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AUSNUTRIA DAIRY CORPORATION LTD

澳優乳業股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

**(I) UPDATE ON THE PROPOSED ACQUISITION OF
A 51% SHAREHOLDING INTEREST IN
A DAIRY PRODUCTS COMPANY IN THE NETHERLANDS;
AND
(II) DISCLOSEABLE TRANSACTION RELATING TO THE PREPAYMENT**

The Board wishes to update the shareholders of the Company and the investing public on the status of the proposed Share Purchase and Share Subscription as announced by the Company on 29 March 2011. Since the signing of the Letter of Intent, negotiations with DDI, the DDI Shareholders and Hyproca Dairy on the Share Purchase and Share Subscription based upon the terms of the Letter of Intent are progressing satisfactorily, and the parties are finalising the documentations relating thereto with a view to executing formal agreement to give effect to the Share Purchase and the Share Subscription as soon as practicable. The Company will make further announcement(s) and comply with the relevant requirements of the Listing Rules should the Share Purchase and Share Subscription materialise.

The Board also wishes to announce that on 31 May 2011, the Company entered into the Prepayment Agreement with DDI, the DDI Shareholders and Hyproca Dairy, pursuant to which the Company agreed to provide the Prepayment in the amount of EUR7,419,000 (equivalent to approximately HK\$82.85 million) to DDI. The Prepayment is secured by a first right pledge of the Sale Shares (being the shares in Hyproca Dairy proposed to be acquired by the Group under the Share Purchase pursuant to the terms of the Letter of Intent) established by DDI in favour of the Company and shall be applied by DDI as a loan to Hyproca Dairy to finance its acquisition of the Assets and its working capital needs.

The advance of the Prepayment constitutes a discloseable transaction for the Company under the Listing Rules.

Reference is made to the 29 March Announcement in relation to the Letter of Intent entered into among the Company, DDI, the DDI Shareholders and Hyproca Dairy regarding the proposed Share Purchase and Share Subscription. Capitalised terms used herein have the same meanings as defined in the 29 March Announcement unless otherwise specified.

UPDATE ON THE SHARE PURCHASE AND THE SHARE SUBSCRIPTION

The Board wishes to update the shareholders of the Company and the investing public on the status of the Share Purchase and the Share Subscription. Since the signing of the Letter of Intent, negotiations with DDI, the DDI Shareholders and Hyproca Dairy on the Share Purchase and Share Subscription based upon the terms of the Letter of Intent are progressing satisfactorily, and the parties are finalising the documentations relating thereto with a view to executing formal agreement to give effect to the Share Purchase and the Share Subscription as soon as practicable. Based on the information available to the Company as at the date hereof, the Share Purchase and the Share Subscription are expected to constitute a major transaction for the Company under the Listing Rules. The Company will make further announcement(s) and comply with the relevant requirements of the Listing Rules should the Share Purchase and the Share Subscription materialise.

During the course of the negotiations, Hyproca Dairy has identified an investment opportunity in the Assets. Having considered, among other things, the quality and potential of the Assets and the consideration thereof and the progress of the negotiations of the Share Purchase and the Share Subscription, the Company entered into the Prepayment Agreement with DDI, the DDI Shareholders and Hyproca Dairy on 31 May 2011, pursuant to which the Company agreed to provide the Prepayment to DDI for the purpose of funding the acquisition of the Assets by Hyproca Dairy and its working capital needs. Details of the Prepayment Agreement are set out below.

THE PREPAYMENT AGREEMENT

Date

31 May 2011

Parties

- (i) the Company;
- (ii) DDI;
- (iii) the DDI Shareholders; and
- (iv) Hyproca Dairy.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) DDI, the DDI Shareholders, Hyproca Dairy and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons (within the meaning of the Listing Rules);

(ii) DDI, Manids B.V. and Elbe B.V. are investment holding companies; (iii) Participatiemaatschappij Heerenveen B.V. is a private equity investment company; and (iv) Hyproca Dairy is principally engaged in the dairy industry in the Netherlands with activities ranging from research and development, milk collection, processing, production, packaging, marketing and sales of dairy products.

The Prepayment

Pursuant to the Prepayment Agreement, the Company agreed to provide DDI the Prepayment in an aggregate amount of EUR7,419,000 (equivalent to approximately HK\$82.85 million) on or before 10 June 2011 as an advance against the cash portion of the consideration for the Share Purchase.

It is a condition to the advance of the Prepayment that DDI shall apply a loan to be granted by DDI to Hyproca Dairy until completion of the Share Purchase and Share Subscription taking place, whereby Hyproca Dairy shall in turn apply such loan wholly and exclusively towards the funding of the acquisition of the Assets and its working capital needs.

In the event that the formal agreement relating to the Share Purchase and the Share Subscription is signed, the Prepayment shall be set off against the cash portion of the consideration payable by the Company under the Share Purchase.

Unless the Share Purchase has been completed, the parties to the Prepayment Agreement agreed that if (i) the Prepayment has not been applied by DDI and Hyproca Dairy as prescribed in the Prepayment Agreement and described above; or (ii) DDI or Hyproca Dairy suspends payment for liquidity or insolvency reasons or either is unable to pay its debts as they fall due, or applies for a moratorium of payments or is adjudicated or found insolvent, or enters into any composition or other arrangement with its creditors generally, then DDI will be obligated to immediately repay the Prepayment to the Company.

