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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)

UPDATE ON RECENT DEVELOPMENT OF SUPENSION OF TRADING

Reference is made to the announcements published by Ausnutria Dairy Corporation Ltd (the “**Company**”) between 29 March 2012 and 27 May 2013 (collectively, the “**Announcements**”) in relation to, *among other things*, the Unresolved Issues raised by EY in the EY Letter and the appointment of PwC by King & Wood Mallesons on behalf of the Special Review Committee to conduct a forensic investigation in respect of the Unresolved Issues (the “**Review**”).

Unless otherwise stated, capitalised terms used herein shall bear the same meanings as those defined in the Announcements.

The Board wishes to provide further details in relation to (i) the nature and details of the Unresolved Issues; (ii) the objective and scope of the Review; and (iii) the latest progress of the investigation in respect of the Unresolved Issues by the Special Review Committee.

Nature and details of the Unresolved Issues

According to the EY Letter, EY were unable to carry out an effective audit work of the Group for the financial year ended 31 December 2011 primarily in respect of the revenue, inventory and accounts receivable due to the failure of Ausnutria China to provide accurate sales and goods delivery information.

The findings of EY and the details of the Unresolved Issues are summarised as follows:

(a) Authenticity of delivery notes relating to certain sale transactions in December 2011

It was noted that the signatures of the representative of a logistic servicing company (the “**Logistic Company**”) and the pattern of return receipts by distributors on some of the delivery notes in respect of certain sale transactions in December 2011, which amounted to approximately RMB123 million (equivalent to RMB143 million inclusive of 17% value added tax) (the “**Questionable December Transactions**”), appeared to be inconsistent with the delivery notes of prior months in 2011. In addition, the explanations given by Ausnutria China and the Logistic Company in relation to the above were inconsistent.

(b) Integrity of the original order system and the barcode system

EY raised doubts as to why the Questionable December Transactions were recorded in the original order system (which was discontinued to be used by the Company in October 2011) instead of the new order system, which was rolled out in around October 2011. In addition, the data in the original order system concerning the Questionable December Transactions had been manually altered without satisfactory explanations. Moreover, the data in Ausnutria China’s warehouse barcode system, which is supposed to record all goods dispatched from Ausnutria China’s warehouse, could not substantiate the dispatch of the Questionable December Transactions.

(c) Discrepancy in the quantity of goods sold and delivered between Ausnutria China’s records and those provided by the Logistic Company during January to November 2011

The quantity of goods sold and delivered according to Ausnutria China’s financial records was inconsistent with the monthly summary of delivery prepared by the Logistic Company. In addition, similar irregular patterns as those of the Questionable December Transactions were also noted in approximately 59% of sales in June 2011.

- (d) Questionable transactions with an associated company of the Company (the “**Associate**”)

EY was concerned about the significant amount (approximately RMB31.6 million in total) of fund remittances from the Associate to Ausnutria China, which did not procure any goods from Ausnutria China. While such funds received from the Associate were subsequently offset by Ausnutria China against balances with other distributors. However, Ausnutria China was unable to provide detailed supporting information in relation to the above.

Based on the above findings and concerns, on 29 March 2012, the Company established the Special Review Committee to look into the Unresolved Issues and EY has suspended the audit work till the completion of such investigation with the results presented to them.

Objective and scope of the Review

In order to support the investigation of the Special Review Committee, PwC was engaged by King & Wood Mallesons on behalf of the Special Review Committee on 4 June 2012 in respect of the Review.

According to the engagement letter dated 4 June 2012 entered into with PwC, the scope of the Review is summarised as follows:

- (a) to discuss and confirm the content of the investigation with the Special Review Committee, and obtain the working papers on investigation conducted by the Special Review Committee (if applicable);
- (b) to collect and review documents relating to the Unresolved Issues;
- (c) to interview personnel who may be aware of the Unresolved Issues;
- (d) to obtain complete set of relevant electronic data and review such data to track information related to the Unresolved Issues;

- (e) to perform related analytic work relating to the Unresolved Issues; and
- (f) to conduct detailed investigation into the associated companies of the Group and the transactions with related employees (if applicable).

Latest progress of the Review

PwC has completed its preliminary field work on the observations made by EY in respect of the Unresolved Issues and delivered their draft review report to King & Wood Mallesons for submission to the Special Review Committee in mid-September 2012.

Due to the complexity of the matter and the findings of the Review, the Special Review Committee instructed the management of the Company to follow up the matters identified in the draft report and the management of the Company is in the process of considering the findings of the Review.

The Company will publish further announcements to update the Shareholders on the results of the investigation as soon as practicable upon its completion.

At the Company's request, trading in the Shares was suspended from 9:00 a.m. on 29 March 2012, and will remain suspended until further notice.

By order of the Board
Ausnutria Dairy Corporation Ltd
Yan Weibin
Chairman

Changsha City, the People's Republic of China, 28 June 2013

As at the date of this announcement, the Board comprises three executive directors, namely, Mr. Yan Weibin (Chairman), Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung, one non-executive Director, namely, Mr. Dai Li, and three independent non-executive directors, namely, Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong.