THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubts as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Mengniu Dairy Company Limited (the "**Company**"), you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sales or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation.

CHINA MENGNIU DAIRY COMPANY LIMITED
中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

MAJOR TRANSACTION IN RELATION TO A VOLUNTARY GENERAL OFFER FOR YASHILI INTERNATIONAL HOLDINGS LTD AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Lead Financial Adviser to the Offeror Group

UBS

Joint Financial Adviser to the Offeror Group

HSBC

Joint Financial Adviser to the Offeror Group

Standard Chartered

A notice convening an EGM of the Company to be held at Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, July 16, 2013 at 10:00 a.m. is set out on pages V-1 to V-2 of the circular.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof), not less than 48 hours before the time for holding the EGM. The completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM (or any adjourned meeting thereof) if you wish.

* *For identification purposes only*

June 28, 2013

CONTENTS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

"Accepting Shareholders"	means the Target Shareholders who accept the Share Offer;
"Affiliates"	means in relation to a party, (i) an entity which is directly or indirectly controlled by, or under common control with, or (whether acting alone or jointly and in concert with another) in control of, such Party, and (ii) an individual (whether acting alone or jointly and in concert with another) which directly or indirectly controls such Party. For the purpose of this definition, the term "control" means (i) the ownership of fifty per cent (50%) or more of the voting shares or the registered capital of an entity, (ii) being the single largest owner of the voting shares or the registered capital of an entity, (iii) having the power to appoint or elect a majority of the directors or the power to direct the management of an entity. For the avoidance of doubt, an Affiliate of Zhang International shall include each member of the Zhang's Family and the entities which are controlled by (whether acting alone or jointly and in concert with another) any member of the Zhang's Family;
"Articles"	means the articles of association of the Offeror as at the date of this circular;
"associates"	has the meaning ascribed to it in the Takeovers Code;
"British Virgin Islands Companies Law"	means the BVI Business Companies Act 2004, as amended from time to time;
"Business Day"	means a full day on which the Stock Exchange is open for business of dealing in securities;
"CA Dairy"	means CA Dairy Holdings, a company incorporated under the laws of the Cayman Islands which is wholly owned by Carlyle Asia Partners III L.P. and CAP III Co-investment L.P.;
"CA Dairy Irrevocable Undertaking"	means the irrevocable undertaking dated June 17, 2013 given by CA Dairy in favour of the Company and the Offeror;
"CCASS"	means the Central Cleaning and Settlement System established and operated by the Hong Kong Securities Clearing Company Limited;

"Cash and Share Option"	means the option to accept the Share Offer for consideration partly in cash and partly in Offeror Shares as defined in the section headed "The Offers" in this circular;
"Cash Option"	means the option to accept the Share Offer for consideration fully in cash as defined in the section headed "The Offers" in this circular;
"Cayman Islands Companies Law"	means the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands;
"Change of Control"	means, in respect of the Offeror, where the Company ceases to have control of the Offeror and, in respect of the Target, when the Offeror ceases to have control of the Target. For the purposes of this definition, the term "control" means: (i) the ownership of fifty per cent (50%) or more of the voting shares of the Offeror or the Target (as the case requires), or (ii) having the power to appoint or elect a majority of the directors or the power to direct the management of the Offeror or of the Target (as the case requires);
"Closing Date"	means the date to be stated in the Composite Document as the first closing date of the Share Offer or any subsequent closing date as may be announced by the Offeror and approved by the Executive;
"Company"	means China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands with limited liability with its shares listed on the Main Board of the Stock Exchange (stock code: 2319);
"Company Shareholder(s)"	means the registered holder(s) of the Company Shares;
"Company Share(s)"	means ordinary share(s) of HK$0.10 each in the capital of the Company;
"Competing Business"	means the sourcing, manufacture, sale, distribution and promotion of dairy or dairy-based products, and the sourcing, manufacture, sale, distribution and promotion of soy milk or soy milk-based products in the PRC, Hong Kong, Taiwan, Macau and New Zealand during the Restricted Period;

"Completion"	means the completion of the sale and purchase of the Relevant Shares held by Zhang International and CA Dairy pursuant to the Share Offer;
"Composite Document"	means the composite document to be issued jointly by the Company, the Offeror and the Target to all Target Shareholders and Optionholders in connection with the Share Offer and the Option Offer and in accordance with the Takeovers Code which will contain, inter alia, details of the Share Offer, the terms and conditions of the Share Offer, a letter from the Independent Board Committee and a letter from the Independent Financial Adviser in respect of the Share Offer and the Option Offer;
"Concert Parties"	means parties acting in concert with the person or party as specified and determined in accordance with the Takeovers Code;
"Conditions"	means the conditions of the Share Offer, as set out under the section headed "Conditions to the Share Offer" of this circular;
"Connected Person"	has the meaning ascribed to it under Chapter 14A of the Listing Rules;
"Connected Transaction"	has the meaning ascribed to it under Chapter 14A of the Listing Rules;
"Consent(s)"	means any consent, approval, authorisation, qualification, waiver, permit, grant, franchise, concession, agreement, licence, exemption or order of, registration, certificate, declaration or permission from, or filing with, or report or notice to, any Relevant Authority(ies) or third parties, including those required under or in relation to any concession rights or licences granted by the Relevant Authority(ies) or third parties to the Target Group to carry out its operations, whether under applicable laws or regulations, any agreement or arrangement with such Relevant Authority(ies) or third parties, or otherwise;
"Despatch Date"	means the date of despatch of the Composite Document and the formal document containing details of the Option Offer;

"Directors"	means the directors of the Company;
"EGM"	means the extraordinary general meeting of the Company to be held at Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, July 16, 2013 at 10:00 a.m. to consider and, if thought fit, approving the making of the Offers, the Irrevocable Undertakings and the transactions contemplated thereunder;
"Enlarged Group"	means the Offeror Group immediately after completion of the Offers;
"Executive"	means the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
"First Vesting Date"	means January 1, 2011;
"HK$"	means Hong Kong dollar(s), the lawful currency of Hong Kong;
"Hong Kong"	means the Hong Kong Special Administrative Region of the PRC;
"HSBC"	means The Hongkong and Shanghai Banking Corporation Limited, an institution registered under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities as defined under the SFO and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), one of the joint financial advisers to the Offeror Group in relation to the Offers;
"HSBC Group"	means HSBC, the joint financial adviser to the Offeror Group, and its affiliates (other than those members having exempt principal trader or exempt fund manager status);
"Irrevocable Undertakings"	means, collectively, the CA Dairy Irrevocable Undertaking and the Zhang Irrevocable Undertaking and "Irrevocable Undertaking" means any one of them;

"Joint Announcement"	means the joint announcement published jointly by the Company, the Offeror and the Target on June 18, 2013 in connection with the Offers;
"Last Trading Date"	means June 11, 2013, being the last full trading date prior to the suspension of trading in the Shares on the Stock Exchange pending the publication of the Joint Announcement;
"Latest Practicable Date"	means June 23, 2013, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
"Listing Rules"	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"Lock-Up Period"	has the meaning ascribed to it in the section headed "Lock-Up Period" in this circular;
"Lock-Up Restriction"	has the meaning ascribed to it in the section headed "Lock-Up Period" in this circular;
"Maximum Interest"	means the maximum interest in the Offeror's enlarged issued shares that may be held by the Accepting Shareholders;
"Memorandum"	means the memorandum of association of the Offeror;
"Modern Dairy"	means China Modern Dairy Holdings Ltd., a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1117);
"New Articles"	means the new articles of association of the Offeror to be adopted on or before close of the Offers which are required to give effect to the rights of the lenders under the external financing agreement in respect of the Offers to be entered into by such lenders and the Company;
"New Listco"	has the meaning ascribed to it in the section headed "Compulsory Acquisition and Withdrawal of Listing" in this circular;
"Offer Period"	has the meaning ascribed to it in the Takeovers Code;

"Offeror"	means China Mengniu International Company Limited, an unlisted company incorporated in the British Virgin Islands with limited liability and established on June 4, 2013 by the Company for the sole purpose of holding the Target Share(s);
"Offeror Group"	means the Company and its subsidiaries including, in particular, the Offeror;
"Offeror Share"	means each ordinary share in the issued share capital of the Offeror, details of which are set out in the section headed "Information on the Offeror" of this circular;
"Offers"	means the Share Offer and the Option Offer;
"Option Offer"	means the proposal to be made by the Offeror in compliance with Rule 13 of the Takeovers Code to cancel all the outstanding Options in accordance with the terms and conditions set out in this circular;
"Optionholders"	means the holders of the Options;
"Options"	means share options granted by the Target pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme, whether vested or not;
"PRC"	means the People's Republic of China (and for the purpose of this circular, excludes Hong Kong, Macau and Taiwan);
"Pre-IPO Share Option Scheme"	means the share option scheme adopted by the Target on October 8, 2010, as amended from time to time, which replaces the share options originally granted by Yashili (Guangdong) to the grantees on January 1, 2009 and August 1, 2010;
"Relevant Authority(ies)"	means any relevant government, governmental, quasi-governmental, statutory or regulatory authority, body, agency, tribunal, court or institution;
"Relevant Offeror Shares"	has the meaning ascribed to it in the section headed "Compulsory Acquisition and Withdrawal of Listing" in this circular;

"Relevant Shareholders"	has the meaning ascribed to it in the section headed "Compulsory Acquisition and Withdrawal of Listing" in this circular;
"Relevant Shares"	means the 1,826,808,760 Target Shares held by Zhang International and the 853,631,240 Target Shares held by CA Dairy as at the date of the Irrevocable Undertakings, collectively representing approximately 75.3% of the issued share capital of the Target, as at the Last Trading Date;
"Restricted Period"	means the period commencing immediately after Completion during which a person who has been proposed by Zhang International and appointed as a director of the Target remains as a director of the Target and for two (2) years from the date that such person ceases to be a director of the Target;
"SFC"	means the Securities and Futures Commission of Hong Kong;
"SFO"	means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;
"Share Offer"	means the conditional voluntary offer by the Offeror to acquire all of the outstanding Target Shares in accordance with the terms and conditions set out in the Joint Announcement;
"Share Offer Price"	means the price at which the Cash Option of the Share Offer will be made available to Target Shareholders as part of the terms of the Share Offer, being HK$3.50 per Taget Share;
"Share Option Scheme"	means the share option scheme adopted by the Target on October 8, 2010, as amended from time to time, under which an Option may be exercised during a period not exceeding ten (10) years from the date of the relevant grant;

"Standard Chartered"	means Standard Chartered Bank (Hong Kong) Limited, one of the joint financial advisers to the Offeror Group in relation to the Offers, a licensed corporation under the Securities and Futures Ordinance, licensed to carry out for Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities;
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited;
"Subscriber Share"	means the one (1) share in the Offeror that was subscribed by the Company upon the incorporation of the Offeror;
"subsidiaries"	has the meaning ascribed to it in the Listing Rules;
"Takeovers Code"	means The Codes on Takeovers and Mergers and Share Repurchases published by the SFC;
"Target"	means Yashili International Holdings Ltd, a company incorporated in the Cayman Islands with limited liability with its shares listed on the Main Board of the Stock Exchange (stock code: 1230);
"Target Board"	means the board of directors of the Target;
"Target Group"	means the Target and its subsidiaries;
"Target Share(s)"	means ordinary shares of HK$0.10 each in the capital of the Target;
"Target Shareholder"	means a registered holder of Target Share(s);
"UBS"	means UBS AG, acting through its Hong Kong branch, the lead financial advisor to the Offeror Group in respect of the Offers and an institution licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong), the lead financial adviser to the Offeror Group in relation to the Offers;

"Unconditional Date"	means the date on which the Offers become or are declared unconditional in all respects;
"Yashili (Guangdong)"	means 廣東雅士利集團有限公司 (Guangdong Yashili Group Company Limited), a subsidiary of the Target incorporated in the PRC;
"Zhang's Family"	means, collectively, Mr. Zhang Lihui (張利輝), Mr. Zhang Likun (張利坤), Mr. Zhang Liming (張利明), Mr. Zhang Lidian (張利鈿), Mr. Zhang Libo (張利波), Mr. Zhang Yanpeng (張雁鵬) and Ms. She Lifang (佘麗芳);
"Zhang International"	means Zhang International Investment Ltd. (張氏國際投資有限公司), a limited liability company incorporated on May 25, 2010 under the laws of the British Virgin Islands, owned as to 18% by Mr. Zhang Lihui (張利輝), 18% by Mr. Zhang Likun (張利坤), 18% by Mr. Zhang Liming (張利明), 18% by Mr. Zhang Lidian (張利鈿), 18% by Mr. Zhang Libo (張利波) and 10% by Ms. She Lifang (佘麗芳), and engages in investment holding;
"Zhang International Lock-up"	has the meaning ascribed to it under the section headed "Lock-Up Period" of this circular;
"Zhang Irrevocable Undertaking"	means the irrevocable undertaking dated June 17, 2013 given by Zhang International in favour of the Company and the Offeror; and
"%"	means per cent.

For the purpose of this circular, the RMB: HK$ rate is 1:1.266.

CHINA MENGNIU DAIRY COMPANY LIMITED
中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2319)

Directors:
Ms. Sun Yiping
Mr. Bai Ying
Mr. Wu Jingshui
Mr. Ding Sheng
Mr. Ning Gaoning#
Mr. Yu Xubo#
Mr. Niu Gensheng#
Mr. Ma Jianping#
Mr. Tim Ørting Jørgensen#
Mr. Finn S. Hansen#
Ms. Liu Ding#
Mr. Jiao Shuge (alias Jiao Zhen)*
Mr. Julian Juul Wolhardt*
Mr. Liu Fuchun*
Mr. Zhang Xiaoya*
Mr. Andrew Y. Yan*
Mr. Wu Kwok Keung Andrew*

Company Secretary:
Mr. Kwok Wai Cheong, Chris

\# *Non-executive Director*
* *Independent Non-executive Director*

Registered Office:
Maples Corporate Services Limited
P.O. Box 309
Ugland House
Grand Cayman KY1-1104
Cayman Islands

Principal Place of Business in Hong Kong:
Suite 1602, 16th Floor
Top Glory Tower
262 Gloucester Road
Causeway Bay
Hong Kong

June 28, 2013

To the Company Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
IN RELATION TO A VOLUNTARY GENERAL OFFER FOR YASHILI INTERNATIONAL HOLDINGS LTD
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

* *For identification purpose only*

INTRODUCTION

Reference is made to the Joint Announcement published by the Company, the Offeror and the Target on June 18, 2013 where it was announced that UBS will, on behalf of the Offeror, make a voluntary general offer (i) to acquire all of the outstanding shares in the issued share capital of the Target; and (ii) to cancel all of the outstanding Options.

UBS has been appointed as the lead financial adviser, and HSBC and Standard Chartered have been appointed as joint financial advisers, to the Offeror Group in respect of the Offers.

The purpose of this circular is to provide you with, inter alia, further information about the Offers and to give notice of the EGM at which an ordinary resolution will be proposed to approve the Offers, the Irrevocable Undertakings and the transactions contemplated thereunder.

As completion of the Offers is subject to the fulfillment of a number of conditions which are detailed in this circular, the Offers may or may not be completed. Company Shareholders and potential investors should exercise caution when dealing in the shares of the Company.

All statements, other than statements of historical facts included in this circular, are or may be forward-looking statements. Forward-looking statements include, but are not limited to, those using words such as "seek", "expect", "anticipate", "estimate", "believe", "intend", "project", "plan", "strategy", "forecast" and similar expressions or future or conditional verbs such as "will", "would", "should", "could", "may" and "might". These forward-looking statements reflect the Company's current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information. Readers are cautioned that such forward-looking statements are not guarantees of future performance or events and involve known and unknown risks, uncertainties and other factors, certain of which are beyond the Company's control, that may cause the actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. These risks, uncertainties and other factors include, but are not limited to: actions taken by the Target, changes in applicable laws, general business and economic conditions, failure to meet certain conditions of the Offers and any related transactions and the behaviour of other market participants. No assurance can be given that such forward-looking statements will prove to have been correct. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this circular. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required by applicable laws.

THE OFFERS

The Offers will be made by UBS on behalf of the Offeror on the following basis:

The Share Offer:

As at the Last Trading Date, there are 3,559,170,222 Target Shares in issue.

Under the Share Offer, Target Shareholders accepting the Share Offer will have a choice of either:

(a) for each Target Share, HK$3.50 in cash (the "**Cash Option**"); or

(b) for each Target Share, HK$2.82 in cash and 0.681 Offeror Share in the Offeror (the "**Cash and Share Option**").

The Target Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

The Offeror Shares to be issued under the Share Offer will be issued free from all encumbrances, credited as fully-paid, non-assessable, and will rank pari passu with all issued shares in the Offeror, including the Subscriber Share, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date of their issue. Fractions of Offeror Shares are to be rounded up to the nearest whole number.

The Share Offer Price of HK$3.50 per Target Share under the Cash Option represents a premium of approximately 9.4% over the closing price of HK$3.20 per Target Share as quoted on the Stock Exchange on the Last Trading Date.

The Cash Option

Comparisons of value

The Share Offer Price of HK$3.50 per Target Share under the Cash Option represents:

	Price per Target Share *(HK$)*	**Premium/ (Discount) of the offer price to the share price** *(%)*
Closing price on the Latest Practicable Date	3.44	1.7
Closing price on the Last Trading Date	3.20	9.4
Average closing price for the last 5 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	3.18*	10.1
Average closing price for the last 10 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	3.21*	9.0
Average closing price for the last 20 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	3.14*	11.6
Average closing price for the last 30 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	2.99*	16.9
Average closing price for the last 60 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	2.59*	35.1

* adjusted for the final dividend of the Target of RMB11.31 cents per Target Share declared for the year ended December 31, 2012 and the special dividend of RMB28.25 cents per Target Share declared for the year ended December 31, 2012 by the Target.

Highest and lowest Target Share prices

During the six-month period preceding the Last Trading Date and including the Last Trading Day, the highest closing price of the Target Shares as quoted on the Stock Exchange was HK$3.28 on May 31, 2013 and the lowest closing price of the Target Shares as quoted on the Stock Exchange was HK$1.54 on December 31, 2012, respectively adjusted for the final dividend of the Target of RMB11.31 cents per Target Share declared for the year ended December 31, 2012 and the special dividend of RMB28.25 cents per Target Share declared for the year ended December 31, 2012 by the Target.

The Cash and Share Option

Nature of Offeror Shares

For the Target Shareholders who choose the Cash and Share Option, unlike the Target Shares, the Offeror Shares which they receive will not be readily tradeable and will be shares of an unlisted company incorporated under the laws of the British Virgin Islands. The transfer of such Offeror Shares will be strictly regulated pursuant to the New Articles and the rights of shareholders in the Offeror will primarily be governed by the British Virgin Islands Companies Law and British Virgin Islands law. The transfer of the Offeror Shares will also be subject to the Lock-Up Restrictions.

Comparison of the Cash Option and the Cash and Share Option

Under the Share Offer, a Target Shareholder holding one board lot of 1,000 Target Shares will be entitled to the following consideration depending on the choice of such Target Shareholder:

	Cash Option	**Cash and Share Option**
Cash	HK$3,500	HK$2,820
Offeror Shares	N/A	681

Each Target Shareholder who accepts the Share Offer may choose either the Cash Option or the Cash and Share Option in respect of his/her/its entire holding of the Target Shares.

Further details on the procedures for the acceptance of the Share Offer will be included in the Composite Document.