The parties to the Prepayment Agreement further agreed that if completion of the Share Purchase does not take place, the Prepayment will be converted into a non-interest bearing loan to be repaid in full in one instalment by DDI on 30 June 2012.

In consideration of the Company providing the Prepayment, DDI shall establish a first right of pledge in favour of the Company over the Sale Shares, being the shares in Hyproca Dairy which are proposed to be acquired by the Company under the Share Purchase pursuant to the Letter of Intent. The pledge shall expire at the completion date of the Share Purchase and Share Subscription or the date on which the Prepayment has been fully repaid. If the Company chooses to exercise its rights over the Sale Shares, it shall arrange to pay DDI a sum of EUR2,950,000 (being the difference between the proposed consideration for the Sale Shares under the Share Purchase of EUR10,369,000 under the Letter of Intent and announced in the 29 March Announcement and the amount of the Prepayment of EUR7,419,000) or issue new shares in the Company (being the new shares proposed to be issued to DDI as part of the consideration for the Sale Shares under the Share Purchase pursuant to the Letter of Intent and announced in the 29 March Announcement) to DDI. The Company shall comply with applicable Listing Rules requirements in the event it exercises its rights over the Sale Shares or issue new shares to DDI.

The Prepayment has been provided by the Company to DDI on 31 May 2011.

REASONS FOR THE PREPAYMENT

The Group is principally engaged in the production, marketing and distribution of high-end and premium paediatric nutrition products in the People's Republic of China.

As disclosed in the 29 March Announcement, it is the Company's business strategy to invest in or acquire upstream milk powder related assets and operations, including investments in overseas cattle farms and/or milk powder producers in order to broaden the Group's milk powder supply sources to diversify the Group's risk in this aspect and to ensure a stable supply of milk powder to cope with the business growth. In this regard, the Company intends to acquire interests in the group under Hyproca Dairy whose businesses include milk collection, processing and package in the Netherlands, so as to realise the Company's business strategy.

During the course of the negotiations of the Share Purchase and Share Subscription, Hyproca Dairy has identified an investment opportunity in the Assets which were previously owned by Lyempf B.V.. Lyempf B.V. was engaged in the production of liquid and powder milk products and other dairy products in the Netherlands and the Assets were declared for sale in April 2011. The Assets were previously employed by Lyempf B.V. for its dairy product business and comprise the dairy plant for pre-processing of raw milk, two spray dryers with capacity of 27,000 tons of powder, and other related assets such as inventory and trade receivables.

In view of the potential and quality of the Assets and the consideration thereof and having considered the satisfactory progress of the negotiations of the Share Purchase and the Share Subscription, the Company believes that it is desirable to advance the Prepayment to DDI to facilitate the acquisition of the Assets by Hyproca Dairy which are complementary to the existing business of Hyproca Dairy and will be part of the Group if the Share Purchase and Share Subscription materialise. The terms of the Prepayment Agreement were negotiated among the parties on an arm's length basis. Taking into account the security being provided by DDI for the Prepayment, the Directors (including the independent non-executive Directors) consider that the terms of the Prepayment Agreement are fair and reasonable and the advance of the Prepayment to DDI is in the interest of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

The advance of the Prepayment by the Company to DDI constitutes a discloseable transaction for the Company under the Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“29 March Announcement”	the announcement of the Company dated 29 March 2011
“Assets”	the assets of Lyempf B.V. acquired by Hyproca Dairy as described in this announcement

“Company”	Ausnutria Dairy Corporation Ltd, a company incorporated in the Cayman Islands with limited liability and whose issued shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited; or in the context of the Prepayment Agreement, together with a wholly-owned subsidiary of the Company designated by the Company to, among other things, take up the Sale Shares under the Share Purchase
“DDI Shareholders”	the existing shareholders of DDI, being Participatiemaatschappij Heerenveen B.V., Manids B.V. and Elbe B.V.
“Sale Shares”	the 284,000 existing issued shares of Hyproca Dairy held by DDI, representing approximately 39.2% of the existing issued share capital of Hyproca Dairy
“Prepayment”	the total sum of EUR7,419,000 (equivalent to approximately HK\$82.85 million) advanced by the Company to DDI pursuant to the terms of the Prepayment Agreement
“Prepayment Agreement”	the agreement dated 31 May 2011 entered into among the Company, DDI, the DDI Shareholders and Hyproca Dairy in relation to the Prepayment
“EUR”	Euro dollars, the official currency of the eurozone
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

For the purpose of illustration only, amounts in EUR in this announcement have been translated into HK\$ at the rate of EUR1 = HK\$11.167. This exchange rate is adopted for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be, exchanged at this rate or any other rates or at all.

By order of the Board
Ausnutria Dairy Corporation Ltd
Wu Yueshi
Chairman

Changsha, China, 13 June 2011

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Wu Yueshi, Mr. Yan Weibin, Mr. Chen Yuanrong and Ms. Ng Siu Hung, and three independent non-executive Directors, namely Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong.