and quality standards, including HACCP (Hazard Analysis and Critical Control Points), BRC (British Retail Consortium) Global Standards and IFS (International Featured Standard) Food Standard. These standards are audited by independent certifying bodies to ensure that we comply with the Dutch and European food legislation.

World Class Safety and Quality
同步世界级 安全与品质

从牧场到餐桌，从奶滴到奶粉，全程可追溯
——只为赋予宝宝安全的营养！





澳优 澳优乳业
Ausnutria
——给生命更好的开始——



领跑中国乳业国际化
让宝宝营养与世界同步

We strive for continuous improvements in both our product and service quality by encouraging every comment and feedback from both our internal and external stakeholders. Customer satisfaction surveys are carried out regularly to understand consumers' perception on the quality of our products and service. Whenever negative feedback is received, it will be sent to the quality department as soon as possible for impact assessment. A comprehensive complaint handling procedure is established at Ausnutria, allowing us to continuously improve our products. We are responsive to customer complaints and committed to swift resolution of the problems. Complaints are sorted once received and are sent to responsible departments to analyse the root causes and identify preventive and corrective actions.

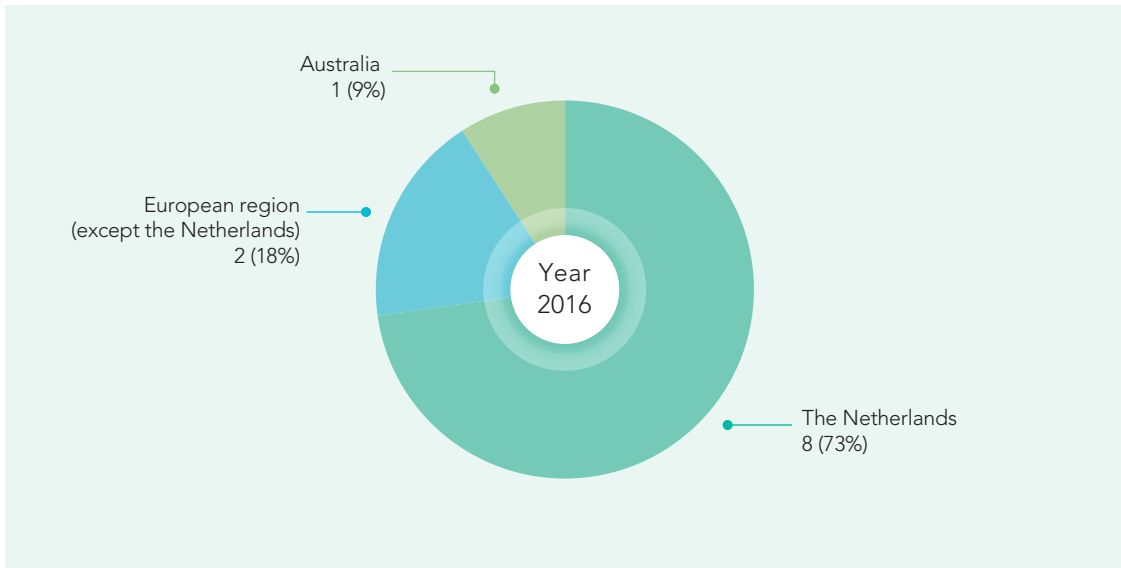
Each of our employees in Ausnutria must strictly comply with our food safety and quality system. In order to ensure every employee clearly understands and is familiar with the health and safety procedures, relevant training on food production regulations and quality checks are provided.

5.3 Supply Chain Management

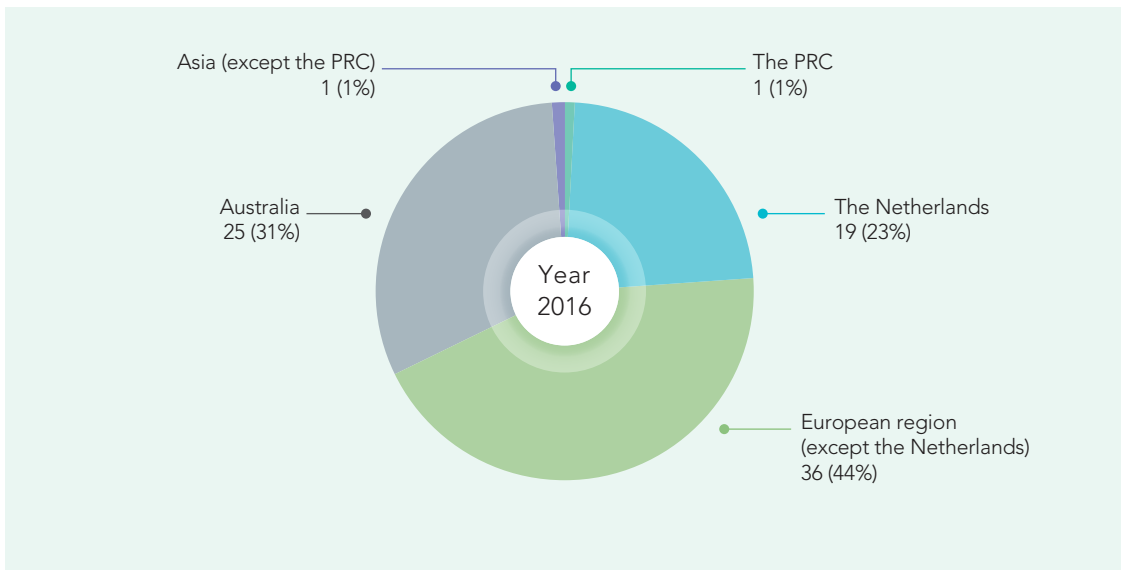
Ensuring the best quality of our milk sources, a well-managed supply chain is critical in our operations. Ausnutria cherishes real partnership and aims to build a long-term and close relationships with our suppliers. Through maintaining regular engagement with our suppliers on a wide range of topics with our suppliers, we are confident that we can depend on them for a stable supply of the highest quality milk and other raw materials.