The Option Offer:

As at the Last Trading Date, there are outstanding Options in respect of 52,519,756 Target Shares. The respective exercise prices of the outstanding Options and the respective periods in which they are exercisable are set out below:

Pre-IPO Share Option Scheme

Exercise Price *(RMB per Share)*	**Number of Outstanding Options**
0.11	26,256,211
1.84	6,308,661

All Options granted under the Pre-IPO Share Option Scheme were vested or will be vested and may only be exercised in the following manner:

- one fifth of the Options were vested on the First Vesting Date;
- one fifth of the Options were vested on the first anniversary of the First Vesting Date;
- one fifth of the Options were vested on the second anniversary of the First Vesting Date;
- one fifth of the Options shall be vested on the third anniversary of the First Vesting Date;
- one fifth of the Options shall be vested on the fourth anniversary of the First Vesting Date; and

each Option granted under the Pre-IPO Share Option Scheme is exercisable within fifteen (15) days from the date on which such Option becomes vested.

Share Option Scheme

Exercise Price *(HK$ per Share)*	**Number of Outstanding Options**
1.50	19,954,884

An Option granted under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Target Board and not exceeding ten (10) years from the date of the grant. There is no minimum period for which an Option must be held before it can be exercised.

The Offeror will make (or procure to be made on its behalf) appropriate offers to the Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all outstanding Options (whether vested or not) in exchange for cash:

(A) In respect of Options with an exercise price of RMB0.11:

For cancellation of each such Option . . . . .HK$3.361 in cash

(B) In respect of Options with an exercise price of HK$1.50:

For cancellation of each such Option . . . . .HK$2.00 in cash

(C) In respect of Options with an exercise price of RMB1.84:

For cancellation of each such Option . . . . .HK$1.171 in cash

Under the Share Option Scheme and the Pre-IPO Share Option Scheme, if a general offer is made to all holders of Target Shares and such offer becomes or is declared unconditional, the grantee of outstanding Options shall be entitled to exercise the Options (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

The Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects. Further information on the Option Offer will be set out in the formal document containing details of the Option Offer which will be sent to Optionholders on the Despatch Date.

Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced.

Value of the Offers

As at the Last Trading Date, there are 3,559,170,222 Target Shares in issue. On the basis of the Share Offer Price of HK$3.50 per Target Share under the Cash Option and assuming that no outstanding Options are exercised prior to the Closing Date:

(a) the Share Offer is valued at approximately HK$11,214,865,820 and 1,244,056,766 Offeror Shares assuming all Target Shareholders accept the Share Offer and opt for the Cash Option (apart from Zhang International, which has committed, pursuant to the Zhang Irrevocable Undertaking, to opt for the Cash and Share Option for all of the 1,826,808,760 Target Shares held by it); and

(b) the Share Offer is valued at approximately HK$10,617,329,269 and 1,842,472,047 Offeror Shares assuming all Target Shareholders accept the Share Offer and opt for the Cash and Share Option (apart from CA Dairy, which has committed, pursuant to the CA Dairy Irrevocable Undertaking, to opt for the Cash Option for all of the 853,631,240 Target Shares held by it).

As at the date of the Joint Announcement, there are a total of 26,256,211, 6,308,661 and 19,954,884 Options outstanding entitling the Optionholders to subscribe for, pursuant to the Pre-IPO Share Option Scheme or the Share Option Scheme, Target Shares at an exercise price of RMB0.11, RMB1.84 and HK$1.50 per Target Share, respectively.

Assuming none of the outstanding Options are exercised prior to the Closing Date, the total amount required to satisfy the cancellation of all the outstanding Options is HK$135,544,335.

Based on the above and assuming that no outstanding Options are exercised prior to the Closing Date, the Offers are valued at approximately (i) HK$11,350,410,155 and 1,244,056,766 Offeror Shares in aggregate assuming all Target Shareholders accept the Share Offer and opt for the Cash Option (apart from Zhang International, which has committed, pursuant to the Zhang Irrevocable Undertaking, to opt for the Cash and Share Option for all of the Target Shares held by it) or (ii) HK$10,752,873,604 and 1,842,472,047 Offeror Shares in aggregate assuming all Target Shareholders accept the Share Offer and opt for the Cash and Share Option (apart from CA Dairy, which has committed, pursuant to the CA Dairy Irrevocable Undertaking, to opt for the Cash Option for all of the 853,631,240 Target Shares held by it).

In the event all of the outstanding Options are exercised in full by the Optionholders prior to the Closing Date, the Target will have to issue 52,519,756 new Target Shares, representing approximately 1.45% of the enlarged issued share capital of the Target. The maximum value of the Share Offer will be increased to (i) approximately HK$11,398,684,966 and 1,244,056,766 Offeror Shares assuming all Target Shareholders accept the Share Offer and opt for the Cash Option (apart from Zhang International, which has committed, pursuant to the Zhang Irrevocable Undertaking, to opt for the Cash and Share Option for all of the Target Shares held by it) or (ii) approximately HK$10,765,434,981 and 1,878,238,001 Offeror Shares assuming all Target Shareholders accept the Share Offer and opt for the Cash and Share Option (apart from CA Dairy, which has committed, pursuant to the CA Dairy Irrevocable Undertaking, to opt for the Cash Option for all of the 853,631,240 Shares held by it) on a fully diluted basis.

Total Consideration

The consideration required for the acquisition of the Target Shares and the cancellation of the Options and therefore, the consideration required of the Offeror Group in respect of the Offers, are determined by the Offeror Group taking into account factors including the trend of the closing price of the Target Shares, the market position, historical financial information of the Target and the prevailing market conditions and sentiments as well as the business prospects and development potential of the Target Group.

On the basis of the consideration of HK$3.50 per Target Share under the Cash Option, the entire issued share capital of Target is valued at approximately HK$12,457,095,777 as of the Last Trading Date. Such valuation is calculated on the basis of the consideration of HK$3.50 per Target Share under the Cash Option and the assumption that holders of all the issued Target Shares accepted the Share Offer and opted for the Cash Option.

The ratio of Offeror Share as a percentage of the total consideration is determined to ensure that Zhang International will hold an indirect 10% interest in the Target. This is calculated by the following formula:

51.3% x (Offeror Share as % of the total consideration) = 10%

Therefore, (Offeror Share as % of the total consideration) = 10% / 51.3%

The Company believes that, through completion of the Offers, both the Company and the Target will be able to offer more consumers with more choices in dairy products that are safe, healthy and of the highest quality. The consideration in respect of the Offers was determined by the Company taking into account factors including the trend of the closing price of the Target Shares, the market position, historical financial information of the Target and the prevailing market conditions and sentiments as well as the business prospects and development potential of the Target Group. Accordingly, the Directors consider that the consideration is fair and reasonable and in the interest of the Company and the Company Shareholders. The Directors also note that as of the June 20, 2013, the closing price of the shares of the Company has increased by more than 8.3% compared with the last trading price prior to the trading halt of the Company pending publication of the Joint Announcement.

FINANCING FOR THE OFFERS

The Offeror intends to finance the consideration payable by the Offeror under the Offers from external interim debt financing to be provided to the Company. The following securities have been provided for such external interim debt financing: (i) a share pledge granted by the Offeror over the Target Shares owned by the Offeror which are attributable to the Company; (ii) a share mortgage granted by the Company over the shares in the Offeror owned by the Company; and (iii) an account charge granted by the Company over a debt service reserve account and a prepayment account held by the Company in connection with such financing. Following completion of the offers and over time, it is the current intention of the Company to replace such external interim debt financing with a combination of longer term debt financing (whether in the form of loans or issuance of debt securities or a combination thereof) and other internal source of funds. The Offers are not expected to have any dilution effect on the Company Shareholders and there is no current intention by any member of the Offeror Group to raise capital by issuing equity securities. The Directors will take into consideration the interests of the Company Shareholders in any financing plans in the future and provide appropriate disclosures to the Company Shareholders in accordance with the Listing Rules.

CONDITIONS TO THE SHARE OFFER

The Share Offer is subject to the following Conditions:

(a) valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of such number of Target Shares which will result in the Offeror and persons acting in concert with it holding at least 75% of the voting rights in the Target;

(b) the Target Shares remaining listed and traded on the Stock Exchange up to the Closing Date (or, if earlier, the Unconditional Date) save for any temporary suspension(s) of trading of the Target Shares as a result of the Offers and no indication being received on or before the Closing Date (or, if earlier, the Unconditional Date) from the SFC and/or the Stock Exchange to the effect that the listing of the Target Shares on the Stock Exchange is or is likely to be withdrawn, other than as a result of either of the Offers or anything done or caused by or on behalf of the Company, the Offeror or their respective Concert Parties;

(c) (i) all Consents as are necessary for the consummation of the transactions contemplated in the Irrevocable Undertakings and the Offers and in connection with, including, without limitation, any change in the direct or indirect shareholder(s) or ultimate controlling shareholder(s) of any member of the Target Group that has been granted the Consents to carry out its operations having been obtained and remaining in full force and effect without material variation from all Relevant Authority(ies) and all conditions (if any) to such Consents having been fulfilled; (ii) each member of the Target Group possessing or having obtained all Consents from the Relevant

Authority(ies) that are necessary to carry on its business; and (iii) all mandatory Consents from third parties having been obtained for the acquisition of the Target Shares under the Offers;

(d) no event having occurred which would make the Offers or the acquisition of any of the Target Shares under the Share Offer void, unenforceable or illegal or prohibit implementation of the Offers or the transactions contemplated under the Irrevocable Undertakings;

(e) no Relevant Authority(ies) in the PRC, Hong Kong, Cayman Islands and the British Virgin Islands having taken or instigated any action, proceeding, suit, investigation or enquiry, or enacted or made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Offers or the acquisition of any of the Target Shares under the Offers void, unenforceable or illegal or prohibit the implementation of, or which would impose any material conditions, limitations or obligations with respect to, the Offers or the transactions contemplated under the Irrevocable Undertakings (other than such items or events above as would not have a material adverse effect on the legal ability of the Offeror to proceed with or consummate the Offers and the transactions contemplated under the Irrevocable Undertakings);

(f) since the date of the last audited consolidated financial statements of the Target, there having been no change, effect, fact, event or circumstance which has had or would reasonably be expected to have a material adverse effect on, or to cause a material adverse change in, the general affairs, management, financial position, business, prospects, conditions (whether financial, operational, legal or otherwise), earnings, solvency, current or future consolidated financial position, shareholders' equity or results of operations of the Target Group as a whole, whether or not arising in the ordinary course of business;

(g) no changes having been made to any terms of the Pre-IPO Share Option Scheme or the Share Option Scheme (either formally or as a result of the exercise by the Target's remuneration committee of its discretion) from the date of the Joint Announcement;

(h) other than the final dividend of the Target of RMB11.31 cents per Target Share declared for the year ended December 31, 2012 and the special dividend of RMB28.25 cents per Target Share declared for the year ended December 31, 2012 by the Target, no dividends having been declared or paid by the Target and, save in respect of any indebtedness incurred in relation to projects of the Target Group that have been publicly announced prior to the date of the Joint Announcement, no indebtedness being incurred by the Target other than in the ordinary course of business consistent with the Target's past practices; and

(i) with respect to the Company, the obtaining of approval at an EGM of the Company in relation to the making of the Offers (including the signing and completion of the Irrevocable Undertakings) as a major transaction pursuant to the Listing Rules.

The Offeror reserves the right to waive, in whole or in part, all or any of the Conditions set out above save that (i) Condition (a) may only be waived if the Offeror receives acceptances in respect of the Share Offer which would result in the Company, the Offeror and their respective Concert Parties holding more than 50% of the voting rights in the Target; and (ii) Conditions (d) and (i) cannot be waived. The Offeror and the Company understand that they do not require approval from any Relevant Authority as a condition to the making of the Offers.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions so as not to proceed with the Offers if the circumstances which give rise to the right to invoke any such Condition are of material significance to the Company and the Offeror in the context of the Offers.

In accordance with Rule 15.3, the Offeror must publish an announcement when the Offers become unconditional as to acceptances and when it becomes unconditional in all respects. The Offers must also remain open for acceptance for at least fourteen (14) days after the Offers become unconditional. The Offeror does not have any obligation to keep the Offers open for acceptance beyond this minimum 14-day period.

IRREVOCABLE UNDERTAKINGS

Zhang Irrevocable Undertaking

Date: June 17, 2013

Parties: Zhang International, Company and Offeror

CA Dairy Irrevocable Undertaking

Date: June 17, 2013

Parties: CA Dairy, Company and Offeror

Undertaking to accept the Share Offer

Zhang International and CA Dairy had each executed an irrevocable undertaking (the Zhang Irrevocable Undertaking and the CA Dairy Irrevocable Undertaking respectively) in favour of the Company and the Offeror, pursuant to which each of Zhang International and CA Dairy has irrevocably undertaken to the Offeror and the Company to accept, or procure the acceptance of, the Share Offer in respect of the Relevant Shares as soon as possible and in any event by 4:00 p.m. on the Business Day after the Despatch Date.

Zhang International has committed to accept the Cash and Share Option for all of the 1,826,808,760 Target Shares held by it as at the date of the Zhang Irrevocable Undertaking. CA Dairy has committed to accept the Cash Option in respect of all of all of the 853,631,240 Target Shares owned by it as at the date of the CA Dairy Irrevocable Undertaking.

Accordingly, pursuant to the Share Offer, the Offeror will acquire from Zhang International 1,826,808,760 Target Shares for a total consideration of approximately HK$5,151,600,703 and 1,244,056,766 Offeror Shares, and from CA Dairy 853,631,240 Target Shares for a total consideration of approximately HK$2,987,709,340.

Prior to the closing, lapsing or withdrawal of the Share Offer, each of Zhang International and CA Dairy has undertaken not to, among other things, (i) sell, transfer, charge, encumber, grant any option over (or cause the same to be done) or otherwise dispose of any interest in the Relevant Shares (other than to the Offeror); (ii) acquire, directly or indirectly, any additional shares, securities or other interests of the Target; or (iii) take any action or enter into any agreement or arrangement, including through its representation on the Target's board of directors (and whether or not legally binding or subject to any condition or which is to take effect after the Share Offer closes or lapses), or permit any agreement or arrangement to be entered into or authorize or incur any obligation which, in relation to the Relevant Shares, would or might restrict or impede its accepting the Offers.

No withdrawal

Each of Zhang International and CA Dairy has irrevocably undertaken that it will not withdraw any acceptance of the Share Offer in respect of the Relevant Shares.

Termination

The Irrevocable Undertakings will be terminated and the respective obligations of Zhang International and CA Dairy under the Irrevocable Undertakings (as applicable) shall lapse and terminate if (i) the Offeror fails to despatch the Composite Document on the date of despatch of the offer document in respect of the Share Offer and the formal document containing the proposal made by the Offeror to the Optionholders in compliance with Rule 13 of the Takeovers Code; or (ii) the Share Offer lapses.

Each of Zhang International and CA Dairy may, in its sole decision, terminate its Irrevocable Undertaking with immediate effect if (i) the Company Shareholder fail to approve the making of the Offers (including the signing and completion of the Irrevocable Undertakings) as a major transaction pursuant to the Listing Rules; or (ii) the Offers are not declared unconditional in all respects by September 10, 2013.

Non-Competition and Non-Solicitation

Zhang International has undertaken that, save for any shareholding in the Offeror or any Target Shares which are swapped in exchange for Offeror Shares, it shall not and shall procure that its Affiliates shall not (whether alone or jointly with another and whether directly or indirectly), during the Restricted Period:

(a) carry on, operate, develop or be engaged or concerned or interested economically or otherwise in any manner in any Competing Business in the PRC, Hong Kong, Taiwan, Macau and New Zealand; and

(b) use or display any trademark, business name or mark, domain name or any website containing (i) the word(s) "Yashili (in Chinese: 雅士利)", "Scient (in Chinese: 施恩)", other than in respect of the use of such name by the Zhang's Family in its investment holding ventures.

Notwithstanding the above, Zhang International and its Affiliates may be interested in, engaged in, acquire or hold interest in, any Competing Business with the written consent of the Company or in cooperation with or in conjunction with the Company or any of its Affiliates.

Zhang International has further undertaken that it shall not and shall procure that its Affiliates shall not solicit, hire or encourage or seek to encourage any director, officer, employee or distributor of any member of the Target Group to leave his/her current employment or consultancy or to breach the terms of their contract for services or distributorship or solicit the business of any client or customer of any member of the Target Group in relation to the Competing Business. This undertaking does not affect Zhang International's or its Affiliates' ability to hire in the aggregate no more than five employees of the Target Group; provided that only one of such five employees may be a member of the senior management of the Target Group. Zhang International or its Affiliates may also hire any member(s) of Zhang's Family or enter into any other arrangements with them. In addition, Mr. Zhang Lidian, the chairman of the Target, may consider remaining as a member of the senior management of the Target Group following the Completion.

Target's management team post-Completion

Zhang International has undertaken that it shall procure that Mr. Zhang Likun, Mr. Zhang Liming, Mr. Zhang Libo and Mr. Zhang Lidian shall resign as directors of the Target and as directors of each relevant member of the Target Group with effect from Completion. Mr. Zhang Yanpeng shall remain as a director of the Target Board following Completion. Mr. Zhang Lidian may consider remaining as a member of senior management of the Target following Completion.

In order to achieve the expected benefits of the acquisition of the Target Group, the Company will engage the necessary management expertise, whether sourcing internally within the Enlarged Group and/or externally, to manage the businesses of the Target Group.

The specific roles of Mr. Zhang Yanpeng and Mr. Zhang Lidian (where applicable) in the Target Group following Completion remain subject to discussions among the Company and Mr. Zhang Yanpeng and Mr. Zhang Lidian (where applicable), respectively, but it is intended that Mr. Zhang Yanpeng will remain as a director of the Target Group to assist the Target Group's business development in the milk powder sector and provide such other assistance as the Company may from time to time request following Completion. It is not currently contemplated that any member of the Zhang's Family will be appointed as a Director.

Revised Offers

The Irrevocable Undertakings will extend to any revised or improved offer or offers by or on behalf of the Offeror. In accordance with Rule 16.1 of the Takeover Code, if the Offeror revises the terms of the Share Offer or the Option Offer, each of Zhang International and CA Dairy, any other Shareholder or Optionholder (as the case may be), whether or not it has already accepted the Share Offer or the Option Offer, will be entitled to the revised or improved terms of the Share Offer or the Option Offer (as the case may be).

INFORMATION OF THE COMPANY

The Company was incorporated in the Cayman Islands and its shares are listed on the Stock Exchange (stock code: 2319). The Offeror Group is a leading dairy product manufacturer in China, principally engaged in manufacturing and distribution of quality dairy products.

The Offeror Group's diversified products range includes liquid milk products, such as UHT milk, milk beverages and yogurt, ice cream and other dairy products such as milk powder. In December 2012, the Offeror Group's annual production capacity of dairy products reached 7.58 million tons.

INFORMATION OF THE OFFEROR

Incorporation

The Offeror was incorporated in the British Virgin Islands by the Company for the sole purpose of making the Offers and holding the Target Shares. Assuming the Share Offer becomes unconditional in all respects, the Offeror will be the new holding company of the Target upon close of the Offers.

The Offeror was incorporated on June 4, 2013. As of the Latest Practicable Date, there is one (1) Offeror Share in issue, which was the Subscriber Share, and the Offeror is a wholly- owned subsidiary of the Company. In order to facilitate acceptance of the Share Offer, the sole shareholder of the Offeror, being the Company, has resolved to increase the maximum number of shares the Offeror is authorized to issue to 200,000,000,000 Offeror Shares of HK$1.00 par value each.

