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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)

**DISCLOSEABLE TRANSACTION IN RELATION TO
SUBSCRIPTION OF NEW SHARES IN HYPROCA DAIRY GROUP B.V.**

THE SUBSCRIPTION

On 30 June 2011, the Subscriber and Hyproca Dairy entered into a verbal agreement concerning the issue of the Subscription Shares. On the same day, the Subscriber subscribed for, and Hyproca Dairy allotted and issued, the Subscription Shares. The Consideration for the Subscription is Euro 6,282,500 (equivalent to approximately HK\$70.0 million) and the Consideration was received by Hyproca Dairy on 30 June 2011. Completion took place on 30 June 2011 and the Subscriber became interested in approximately 19.44% of the issued share capital of Hyproca Dairy as enlarged by the issue of the Subscription Shares upon Completion. On 3 July 2011, pursuant to the verbal agreement, DDI, the DDI Shareholders, Hyproca Dairy, the Subscriber and the Company entered into the Subscription Agreement which contains further provisions pertaining to the Subscription.

THE SHAREHOLDERS' AGREEMENT

In connection with the Subscription, DDI, the DDI Shareholders, Hyproca Dairy, the Subscriber and the Company also entered into the Shareholders' Agreement on 3 July 2011 to regulate their respective rights and obligations in Hyproca Dairy. The principal terms of the Shareholders' Agreement are disclosed in the section headed "The Shareholders' Agreement" in this announcement.

LISTING RULES IMPLICATION

The Subscription constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

STATUS OF THE SHARE PURCHASE

Negotiations on the Share Purchase are ongoing and progressing satisfactorily and the parties intend to proceed with the Share Purchase as soon as all necessary documentation and preparation work are finalised. It is expected that upon completion of the Share Purchase, the equity interest in Hyproca Dairy held by the Subscriber will increase from approximately 19.44% to 51%. The Company will make further announcement(s) and comply with the relevant requirements of the Listing Rules should the Share Purchase materialise.

Reference is made to the announcements of the Company dated 29 March 2011 and 13 June 2011 respectively in relation to, among other things, the entering into of a letter of intent in relation to the proposed Subscription and the prepayment advanced by the Company to DDI. The Board is pleased to announce that on 30 June 2011, the Subscriber and Hyproca Dairy entered into a verbal agreement concerning the issue of the Subscription Shares. On the same day, the Subscriber subscribed for, and Hyproca Dairy allotted and issued, the Subscription Shares. On 3 July 2011, pursuant to the verbal agreement, DDI, the DDI Shareholders, Hyproca Dairy, the Subscriber and the Company executed the Subscription Agreement which contains further provisions pertaining to the Subscription. On 3 July 2011, the parties also entered into the Shareholders' Agreement to regulate their respective rights and obligations in Hyproca Dairy. Details of the Subscription and the Shareholders' Agreement are set out below.

THE SUBSCRIPTION

Subject matter

On 30 June 2011, the Subscriber and Hyproca Dairy entered into a verbal agreement concerning the issue of the Subscription Shares. On the same day, the Subscriber subscribed for, and Hyproca Dairy allotted and issued, the Subscription Shares, being 175,000 new Hyproca Dairy Shares. The Subscription is unconditional and Completion took place on 30 June 2011. The Subscription Shares represent approximately 19.44% of the issued share capital of Hyproca Dairy as enlarged by the issue of the Subscription Shares.

Hyproca Dairy is a private company with limited liability incorporated under the laws of the Netherlands and is principally a holding company. The Subscriber is a wholly-owned subsidiary of the Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Hyproca Dairy and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Consideration for the Subscription Shares

The Consideration for the Subscription Shares is Euro 6,282,500 (equivalent to approximately HK\$70.0 million) and the Consideration was received by Hyproca Dairy on 30 June 2011.

The Consideration has been determined after arm's length negotiations among the parties to the Subscription Agreement with reference to, among other things, the historical financial performance of the Hyproca Dairy Group, the growth potential of the Hyproca Dairy Group and the potential synergy between the Group's existing business and that of the Hyproca Dairy Group.

The Consideration paid by the Subscriber was funded by internal resources of the Group.

The Subscription Agreement

On 3 July 2011, pursuant to the verbal agreement, DDI, the DDI Shareholders, Hyproca Dairy, the Subscriber and the Company executed the Subscription Agreement which contains further provisions pertaining to the Subscription, including the adjustments to the Consideration and certain representations and warranties given by DDI and the Company.

