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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
AND
ADVANCE TO AN ENTITY**

ENTRUSTED FUND MANAGEMENT AGREEMENT

The Board is pleased to announce that on 29 April 2011, Ausnutria China, an indirect wholly-owned subsidiary of the Company, has entered into the Entrusted Fund Management Agreement with Yunnan International Trust pursuant to which Ausnutria China entrusted a fund in the amount of RMB200 million to Yunnan International Trust for the purchase of the Financial Assets held by CMB (Changsha).

THE ENTRUSTED FUND MANAGEMENT AGREEMENT

As at the date of this announcement, Ausnutria China is expected to receive an expected rate of return of (5.7% + i/2) per annum pursuant to the transactions contemplated under the Entrusted Fund Management Agreement. It is expected that the revenue generated from the Entrusted Fund Management Agreement will be approximately RMB 11,000,000 (excluding several fees payable by Ausnutria China).

However, shareholders of the Company and/or investors should note that the expected rate of return is an estimate and for reference only.

LISTING RULES IMPLICATIONS

As the Loan Amounts exceeded 8% of the assets ratio of the Company as defined under the Listing Rules, the Entrusted Fund Management Transaction constitutes an advance to an entity pursuant to Rule 13.13 of the Listing Rules and is subject to the reporting and announcement requirements under Rules 13.13 and 13.15 of the Listing Rules.

As the applicable percentage ratios as defined under the Listing Rules in respect of the Entrusted Fund Management Transaction are more than 5% but less than 25%, the Entrusted Fund Management Transaction constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

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THE ENTRUSTED FUND MANAGEMENT AGREEMENT

Date

29 April 2011

Parties

- (a) Ausnutria China as principal and beneficiary
- (b) Yunnan International Trust as trustee

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

Entrustment of the Entrusted Amount

Ausnutria China has transferred the Entrusted Amount to the designated trust account held by Yunnan International Trust on the date of signing of the Entrusted Fund Management Agreement, being 29 April 2011.

Duration

Yunnan International Trust will hold the Entrusted Amount on trust in favour of Ausnutria China from the date when Ausnutria China transferred the Entrusted Amount to the designated trust account held by Yunnan International Trust up to the last expiry date of the Financial Assets.

Sources of fund

The Entrusted Amount is financed by the internal resources of the Company generated from its normal business operations.

Permitted use of the Entrusted Amount

Yunnan International Trust is permitted to apply the Entrusted Amount onto the purchase of the following financial assets (the “**Financial Assets**”) held by CMB (Changsha):

Borrower	Lender	Loan Amount	Term of Loan
Hunan Non-Ferrous Metals Co., Ltd* (湖南有色金属股份有限公司)	Dongtang Sub-branch, CMB (Changsha)	RMB 30,000,000	22 March 2011 to 22 March 2012
Hunan Non-Ferrous Metals Co., Ltd* (湖南有色金属股份有限公司)	Dongtang Sub-branch, CMB (Changsha)	RMB 70,000,000	22 April 2011 to 22 April 2012
Chenzhou Diamond Tungsten Products Co., Ltd* (郴州鑽石鑄製品有限責任公司)	Dongtang Sub-branch, CMB (Changsha)	RMB 50,000,000	25 April 2011 to 25 April 2012
Hunan Bismuth Industry Co., Ltd* (湖南鉍業有限責任公司)	Dongtang Sub-branch, CMB (Changsha)	RMB 50,000,000	25 April 2011 to 25 April 2012

All of the Financial Assets are unsecured and bear variable interest rates.

Revenue generated and expected rate of return

Pursuant to the Entrusted Fund Management Agreement, Ausnutria China is entitled to receive from Yunnan International Trust a daily expected return as calculated by the formula below:

$$\text{Daily expected return} = \text{Outstanding Loan Amount} \times \frac{\text{Expected rate of return}}{360}$$

The expected rate of return is calculated by the formula below:

$$\text{Expected rate of return} = 5.7\% + \frac{i}{2}$$

where “i” is the actual changes in the interest rate of the respective Loan Amount due to the adjustment in the benchmark lending rate set by the People’s Bank of China

It is expected that the revenue generated from the Entrusted Fund Management Agreement will be approximately RMB 11,000,000 (excluding several fees payable by Ausnutria China as mentioned in the sub-paragraph headed “Fees paid by Ausnutria China” below.)

The expected rate of return is determined based on commercial negotiation with reference to return of similar investment products in the market in the PRC.

However, shareholders of the Company and/or investors should note that the expected rate of return is an estimate and for reference only.

Yunnan International Trust shall deposit the residual Entrusted Amount (after deduction of any trust fees and taxes) (the “**Entrusted Revenue**”) into the designated account of Ausnutria China on (a) the third business day after the 21st day of each quarter; and (b) the expiry date of the respective Loan Amount or the date of early repayment of the Loan Amount.

Fees paid by Ausnutria China

Pursuant to the Entrusted Fund Management Agreement, Ausnutria China is required to pay Yunnan International Trust certain trust fees, including but not limited to, (a) management fees; (b) trustee remuneration; (c) custody fees; and (d) financial consultancy fees. The estimated total fees paid by Ausnutria China under the Entrusted Fund Management Agreement amounted to approximately RMB 1.5 million.

Termination provisions

The Entrusted Fund Management Agreement may be terminated, among others, if:

- (a) the continuity of the Entrusted Fund Management Agreement would violate the objective of a trust;
- (b) mutual consent has been obtained by all the relevant parties to terminate the Entrusted Fund Management Agreement;
- (c) the trust arrangement has been revoked;
- (d) the trust arrangement has been cancelled;
- (e) the Loan Amounts have all been fully and duly settled by the respective Borrowers; and
- (f) the Entrusted Fund Management Agreement is terminated by any applicable laws, administrative measures and/or regulations.