The Offeror has not carried on any business since incorporation, other than matters in connection with the Offers. The Offeror will not engage in any business other than acting as the holding company of the Target.

Share Capital

As part of the Share Offer, the Offeror will issue such number of Offeror Shares at a par value of HK$1.00 each to the Company for a consideration which is equivalent to the aggregate sum of the consideration payable (being the cash payable under the Cash Option and the Cash and Share Option) by the Offeror to the Accepting Shareholders. As part of the Option Offer, the Offeror will issue one Offeror Share to the Company for a consideration which is equivalent to the aggregate sum of the consideration payable by the Offeror to the Optionholders who accept the Option Offer. The Offeror will use such cash consideration and issue Offeror Shares to Target Shareholders who opt for the Cash and Share Option to finance the acquisition of the Target Shares from the Accepting Shareholders and the cancellation of the Options.

A Shareholder who chooses the Cash and Share Option will receive 0.681 Offeror Share in respect of each Target Share, which represents an indirect interest in approximately 0.19 share in the Target held through the Offeror. Zhang International, which pursuant to the Zhang Irrevocable Undertaking will accept the Cash and Share Option, will upon close of the Offers hold 1,244,056,766 Offeror Shares, representing an indirect 10% interest in the entire issued share capital of the Target held through the Offeror. This percentage of indirect interest in the Target to be held by Zhang International will, upon completion be unaffected by the Subscriber Share, the number of Offeror Shares to be issued to the Company to finance the Offers as described in this section or the level of elections for the Cash and Share Option by other Target Shareholders, as any Target Shareholder (including Zhang International) who elects the Cash and Share Option will receive 0.681 Offeror Share and HK$2.82 in cash and the Offeror Share portion represents approximately 19.5% of the aggregate consideration of HK$3.50. Such percentage is determined by Zhang International's 10% interest in the Target divided by Zhang International's current 51.3% total shareholding in the Target.

On the above basis, and assuming that (i) no outstanding Options are exercised prior to the close of the Offers, and (ii) all Target Shareholders accept the Share Offer and opt for the Cash and Share Option (apart from CA Dairy, which has committed, pursuant to the CA Dairy Irrevocable Undertaking, to opt for the Cash Option for all of the 853,631,240 Shares held by it), a Maximum Interest of approximately 1,842,472,047 Offeror Shares representing 14.8% of the Offeror's enlarged issued share capital may be held by the Accepting Shareholders. The Subscriber Share is excluded for the purpose of that calculation as the intention is for the Subscriber Share to be repurchased by the Offeror at US$1.00 as and when appropriate prior to the Closing Date.

Corporate Structure

A Cash Option and a Cash and Share Option evolved during the negotiations between the Company and Zhang International where it was indicated to the Company that Zhang International wishes to maintain a stake in the Target following completion of the Offers. Under Rule 25 of the Takeovers Code, except with the consent of the Executive, no shareholder may be given any favourable conditions in an offer which is not also extended to all other shareholders of the Target ("special deal arrangement"). Under Practice Note 17 of the Takeovers Code, it is stated that if a special deal arrangement is capable of being extended to all other shareholders, it should be so extended. As such, the Offers were structured to include a Cash Option and a Cash and Share Option to (1) allow Zhang International to maintain an indirect stake in the Target through holding shares in the Offeror; and (2) extend the arrangement to all other shareholders of the Target. Pursuant to the Zhang Irrevocable Undertaking, Zhang International has committed to accept the Cash and Share Option for all of the 1,826,808,760 Shares held by it.

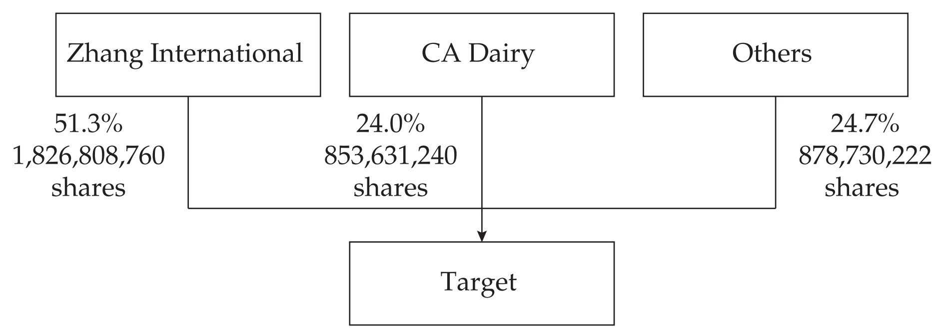
If the Share Offer becomes unconditional in all respects, the Offeror will become the new holding company of the Target upon close of the Offers. The shareholding interest of the Offeror in the Target upon close of the Offers will depend on the level of acceptances in respect of the Share Offer and the level of exercise of Options before the Closing Date.

The corporate chart below indicates the levels of possible shareholding interest in the Offeror and the Target following the Share Offer if it becomes unconditional in all respects.

Post Offers Shareholding Structure

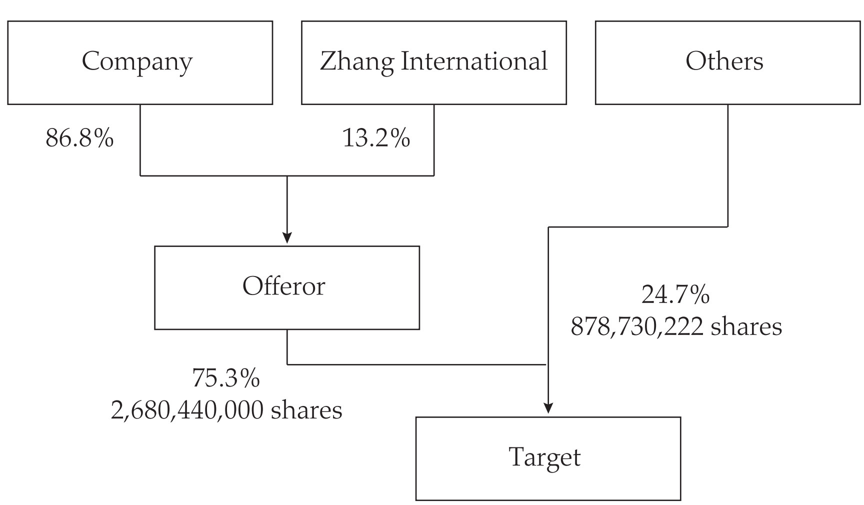
Set out below are charts showing the shareholding structure of the Target as at the Latest Practicable Date and the Unconditional Date.

As at the Latest Practicable Date:

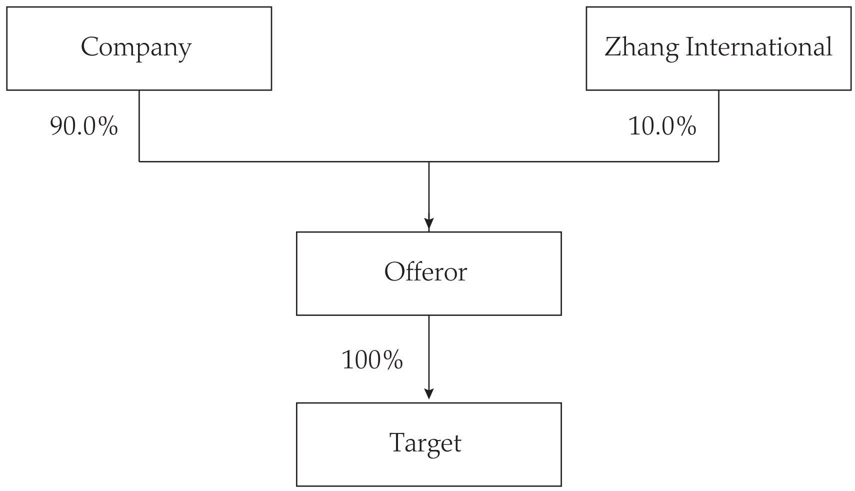


As at the Unconditional Date:

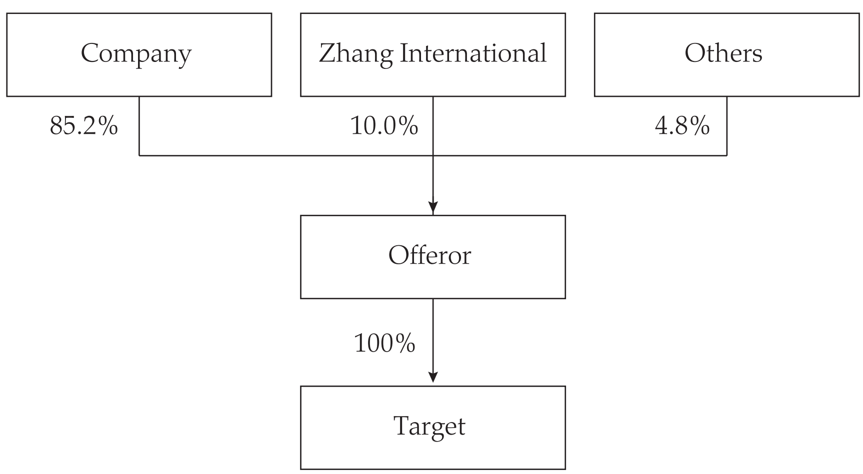
Assuming the listing status of the Target on the Stock Exchange is maintained and only Zhang International and CA Dairy accept the Share Offer (where Zhang International opts for the Cash and Share Option and CA Dairy opts for the Cash Option)



Assuming the Target does not maintain its listing status on the Stock Exchange and only Zhang International opts for the Cash and Share Option



Assuming the Target does not maintain its listing status on the Stock Exchange and all Target Shareholders (other than CA Dairy) opt for the Cash and Share Option



Note: The above shareholding structure assumes none of the outstanding Options is exercised.

Corporate Matters

As the Offeror is incorporated in the British Virgin Islands, its governance will primarily be subject to British Virgin Islands law. The Articles contain the types of provisions which are generally found in other unlisted exempted companies incorporated under the British Virgin Islands Companies Law.

INFORMATION OF THE TARGET GROUP

The Target is a company incorporated in the Cayman Islands with limited liability, whose shares have been listed on the Main Board of the Stock Exchange since November 1, 2010. The Target Group is principally engaged in production and sales of pediatric milk formula products and nutrition food.

FINANCIAL EFFECTS OF THE OFFERS

Upon the completion of the Offers and regardless of whether the Company exercises compulsory acquisition rights relating to the Offers, the Target will become a subsidiary of the Group and the Company would be required to consolidate the Target into the consolidated financial statements of the Company.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, if the Offers had been completed on December 31, 2012, the changes of total assets and liabilities are laid out as below under three scenarios.

- Scenario I: calculated based on the assumption that only Zhang International and CA Dairy accept the Share Offer (where Zhang International, which has committed, pursuant to the Zhang Irrevocable Undertaking, opts for the Cash and Share Option for all of the 1,826,808,760 Shares held by it, and CA Dairy, which has committed, pursuant to the CA Dairy Irrevocable Undertaking, opts for the Cash Option for all of the 853,631,240 Shares held by it)

    o the total assets of the Enlarged Group would have increased by approximately RMB14,061.2 million from approximately RMB20,990.7 million* to approximately RMB35,051.9 million, the total liabilities of the Enlarged Group would have increased by approximately RMB12,208.3 million from approximately RMB7,918.9 million* to approximately RMB20,127.2 million.

- Scenario II: calculated based on the assumption that all shareholders accept the Share Offer and opt for the Cash Option for all of the 3,559,170,222 Shares held by them (Other than Zhang International, which has committed, pursuant to the Zhang Irrevocable Undertaking, to opts for the Cash and Share Option for all of the 1,826,808,760 Shares held by it)

    o the total assets of the Enlarged Group would have increased by approximately RMB12,704.1 million from approximately RMB20,990.7 million* to approximately RMB33,694.8 million, the total liabilities of the Enlarged Group would have increased by approximately RMB12,208.3 million from approximately RMB7,918.9 million* to approximately RMB20,127.2 million.

* *Refers to the financials of the Company as at December 31,2012*

- Scenario III: calculated based on the assumption that all shareholders accept the Share Offer and opt for the Cash and Share Option for all of the 3,559,170,222 Shares held by them (apart from CA Dairy, which has committed, pursuant to the CA Dairy Irrevocable Undertaking, to opts for the Cash Option for all the 853,631,240 shares held by it)

  o the total assets of the Enlarged Group would have increased by approximately RMB12,967.8 million from approximately RMB20,990.7 million* to approximately RMB33,958.5 million, the total liabilities of the Enlarged Group would have increased by approximately RMB12,208.3 million from approximately RMB7,918.9 million* to approximately RMB20,127.2 million.

The Pro Forma Financial Information has been prepared for illustrative purposes only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at December 31, 2012 or any future date. Moreover, since the actual fair values of the assets, liabilities and contingent liabilities of the Target Group upon Completion would be different from their estimated fair values used in the preparation of the Pro Forma Financial Information, the actual financial effects of the Offers might be materially different from the financial position as shown in Appendix III to this circular.

Upon Completion, the Target will become a subsidiary of the Company and the financial statement of the Target Group will be consolidated in the accounts of the Group after Completion. The Directors anticipate that the Target Group will make a significant contribution to the profits of the Group in the foreseeable future.

REASONS FOR THE OFFERS AND THE EXPECTED BENEFITS

The PRC dairy market has continued to grow over the past few years driven by macro factors such as strong economic growth, increasing disposable income and rising rates of urbanization, as well as industry-specific factors including increasing health awareness, consumer preferences and improved dairy product distribution.

As one of the key components of the PRC dairy market, the pediatric milk formula market has been expanding rapidly as well. The increasing trend towards double income families and the related increase in the number of working mothers in the PRC, coupled with the convenience and comprehensive nutritional benefits offered by infant formula products, has resulted in a growing popularity among mothers in the PRC to choose infant formulas for their children. In recent years, pediatric milk formula powder brands with high quality raw milk sourcing from overseas and quality local large-scale farms have secured increasingly large market shares, especially in the high-end pediatric milk formula powder segment. For the dairy industry, the government and society continue to reinforce regulated development through both stringent supervision and increased media coverage.

* *Refers to the financials of the Company as at December 31,2012*

Establishing a partnership between the Company's ***Mengniu***, a leading dairy brand in the PRC and the Target's ***Yashili***, one of the successful pediatric milk powder brands in the PRC would enable both parties to leverage each other's capabilities and resources in product offering, product innovation, upstream sourcing, distribution and sales channel development, product quality control and consumer marketing to capture the rapid growth of pediatric milk formula market in the PRC. While the Offeror Group will explore and leverage each other's strengths in the dairy industry and explore aforementioned areas of cooperation to create synergy, the Offeror Group intends to work with the Target Group with a view to maintaining the Target Group's independent operating platform for the pediatric milk powder business.

The Company is one of the best-known dairy companies in China and one of the largest dairy companies engaged in manufacturing and distributing quality dairy products in China. The Target Group is a renowned domestic brand and a leading domestic pediatric milk powder manufacturer in China. The Target Group's business model integrates high brand recognition, imported premium dairy raw materials and a proprietary formula, and commitment to establish a high standard of quality supervision and quality assurance system. The Company envisions no change in the Target Group's sourcing policy to ensure that consumers continue to enjoy unchanged quality commitment and brand value from the Target Group's products. The Company believes that, through this cooperation, both companies will be able to offer more consumers with more choices in dairy products that are safe, healthy and of the highest quality.

INTENTIONS OF THE COMPANY IN RELATION TO THE TARGET GROUP

The Offeror is set up by the Company for the sole purpose of holding Target Shares and will not engage in any business other than acting as the holding company of the Target.

After close of the Offers, the Company will review the businesses of the Target Group, including among others, the Target Group's relationships with its distributors and suppliers, portfolio of products, assets, corporate and organizational structure, capitalization, operations, policies, management and personnel to consider and determine what changes, if any, would be necessary, appropriate or desirable, long term and short term, in order to best organize and optimize the businesses and operations of the Target Group and to integrate the same within the Offeror Group. In the event that after close of the Offers, the Company decides to appoint directors to the board of directors of the Target, the Company shall effect such appointment in accordance with the Listing Rules and the Takeovers Code. The Company intends that the Target Group will continue to operate its business (including the composition of the senior management of the Target Group) in substantially its current state. However, the Company reserves the right to make any changes that it deems necessary or appropriate to the Target Group's businesses and operations (including the composition of the senior management of the Target Group) to better integrate, generate maximum synergy and achieve enhanced economies of scale with the other operations of the Offeror Group. It is not currently contemplated that any member of the senior management of the Target Group will be appointed to the Company's board of directors.

If the Target continues to maintain its listing status on the Stock Exchange following closing of the Offers, the Company expects that the dividend policy of the Target will be substantially consistent with its past practices since its listing on the Stock Exchange.

LOCK-UP PERIOD

Other than through the re-listing of the business of the Target Group as described in the section headed "Compulsory Acquisition and Withdrawal of Listing" of this circular and the charging or pledging of shares in the Offeror by the Company in connection with the financing of the Offers, for a period of three (3) years following the Unconditional Date (the "**Lock-Up Period**"), the shareholders of the Offeror may not dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Offeror Shares issued to it under the Offers or otherwise (together, the "**Lock- Up Restrictions**") unless otherwise approved by the board of directors of the Offeror in writing. In addition, the Target Shares acquired by shareholders of the Offeror through the repurchase option set out in the section headed "Listing Status of the Target" of this circular shall be subject to the Lock-Up Restrictions during the Lock-Up Period. If either (a) the repurchase of Offeror Shares as set out in the sections headed "Listing Status of the Target", "Compulsory Acquisition and Withdrawal of Listing" and "Right to exit in the Event of Change of Control" of this circular is not permitted by the then applicable laws or regulations or (b) there is a Change of Control of the Offeror or the Target, then the Lock-Up Restrictions (including such restrictions applicable to the holders of the Target Shares who acquired their Target Shares through the repurchase option set out in the section headed "Listing Status of the Target" of this circular) shall lapse, and a shareholder of the Offeror or the Target will be at liberty to sell any of its Offeror Shares or Target Shares to any party or choose to remain a shareholder of the Offeror or the Target (as applicable).

Zhang International has also undertaken in the Zhang Irrevocable Undertaking that from the date of the Zhang Irrevocable Undertaking until a period of three (3) years from the date of Completion, it will not register the transfer of any of its issued share capital or otherwise issue, allot or agree to issue or allot any shares, securities or other interests in its share capital or loan capital or otherwise recognize any economic interests in its equity asserted by a person other than any member of the Zhang's Family (the "**Zhang International Lock-Up**"). If the Lock-Up Restrictions lapse, then the Zhang International Lock-Up shall also lapse. The Zhang International Lock-Up forms part of the Zhang Irrevocable Undertaking and will terminate in the event that the Zhang Irrevocable Undertaking is terminated in accordance with its terms.

LISTING STATUS OF THE TARGET

If the Offeror does not acquire the requisite percentage of the Target Shares to enable it to compulsorily acquire all the issued Target Shares under Cayman Islands Companies Law and the Takeovers Code as detailed in the section headed "Compulsory Acquisition and Withdrawal of Listing" of this circular within four (4) months after posting of the Composite Document, its intention is to maintain the listing status of the Target on the Stock Exchange. Accordingly, assuming the Share Offer becomes or is declared unconditional in all respects but the Offeror does not effect the compulsory acquisition, the Offeror will undertake to the Stock Exchange to take appropriate steps following the close of the Offers to ensure that such number of Target Shares as may be required by the Stock Exchange are held by the public within the prescribed time frame. Any future transactions between the Target Group and the Offeror Group will be carried out on an arm's length basis and in compliance with the Listing Rules.