Immediately prior to Completion, DDI was the sole shareholder of Hyproca Dairy. DDI is an investment holding company with limited liability incorporated under the laws of the Netherlands. The DDI Shareholders are Participatiemaatschappij Heerenveen B.V., Manids B.V. and Elbe B.V. Participatiemaatschappij Heerenveen B.V. is a private equity investment company with limited liability incorporated under the laws of the Netherlands. Each of Manids B.V. and Elbe B.V. is an investment holding company with limited liability incorporated under the laws of the Netherlands.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, DDI, the DDI Shareholders and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Adjustments to the Consideration

Pursuant to the Subscription Agreement, if the average of net profit after taxation of Hyproca Dairy for the two years ended 31 December 2010 and 2011 (as calculated and adjusted in accordance with the terms set out in the Subscription Agreement and to be agreed between the Subscriber and DDI or as determined by an independent accountant) (the "**Adjusted Results**") are above or below 10% of Euro 2,600,000, the parties shall adjust the Consideration in accordance with the formula below.

In the event and to the extent that the Adjusted Results exceed Euro 2,600,000 by more than 10%, the difference in excess of 10% multiplied by 10 times, up to a maximum amount of Euro 710,000 (the "**Subscriber Adjusted Consideration**"), shall be payable by the Subscriber to Hyproca Dairy.

In the event and to the extent that the Adjusted Results are below Euro 2,600,000 by more than 10%, the difference in excess of 10% multiplied by 10 times and 19.44% (the "**DDI Adjusted Consideration**") shall be payable by DDI to the Subscriber.

The Subscriber Adjusted Consideration or the DDI Adjusted Consideration shall be due to DDI or the Subscriber, as the case may be, within ten Business Days from the date that (i) the audited and consolidated financial statement of the Hyproca Dairy Group for the year ending 31 December 2011 have been adopted by the general meeting of shareholders of Hyproca Dairy; and (ii) the calculation of the Subscriber Adjusted Consideration or the DDI Adjusted Consideration, as the case may be, has become final in accordance with the terms and conditions of the Subscription Agreement.

THE SHAREHOLDERS' AGREEMENT

Parties

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

Formation of Hyproca Nutrition (Hong Kong) Co. Ltd and Hyproca Nutrition (China) Co. Ltd

Pursuant to the Shareholders' Agreement, in addition to Hyproca Nutrition (Hong Kong) Co. Ltd which has been incorporated in Hong Kong as a wholly-owned subsidiary of Hyproca Dairy, Hyproca Nutrition (China) Co. Ltd will be established in the PRC with 85% equity and 100% voting interests be held by Hyproca Nutrition (Hong Kong) Co. Ltd and 15% equity and non-voting interests being held by the management of Hyproca Nutrition (China) Co. Ltd (the allocation of such interests among the management of Hyproca Nutrition (China) Co. Ltd. is to be further decided by the parties to the Shareholders' Agreement). It is the current intention of the parties that Hyproca Nutrition (Hong Kong) Co. Ltd and Hyproca Nutrition (China) Co. Ltd. will be a marketing and sales platform for nutritional products in consumer packs to the PRC and other Asian countries.

Management of the Hyproca Dairy Group

Pursuant to the Shareholders' Agreement, Hyproca Dairy will have a supervisory board comprising three members, of which one member shall be appointed upon the binding nomination by each of the Subscriber and DDI, and the third member shall be appointed jointly upon the binding nomination of the two members of the supervisory board appointed in the manner aforesaid. A management board and management team will also be formed for the day-to-day management of Hyproca Dairy.

The management board of Hyproca Dairy shall continue to consist of one managing director; and the management team shall consist of five members including the managing director.

Non-compete undertaking

Each of the Company and the Subscriber undertakes towards the other parties to the Shareholders' Agreement that, subject to the provisions in the Shareholders' Agreement, neither it nor its Affiliates will (unless with the written approval of DDI), either alone or jointly with others, whether as principal, agent or manager, shareholder, independent contractor or in any other capacity, directly or indirectly through any other person, for its own benefit or that of others during the Restricted Period and other than through the Hyproca Dairy Group:

- (i) engage in or carry out or be concerned or interested in any business activities regarding goat milk or goat milk based products in the Prohibited Area; or
- (ii) in relation to any Restricted Activity in the Prohibited Area, solicit or employ from the Hyproca Dairy Group or the subsidiaries any (former) director or (former) employee, whether or not this would be a breach of contract on the part of the (former) director or (former) employee,

provided that the Company or the Subscriber shall not be limited in its opportunities to purchase a company or a group of companies of which part of the business activities consist of activities as described in paragraph (i) above, provided that it shall first offer to sell such part of the business activities as described in paragraph (i) above (either through a share or an asset deal) to a company in the Hyproca Dairy Group, whereby in case the relevant company in the Hyproca Dairy Group chooses not to accept such offer, the Company or the Subscriber shall be free to purchase such company or group of companies and will take reasonable measures to contribute the relevant business activities to the Hyproca Dairy Group.

The DDI Shareholders, Messrs. I. Jorna, Bart Van Der Meer and B. Busser and DDI also provide similar undertakings to the Company and the Subscriber.

The restrictions as mentioned above shall not operate to prohibit each party alone or jointly with others from holding a passive interest without operational involvement of up to 25% of the shares of any company or group engaged in any Restricted Activity, the shares of which are listed or dealt in on a recognised stock exchange.

Other major terms of the Shareholders' Agreement

It is provided in the Shareholders' Agreement that subject to the existing contractual arrangements between the Group and its suppliers, the Group will grant the Hyproca Dairy Group a preferred supplier position to supply products to the Company or its Affiliates, provided that the Hyproca Dairy Group is able to supply its products on conditions and requirements satisfactory to the Company.

It is also provided in the Shareholders' Agreement that the resolutions of the management board or the shareholders of Hyproca Dairy (together with those of the management boards of its subsidiaries) regarding certain reserved matters shall be subject to the prior written approval of the general meeting of the shareholders of Hyproca Dairy by virtue of a resolution adopted with a majority of at least 90% (the "**Majority Percentage**") of the votes cast in a meeting where the entire capital of Hyproca Dairy is represented. These reserved matters include, among others, issuance and repurchase of equity instruments of any of the companies in the Hyproca Dairy Group, amendments to the articles of association of Hyproca Dairy and acquisitions or disposals of assets outside the ordinary course of business.

It is further provided in the Shareholders' Agreement that each of DDI and the Subscriber, being all the shareholders of Hyproca Dairy, shall not, other than with the prior consent of the other party or in accordance with the Shareholders' Agreement:

- (i) for the duration of the Shareholders' Agreement, pledge, grant a right of usufruct or otherwise encumber all or any of the Hyproca Dairy Shares;
- (ii) until 30 June 2012, sell, transfer or otherwise dispose of all or any of its Hyproca Dairy Shares or any (beneficial) interest in its Hyproca Dairy Shares (including through the issuance of depository receipts in respect of its Hyproca Dairy Shares (except in accordance with the Shareholders' Agreement));
- (iii) for the duration of the Shareholders' Agreement, enter into any agreement with respect to the voting rights attached to all or any of its Hyproca Dairy Shares; and
- (iv) for the duration of the Shareholders' Agreement (in the case of (i) and (iii) above), or until 30 June 2012 (in the case of (ii) above), agree, whether conditionally or otherwise, to do any of the foregoing.

Each of the DDI Shareholders has also provided similar undertakings to the Company and the Subscriber as mentioned in paragraphs (i) and (ii) above for a period until 30 June 2012.

Any transfer of the Hyproca Dairy Shares by a shareholder to a third party will be subject to right of first refusal of the other shareholder. Tag along rights to sell at the same time and on the same terms are also provided in the Shareholders' Agreement.

Pursuant to the terms of the Shareholders' Agreement, if the shareholding held by the Subscriber in Hyproca Dairy is not augmented to a minimum of 51% of the Hyproca Dairy Shares, the following terms (among other terms) of the Shareholders' Agreement shall automatically be amended on 30 June 2012 at 12 p.m. (noon) Central European Time:

- (i) the third member of the supervisory board of Hyproca Dairy shall be appointed upon the binding nomination of DDI; and

- (ii) the Majority Percentage in respect of certain reserved matters as mentioned above shall be changed from 90% to 80%.

Effective date

The Shareholders' Agreement took effect from the Completion Date for an indefinite period and shall cease to have effect in relation to a shareholder of Hyproca Dairy if that shareholder of Hyproca Dairy ceases to hold any Hyproca Dairy Shares and such cessation was in accordance with the provisions of the Shareholders' Agreement.

INFORMATION ON THE HYPROCA DAIRY GROUP

Hyproca Dairy is a private company with limited liability incorporated under the laws of the Netherlands and is principally a holding company. Hyproca Dairy was a wholly-owned subsidiary of DDI immediately prior to Completion. Upon Completion, Hyproca Dairy is owned as to approximately 19.44% by the Subscriber and 80.56% by DDI.

The Hyproca Dairy Group 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. It also has its own formula milk powder productions and is a leading producer of goat milk powder in the world. Upon Completion, the principal operating subsidiaries of the Hyproca Dairy Group are Hyproca Dairy B.V., Lypack Holding B.V., HB Food Group B.V. and Hyproca Lyempf B.V.

The history of Hyproca Dairy goes back to 1897 when its first factory was established. The factory of Hyproca Dairy B.V. forms the basis of the Hyproca Dairy Group. The factory of Hyproca Dairy B.V. started its first milk powder productions in 1928 and has been producing milk powders since then.

The factory of Lypack Holding B.V. first started its production of baby formulae in 1938. Lypack Holding B.V. and its subsidiaries are experienced and dedicated producers of a wider range of infant formulae of high quality.

HB Food Group B.V. and its subsidiaries specialise in the complete chain of fresh Dutch goat milk from collection from farms to finished products. HB Food Group B.V. is a leading producer of goat milk powder in the world.

The Hyproca Dairy Group also completed the acquisition of certain assets which were previously owned by Lyempf B.V., including 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. These assets were previously employed by Lyempf B.V. for its production of liquid and powder milk products and other dairy products. The assets acquired from Lyempf B.V. is currently owned and operated in the name of Hyproca Lyempf B.V. As a result of the aforesaid acquisition, the Hyproca Dairy Group is equipped with a full production chain of infant formula milk powder products.

Set out below is the unaudited combined financial information of the Hyproca Dairy Group for the two years ended 31 December 2009 and 2010, prepared using International Financial Reporting Standards and on an as-if basis assuming the Hyproca Dairy Group was in existence for the two years ended 31 December 2009 and 2010:

	For the year ended 31 December			
	2009	2009	2010	2010
	<i>(Euro million)</i>	<i>(HK\$ million)</i>	<i>(Euro million)</i>	<i>(HK\$ million)</i>
Profit before taxation from continuing operations	2.3	25.6	2.1	23.4
Profit after taxation from continuing operations	1.7	18.9	1.6	17.8

As at 31 December 2010, the unaudited combined equity attributable to owners of Hyproca Dairy amounted to approximately Euro 6.0 million (equivalent to approximately HK\$66.8 million).

REASONS FOR THE SUBSCRIPTION

The Group is principally engaged in the production, marketing and distribution of high-end and premium paediatric nutrition products in the PRC.

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. The Hyproca Dairy Group's businesses include milk collection, processing and packaging in the Netherlands. After reviewing and considering the business operation, financial performance and management structure of the Hyproca Dairy Group, the Company considered that there are synergies among the businesses of the Group and those of the Hyproca Dairy Group and it would be in the long-term interests of the Group to have participation in Hyproca Dairy. To this end, as announced by the Company on 29 March 2011, the Company, DDI and Hyproca Dairy entered into a letter of intent on 29 March 2011 for the Share Purchase and the Subscription. As further announced by the Company on 13 June 2011, the Company entered into an agreement with DDI, the DDI Shareholders and Hyproca Dairy and advanced a prepayment in the sum of EUR 7,419,000 (equivalent to approximately HK\$82.6 million) to DDI to fund the acquisition of the assets of Lyempf B.V. as mentioned in the paragraph headed "Information on the Hyproca Dairy Group" above in this announcement. The prepayment was secured by a first legal charge over the 284,000 existing Hyproca Dairy Shares held by DDI in favour of the Company. Due to the ongoing business development and capital need of the Hyproca Dairy Group, the parties consider it desirable to proceed with the Subscription such that the Group would secure an equity interest in Hyproca Dairy and Hyproca Dairy would obtain new capital for its use. Pursuant to the Subscription Agreement, the subscription monies received by Hyproca Dairy shall be used for investments in conformity with the business plans of the Hyproca Dairy Group, reduction of bank facilities or overdraft, and working capital requirements of the Hyproca Dairy Group.

In view of the above, the Directors are of the view that the terms of the Subscription are fair and reasonable and in the interests of the shareholders of the Company as a whole. Upon Completion, Hyproca Dairy is accounted for as an associated company in the consolidated financial statements of the Company.

LISTING RULES IMPLICATION

The Subscription constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

STATUS OF THE SHARE PURCHASE

Negotiations on the Share Purchase are ongoing and progressing satisfactorily and the parties intend to proceed with the Share Purchase as soon as all necessary documentation and preparation work are finalised. It is expected that upon completion of the Share Purchase, the equity interest in Hyproca Dairy held by the Subscriber will increase from approximately 19.44% to 51%. The Company will make further announcement(s) and comply with the relevant requirements of the Listing Rules should the Share Purchase materialise.

DEFINITIONS

Unless the context otherwise requires, capitalised terms used herein shall have the following meanings:

“Affiliate”	with respect to any party, any person (or persons acting in concert) directly or indirectly (a) having control over that party; or (b) under control of that party at any time during the period for which determination of Affiliate(s) is made
“Board”	the board of Directors
“Business Day(s)”	a day other than a Saturday or a Sunday on which banks are open for the transaction of regular business in Amsterdam, the Netherlands, Hong Kong and Beijing, the PRC
“Company”	Ausnutria Dairy Corporation Ltd (澳優乳業股份有限公司), a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 1717)
“Completion”	completion of the Subscription
“Completion Date”	30 June 2011, being the date on which Completion took place
“connected person(s)”	has the meaning ascribed to it in the Listing Rules

“Consideration”	Euro 6,282,500, being the total cash consideration for the Subscription Shares
“DDI”	Dutch Dairy Investments B.V., a private company with limited liability incorporated under the laws of the Netherlands
“DDI Shareholders”	collectively Participatiemaatschappij Heerenveen B.V., Manids B.V. and Elbe B.V., being all the existing shareholders of DDI
“Director(s)”	the director(s) of the Company (including independent non-executive director(s))
“Euro”	the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hyproca Dairy”	Hyproca Dairy Group B.V., a private company with limited liability incorporated under the laws of the Netherlands
“Hyproca Dairy Group”	Hyproca Dairy and its subsidiaries from time to time
“Hyproca Dairy Share(s)”	ordinary shares with a nominal value of Euro 4.54 each in the capital of Hyproca Dairy
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prohibited Area”	the countries in which the Hyproca Dairy Group is active or is concretely planning to be active as at the date of the Shareholders’ Agreement

“Restricted Activity”	the business as conducted by the Hyproca Dairy Group as at the date of the Shareholders’ Agreement
“Restricted Period”	(i) an initial three-year period after the Completion Date; (ii) the period during which a relevant party to the Shareholders’ Agreement directly or indirectly holds Hyproca Dairy Shares; and (iii) thereafter a two-year period from the date on which the relevant party to the Shareholders’ Agreement ceases to, directly or indirectly, hold Hyproca Dairy Shares
“Share Purchase”	the proposed purchase of 284,000 Hyproca Dairy Shares by the Subscriber from DDI
“Shareholders’ Agreement”	the shareholders’ agreement dated 3 July 2011 entered into among DDI, the DDI Shareholders, the Subscriber, the Company and Hyproca Dairy in relation to, among others, the rights and obligation of the shareholders of Hyproca Dairy
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Ausnutria Dairy (Dutch) Coöperatief U.A., a wholly-owned subsidiary of the Company incorporated under the laws of the Netherlands
“Subscription”	the subscription of the Subscription Shares by the Subscriber
“Subscription Agreement”	the subscription agreement dated 3 July 2011 and executed among DDI, the DDI Shareholders, the Subscriber containing further provisions pertaining to the Subscription
“Subscription Shares”	175,000 new Hyproca Dairy Shares subscribed for by the Subscriber on 30 June 2011
“%”	per cent.

For the purpose of illustration only, amounts in Euro in this announcement have been translated into HK\$ at the rate of Euro 1 = HK\$11.14. 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, 4 July 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.