At Ausnutria, a comprehensive supply chain management system has been established to oversee the purchasing process and management of suppliers. Preliminary assessment is conducted to evaluate potential suppliers before we enter into cooperation. Samples of their products are assessed against our quality requirements to ensure that we only procure from suppliers that meet our requirements and expectations. Continuous monitoring of our suppliers' compliance and performance levels is also necessary. Through conducting regular audits, we assess suppliers' reliability with a set of criteria including quality, delivery, and food safety. Suppliers are then classified into high, medium or low performance category based on the audit result and the type of service or product they provide to Ausnutria. The frequency of a supplier audit is then determined according to the category. In case we have received any concerns or complaints on food safety, a supplier audit is performed as early as possible to ensure product quality.

Number of dairy suppliers by location, Year 2016



Number of other suppliers by location, Year 2016



As Ausnutria processes both cow milk and goat milk, animal welfare is a key concern when we choose our milk suppliers. Through direct dialogues with our dairy suppliers in the Netherlands, we promote the idea of outdoor grazing as we believe such farming practice is beneficial to the well-being of the animals. As a result, more than half of our cow suppliers are practicing outdoor grazing. We have also considered the benefits on the environment and natural resources of grazing on organic dairy farms. As such, we invested in upstream organic related resources for a reliable and stable supply of organic infant formula required ingredients through engaging our suppliers. While the market and consumers are starting to pay more attention to sustainability, we will continue to work hand-in-hand with our dairy suppliers and dairy associations to achieve a sustainable farming practice.



Case Study:

KwaliGeit and the Sustainable Goat Dairy Chain

Together with our goat farmers, we strive for the highest quality goat milk. Therefore all goat farms work according to a chain-quality care system maintained by the Dutch Goat Dairy Association (“NGZO”), known as the “KwaliGeit (Qualigoat) Program”. By using the KwaliGeit Program, the Netherlands became a leader in securing a high quality standard for goat milk and goat farms. The KwaliGeit Program is in close cooperation with “LTO Melkgeitenhouderij” established and has also taken into account the requirements of the European hygiene regulations with respect to foods, and the regulations for dairy farmers apply. An oversight assessment will be performed on farms that have a recognition or are certified as “KwaliGeit”. These quality systems cover all aspects of the production of goat milk, not only legally required, but also additional parameters. This includes rules about milking and storage, cleaning and disinfection, environment and waste, animal feeding and water, use of medicines and well-being of the animals. Hyproca Goat Milk B.V., a subsidiary of Ausnutria Hyproca, continuously checks compliance to these regulations. A third party, Qlip, will also do the audit on the compliance. Qlip is accredited for these activities according to ISO/IEC 17020.

Since 2015, the NGZO, in collaboration with the Dutch Organisation for Agriculture and Horticulture (“LTO Nederland”), has expanded its total activities with the initiative “Sustainable Goat Dairy Chain”. NGZO, LTO Nederland, goat farmers, goat milk collectors, and goat milk processors, together with Ausnutria Hyproca all collaborate on three main subjects: 1) animal health and animal welfare; 2) energy and climate; and 3) market and image. Examples of main goals are extending the goat’s lifespan, decreasing the use of antibiotics, increasing the quality of milk, reducing the energy consumption during both milk collection and processing, reducing the CO₂ footprint, and using natural resources in a more efficient way.

5.4 Responsible Sales and Marketing

Upon producing high quality products, our mission is to ensure that the products are carefully and safely brought to our customers. In view of this, our commitment goes beyond simply producing quality products, and adopts a more effective sales and marketing control. This includes adhering to regulations on infant formula advertisement, intellectual property rights protection and data privacy protection.

Consumption period of milk powder is relatively short to ensure its quality is maintained. As such, our products cannot be stocked for a long period of time. Therefore, it is necessary for us to manage our stock items to prevent overstocking. For example, we have utilized the Customer Relationship Management ("CRM") software to help us consolidate product, distributor and customer information into a single database. The software has allowed us to prevent unnecessary wastage due to overstock in the channels and hence, a more effective sale distribution process.

We take a step further by acknowledging the importance of responsible marketing practices within the dairy industry. In order to help our customers to make the best purchases for their infants and children, we ensure that the labelling on our products are printed with honest and accurate information. Our products are properly labelled as we do not allow misleading information. Our labels are complied with relevant local laws and regulations, such as The Food Safety Law and the Provisions for Formula Registration of Infant Formula Milk Powder of the PRC, and the European Union law on the provision of food information to consumers.

Giving the best start of life

At Ausnutria, we believe that breast milk is the best source of nutrition for babies. Despite being a supplier of infant formula, we support exclusive breastfeeding for the first six months of life as recommended by the World Health Organization ("WHO"). As such, we do not promote stage 1 infant formula (0-6 months) to customers.

Ausnutria also values the relationship with customers. In terms of individual customers, we implemented a precise membership sales system in the PRC, built a new membership management IT system platform and provide services to the customers which are beyond their expectation. We also implemented a precise membership sales model to interact with our members through a variety of marketing practices as well as optimized shopping experience, to provide more value-added services to our members from products to services.



✧ The "First President Class" organized by the "Golden BIB Business School"

In terms of business customers, Ausnutria has in total invested more than RMB100 million in establishing the "Golden BIB Business School" in the PRC to launch training programs like the "First President Class", "Elite Manager Training Program" and "Nutritionist Training Program", to help and train thousands of business customers like distributors to enhance their professional and service capabilities.