In the event that the Target continues to maintain its listing status on the Stock Exchange following the close of the Offers, in addition to the cash received under the Cash and Share Option for the acceptance of the Share Offer, each shareholder of the Offeror (other than the Company) will have an option to, at any time after the close of the Offers, require the Offeror to, and upon exercise of such option by any such shareholder the Offeror shall, repurchase the Offeror Shares held by such shareholder by exchanging all (but not part only) of the Offeror Shares to be repurchased with such shareholder's proportionate interest in the Target held through the Offeror (which may involve either the issuance of new Target Shares or the transfer of Target Shares held by the Offeror to such shareholder), subject to the then applicable laws and regulations in relation to (i) the transfer issuance of Target Shares (including listing rules relating to the issuance of new shares and stamp duty requirements relating to the transfer of shares) and (ii) the repurchase of its own shares by the Offeror. Fractions of Target Shares are to be rounded up to the nearest whole number. Such shareholder's proportionate interest in the Target upon exchange will be calculated by multiplying the total number of Target Shares held by the Offeror by the percentage of such shareholder's shareholding in the issued share capital of the Offeror. As described in the section headed "Lock-Up Period" in this circular, the Target Shares as exchanged and to be held by such shareholder shall be subject to the same restrictions as the Lock-Up Restrictions during the Lock-Up Period.

COMPULSORY ACQUISITION AND WITHDRAWAL OF LISTING

To the extent applicable, if the Offeror, within four months of the posting of the Composite Document, acquires not less than 90% of the Target Shares not being held by it at the time of the posting of the Composite Document, the Offeror may (but is not obliged to) compulsorily acquire those Target Shares not acquired by the Offeror under the Share Offer in accordance with section 88 of the Cayman Islands Companies Law. As at the date of this circular, the Offeror has not decided whether or not to exercise any right of compulsory acquisition in respect of the Target. If the Offeror decides to exercise such right and completes the compulsory acquisition, the Target will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the Target Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules. The Offeror will comply with Rule 15.6 of the Takeovers Code which requires that the Offers may not remain open for more than four (4) months from the posting of the Composite Document, unless the Offeror has by that time become entitled to exercise the right of compulsory acquisition.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatize the Target by means of the Share Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirement imposed by the Cayman Islands Companies Law, acceptance of the Share Offer and purchases made by the Offeror and its Concert Parties during the four months after posting of the Composite Document total 90% or more of the disinterested Shares (as defined in the Takeovers Code).

The Company undertakes (for itself and the Offeror Group) that if the Offeror exercises its right of compulsory acquisition and the Target withdraws its listing status on the Stock Exchange, the Company will use its commercially reasonable efforts to effect a re-listing of the business of the Target Group within five (5) years from the date on which the Target withdraws its listing status on the Stock Exchange.

If the Offeror exercises its right of compulsory acquisition and the Target withdraws its listing status on the Stock Exchange, for a period from the expiry of the Lock-Up Period until the earlier of (i) ten (10) years from the date of the expiry of the Lock-up Period; and (ii) the date of the listing of New Listco, each shareholder of the Offeror shall have the right to, upon the expiry of the Lock-Up Period, at any time require the Offeror to, and the Offeror shall, repurchase all (but not part only) of the Offeror Shares such shareholder holds (the "**Relevant Offeror Shares**") at a price per Offeror Share which is equivalent to twenty (20) times of the earnings per Offeror Share for the financial year immediately preceding the shareholder's exercise of such right. Such earnings per Offeror Share shall be calculated by dividing the audited net income of the Offeror during the financial year immediately preceding the shareholder's exercise of such right by the weighted average number of Offeror Shares in issue during such period, subject to the then applicable laws and regulations in relation to repurchase of its own shares by the Offeror. The Offeror shall make available to all of its shareholders the audited financial statements of the Offeror in respect of every financial year which ends after the Closing Date (in paper or electronic form at the request of such shareholders) at no charge. The price per Offeror Share at which the shareholders of the Offeror may exercise their repurchase rights was determined through arm's length negotiations, taking into account factors including, among others, the offer price for the Target Shares, the business prospects and development potential of the Target Group and the prevailing price-earning ratio of the Target Shares.

If the Target withdraws its listing status on the Stock Exchange and there is to be a re-listing of the Target Group's business (whether alone or together with any other assets or businesses), then prior to the listing of the entity that holds all or a substantial part of the Target Group's business ("**New Listco**"), the Offeror shall give the Relevant Shareholders the opportunity to exchange all (but not part only) of the Relevant Offeror Shares held by the Relevant Shareholders with such number of shares in New Listco as represent a fair valuation of the Relevant Offeror Shares, subject to the listing rules and guidance in force at that time; provided that, if there is a pre-IPO restructuring in which the Offeror Shares held by the Company are exchanged for shares in New Listco, then each Relevant Shareholder shall have the right to exchange all (but not part only) of its Relevant Offeror Shares for shares in New Listco at the same exchange ratio as the Company and that shall be deemed to be a fair valuation of the Relevant Offeror Shares, subject to the listing rules and guidance in force at that time.

Accordingly, upon expiry of the Lock-Up Period, in the event that there is a re-listing of the Target Group's business, the Relevant Shareholders may either (1) require the Offeror to repurchase all (but not part only) of the Relevant Offeror Shares held by the Relevant Shareholder at a price per Offeror Share which is equivalent to twenty (20) times of the earnings per Offeror Share for the financial year immediately preceding the Relevant Shareholder's exercise of such right; or (2) exchange all (but not part only) of the Relevant Offeror Shares with such number of shares in New Listco.

RIGHTS OF SHAREHOLDERS OF THE OFFEROR

Upon close of the Offers, the transfer of the Offeror Shares issued will be subject to the Lock-Up Restrictions, and shareholders of the Offeror will have the following shareholder rights pursuant to the New Articles.

Right to nominate directors

A shareholder of the Offeror who beneficially owns 8% or more of the issued share capital of the Offeror or more shall be entitled to, from time to time, nominate and maintain one director to the board of directors of the Offeror and the Company shall exercise its rights as a shareholder of the Offeror to procure the appointment of such nominee as a director of the Offeror ("**Right of Nomination**"). The Offeror shall exercise its rights as a shareholder of the Target to procure that such director shall also be appointed to the Target Board.

The New Articles will include relevant provisions to (1) give effect to such Right of Nomination; and (2) that following the nomination of a director to the board of the Offeror, the Offeror will exercise its voting rights as a shareholder of the Target to appoint such nominee to the Target Board.

Right to receive dividends and other distributions

Shareholders of the Offeror shall be entitled to receive dividends and other distributions (if any) duly declared, made or paid by the Offeror, on a pro-rata basis. The Offeror will, after close of the Offers, adopt a dividend policy pursuant to which it will distribute, on a pro-rata basis and subject to the then applicable laws and regulations, all of its distributable profits (after deducting the administrative expenses incurred and withholding taxes (if required by applicable laws)) as of the end of each financial year.

Reserved matters

After the close of the Offers, the Offeror shall take no action in respect of the following matters unless such matter is resolved to be approved by in excess of 92% of the votes of shareholders of the Offeror who are present and voting at a general meeting of the Offeror:

(a) any amendment to the Memorandum, Articles or New Articles;

(b) any change in the share capital of the Offeror or the creation, allotment or issue of any shares or of any other securities of the Offeror or the grant of any option or rights to subscribe for or to convert or exchange any instrument into such shares or securities;

(c) any reduction of the share capital or variation of the rights attaching to any class of shares of the Offeror or securities of the Offeror or any redemption, purchase or other acquisition of any shares or securities of the Offeror (including the Offeror Shares and the Subscriber Share other than as disclosed in the Joint Announcement or the Composite Document);

(d) the filing of a petition for the winding-up of the Offeror or any of its subsidiaries, a resolution being passed for the winding up of the Offeror or any of its subsidiaries, or the appointment of a liquidator, receiver or administrator over any of the Offeror's assets or undertakings or any of its subsidiaries' assets or undertakings;

(e) the incurrence of any indebtedness other than ordinary course expenses, taxes, salaries and bonuses that are incurred solely for the purposes of the Offeror's holding of Shares;

(f) the creation of any charge or other security over any assets of the Offeror, other than in relation to the financing of the Offers but only to the extent that such charge or security is created over such number of Shares as represents the Company's attributable interest in the issued share capital of the Target;

(g) the disposal of any Shares or other assets of the Offeror, other than for the purposes of (i) giving security permitted under paragraph (f) above or (ii) any disposal by the chargee pursuant to the exercise of its power of sale, provided that such disposal under (ii) shall be deemed to be a Change of Control of the Target;

(h) the authorisation or approval of the disposal of all or substantially all of the assets of the Target or any other member of the Target Group;

(i) where the Target maintains its listing status on the Stock Exchange, the Offeror entering into any transaction with the Target Group which constitutes a Connected Transaction for the Target under Chapter 14A of the Listing Rules, except where all the applicable requirements under Chapter 14A of the Listing Rules in respect of such transaction have been complied with;

(j) where the Target has withdrawn its listing status from the Stock Exchange, the Offeror entering into any transaction with the Target Group which would have constituted a Connected Transaction for the Target under Chapter 14A of the Listing Rules had the Target been a company listed on the Stock Exchange, except where the transaction had been conducted on "normal commercial terms" in the "ordinary course of business" (as those terms are defined under Chapter 14A of the Listing Rules) of the Target Group, and such conclusions regarding the transaction have been made by a financial adviser which is independent from both the Offeror Group and the Target Group;

(k) the Offeror entering into any transaction with any person (other than a member of the Target Group) which would have constituted a Connected Transaction for the Offeror under Chapter 14A of the Listing Rules had the Offeror been a company listed on the Stock Exchange, except where the transaction had been conducted on "normal commercial terms" in the "ordinary course of business" (as those terms are defined under Chapter 14A of the Listing Rules) of the Offeror, and such conclusions regarding the transaction have been made by a financial adviser which is independent from the Offeror Group; and

(l) declaring, making or paying any dividends other than dividends payable to all the Offeror's shareholders on a pro-rata basis.

Tag-along rights

For a period of ten (10) years from the Unconditional Date, the Company may only sell part or all of its Offeror Shares to a third party provided that the other shareholders of the Offeror may elect to sell, and the third party agrees to acquire from such electing shareholders of the Offeror, such amount of Offeror Shares as is pro rata to the proportion of the Offeror Shares being sold by the Company. Any such sale by an electing shareholder of the Offeror shall be at the same price and otherwise on no less favourable terms as those proposed between the Company and the third party.

To the extent that any sale of Offeror Shares by the Company would result in a Change of Control in the Offeror, the Company shall only be permitted to sell such Offeror Shares if the third party agrees to acquire from the other electing shareholders of the Offeror all of their Offeror Shares at the same price and otherwise on no less favourable terms as those proposed between the Company and the third party. Any such Change of Control in the Offeror may give rise to an obligation for the new controlling shareholder of the Offeror to make an offer for the outstanding shares of the Target pursuant to Note 8 to Rule 26.1 of the Takeovers Code, provided that the Target maintains its listing status on the Stock Exchange after close of the Offers.

Any sale of Offeror Shares pursuant to the provisions described in this section shall not be subject to the Lock-Up Restrictions.

Right to exit in the event of Change of Control

In the event of a Change of Control of the Offeror or of the Target (other than a Change of Control referred to in sub-section headed "Tag-along rights" under the section headed "Rights of Shareholders of the Offeror" of this circular), the Lock-Up Restrictions shall immediately lapse and each shareholder of the Offeror (other than the shareholder whose change in shareholding in the Offeror or the Target leads to the Change in Control) shall have the right to, for a period from the Unconditional Date until the earlier of (i) ten (10) years from the Unconditional Date; and (ii) the date of the re-listing of the businesses of the Target, require the Offeror to, and the Offeror shall, repurchase all (but not part only) of the Offeror Shares it holds at a price per Offeror Share which is equivalent to twenty (20) times of the earnings per Offeror Share for the financial year immediately preceding the relevant shareholder's exercise of such right. Such earnings per Offeror Share shall be calculated by dividing the audited net income of the Offeror during the financial year immediately preceding the relevant shareholder's exercise of such right by the weighted average number of Offeror Shares in issue during such period, subject to the then applicable laws and regulations in relation to repurchase of its own shares by the Offeror. The price per Offeror Share at which the shareholders of the Offeror may exercise their repurchase rights was determined through arm's length negotiations, taking into account factors including, among others, the offer price for the Target Shares, the business prospects and development potential of the Target Group and the prevailing price-earning ratio of the Target Shares.

Right of access to audited financial statements

The Offeror shall make available to all of its shareholders the audited financial statements of the Offeror in respect of every financial year which ends after the Closing Date (in paper or electronic form at the request of the shareholders) at no charge, subject to compliance with the applicable laws and regulations including the applicable requirements under the Listing Rules in respect of disclosure of inside information by the Company and the Target.

IMPLICATIONS OF THE OPTIONS AND REPURCHASE RIGHTS UNDER APPLICABLE LAWS, REGULATIONS, LISTING RULES AND GUIDANCE

The Offeror and the Company understand that (1) the exercise of the options and rights by a shareholder of the Offeror and (2) the Offeror's obligation to repurchase Offeror Shares as described in the sections headed "Lock-Up Period", "Listing Status of the Target", "Compulsory Acquisition and Withdrawal of Listing" and the sub-section headed "Right to exit in the event of Change of Control" under the section headed "Rights of Shareholders of the Offeror" are not prohibited under applicable laws of the Cayman Islands and the British Virgin Islands and all other applicable laws and regulations as at the date of this circular, but may be subject to the applicable laws, regulations and listing rules and guidance in force at the time of their exercise, including among others:

(a) with respect to the repurchase of Offeror Shares, this may be subject to the directors of the Offeror being satisfied that the applicable statutory solvency test will be met following completion of the repurchase;

(b) with respect to the re-listing of the businesses of the Target and New Listco, this may be subject to the relevant rules on spin-off and deemed disposals under Chapter 14 and Practice Note 15 of the Listing Rules; and

(c) with respect to the potential exchange of shares in the Offeror with shares in New Listco, this may be subject to the Listing Rules and guidance letters published by the Stock Exchange governing pre-IPO investments, including for example, the Interim Guidance on Pre-IPO Investments in "HKEx-GL29-12 (January 2012)" and relevant listing decisions published by the Stock Exchange from time to time.

LISTING RULES IMPLICATIONS FOR THE COMPANY AND NOTICE OF EGM

Based on the calculation of the relevant percentage ratios under Chapter 14 of Listing Rules, the Offers will constitute a major transaction for the Company as at least one of the applicable percentage ratios is 25% or more but less than 100%. Therefore, the making of the Offers are subject to the reporting, announcement and shareholders' approval requirements of Chapter 14 of the Listing Rules.

To the best of the Company's knowledge, information and belief having made all reasonable enquiry, each of the Target, the Target Shareholders, the Optionholders, Zhang International and CA Dairy and their respective ultimate beneficial owners are third parties independent of the Company and its Connected Persons.

A notice convening the EGM to be held at Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, July 16, 2013 at 10:00 a.m. is set out on pages V-1 to V-2 of this circular. At the EGM, ordinary resolutions will be proposed to approve the Offers, including the Irrevocable Undertakings and the transactions contemplated thereunder. So far as the Company is aware, none of its shareholders will be required to abstain from voting at the EGM.

Pursuant to Rule 13.39 of the Listing Rules, all vote of the Company Shareholders at general meetings must be taken by poll.

A proxy form for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time of the EGM. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM if you so wish.

RECOMMENDATION

The Directors (including the independent non-executive directors) confirm that the terms and conditions of the Offers, the Irrevocable Undertakings and the transactions contemplated thereunder are fair and reasonable and negotiated on an arm's length basis upon normal commercial terms. Having considered the terms and conditions of the Offers and the benefits that are expected to accrue to the Company as a result of the Offers and the Irrevocable Undertakings and the transactions contemplated thereunder, the Directors (including the independent non-executive directors) further confirm that the Offers, the Irrevocable Undertakings and the transactions contemplated thereunder are in the interests of the Company and its shareholders as a whole. Accordingly, the Directors recommend the Company Shareholders to vote in favour of the ordinary resolutions as set out in the notice of the EGM.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the periods from Monday, July 15, 2013 to Tuesday, July 16, 2013, both days inclusive, for the purpose of ascertaining shareholders' eligibility to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, July 12, 2013.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully
By order of the board of directors
China Mengniu Dairy Company Limited
Sun Yiping
Chief Executive Officer and Executive Director

1 FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES (THE "GROUP") FOR THE THREE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012

Financial information of the Group for each of the three years ended December 31, 2010, 2011 and 2012 is disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.mengniuir.com/):

- annual report of the Company for the year ended December 31, 2012 published on April 29, 2013 (pages 81 to 243);
- annual report of the Company for the year ended December 31, 2011 published on April 27, 2012 (pages 67 to 215); and
- annual report of the Company for the year ended December 31, 2010 published on April 26, 2011 (pages 69 to 203).

2 MATERIAL ACQUISITION SINCE LATEST PUBLISHED AUDITED ACCOUNTS

On May 7, 2013, the Company announced its acquisition of 1,296,000,000 shares in Modern Dairy, representing approximately 26.92% of the issued share capital of Modern Dairy as at May 7, 2013. The aggregate consideration for the acquisition of HK$3,177.52 million was funded by a term facility arranged by the Company and internal resources of the Group. The acquisition of Modern Dairy was completed on May 21, 2013. The aggregate of the remuneration payable to and benefits in kind receivable by the Directors will not be varied in consequence of the acquisition of Modern Dairy.

Modern Dairy is a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1117). Modern Dairy is the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China.

For details of the acquisition of Modern Dairy, please refer to the announcement of the Company dated May 7, 2013.

The accountants' report for the financial statements of Modern Dairy for the years ended June 30, 2011 and 2012 and for the six months ended December 31, 2012 could be found on the website of the Stock Exchange (http://www.hkexnews.hk/).

3 FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

The Company has prominent position in liquid milk sector before the acquisition and plans to further develop its milk powder segment which can generate high profitability in its new Five-Year Strategic Plan. However, due to its previous less developed position in the milk powder sector, it is difficult for the Company to organically grow this business by itself. After acquisition of the Target Group, the Enlarged Group will be fueled with strong brand and product, extensive and high quality distribution network, top-tier management expertise, and consolidated platform to ride the wave in milk powder sector which poses significant strategic value in strengthening its future market position. In the meantime, the acquisition will effectively and immediately supplement the Company's whole dairy value chain, covering comprehensive spectrum of product range from liquid milk to milk powder with full price levels.

Milk powder business

China milk powder industry has experienced rapid growth in the past and is expected to enjoy tremendous growth potential in the future. The industry entered into a new phase of consolidation while the Company remains at a relatively early stage. The acquisition of the Target Group enables the Company to become a first-tier player in milk powder business, especially the pediatric milk formula sector. The Enlarged Group intends that the Target Group will continue to operate its business in substantially its current state while it designs business plan to better integrate, generate maximum synergy and achieve enhanced economies of scale in its milk powder business.

- *Brand and product.* The Enlarged Group plans to maintain overseas sourced raw milk strategy to protect brand image and the acquisition will help to enrich milk sourcing mix by adding sources from Denmark and New Zealand. The Enlarged Group plans to further build a comprehensive product range, from the Company's ultra high-end organic products, such as Arla, to the Target Group's mid-to-high end products. In the meantime, the Enlarged Group plans to leverage its extensive government relationship and strong resources to conduct more efficient PR and branding activities of the Target Group to strengthen its brand image and enhance consumer confidence.

- *Distribution network.* Regarding geographical coverage, the Enlarged Group plans to fully leverage the Company's original higher-tier city presence and the Target Group's lower-tier city dominance to maximize the value by expanding the Company's presence to lower-tier cities and upgrading the Target Group's lower-tier city dominance to higher-tier cities. Regarding sales mode, the Enlarged Group plans to leverage the expanded distribution network to achieve further benefits, such as sharing e-commerce resources, joint negotiation for Key Account channels with stronger bargaining power, and cross-selling opportunities.

- *Management expertise.* The Enlarged Group plans to introduce its advanced management mindsets and system derived from its luxurious nutrition business such as Arla Foods and Milk Deluxe to the Target Group's daily management, coupled with the Target Group's localized and efficient sales system and well-developed sales team and distributors, to uncover more business potentials.

- *Consolidated platform.* The Enlarged Group plans to position the Target Group as the consolidated platform to develop the Group's milk powder business and might consider incorporating the Arla brand in the future. The directors believe that this platform is able to attract more support and resources from the Enlarged Group due to its unique positions in the whole business chain and can serve as an excellent starting point for the Enlarged Group to expand its oversea business, such as the establishment of milk powder plant in New Zealand.

Overall Dairy business

Organizational restructuring in 2012 has prepared the Enlarged Group for its overall enhancement in the coming years. The Enlarged Group will mainly focus on the following initiatives:

- The Enlarged Group will continue to enhance its cross-departmental collaboration, strengthen team cohesiveness and management capability by integrating the new and existing culture.

- The Enlarged Group will continue to carry forward the upgrade of information system and rebuild the core operating system in accordance with the benchmark software platform adopted by the fast-moving consumer goods industry. This will standardize the management system of purchase, sales and inventory, enabling the Enlarged Group to respond quickly to market trends and feedback.

- The Enlarged Group will continue to make efforts on research and development to develop new star brands and products that meet market demands, product mix optimization and sales channel expansion, in order to achieve a balanced development.

- The Enlarged Group will sustainably strengthen milk sources and quality control, rationalize brand structure, enhance brand image, adjust product portfolio based on market demands and enhance the international management level.

4 INDEBTEDNESS

Borrowings

As at the close of business on May 31, 2013, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of the Circular, the Enlarged Group had the following outstanding borrowings:

	Secured	**Unsecured**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Bank loans	602,208	3,370,987	3,973,195
Other borrowings and payables	191,375	23,915	215,290
	793,583	3,394,902	4,188,485

Other borrowings and payables of RMB191,375,000 were secured by certain property, plant and equipment of the Enlarged Group.

The secured bank loans of RMB602,208,000 were secured by certain restricted bank deposits, other investments, land use rights and property, plant and equipment of the Enlarged Group.

Mortgages and charges

As at May 31, 2013, certain bank loans, other borrowings and payables and other banking facilities of the Enlarged Group were secured by the pledge of the followings:

	Total
	RMB'000
Pledged deposits	678,157
Other investments	100,000
Property, plant and equipment	257,504
Land use rights	2,669
	1,038,330

Guarantees

As at May 31, 2013, the Enlarged Group provided guarantees of approximately RMB163,000,000 to certain banks relating to the bank loans borrowed by certain raw milk suppliers of the Enlarged Group.

Contingencies

As at May 31, 2013, the Enlarged Group did not have any significant contingent liabilities.

Save as aforesaid or as otherwise mentioned herein, and apart from intra-group liabilities, none of the companies in the Enlarged Group had, at the close of business on May 31, 2013, any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances, acceptance credits or any guarantees or other material contingent liabilities.

The directors of the Company have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Enlarged Group since May 31, 2012.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into RMB at the exchange rates of US$1.00 to RMB6.1796 and HK$1.00 to RMB0.796 prevailing at the close of business on May 31, 2013.

5 WORKING CAPITAL

Taking into account the expected completion of the Offers and the financial resources available to the Enlarged Group, including but not limited to the internally generated funds, cash and cash equivalents on hands, available facilities from bank and financial institutions, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

6 NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or prospect of the Group since December 31, 2012, the date to which the latest published audited financial statements of the Group were made up.

1 FINANCIAL INFORMATION OF THE TARGET GROUP FOR THE THREE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Target Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

June 28, 2013

The Directors
China Mengniu Dairy Company Limited

Dear Sirs,

Introduction

We set out below our report on the financial information relating to Yashili International Holdings Ltd (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") comprising the consolidated balance sheets of the Target Group and the balance sheets of the Target Company as at December 31, 2010, 2011 and 2012 and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Target Group, for each of the years ended December 31, 2010, 2011 and 2012 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the circular of China Mengniu Dairy Company Limited (the "Company") dated June 28, 2013 (the "Circular") in connection with the proposed acquisition of all outstanding shares in the issued share capital of the Target Company by the Company.

As at the date of this report, no audited financial statements have been prepared for Yashili International Ltd., Big World International (Hongkong) Limited, Heatel Limited, Next Talent Limited, New Zealand Dairy International Holdings Limited and Scient International Group Limited, as they are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.

All subsidiaries of the Target Company have adopted December 31 as their financial year end date. Details of the Target Company's subsidiaries that are subject to audit during the Relevant Periods and the names of the respective auditors are set out in note 18 of Section B. The statutory financial statements of these companies were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated and/or established.

The directors of the Target Company have prepared the consolidated financial statements of the Target Group for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The Target Group's consolidated financial statements for each of the years ended December 31, 2010, 2011 and 2012 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular based on the audited consolidated financial statements of the Target Group, with no adjustments made thereon.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs issued by the IASB, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting Accountants' Responsibility

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Target Company, its subsidiaries or the Target Group in respect of any period subsequent to December 31, 2012.

Opinion

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Group and the Target Company as at December 31, 2010, 2011 and 2012 and the Target Group's consolidated results and cash flows for the Relevant Periods then ended.

A CONSOLIDATED FINANCIAL INFORMATION OF THE TARGET GROUP

1 Consolidated income statements

	Note	2010 *RMB'000*	2011 *RMB'000*	2012 *RMB'000*
Turnover	5	2,954,370	2,957,818	3,655,143
Cost of sales		(1,272,624)	(1,419,512)	(1,693,452)
Gross profit		1,681,746	1,538,306	1,961,691
Other revenue	6(a)	61,234	28,714	37,631
Other net loss		(585)	(252)	(392)
Selling and distribution costs		(957,468)	(1,061,861)	(1,222,745)
Administrative expenses		(182,823)	(185,454)	(202,104)
Other expenses	6(b)	(11,536)	(6,457)	(14,702)
Profit from operations		590,568	312,996	559,379
Finance income	7(a)	11,909	65,123	89,749
Finance costs	7(a)	(13,024)	(2,730)	(2,804)
Net finance income/(cost)		(1,115)	62,393	86,945
Profit before taxation	7	589,453	375,389	646,324
Income tax expenses	8	(86,312)	(66,964)	(175,856)
Profit for the year		503,141	308,425	470,468
Attributable to:				
Equity shareholders of the Target Company		502,354	306,258	468,482
Non-controlling interests		787	2,167	1,986
Profit for the year		503,141	308,425	470,468
		RMB Cents	*RMB Cents*	*RMB Cents*
Earnings per share				
Basic	12(a)	16.6	8.7	13.3
Diluted	12(b)	16.3	8.6	13.2

Details of dividends payable and proposed to equity shareholders of the Target Company attributable to the profit for the year are set out in Note 29(b).

The accompanying notes form part of the Consolidated Financial Information.

2 Consolidated statements of comprehensive income

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year	503,141	308,425	470,468
Other comprehensive income for the year			
Exchange differences on translation of financial statements of overseas subsidiaries	(19,480)	(3,667)	(494)
Total comprehensive income for the year	483,661	304,758	469,974
Attributable to:			
Equity shareholders of the Target Company	482,874	302,591	467,988
Non-controlling interests	787	2,167	1,986
Total comprehensive income for the year	483,661	304,758	469,974

The accompanying notes form part of the Consolidated Financial Information.

3 Consolidated balance sheets

	Note	2010 RMB'000	2011 RMB'000	2012 RMB'000
Non-current assets				
Property, plant and equipment	13	706,550	729,525	743,863
Investment properties	14	71,752	76,334	112,004
Lease prepayments	15	136,302	133,367	130,432
Intangible assets	16	7,278	5,346	3,937
Deferred tax assets	17(b)	50,780	77,048	80,015
Prepayment and other receivables	21	16,525	11,016	184,170
Other non-current assets		3,342	6,875	8,285
Long-term bank deposits	23	–	–	306,142
		992,529	1,039,511	1,568,848
Current assets				
Inventories	19	390,815	577,731	652,922
Trade and bills receivables	20	192,312	52,344	26,779
Prepayments and other receivables	21	102,000	138,148	135,667
Amounts due from related parties	32(b)	1,456	1,816	911
Restricted bank deposits	22	42,310	72,456	299,609
Cash and cash equivalents	23	2,759,273	2,581,563	2,073,161
Short-term bank deposits	23	–	–	611,972
Other investments	24	–	180,000	200,000
		3,488,166	3,604,058	4,001,021
Current liabilities				
Trade and other payables	25	499,948	720,118	1,028,573
Loans and borrowings	26	158,440	31,359	330,912
Amounts due to related parties	32(b)	4,566	1,722	2,188
Income tax payables	17(a)	33,200	53,102	89,223
		696,154	806,301	1,450,896
Net current assets		2,792,012	2,797,757	2,550,125
Total assets less current liabilities		3,784,541	3,837,268	4,118,973

	Note	2010 RMB'000	2011 RMB'000	2012 RMB'000
Non-current liabilities				
Deferred income	28	42,928	30,669	18,627
Deferred tax liabilities	17(b)	11,664	2,600	18,000
		54,592	33,269	36,627
Net assets		3,729,949	3,803,999	4,082,346
Capital and reserves				
Capital	29	300,685	301,463	302,601
Reserves		3,430,130	3,501,235	3,776,458
Total equity attributable to equity shareholders of the Target Company		3,730,815	3,802,698	4,079,059
Non-controlling interests		(866)	1,301	3,287
Total equity		3,729,949	3,803,999	4,082,346

The accompanying notes form part of the Consolidated Financial Information.

4 Balance sheets

	Note	2010 RMB'000	2011 RMB'000	2012 RMB'000
Non-current assets				
Interests in subsidiaries	18	3,188,180	3,231,411	3,203,523
Current assets				
Prepayment and other receivables	21	599	233	96,458
Cash and cash equivalents	23	194,801	13,600	348
		195,400	13,833	96,806
Current liabilities				
Other payables	25	13,099	10,788	9,245
Loans and borrowings	26	–	–	80,912
		13,099	10,788	90,157
Net current assets		182,301	3,045	6,649
Total assets less current liabilities		3,370,481	3,234,456	3,210,172
Net assets		3,370,481	3,234,456	3,210,172
Capital and reserves				
Capital	29	300,685	301,463	302,601
Reserves	29	3,069,796	2,932,993	2,907,571
Total equity		3,370,481	3,234,456	3,210,172

The accompanying notes form part of the Consolidated Financial Information.

5 Consolidated statements of changes in equity

		Attributable to equity shareholders of the Target Company										
	Note	**Capital** *RMB'000* *Note 29(c)*	**Share premium** *RMB'000* *Note 29(d)*	**PRC statutory reserves** *RMB'000* *Note 29(f)*	**Equity settled share based payment** *RMB'000* *Note 29(g)*	**Other capital reserve** *RMB'000*	**Translation reserve** *RMB'000* *Note 29(h)*	**Merger reserve** *RMB'000* *Note 29(e)*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
At January 1, 2010		592,105	775,108	7,981	2,853	(1,233)	(2)	–	(97,886)	1,278,926	11,301	1,290,227
Profit for the year		–	–	–	–	–	–	–	502,354	502,354	787	503,141
Other comprehensive income		–	–	–	–	–	(19,480)	–	–	(19,480)	–	(19,480)
Total comprehensive income		–	–	–	–	–	(19,480)	–	502,354	482,874	787	483,661
Arising from the Reorganisation		(592,096)	(775,108)	–	–	–	–	1,367,204	–	–	–	–
Issuance of share by share offer		49,312	1,932,213	–	–	–	–	–	–	1,981,525	–	1,981,525
Capitalisation issue		251,364	(251,364)	–	–	–	–	–	–	–	–	–
Acquisition of non-controlling interests		–	–	–	–	(17,046)	–	–	–	(17,046)	(12,954)	(30,000)
Equity-settled share-based payment transactions		–	–	–	4,536	–	–	–	–	4,536	–	4,536
Appropriation of statutory reserves		–	–	44,775	–	–	–	–	(44,775)	–	–	–
Balance at December 31, 2010		300,685	1,680,849	52,756	7,389	(18,279)	(19,482)	1,367,204	359,693	3,730,815	(866)	3,729,949

		Attributable to equity shareholders of the Target Company											
	Note	Capital *RMB'000* *Note 29(c)*	Share premium *RMB'000* *Note 29(d)*	Capital redemption reserve *RMB'000* *Note 29 (c)(iv)*	PRC statutory reserves *RMB'000* *Note 29(f)*	Equity settled share based payment *RMB'000* *Note 29(g)*	Other capital reserve *RMB'000*	Translation reserve *RMB'000* *Note 29(h)*	Merger reserve *RMB'000* *Note 29(e)*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At January 1, 2011		300,685	1,680,849	–	52,756	7,389	(18,279)	(19,482)	1,367,204	359,693	3,730,815	(866)	3,729,949
Profit for the year		–	–	–	–	–	–	–	–	306,258	306,258	2,167	308,425
Other comprehensive income		–	–	–	–	–	–	(3,667)	–	–	(3,667)	–	(3,667)
Total comprehensive income		–	–	–	–	–	–	(3,667)	–	306,258	302,591	2,167	304,758
Dividends approved in respect of the previous year		–	–	–	–	–	–	–	–	(234,692)	(234,692)	–	(234,692)
Purchase of own shares	*29(c)(iv)*												
– Par value paid		(818)	–	–	–	–	–	–	–	–	(818)	–	(818)
– Premium paid		–	(15,538)	–	–	–	–	–	–	–	(15,538)	–	(15,538)
– Transfer between reserves		–	–	818	–	–	–	–	–	–	818	–	818
Shares issued for exercise of shares option	*29(c)(v)*	1,596	15,126	–	–	(7,360)	–	–	–	–	9,362	–	9,362
Equity-settled share-based payment transactions		–	–	–	–	10,160	–	–	–	–	10,160	–	10,160
Appropriation to statutory reserves		–	–	–	22,167	–	–	–	–	(22,167)	–	–	–
Balance at December 31, 2011		301,463	1,680,437	818	74,923	10,189	(18,279)	(23,149)	1,367,204	409,092	3,802,698	1,301	3,803,999

	Note	Capital RMB'000 Note 29(c)	Share premium RMB'000 Note 29(d)	Capital redemption reserve RMB'000 Note 29 (c)(iv)	PRC statutory reserves RMB'000 Note 29(f)	Equity settled share based payment RMB'000 Note 29(g)	Other capital reserve RMB'000	Translation reserve RMB'000 Note 29(h)	Merger reserve RMB'000 Note 29(e)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to equity shareholders of the Target Company											
At January 1, 2012		301,463	1,680,437	818	74,923	10,189	(18,279)	(23,149)	1,367,204	409,092	3,802,698	1,301	3,803,999
Profit for the year		–	–	–	–	–	–	–	–	468,482	468,482	1,986	470,468
Other comprehensive income		–	–	–	–	–	–	(494)	–	–	(494)	–	(494)
Total comprehensive income		–	–	–	–	–	–	(494)	–	468,482	467,988	1,986	469,974
Dividends approved in respect of the previous year		–	–	–	–	–	–	–	–	(200,103)	(200,103)	–	(200,103)
Shares issued for exercise of shares option	29(c)(v)	1,138	1,904	–	–	(1,499)	–	–	–	–	1,543	–	1,543
Equity-settled share-based payment transactions		–	–	–	–	6,933	–	–	–	–	6,933	–	6,933
Appropriation to statutory reserves		–	–	–	32,553	–	–	–	–	(32,553)	–	–	–
Balance at December 31, 2012		302,601	1,682,341	818	107,476	15,623	(18,279)	(23,643)	1,367,204	644,918	4,079,059	3,287	4,082,346

The accompanying notes form part of the Consolidated Financial Information.

6 Consolidated cash flow statements

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Operating activities			
Profit before taxation	589,453	375,389	646,324
Adjustments for:			
– Depreciation and amortisation	75,438	79,157	81,811
– Net loss on disposal of property, plant and equipment	585	252	392
– Impairment loss for property, plant and equipment	–	–	6,410
– Impairment loss/(write back) for trade and other receivables	936	(55)	66
– Write-down of inventories	1,137	3,171	142
– Equity-settled share-based transactions	4,536	19,522	8,476
– Interest income	(11,447)	(44,017)	(42,587)
– Interest expense	13,024	2,730	2,804
– Net realised and unrealised gain on financial assets carried at fair value	(323)	(18,278)	(47,006)
Operating profit before changes in working capital	673,339	417,871	656,832
Change in inventories	(14,197)	(190,087)	(75,333)
Change in trade and bills receivables	(114,423)	140,023	25,499
Change in prepayment and other receivables	47,028	(36,148)	2,970
Change in restricted bank deposits	1,898	(6,347)	(2)
Change in trade and other payables	(259,166)	230,817	299,975
Change in provision for sales return	(9,023)	–	–
Change in deferred income	5,883	(12,259)	(12,042)
Change in amounts due from related parties	17,703	(360)	905
Change in amounts due to related parties	(5,561)	(2,844)	466
Cash generated from operations	343,481	540,666	899,270
Income tax paid	(30,455)	(82,394)	(127,302)
Net cash generated from operating activities	313,026	458,272	771,968

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Investing activities			
Interest received	11,447	44,017	26,484
Proceeds from disposal of property, plant and equipment	3,327	944	2,809
Proceeds from sales of other investments	30,255	173,278	1,396,006
Proceeds from repayment of advances to the controlling Shareholders	2,000	–	–
Increase in other bank deposits	–	–	(902,500)
Acquisition of property, plant and equipment	(52,721)	(106,536)	(208,161)
Acquisition of intangible assets	(1,795)	(226)	(509)
Acquisition of lease prepayments	(25,337)	–	–
Acquisition of subsidiaries, net of cash acquired	12,299	–	–
Deposit for acquisition of land use right	–	–	(90,630)
Acquisition of other non-current assets	(453)	(5,096)	(4,014)
Acquisition of other investments	(30,000)	(335,000)	(1,369,000)
Other effect from investing activities	–	(795)	4,648
Net cash used in investing activities	(50,978)	(229,414)	(1,144,867)

	Note	2010 RMB'000	2011 RMB'000	2012 RMB'000
Financing activities				
Net proceeds from issuance of shares		1,965,829	–	–
Payment for repurchase of shares		–	(15,538)	–
Proceeds from loans and borrowings		173,089	36,223	361,340
Change in restricted bank deposits in relation to bank loans		90,161	(23,799)	(227,151)
Acquisition of non-controlling interests		(30,658)	–	–
Repayments of loans and borrowings		(345,184)	(163,304)	(61,787)
Interest paid		(12,856)	(2,586)	(2,660)
Dividends paid		–	(234,692)	(200,103)
Net cash generated used in financing activities		1,840,381	(403,696)	(130,361)
Net (decrease)/increase in cash and cash equivalents		2,102,429	(174,838)	(503,260)
Cash and cash equivalents at January 1	*23*	660,628	2,759,273	2,581,563
Effect of foreign exchange rate changes		(3,784)	(2,872)	(5,142)
Cash and cash equivalents at December 31	*23*	2,759,273	2,581,563	2,073,161

The accompanying notes form part of the Consolidated Financial Information.