Upon termination and/or expiry of the Entrusted Fund Management Agreement,

- (a) if the Loan Amounts have all been fully and duly settled by the respective Borrowers, Yunnan International Trust is required to deposit the Entrusted Amount (in cash) into the designated account of Ausnutria China; or

- (b) if the Loan Amounts have not been duly settled by the respective Borrowers, within three business days after the expiry of the Entrusted Fund Management Agreement, Yunnan International Trust has the right to transfer the residual Entrusted Amount (after deduction of any trust fees, taxes and other liabilities) to Ausnutria China. In addition, Yunnan International Trust is obliged to notify Ausnutria China and the respective Borrowers on the assignment of rights in relation to the respective outstanding Loan Amounts from the Lender to Ausnutria China.

ACCOUNTING TREATMENT OF THE TRANSACTIONS CONTEMPLATED UNDER THE ENTRUSTED FUND MANAGEMENT AGREEMENT

Pursuant to the International Financial Reporting Standards, the Entrusted Amount will be classified as a held-to-maturity investment in the financial statements of the Company. It will be subsequently measured at amortised costs using the effective interest rate method, less impairment. Amortised costs are calculated by taking into account any discount or premium on acquisition and fees or costs that form an integral part of the effective interest rate. The effective interest rate amortisation will be included as finance income in the statement of comprehensive income of the Company.

As at the date of this announcement, the value of the Entrusted Amount is RMB 200 million.

INFORMATION ON THE COMPANY AND AUSNUTRIA CHINA

The Company is a company incorporated in the Cayman Islands with limited liability. It is an investment holding company of the Group. The Group is principally engaged in the production, marketing and distribution of high-end and premium paediatric nutrition products in the PRC.

Ausnutria China is a company established in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company as at the date of this announcement. Ausnutria China is principally engaged in the production, marketing and distribution of paediatric products in the PRC.

INFORMATION ON YUNNAN INTERNATIONAL TRUST

Yunnan International Trust is an organisation registered with and authorised by the China Banking Regulatory Commission to conduct trust business in the PRC. It is principally engaged in trust management business in the PRC.

REASONS FOR THE ENTRUSTED FUND MANAGEMENT TRANSACTION

As part of the Group's treasury management, the Board would like to find a stable way to increase the rate of return on its surplus cash after considering the operating cash flow forecast of the Group. The entering into the Entrusted Fund Management Agreement can increase the return and benefit of the Company. The Directors believe that the terms of the transaction are fair and reasonable and in the interests of the shareholders of the Company as a whole.

LISTING RULES IMPLICATIONS

As the Loan Amounts exceeded 8% of the assets ratio of the Company as defined under the Listing Rules, the Entrusted Fund Management Transaction constitutes an advance to an entity pursuant to Rule 13.13 of the Listing Rules and is subject to the reporting and announcement requirements under Rules 13.13 and 13.15 of the Listing Rules.

As the applicable percentage ratios as defined under the Listing Rules in respect of the Entrusted Fund Management Transaction are more than 5% but less than 25%, the Entrusted Fund Management Transaction constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

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

“Ausnutria China”	Ausnutria Dairy (China) Co., Ltd* (澳優乳業(中國)有限公司), an indirect wholly-owned subsidiary of the Company as at the date of this announcement
“Board”	the board of Directors of the Company
“Borrower(s)”	the borrower(s) in relation to the Financial Assets, as more particularly set out in the sub-paragraph headed “Permitted use of the Entrusted Amount” in this announcement
“CMB(Changsha)”	China Merchants Bank, Changsha Branch* (招商銀行長沙分行), an Independent Third Party
“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 Stock Exchange (stock code: 1717)
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company (including independent non-executive director(s))
“Entrusted Amount”	the amount entrusted by Ausnutria China to Yunnan International Trust pursuant to the Entrusted Fund Management Agreement

“Entrusted Fund Management Agreement”	the entrusted fund management agreement dated 29 April 2011 and entered into between Ausnutria China and Yunnan International Trust in relation to the Entrusted Fund Management Transaction
“Entrusted Fund Management Transaction”	the entrustment of the Entrusted Amount by Ausnutria China to Yunnan International Trust, as more particularly set out in the paragraph headed “The Entrusted Fund Management Agreement” in this announcement
“Entrusted Revenue”	the revenue generated by Ausnutria China pursuant to the Entrusted Fund Management Transaction, as more particularly set out in the sub-paragraph headed “Revenue generated and expected rate of return” in this announcement
“Financial Assets”	the financial assets held by CMB (Changsha), as more particularly set out in the sub-paragraph headed “Permitted use of the Entrusted Amount” in this announcement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	party or parties that is or are not connected with the Group, any Directors, chief executive, controlling shareholders, substantial shareholders, their respective subsidiaries or any of their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Amount(s)”	the loan amount(s) in relation to the Financial Assets, as more particularly set out in the sub-paragraph headed “Permitted use of the Entrusted Amount” in this announcement
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Yunnan International Trust” Yunnan International Trust Co., Ltd* (雲南國際信託有限公司), an organisation registered with and authorised by the China Banking Regulatory Commission to conduct trust business in the PRC

“%” per cent.

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

Changsha, China, 3 May 2011

As at the date of this announcement, the Board comprises of 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.

* *For identification purpose only*