B NOTES TO CONSOLIDATED FINANCIAL INFORMATION

(Expressed in Renminbi Yuan unless otherwise indicated)

1 GENERAL INFORMATION

Yashili International Holding Limited (the "Target Company") was incorporated in the Cayman Islands on June 3, 2010 as an exempted company with limited liability under the Companies Law, Chapter 22, (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes International Accounting Standards and related interpretations, promulgated by the International Accounting Standards Board ("IASB"). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the Financial Information, the Target Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning on or after January 1, 2013. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year ended December 31, 2012 are set out in Note 36.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation of the financial statements

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousands except per share data ("presentation currency"), which is the reporting currency of the Target Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial assets at fair value through profit or loss are stated at fair value as explained in Note 2(f).

(c) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 35.

(d) Basis of consolidation

(i) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Target Group. Control exists when the Target Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Target Company, and in respect of which the Target Group has not agreed any additional terms with the holders of those interests which would result in the Target Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from total equity attributable to the equity shareholders of the Target Company. Non-controlling interests in the results of the Target Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Target Company.

Changes in the Target Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

In the Target Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (Note 2(l)(ii)).

(ii) Business combination

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Target Group.

Under the acquisition method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Target Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business consolidation are measured initially at their fair values at the acquisition date. Transaction costs in connection with a business consolidation are expensed as incurred.

(e) Foreign currency

(i) Functional currency

Items included in the financial statements of each entity in the Target Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Target group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(iii) Foreign operations

The assets and liabilities of foreign operations are translated to RMB at exchange rates at the reporting date. The income and expenses of foreign operations are translated to RMB at exchange rates at the dates of the transactions.

Foreign currency differences arising on translation are recognised in other comprehensive income. For the purposes of foreign currency translation, the net investment in a foreign operation includes foreign currency intra-group balances for which settlement is neither planned nor likely in the foreseeable future and foreign currency differences arising from such a monetary item is recognised in the consolidated statement of comprehensive income.

When a foreign operation is disposed of, in whole or in part, the relevant amount of the currency translation reserve is transferred to the profit or loss as part of the gain or loss on disposal.

(f) Financial instruments

(i) Non-derivative financial assets

All financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Target Group becomes a party to the contractual provisions of the instrument.

The Target Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Target Group has the following non-derivative financial assets:

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Target Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Target Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at amortised cost using the effective interest method, less any impairment losses (Note 2(l)(i)).

Receivables comprise trade receivables and prepayments and other receivables.

Cash and cash equivalent

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Target Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(ii) Non-derivative financial liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Target Group becomes a party to the contractual provisions of the instrument. The Target Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Target Group's non-derivative financial liabilities include loans and borrowings and trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Derivative financial instruments

The Target Group holds derivative financial instruments to manage its foreign currency exposure. Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting in which case recognition of any resultant gain or loss depends on the nature of the item being hedged. Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

During the three years ended December 31, 2012, the Target Group's derivative has not been qualified as effective cash flow hedging. The gain or loss on remeasurement to fair value is recognised immediately to profit or loss. Related financial assets/liabilities were recognised/derecognised on the date the Target Group commits to purchase/sell the contract or they expire.

(g) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (Note 2(l)(ii)).

Cost includes expenditures that are directly attributable to the acquisition of an asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Construction in progress represents property, plant and equipment under construction, and is stated at cost less impairment losses (Note 2(l)(ii)).

Cost comprises direct costs of construction during the construction period. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when all of the activities necessary to prepare the assets for their intended use are substantially complete.

(ii) Reclassification to investment properties

When the use of a property changes from owner-occupied to investment property, the property is reclassified as investment property.

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Target Group and its cost can be measured reliably. The costs of the day-to-day serving of property, plant and equipment are recognised in profit and loss as incurred.

(iv) Depreciation

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of the lease and their estimated useful lives.

The estimated useful lives of other property, plant and equipment are as follows:

• Plant and buildings	13–20 years
• Machinery and equipment	5–10 years
• Motor vehicle	5 years
• Office equipment and other equipment	5 years

Depreciation methods, useful life and residual value are reassessed at each reporting date.

(h) Intangible assets

Intangible assets comprise purchased and customised software which are stated at cost less any impairment losses and amortised on the straight-line basis over its estimated useful life of five years.

(i) Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

(i) Recognition and measurement

Items of investment properties are measured at cost less accumulated depreciation and impairment losses (Note 2(l)(ii)).

Cost includes expenditures that are directly attributable to the acquisition of an asset.

(ii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of investment properties. The estimated useful lives range from 27.5 to 50 years.

Depreciation methods, useful life and residual value are reassessed at each reporting date.

(j) Lease prepayments

Lease prepayments represent cost of land use rights paid to the PRC government authorities. Land use rights are stated as cost less accumulated amortisation and impairment losses (Note 2(l)(ii)). Amortisation is recognised in profit or loss on a straight-line basis over the respective period of the rights.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Impairment of assets

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that a loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease in impairment loss is reversed through profit or loss.

The Target Group considers evidence of impairment of receivables at both specific asset and collective level. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

(ii) Non-financial assets

The carrying amounts of the Target Group's non-financial assets, other than inventories and deferred tax asset, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of assets or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the assets.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Employee benefits

(i) Short term employee benefits

Salaries, wages, annual bonuses and staff welfare are accrued in the year in which the associated services are rendered by employees of the Target Group.

(ii) Defined contribution retirement plans

Obligations for contributions to local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss when they are due, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Target Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(iv) Share-based payment transactions

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a equity-settled share-based payment reserve within equity. The fair value is measured at grant date by using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year/period of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the equity-settled share-based payment reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the equity-settled share-based payment reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Target Company's shares. The equity amount is recognised in the equity-settled share-based payment reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained earnings).

(n) Provisions and contingent liabilities

Provisions are recognised if, as a result of a past event, the Target Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Target Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the term of the lease.

(iii) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(p) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attaching to them. Grants that compensate the Target Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Target Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(q) Operating lease payment

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expenses, over the term of the lease.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(s) Finance income and expenses

Finance income comprises interest income and increase in fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, decreases in fair value financial assets at fair value through profit or loss.

Foreign currency gains and losses are reported on a net basis.

(t) Research and development costs

Expenditures on an internal research and development project are classified into expenditures on the research phase and expenditures on the development phase. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products or processes before the start of commercial production or use.

Expenditures on research phase are recognised in profit or loss when incurred. Expenditures on development phase are capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Target Group intends to and has sufficient resources to complete development. Capitalised development costs are stated at cost less impairment losses (see Note 2(l))(ii)). Other development expenditures are recognised as expenses in the period in which they are incurred.

(u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted. The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available. Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Company or the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Target Company or the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Related parties

For the purpose of these financial statements, a party is considered to be related to the Target Group if:

(a) A person, or a close member of that person's family, is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the these financial statements, are identified from the financial information provided regularly to the Target Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Target Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ADOPTION OF NEW ACCOUNTING POLICIES

The IASB has issued a few amendments to IFRSs that are first effective for the year ended December 31, 2012. None of the developments are relevant to the Target Group's financial statements.

The Target Group has not applied any new standard or interpretation that is not yet effective for the year ended December 31, 2012.

4 SEGMENT REPORTING

The Target Group manages its business by product lines. In a manner consistent with the way in which information is reported internally to the Target Group's senior executive management which has been identified as the chief operating decision-maker for the purpose of resource allocation and performance assessment, the Target Group has presented the following four reportable segments. No operating segments have been aggregated to form the following reportable segments:

- Production and sale of Yashily pediatric milk formula products: this segment includes development, manufacture and sale of Yashily pediatric milk formula products and milk formula for pregnant women in the PRC.

- Production and sale of Scient pediatric milk formula products: this segment includes development, manufacture and sale of Scient pediatric milk formula products and milk formula for pregnant women in the PRC.

- Production and sale of nutrition products: this segment includes development, manufacture and sale of milk powder for adults and teenagers, soymilk powder, rice flour and cereal products in the PRC.

- Other operations include the production and sales of packing materials, which mainly serve the Target Group's internal use, and sale of surplus raw materials. The results of these operations are included in the "others" column.

For the purpose of assessing segment performance and allocating resources among segments, the senior executive management team assesses the performance of the operating segments based on a measure of "reportable segment profit" i.e. "revenue less cost of sales and selling and distribution expenses". The Target Group does not allocate other revenue, other net income or loss, net finance costs, expenses other than certain selling and distribution expenses to its segments, as the senior executive management does not use this information to allocate resources to or evaluate the performance of the operating segments. Segment assets and liabilities are not regularly reported to the Target Group's senior executive management and therefore information of reportable segment assets and liabilities are not presented in these financial statements.

(a) Information about reportable segments

	Year ended December 31, 2010				
	Yashily pediatric milk formula products	**Scient pediatric milk formula products**	**Nutrition products**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	1,816,133	624,344	466,719	47,174	2,954,370
Inter-segment revenue	–	–	–	118,893	118,893
Reportable segment revenue	1,816,133	624,344	466,719	166,067	3,073,263
Reportable segment profit	636,482	56,393	132,953	5,368	831,196
Segment depreciation and amortisation	25,462	20,691	7,032	2,474	55,659

	Year ended December 31, 2011				
	Yashily pediatric milk formula products	**Scient pediatric milk formula products**	**Nutrition products**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	1,825,525	608,627	473,312	50,354	2,957,818
Inter-segment revenue	–	–	–	136,067	136,067
Reportable segment revenue	1,825,525	608,627	473,312	186,421	3,093,885
Reportable segment profit	424,678	57,461	137,015	(6,258)	612,896
Segment depreciation and amortisation	31,181	19,259	5,168	2,770	58,378

	Year ended December 31, 2012				
	Yashily pediatric milk formula products	Scient pediatric milk formula products	Nutrition products	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	2,478,269	653,426	489,445	34,003	3,655,143
Inter-segment revenue	–	–	–	141,823	141,823
Reportable segment revenue	2,478,269	653,426	489,445	175,826	3,796,966
Reportable segment profit	722,604	97,859	133,985	(12,300)	942,148
Segment depreciation and amortisation	34,582	22,158	4,550	3,273	64,563

(b) Reconciliations of reportable segment revenue and profit or loss

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Total reportable segment revenue	3,073,263	3,093,885	3,796,966
Elimination of inter-segment revenue	(118,893)	(136,067)	(141,823)
Revenue	2,954,370	2,957,818	3,655,143
Reportable segment profit	831,196	612,896	942,148
Other revenue and other net income	60,649	28,462	37,239
Unallocated amounts:			
Selling and distribution expenses	(106,918)	(136,451)	(203,202)
Administrative expenses	(182,823)	(185,454)	(202,104)
Net finance income/(cost)	(1,115)	62,393	86,945
Other expenses	(11,536)	(6,457)	(14,702)
Profit before taxation	589,453	375,389	646,324

(c) Geographical information

The Target Group's revenue is solely from domestic sales during the year. No export sales were recorded in the years ended December 31, 2010, 2011 and 2012. The Target Group's senior executive management periodically review the geographic analysis of the revenue derived from Yashily and Scient pediatric milk formula products, which summarises the revenue by different tiers of cities where the Target Group's customers operate. The classification of the tiers is set out below:

- First-tier cities generally include direct-controlled municipalities, the highest level of cities under the direct administration of the PRC central government, and provincial capital cities, including but not limited to Beijing, Shanghai, Nanchang, Chongqing, Shijiazhuang and Guangzhou. As there is no official classification, such classification is determined based on our directors' knowledge and experience;

- Second-tier cities generally refer to prefecture-level cities, the administrative division of the PRC, ranking below a province and above a county in China's administrative structure, including but not limited to Dongguan, Nanyang, Shenzhen, Jiujiang and Foshan. As there is no official classification, such classification is determined based on our directors' knowledge and experience;

- Third-tier cities generally refer to county-level cities, the county-level administrative divisions of the PRC, including but not limited to Jinjiang, Yunmeng, Bozhou, Kunshan and Luohe. As there is no official classification, such classification is determined based on our directors' knowledge and experience.

	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Yashily pediatric milk formula products			
Revenue derived from			
– First-tier cities	306,715	263,214	313,625
– Second-tier cities	1,005,652	930,782	1,108,857
– Third-tier cities and others	503,766	631,529	1,055,787
Total	1,816,133	1,825,525	2,478,269
Scient pediatric milk formula products			
Revenue derived from			
– First-tier cities	90,879	64,494	65,996
– Second-tier cities	465,895	437,459	437,142
– Third-tier cities and others	67,570	106,674	150,288
Total	624,344	608,627	653,426

5 TURNOVER

The Target Group is principally engaged in the manufacturing and sales of dairy and nourishment products. Turnover represents the sales value of goods supplied to customers. Turnover excludes sales taxes and is after deduction of any trade discounts.

The Target Group's customer base is diversified and no revenue from transactions with a single customer amounted to 10% or more of the Target Group's total turnover during the year.

6 OTHER REVENUE AND OTHER EXPENSES

(a) Other revenue

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Government grants (i)	27,222	13,919	25,810
Compensation income (ii)	4,301	8,860	5,100
Write-off of trade payables (iii)	1,495	–	–
Reversal of input VAT transfer-out (iv)	22,808	–	–
Rental income	4,206	4,967	4,937
Others	1,202	968	1,784
	61,234	28,714	37,631

(i) Government grants in form of cash subsidies were received from the local government and they are as follows:

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Compensation for expenses incurred	14,797	6,860	8,850
Compensation for acquisition of assets	5,117	6,759	6,542
Taxes refund	7,308	300	10,418
	27,222	13,919	25,810

(ii) Compensation income mainly represented forfeiture received from distributor customers for cross territorial sales that breached the terms of distribution agreements during the year.

(iii) Written-off trade payables were mainly due to shortage of quantity and damage during transportation.

(iv) As approved by the local tax bureau in May 2010, Scient (Guangzhou) reversed the input value-added tax ("VAT") transferred-out of RMB22,808,000 incurred during the melamine incident and the amount was recognised as other revenue.

(b) Other expenses

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Loss on disposal of inventory (i)	8,009	393	2,091
Impairment for property, plant and equipment *(Note 13)*	–	–	6,410
Others	3,527	6,064	6,201
	11,536	6,457	14,702

(i) Loss on disposal of inventory mainly represented losses arising from stocktake loss, disposal of dampened or deteriorated and disposal of unused packaging materials.

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance (income)/costs

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Finance income			
Interest income	(11,447)	(44,017)	(42,587)
Net foreign exchange gain	(139)	(2,828)	(156)
Net realised and unrealised gains on trading assets	(255)	(18,278)	(47,006)
Net unrealised gain of forward contracts	(68)	–	–
Sub-total	(11,909)	(65,123)	(89,749)
Finance costs			
Interest expense	13,024	2,730	2,804
Sub-total	13,024	2,730	2,804
Net finance cost/(income)	1,115	(62,393)	(86,945)

(b) Staff costs

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages and other benefits	181,280	221,310	276,887
Contributions to defined contribution retirement schemes	12,106	14,866	29,856
Equity-settled share based payment expenses *(Note 27)*	4,536	10,160	6,933
	197,922	246,336	313,676

Staff costs included directors' and senior management's remuneration.

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Target Company have participated in a defined contribution retirement benefit scheme (the "Scheme") organised by the local authority whereby the PRC subsidiaries are required to make contributions to the Scheme based on certain percentages of the eligible employee's salaries. The local government authority is responsible for the entire pension obligations payable to the retired employees. The Target Group has no other obligations for payments of retirement and other post-retirement benefits of employees other than the contributions described above.

(c) Other items:

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Cost of inventories (i) *(Note 19)*	1,426,388	1,569,494	1,859,234
Depreciation:			
– Property, plant and equipment (i) *(Note 13)*	68,881	71,156	72,681
– Investment properties *(Note 14)*	1,271	1,449	1,673
Amortisation:			
– Lease prepayments *(Note 15)*	2,485	2,935	2,935
– Intangible assets *(Note 16)*	2,044	2,054	1,918
– Other non-current assets	757	1,563	2,604
Operating lease charges			
– Hire of plant, machinery and properties	12,074	13,252	10,593
Auditors' remuneration			
– Audit services	2,000	2,530	2,380
Net loss on disposal of plant and equipment	585	252	392
Impairment loss/(write-back)			
– On trade receivables	1,170	(55)	66
– On other receivables	(234)	–	–
– On inventories	–	3,171	142
– On property, plant and equipment	–	–	6,410
– Rentals receivable from investment properties less direct outgoings (ii)	(4,115)	(4,851)	(4,932)

(i) Cost of inventories includes RMB77,745,000, RMB96,708,000 and RMB111,706,000 for the year ended December 31, 2010, 2011 and 2012 respectively relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed above or in Note 7(b) for each of these types of expenses.

(ii) Direct outgoing of investment properties are RMB91,000, RMB117,000 and RMB5,000 for the year ended December 31, 2010, 2011 and 2012 respectively.

8 INCOME TAX EXPENSES

(a) Taxation in the consolidated statement of comprehensive income represents:

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Current tax – PRC income tax			
Provision for the year	58,126	102,791	163,833
Over provision in respect of prior years	(15)	(495)	(410)
Deferred tax – PRC income tax	28,201	(35,332)	12,433
Total income tax expenses	86,312	66,964	175,856

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	589,453	375,389	646,324
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned (i) to (iii)	147,363	90,606	158,537
Over provision in prior year	(15)	(495)	(410)
Effect of non-deductible expenses	3,260	4,618	4,379
Effect of preferential tax rates on current tax payable (iii)	(64,666)	(3,785)	(1,962)
Effect of tax rate differential (iii)	(11,018)	(1,859)	(688)
Change in recognised/unrecognised temporary differences and tax losses	1,181	(5,835)	(183)
Effect of utilisation of temporary differences and tax losses	(1,218)	(19,002)	(289)
Effect of withholding income tax (iv)	11,664	3,436	20,400
Effect of non-taxable income	(239)	(720)	(3,928)
Income tax expenses	86,312	66,964	175,856

(i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Target Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) The provision for Hong Kong Tax for 2010, 2011 and 2012 is calculated at 16.5% of the estimated assessable profit for the year.

(iii) Pursuant to the Corporate Income Tax Law of the PRC passed by the Tenth National People's Congress on March 16, 2007 (the "New Tax Law"), the statutory income tax rate of the Target Group's PRC subsidiaries is 25% from January 1, 2008. There are transitional preferential tax treatments available under the New Tax Law and its relevant regulations.

Guangdong Yashili Group Company Limited ("Yashili (Guangdong)"), being a manufacturing foreign investment enterprise ("FIE"), was entitled to a two-year full exemption from income tax followed by a three year 50% reduction in income tax ("2+3 tax holiday"). Yashili (Guangdong) started its tax holiday in 2006 and the tax holiday is grandfathered. As a result, it is subject to income tax at 12.5% in 2010 and 25% from 2011 onwards, respectively.

Scient (Guangzhou), being a manufacturing FIE established in Guangzhou Economic and Technological Development Zone, was entitled to both the 2+3 tax holiday and a preferential tax rate of 15%. According to the New Tax Law and its relevant regulations, the transitional income tax rates are 22%, 24% and 25% for 2010, 2011 and 2012 onwards, respectively ("transitional rates").

Yashili (Zhengzhou), being a manufacturing FIE established in Zhengzhou Economic and Technological Development Zone, was entitled to both the 2+3 tax holiday and a preferential tax rate of 15%. Its tax holiday is grandfathered and is entitled to the abovementioned transitional rates. Yashili (Zhengzhou) started its tax holiday in 2008 and is exempted from income tax for 2009 and subject to income tax at 11%, 12%, 12.5% and 25% for 2010, 2011, 2012 and from 2013 onwards, respectively.

The effect of tax rate differential mainly represented the effect of the difference in tax rates among the Target Company and its subsidiaries and the tax effect arising from difference between the tax rate of 25% being applied in the computation of expected income tax and the rate for recognising the deferred tax.

(iv) Pursuant to the New Tax Law and its relevant regulations, PRC-resident enterprises are levied withholding tax at 10% on dividends to their non-PRC-resident corporate investors for profits earned since January 1, 2008. Under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident which is the "beneficiary owner" and holds 25% equity interests or more of a PRC enterprise is entitled to a reduced withholding tax rate of 5%. On this basis, the Target Group has made provision of withholding income tax on the distributable profits generated by PRC subsidiaries.

9 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement schemes contributions**	**Equity-settled share-based payment expenses**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:						
– Mr. Zhang Likun	–	360	240	8	–	608
– Mr. Zhang Liming	–	264	136	8	–	408
– Mr. Zhang Lidian	–	264	236	8	610	1,118
– Mr. Zhang Libo	–	264	136	8	–	408
– Mr. Wu Xiaonan (i)	–	75	330	8	56	469
Sub-total	–	1,227	1,078	40	666	3,011
Non-executive directors:						
– Mr. Luo Yi	–	–	–	–	–	–
– Mr. Zhang Chi	–	–	–	–	–	–
Sub-total	–	–	–	–	–	–
Independent non-executive directors:						
– Mr. Chen Yongguan	65	–	–	–	–	65
– Mr. Yu Shimao	65	–	–	–	–	65
– Mr. Samuel King On Wong	59	–	–	–	–	59
Sub-total	189	–	–	–	–	189
	189	1,227	1,078	40	666	3,200

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement schemes contributions	Equity-settled share-based payment expenses	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:						
– Mr. Zhang Likun	–	480	420	8	–	908
– Mr. Zhang Liming	–	384	416	8	–	808
– Mr. Zhang Lidian	–	412	588	8	311	1,319
– Mr. Zhang Libo	–	384	416	8	–	808
– Mr. Zhang Yanpeng (ii)	–	420	80	3	47	550
Sub-total	–	2,080	1,920	35	358	4,393
Non-executive directors:						
– Mr. Luo Yi (iii)	–	–	–	–	–	–
– Mr. Zhang Chi	–	–	–	–	–	–
– Mr. Zhang Hsiu Guo (iv)	–	–	–	–	–	–
Sub-total	–	–	–	–	–	–
Independent non-executive directors:						
– Mr. Chen Yongguan	64	–	–	–	–	64
– Mr. Yu Shimao	65	–	–	–	–	65
– Mr. Samuel King On Wong	341	–	–	–	–	341
Sub-total	470	–	–	–	–	470
	470	2,080	1,920	35	358	4,863

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement schemes contributions	Equity-settled share-based payment expenses	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:						
– Mr. Zhang Likun	–	480	420	10	–	910
– Mr. Zhang Liming	–	420	380	10	–	810
– Mr. Zhang Lidian	–	588	420	10	237	1,255
– Mr. Zhang Libo	–	420	380	10	–	810
– Mr. Zhang Yanpeng	–	420	180	7	36	643
Sub-total	–	2,328	1,780	47	273	4,428
Non-executive directors:						
– Mr. Zhang Chi	–	–	–	–	–	–
– Mr. Zhang Hsiu Guo (iv)	–	–	–	–	–	–
Sub-total	–	–	–	–	–	–
Independent non- executive directors:						
– Mr. Chen Yongguan	64	–	–	–	–	64
– Mr. Yu Shimao	65	–	–	–	–	65
– Mr. Samuel King On Wong	341	–	–	–	–	341
– Mr. Liu Jinting (v)	–	–	–	–	–	–
Sub-total	470	–	–	–	–	470
	470	2,328	1,780	47	273	4,898

(i) Mr. Wu Xiaonan, an executive director, resigned on April 19, 2011.

(ii) Mr. Zhang Yanpeng was appointed as executive director at the annual general meeting on June 2, 2011.

(iii) Mr. Luo Yi, a non-executive director, resigned on November 23, 2011.

(iv) Mr. Zhang Hsiu-Guo was appointed as non-executive director on November 23, 2011.

(v) Mr. Liu Jinting was appointed as independent non-executive director on November 28, 2012.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one of them (2011: two; 2010: three) is director whose emolument is disclosed in note 9. The aggregate of the emoluments in respect of the other four (2011: three; 2010: two) individuals are as follows:

	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other emoluments	937	2,768	2,940
Discretionary bonuses	314	1,254	2,428
Retirement schemes contributions	–	21	107
	1,251	4,043	5,475

The emoluments of the four (2011: three; 2010: two) individuals with the highest emoluments are within the following band:

	Number of individuals		
	2010	**2011**	**2012**
HKD500,000 to HKD1,000,000	2	–	–
HKD1,000,000 to HKD2,000,000	–	3	4

11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE TARGET COMPANY

The consolidated profit attributable to equity shareholders of the Target Company includes a loss of RMB3,975,000 for the year ended December 31, 2010 and a profit of RMB233,334,000 and RMB202,009,000 for the year ended December 31, 2011 and 2012 respectively, which has been dealt with in the financial statements of the Target Company.

Details of dividends payable to equity shareholders of the Target Company are set out in Note 29(b).

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Target Company of RMB502,354,000, RMB306,258,000 and RMB468,482,000 for the year ended December 31, 2010, 2011 and 2012 respectively, and the weighted average of 3,021,928,767, 3,513,399,533 and 3,521,758,133 ordinary shares in issue during the year 2010, 2011 and 2012, calculated as follows:

Weighted average number of ordinary shares

	2010	**2011**	**2012**
	No. of shares	*No. of shares*	*No. of shares*
Share issued upon incorporation *(Note 29(c)(i))*	1	1	1
Share issued upon Reorganisation *(Note 29(c)(i))*	99,999	99,999	99,999
Capitalisation issue *(Note 29(c)(ii))*	2,925,900,000	2,925,900,000	2,925,900,000
Effect of issuance of shares by share offer *(Note 29(c)(iii))*	95,928,767	574,000,000	574,000,000
Share options exercised *(Note 29(c)(v))*	–	18,920,081	31,758,133
Shares repurchased *(Note 29(c)(iv))*	–	(5,520,548)	(10,000,000)
Weighted average number of ordinary shares during the year ended December 31	3,021,928,767	3,513,399,533	3,521,758,133

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated profit attributable to equity shareholders of the Target Company RMB502,354,000, RMB306,258,000 and RMB468,482,000 for the year ended December 31, 2010, 2011 and 2012 respectively, and the weighted average of 3,093,138,808, 3,565,287,966 and 3,557,288,466 ordinary shares (diluted) in issue during the year 2010, 2011 and 2012, calculated as follows:

Weighted average number of ordinary shares

	2010	**2011**	**2012**
	No. of shares	*No. of shares*	*No. of shares*
Weighted average number of ordinary shares during the year ended December 31 before dilution	3,021,928,767	3,513,399,533	3,521,758,133
Effect of deemed issue of shares under the Target Company share option scheme for nil consideration *(Note 27)*	71,210,041	51,888,433	35,530,333
Weighted average number of ordinary shares during the year ended December 31 after dilution	3,093,138,808	3,565,287,966	3,557,288,466

13 PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office and other equipment RMB'000	Total RMB'000
Cost:						
At January 1, 2010	54,307	427,111	326,635	45,711	52,520	906,284
Additions	27,226	11,534	4,959	1,590	3,471	48,780
Transfer from/(out) construction in progress	(18,948)	6,747	11,628	–	573	–
Transfer from intangible assets	(4,098)	–	–	–	–	(4,098)
Disposals	–	–	(4,167)	(711)	(2,985)	(7,863)
Transfer to investment properties *(Note 14)*	–	(29,568)	–	–	–	(29,568)
Reclassification	–	(4,735)	(3,138)	3,700	4,173	–
Addition from business combination	–	716	–	–	4	720
At December 31, 2010	58,487	411,805	335,917	50,290	57,756	914,255
At January 1, 2011	58,487	411,805	335,917	50,290	57,756	914,255
Additions	68,253	1,889	19,117	4,458	7,539	101,256
Transfer from/(out) construction in progress	(14,208)	459	6,244	38	1,227	(6,240)
Transfer from intangible assets	103	–	–	–	–	103
Disposals	–	(333)	(1,163)	(2,226)	(280)	(4,002)
Transfer to investment properties *(Note 14)*	–	(6,456)	–	–	–	(6,456)
At December 31, 2011	112,635	407,364	360,115	52,560	66,242	998,916
At January 1, 2012	112,635	407,364	360,115	52,560	66,242	998,916
Additions	112,072	807	9,136	6,421	5,537	133,973
Transfer from/(out) construction in progress	(100,433)	97,823	(43)	–	677	(1,976)
Disposals	–	–	(3,245)	(461)	(838)	(4,544)
Transfer to investment properties *(Note 14)*	–	(37,768)	–	–	–	(37,768)
At December 31, 2012	124,274	468,226	365,963	58,520	71,618	1,088,601
Accumulated depreciation and impairment losses:						
At January 1, 2010	–	(33,487)	(70,982)	(21,425)	(18,312)	(144,206)
Charge for the year	–	(18,246)	(33,206)	(7,089)	(10,340)	(68,881)
Written back on disposal	–	–	1,664	560	1,727	3,951
Transfer to investment properties *(Note 14)*	–	1,431	–	–	–	1,431
Reclassification	–	842	273	(1,805)	690	–
At December 31, 2010	–	(49,460)	(102,251)	(29,759)	(26,235)	(207,705)

	Construction in progress	Plant and buildings	Machinery and equipment	Motor vehicles	Office and other equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2011	–	(49,460)	(102,251)	(29,759)	(26,235)	(207,705)
Charge for the year	–	(17,735)	(35,083)	(6,831)	(11,507)	(71,156)
Written back on disposal	–	58	573	2,032	142	2,805
Transfer to construction in progress	–	–	6,155	–	85	6,240
Transfer to investment properties *(Note 14)*	–	425	–	–	–	425
At December 31, 2011	–	(66,712)	(130,606)	(34,558)	(37,515)	(269,391)
At January 1, 2012	–	(66,712)	(130,606)	(34,558)	(37,515)	(269,391)
Charge for the year	–	(19,014)	(35,440)	(7,199)	(11,028)	(72,681)
Written back on disposal	–	–	863	257	223	1,343
Transfer from construction in progress	–	–	1,926	–	50	1,976
Transfer to investment properties *(Note 14)*	–	425	–	–	–	425
Impairment loss	–	(561)	(5,750)	(98)	(1)	(6,410)
At December 31, 2012	–	(85,862)	(169,007)	(41,598)	(48,271)	(344,738)
Net book value:						
At December 31, 2012	124,274	382,364	196,956	16,922	23,347	743,863
At December 31, 2011	112,635	340,652	229,509	18,002	28,727	729,525
At December 31, 2010	58,487	362,345	233,666	20,531	31,521	706,550

The Target Group's plant and buildings are located in the PRC under medium-term leases.

Due to the change of usage in a certain of production lines in 2012, the Target Group assessed the recoverable amounts of the machines in Yashili (Shanxi) and Heilongjiang Yashili Dairy Co., Ltd ("Yashili (Heilongjiang)") and as a result the carrying amount of the machines was written down by RMB6,410,000 (included in "Other expenses"). The estimates of recoverable amount were based on the machines' fair values less costs to sell, determined by reference to the recent observable market prices for similar assets within the same industry.

As at December 31, 2010, 2011 and 2012, certain buildings of the Target Group with carrying value of RMB28,124,000, RMB15,667,000 and RMB70,857,000 respectively, were without building ownership certificates. The directors of the Target Company do not foresee any substantial obstacle in obtaining the ownership certificate of the above mentioned plant and buildings.

The carrying amount of property, plant and equipment pledged to secure the advances from local governments (Note 25(ii)) and certain bank loans (Note26) are set out as below:

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of pledged property, plant and equipment	108,586	20,025	17,366

14 INVESTMENT PROPERTIES

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
As at the beginning of the year	46,578	76,146	82,602
Transfer from plant and buildings *(note 13)*	29,568	6,456	37,768
As at the end of the year	76,146	82,602	120,370
Accumulated amortisation:			
As at the beginning of the year	(1,692)	(4,394)	(6,268)
Charge for the year	(1,271)	(1,449)	(1,673)
Transfer from plant and buildings *(note 13)*	(1,431)	(425)	(425)
As at the end of the year	(4,394)	(6,268)	(8,366)
Carrying amount:			
As at the end of the year	71,752	76,334	112,004

The fair value of the investment properties, as determined based on the valuation analysis on an open market value basis with reference to market transactions of similar properties, are estimated to be approximately RMB118,147,000, RMB173,393,000 and RMB219,841,000 for the year ended December 31, 2010, 2011 and 2012.

As of December 31, 2012, the building ownership certificate of Scient (Guangzhou)'s plant and buildings with carrying amount totally RMB37,343,000 have not yet been issued. The directors of the Target Company do not foresee any substantial obstacle in obtaining the ownership certificate of the above mentioned plant and buildings.

The carrying value of investment properties comprises properties:

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
In the PRC under a medium-term lease	70,093	74,683	110,475
In the United States of America on a self- owned land	1,659	1,651	1,529
Total	71,752	76,334	112,004

The carrying amount of investment properties pledged to secure the Target Group's certain bank loans were RMB70,093,000 as at December 31, 2010. No investment properties pledged to secure the Target Group's bank loans as at December 31, 2011 and 2012.

15 LEASE PREPAYMENTS

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
As at the beginning of the year	121,123	146,460	146,460
Acquisitions	25,337	–	–
As at the end of the year	146,460	146,460	146,460
Accumulated amortisation:			
As at the beginning of the year	(7,673)	(10,158)	(13,093)
Charge for the year	(2,485)	(2,935)	(2,935)
As at the end of the year	(10,158)	(13,093)	(16,028)
Carrying amount:			
As at the end of the year	136,302	133,367	130,432

Interests in leasehold land represent prepayments of land use rights premium to the PRC authorities by the Target Group. The Target Group's leasehold land is located in the PRC, on which its manufacturing plants were built. The Target Group is granted land use rights for a period of 50 years.

16 INTANGIBLE ASSETS

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
As at the beginning of the year	5,030	10,923	10,707
Addition during the year	1,795	225	509
Transfer to construction in progress *(note13)*	4,098	(441)	–
As at the end of the year	10,923	10,707	11,216
Accumulated amortisation:			
As at the beginning of the year	(1,601)	(3,645)	(5,361)
Charge for the year	(2,044)	(2,054)	(1,918)
Transfer to construction in progress *(Note 13)*	–	338	–
As at the end of the year	(3,645)	(5,361)	(7,279)
Carrying amount:			
As at the end of the year	7,278	5,346	3,937

The intangible assets represented purchased and customised software held by the Target Group. Amortisation of the intangible assets is included in "Administrative expenses".

17 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Provision for PRC income tax for the year	58,126	102,791	163,833
Addition from business combination	2,254	–	–
PRC income tax paid	(27,180)	(49,689)	(74,610)
Represented by:			
Income tax payables	33,200	53,102	89,223

(b) Deferred tax assets and liabilities recognised:

The Target Group

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Inventory provision	Deferred income losses	Tax	Expense accruals	Provision for sales return	Loss arising from the melamine incident	Arising from undistributed earnings of PRC	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax arising from:									
At January 1, 2010	4,391	5,175	33,417	18,909	1,691	922	–	2,735	67,240
Credited to profit or loss	(4,349)	1,438	(24,732)	11,418	(1,691)	(922)	(11,664)	2,301	(28,201)
Addition from business combination	–	–	–	–	–	–	–	77	77
At December 31, 2010	42	6,613	8,685	30,327	–	–	(11,664)	5,113	39,116
At January 1, 2011	42	6,613	8,685	30,327	–	–	(11,664)	5,113	39,116
Credited to profit or loss	751	(1,555)	11,012	10,683	–	–	9,064	5,377	35,332
At December 31, 2011	793	5,058	19,697	41,010	–	–	(2,600)	10,490	74,448
At January 1, 2012	793	5,058	19,697	41,010	–	–	(2,600)	10,490	74,448
Credited to profit or loss	(757)	(402)	(19,505)	22,394	–	–	(15,400)	1,237	(12,433)
At December 31, 2012	36	4,656	192	63,404	–	–	(18,000)	11,727	62,015

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Represented by:			
Deferred tax assets	50,780	77,048	80,015
Deferred tax liabilities	(11,664)	(2,600)	(18,000)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(u) the Target Group has not recognised the following deductible temporary differences and unused tax losses as deferred tax assets as it is not probable that future taxable income against which the temporary differences and unused tax losses can be utilised will be available.

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Temporary difference	57,524	39,680	34,567
Tax losses			
– due in 2014	151,300	57,874	56,848
– due in 2015	1,385	–	–
– due in 2016	–	5,119	4,544
– due in 2017 and afterwards	–	1,172	5,685
Total	210,209	103,845	101,644

(d) Deferred tax liabilities not recognised

The undistributed profits of some of the Target Group's PRC subsidiaries amounted to RMB527,775,000, RMB502,379,000 and RMB774,817,000 for the year ended December 31, 2010, 2011 and 2012 respectively. Temporary differences relating to the undistributed profits of the Target Group's certain subsidiaries in the Mainland China amounted to RMB141,788,000, RMB280,047,000 and RMB323,040,000 for the year ended December 31, 2010, 2011 and 2012 respectively. Deferred tax liabilities of RMB7,089,000, RMB14,002,000 and RMB16,152,000 have not been recognised in respect of the withholding tax that would be payable on the distribution of these retained profits for the year ended December 31, 2010, 2011 and 2012 respectively, as the Target Company controls the dividend policy of these subsidiaries in the Mainland China and the Directors have determined that these profits are not likely to be distributed in the foreseeable future.

18 INTERESTS IN SUBSIDIARIES

The Target Company

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Unlisted shares at cost	7,389	17,549	24,482
Amounts due from subsidiaries	3,180,791	3,213,862	3,179,041
Total	3,188,180	3,231,411	3,203,523

The balances with subsidiaries are unsecured, interest-free, and repayable on demand. These balances are expected to be recovered after more than one year.

18 INTERESTS IN SUBSIDIARIES (continued)

The statutory financial statements of the companies which applicable and comprising the Target Group for each of the three years ended December 31, 2010, 2011 and 2012, or since their respective dates of acquisition/establishment, where this is a shorter period, were prepared in accordance with either HKFRSs issued by the HKICPA or the relevant accounting rules and regulations applicable to enterprises in the PRC or New Zealand and were audited during the Relevant Periods by the respective statutory auditors as indicated below:

At the date of this report, the Target Company has direct or indirect interests in the following subsidiaries. The class of shares held is ordinary. The particular of those subsidiaries are set out below:

Name of company	Place of Incorporation/ establishment	Particulars of registered/ issued capital	Target Group's effective interest	Proportion of ownership interest: Held by the Target Company	Proportion of ownership interest: Held by a subsidiary	Principal activity	Financial period	Statutory auditors
Yashili International Ltd. ("Yashili (BVI)")	British Virgin Islands ("BVI")	USD1	100%	100%	–	Investment holding	Years ended December 31, 2010, 2011 and 2012	Not applicable
Yashili International Group Limited ("Yashili (HK)")	Hong Kong	HKD1	100%	–	100%	Investment holding	Years ended December 31, 2010, 2011 and 2012	KPMG
Yashili Hong Kong International Trading Co., Limited ("Yashili Trading")	Hong Kong	HKD1	100%	–	100%	Import and export of diary products and related materials	Years ended December 31, 2010, 2011 and 2012	KPMG
Big World International (Hongkong) Limited	Hong Kong	HKD1	100%	–	100%	Investment holding	Years ended December 31, 2012	Not applicable (iii)
Heatel Limited	British Virgin Islands ("BVI")	USD1	100%	–	100%	Investment holding	Years ended December 31, 2012	Not applicable
Next Talent Limited	Hong Kong	HKD1	100%	–	100%	Investment holding	Years ended December 31, 2012	Not applicable (iii)
New Zealand Dairy International Holdings Limited	New Zealand	NZD1	100%	–	100%	Investment holding	Year ended December 31, 2012	Not applicable

18 INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of Incorporation/ establishment	Particulars of registered/ issued capital	Target Group's effective interest	Proportion of ownership interest: Held by the Target Company	Proportion of ownership interest: Held by a subsidiary	Principal activity	Financial period	Statutory auditors
Yashili New Zealand Dairy Co., Limited ("Yashili New Zealand")	New Zealand	NZD 1,000,000	100%	–	100%	Production and sales of dairy products	Year ended December 31, 2012	KPMG New Zealand
Yashili (China) Co., Ltd ("Yashili China") (雅士利(中國)有限公司) (i) & (ii)	PRC	RMB100,000,000	100%	–	100%	Production and sales of dairy products	Year ended December 31, 2012	KPMG Huazhen (Special General Partnership) 畢馬威華振會計師事務所(特殊普通合伙)
Guangdong Yashili Group Company Limited ("Yashili (Guangdong)") (廣東雅士利集團有限公司) (i) & (ii)	PRC	RMB826,105,300	100%	–	100%	Production and sales of dairy products	Years ended December 31, 2010, 2011 and 2012	KPMG Huazhen (Special General Partnership). 畢馬威華振會計師事務所(特殊普通合伙)
Scient International Group Limited	Hong Kong	HKD1	100%	–	100%	Investment holding	Years ended December 31, 2012	Not applicable (iii)
Scient (Guangzhou) (施恩(廣州)嬰幼兒營養品有限公司) (ii)	PRC	RMB155,000,000	95%	–	95%	Production and sales of dairy products	Years ended December 31, 2010, 2011 and 2012	KPMG Huazhen (Special General Partnership) 畢馬威華振會計師事務所(特殊普通合伙)
Yashili (Heilongjiang) (黑龍江雅士利乳業有限公司) (ii)	PRC	RMB20,080,000	100%	–	100%	Production and sales of dairy products	Years ended December 31, 2010, 2011 and 2012	KPMG Huazhen (Special General Partnership) 畢馬威華振會計師事務所(特殊普通合伙)
Yashili (Zhengzhou) (雅士利(鄭州)營養品有限公司) (ii)	PRC	RMB250,000,000	100%	–	100%	Production and sales of dairy products	Years ended December 31, 2010, 2011 and 2012	KPMG Huazhen (Special General Partnership) 畢馬威華振會計師事務所(特殊普通合伙)

18 INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of Incorporation/ establishment	Particulars of registered/ issued capital	Target Group's effective interest	Proportion of ownership interest: Held by the Target Company	Proportion of ownership interest: Held by a subsidiary	Principal activity	Financial period	Statutory auditors
Yashili (Shanxi). (山西雅士利乳業有限公司) (ii)	PRC	RMB300,000,000	100%	–	100%	Production and sales of dairy products	Years ended December 31, 2010, 2011 and 2012	KPMG Huazhen(Special General Partnership) 畢馬威華振會計師事務所（特殊普通合伙）
Chaoan Bisheng Decoration and Printing Co., Ltd. (潮安縣必勝裝潢印務有限公司) (ii)	PRC	RMB10,800,000	100%	–	100%	Production and sales of packing materials	Years ended December 31, 2010, 2011 and 2012	KPMG Huazhen (Special General Partnership) 畢馬威華振會計師事務所（特殊普通合伙）
Guangzhou Yuqian Import and Export Trading Co., Ltd. (廣州裕乾進出口貿易有限公司) (ii)	PRC	RMB5,000,000	100%	–	100%	Import and export of dairy products and related materials	Years ended December 31, 2010, 2011 and 2012	KPMG Huazhen (Special General Partnership) 畢馬威華振會計師事務所（特殊普通合伙）
Shanghai Yashili Food Co., Ltd (上海雅士利食品有限公司) (ii)	PRC	RMB2,000,000	100%	–	100%	Sales of food products	Years ended December 31, 2010, 2011 and 2012	KPMG Huazhen (Special General Partnership) 畢馬威華振會計師事務所（特殊普通合伙）
Scient International (USA), Inc.	United States of America	USD620,000	100%	–	100%	Investment holding	Years ended December 31, 2010, 2011 and 2012	Not applicable
Chaoan Victory Trading Limited (潮安縣利成貿易有限公司) (ii)	PRC	RMB5,000,000	100%	–	100%	Import and export of dairy products and related materials	Years ended December 31, 2010, 2011 and 2012	KPMG Huazhen (Special General Partnership) 畢馬威華振會計師事務所（特殊普通合伙）

(i) The company is wholly foreign-owned enterprise established in the PRC.

(ii) These companies are limited liability companies established in the PRC. The official names of these companies are in Chinese and the English translation of the names is for reference only.

(iii) No audited financial statements have been prepared for these entities established in Hong Kong as they are not carried on any business since the date of its incorporation.

19 INVENTORIES

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	220,074	303,468	350,315
Finished goods	95,935	156,579	204,590
Work in progress	40,342	78,274	65,522
Packing materials	24,516	31,172	25,349
Low value consumables	9,948	8,238	7,146
	390,815	577,731	652,922

Amounts of inventories recognised as expenses and included in the income statement are analysed as follows:

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of inventories recognised as			
– cost of sales	1,272,624	1,379,171	1,655,178
– selling and distribution expenses (i)	144,618	186,122	195,506
– administrative expenses	–	637	6,317
Write down of inventories	1,137	3,171	142
Disposal of inventories	8,009	393	2,091
	1,426,388	1,569,494	1,859,234

(i) Inventories recognised as selling and distribution expenses represented the cost of purchased baby products which are given away as gift items together with the Target Group's products sold.

20 TRADE AND BILLS RECEIVABLES

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Bills receivables	1,703	1,021	1,022
Trade receivables	192,172	52,863	26,640
Less: Allowance for doubtful debts	(1,563)	(1,540)	(883)
	192,312	52,344	26,779

An ageing analysis of trade and bills receivables (net of allowance) by due date is as follows:

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Current	186,600	49,456	19,892
Less than 3 months past due	4,115	1,100	4,417
More than 3 months but less than 6 months past due	174	246	736
More than 6 months but less than 12 months past due	244	992	1,522
More than 12 months but less than 24 months past due	1,179	550	212
	5,712	2,888	6,887
	192,312	52,344	26,779

The Target Group's credit policy is set out in Note 30(a).

The movement in the allowance for doubtful debts during the year is as follows:

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
At January 1	1,317	1,563	1,540
Impairment loss recognised	1,170	129	66
Written off	(924)	(152)	(723)
At December 31	1,563	1,540	883

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Current	186,600	49,456	19,892
Less than 3 months past due	4,000	1,100	4,417
More than 3 months but less than 6 months past due	174	246	736
More than 6 months but less than 12 months past due	244	992	1,522
More than 12 months but less than 24 months past due	1,179	364	49
	5,597	2,702	6,724
	192,197	52,158	26,616

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Target Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Target Group does not hold any collateral over these balances.

21 PREPAYMENTS AND OTHER RECEIVABLES

Current	**The Target Group**			**The Target Company**		
	2010	**2011**	**2012**	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Prepaid advertising expenses	31,923	27,109	20,339	–	–	–
Prepayments for purchase of raw materials	6,781	4,017	10,012	–	–	–
Advances to sales offices	1,007	2,444	2,102	–	–	–
VAT recoverable	49,468	73,940	72,412	–	–	–
Amount due from subsidiaries	–	–	–	–	–	95,998
Others	12,821	30,638	30,802	599	233	460
At December 31	102,000	138,148	135,667	599	233	96,458

Non-current	**The Target Group**			**The Target Company**		
	2010	**2011**	**2012**	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Prepaid for acquisition of property, plant and equipment	16,525	11,016	93,540	–	–	–
Deposit of acquisition of land use right (i)	–	–	90,630	–	–	–
At December 31	16,525	11,016	184,170	–	–	–

(i) As at December 31, 2012, the wholly owned subsidiary of the Target Company prepaid RMB90,630,000 as the deposit for acquisition of land use right. The related terms of contract are still on negotiations.

22 RESTRICTED BANK DEPOSITS

	The Target Group		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Pledged for			
– issuing bank acceptances	11,124	–	–
– issuing letters of credit	10,860	28,331	37,739
– bank loans	10,920	34,719	261,870
Frozen deposits	9,406	9,406	–
At December 31	42,310	72,456	299,609

23 CASH AND CASH EQUIVALENTS AND BANK DEPOSITS

	The Target Group			The Target Company		
	2010	2011	2012	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents						
– Cash on hand	818	1,472	620	–	–	–
– Cash at bank	2,758,455	2,580,091	2,072,541	194,801	13,600	348
	2,759,273	2,581,563	2,073,161	194,801	13,600	348
Short-term bank deposits (i)	–	–	611,972	–	–	–
Long-term bank deposits (ii)	–	–	306,142	–	–	–
Total	2,759,273	2,581,563	2,991,275	194,801	13,600	348

(i) The effective interest rate on short-term bank deposits as at December 31, 2012 was approximately 3.270% - 3.575% per annum and will be mature in one year.

(ii) The effective interest rate on long-term bank deposits as at December 31, 2012 was approximately 4.125% - 4.675% per annum and will be mature in 2–3 years.

24 OTHER INVESTMENTS

	The Target Group		
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Financial assets designated at fair value through profit or loss	–	180,000	200,000

The carrying amount of other investment pledged to secure the Target Group's short-term bank loans as at December 31, 2012 is RMB100,000,000.

25 TRADE AND OTHER PAYABLES

	The Target Group			The Target Company		
	2010	2011	2012	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables (i)	231,421	287,807	410,757	–	–	–
Bills payables	11,124	–	–	–	–	–
Advances from customers	71,651	255,465	398,143	–	–	–
Accrued payroll	37,936	43,274	56,534	–	–	–
Other taxes payable	38,870	29,245	39,597	–	–	–
Advances from local government (ii)	30,000	31,000	33,500	–	–	–
Pledged deposits from customers	30,205	29,625	36,495	–	–	–
Amount due to a subsidiary	–	–	–	10,788	10,788	9,245
Other payables and accruals (iii)	48,741	43,702	53,547	2,311	–	–
	499,948	720,118	1,028,573	13,099	10,788	9,245

(i) The credit period granted by the suppliers ranges from 30 days to 90 days. An ageing analysis of trade payables by due date is as follows:

	The Target Group		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Due within 1 month or on demand	66,940	81,991	115,126
Due after 1 month but within 3 months	147,153	174,375	240,758
Due after 3 months but within 6 months	17,328	29,756	50,875
Due after 6 months	–	1,685	3,998
	231,421	287,807	410,757

(ii) As at December 31, 2010, 2011 and 2012, an advance of RMB30,000,000, RMB30,000,000 and RMB30,000,000 respectively was received from the People's Government of Ying County, which borne a fixed interest rate of 5.76% per annum and was secured by Yashili (Shanxi)'s plant and machinery as disclosed in Note 13. There were no fixed repayment terms for the advances as at December 31, 2010, 2011 and 2012.

(iii) Other payables and accruals mainly consist of payables for acquisition of non-current assets and other accrued expenses.

26 LOANS AND BORROWINGS

	The Target Group			The Target Company		
	2010	**2011**	**2012**	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year or on demand	158,440	31,359	330,912	–	–	80,912
Bank loans denominated in						
– United States dollar ("US dollar") (i)	130,000	31,359	–	–	–	–
– RMB (ii)	17,437	–	250,000	–	–	–
– HK dollar (iii)	11,003	–	80,912	–	–	80,912
	158,440	31,359	330,912	–	–	80,912

(i) The bank loan carried weighted average interest rates of 2.74% and 3.43% per annum as at December 31, 2010 and 2011 respectively.

(ii) The bank loan carried weighted average interest rates of 4.86% and 2.6% per annum as at December 31, 2010 and 2012 respectively.

(iii) The bank loan carried weighted average interest rates of 1.75% and 1.55% per annum as at December 31, 2010 and 2012 respectively.

27 EQUITY-SETTLED SHARE-BASED TRANSACTION

Yashili (Guangdong) adopted a share option scheme on January 1, 2009 (the "2009 Employee Share Option Scheme"), to invite certain eligible participants to take up options (the "2009 Employee Share Options") to subscribe for the to-be-listed company at an exercise price of RMB0.85 per share. Total 9,360,000 share options were granted and 2 directors of the Target Company and 148 employees of the Target Group accepted the 2009 Employee Share Options.

On August 1, 2010, Yashili (Guangdong) further granted 3,597,600 share options (the "2010 Employee Share Options") to 31 eligible employees of the Target Group for subscribing shares of the Target Company at an exercise price of RMB11 per share (the "2010 Employee Share Option Scheme"). Both the 2009 and 2010 Employee Share Options will be forfeited when the grantee ceases to be an employee of the Target Group for reasons other than death, ill-health or retirement.

The 2009 and 2010 Employee Share Options originally granted by Yashili (Guangdong) to the grantees were exchanged into the Pre-IPO Share Options of the Target Company on October 8, 2010. Accordingly, 12,957,600 shares options under the 2009 and 2010 Employee Share Option Schemes were converted into 94,975,662 share options of the Target Company with substantially the same terms and conditions, except that the respective exercise prices were adjusted on a proportionate basis, being RMB0.11 in respect of the 2009 Employee Share Options and RMB1.84 in respect of the 2010 Employee Share Options. The conversion of the share options was considered as a modification to the 2009 and the 2010 Employee Share Option Schemes. The modification did not result in any incremental value in respect of the fair value of the share options at the date of modification. Each of the Pre-IPO share option has a vesting period of two months to fifty months, commencing from the listing date. Each option gives the holder the right to subscribe for one ordinary share of the Target Company and is settled gross in shares.

On August 29, 2011, the Target Company further granted 48,148,214 share options (the "2011 Employee Share Options") to 39 eligible employees of the Target Group for subscribing shares of the Target Company at an exercise price of HKD1.5 per share. The 2011 Employee Share Options will be forfeited when the grantee ceases to be an employee of the Target Group for reasons other that death, ill-health or retirement.

(i) The terms and conditions of the Share Options are as follows:

Date granted	Vesting date	Expiry date	Number of share options granted			Contractual life of options years
			Director	Employee	Total	
2009 and 2010 Employee Share Options						
January 1, 2009	two months after November 1, 2010	15 days after vesting date	3,396,367	11,308,644	14,705,011	2.20
August 1, 2010	two months after November 1, 2010	15 days after vesting date	–	4,290,121	4,290,121	0.62
January 1, 2009	fourteen months after November 1, 2010	15 days after vesting date	3,396,367	11,308,644	14,705,011	3.20
August 1, 2010	fourteen months after November 1, 2010	15 days after vesting date	–	4,290,121	4,290,121	1.62
January 1, 2009	twenty-six months after November 1, 2010	15 days after vesting date	3,396,367	11,308,644	14,705,011	4.20
August 1, 2010	twenty-six months after November 1, 2010	15 days after vesting date	–	4,290,121	4,290,121	2.62
January 1, 2009	thirty-eight months after November 1, 2010	15 days after vesting date	3,396,367	11,308,644	14,705,011	5.20
August 1, 2010	thirty-eight months after November 1, 2010	15 days after vesting date	–	4,290,121	4,290,121	3.62
January 1, 2009	fifty months after November 1, 2010	15 days after vesting date	3,396,367	11,308,645	14,705,012	6.20
August 1, 2010	fifty months after November 1, 2010	15 days after vesting date	–	4,290,122	4,290,122	4.62
			16,981,835	77,993,827	94,975,662	
2011 Employee Share Options						
August 29, 2011	August 29, 2011	October 7, 2020	–	12,037,054	12,037,054	9
August 29, 2011	August 29, 2012	October 7, 2020	–	12,037,054	12,037,054	9
August 29, 2011	August 29, 2013	October 7, 2020	–	12,037,054	12,037,054	9
August 29, 2011	August 29, 2014	October 7, 2020	–	12,037,052	12,037,052	9
			–	48,148,214	48,148,214	
			16,981,835	126,142,041	143,123,876	

(ii) The number and weighted average exercise prices of share options are as follows:

	2010		2011		2012	
	Weighted average exercise price per share	Number options	Weighted average exercise price per share	Number options	Weighted average exercise price per share	Number of options
Outstanding at the beginning of the year	0.11	73,525,056	0.50	94,601,115	0.78	118,959,988
Granted during the year	1.84	21,450,606	1.23	48,148,214	–	–
Forfeited during the year	0.94	(374,547)	0.81	(4,869,260)	1.33	(13,923,197)
Exercised during the year	–	–	0.50	(18,920,081)	0.11	(14,026,051)
Outstanding at the end of the year	0.50	94,601,115	0.78	118,959,988	0.80	91,010,740

The 2009 and 2010 Employee Share Options outstanding at December 31, 2010, 2011 and 2012 weighted average remaining expected life are 2.2, 1.2 and 0.2 years respectively.

The Share Option issued in 2011 outstanding at December 31, 2011 and 2012 weighted average remaining expected life 8.8 and 7.8 years respectively.

(iii) Fair value of share options and assumptions:

The fair value of services received in return for the Share Options is measured by reference to the fair value of 2009 and 2010 Employee Share Options and the 2011 Employee Share Options granted. The estimated fair value of the 2009 and 2010 Employee Share Options and the 2011 Employee Share Options is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model.

	2011 employee share options	**2010 employee share options**	**2009 employee share options**
Fair value per share at measurement date	HKD1.42	RMB10.25	RMB2.06
Exercise price per option	HKD1.50	RMB11.00	RMB0.85
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	48.02%	39.1% - 59.90%	61.10%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	9 years	2.62 years	4.2 years
Expected dividends	3.50%	4.90%	4.90%
Risk-free interest rate	1.66%	1.78% to 2.51%	1.78% to 2.51%

The expected volatility is based on the average of the weekly historical volatility of comparable companies with period commensurate to the option life. Expected dividends are based on management's best estimation. The risk-free rate is referenced to the yields of Exchange Fund Notes with similar duration as at the grant date.

Except for the conditions mentioned above, there were no other market conditions and service conditions associated with the 2009 and 2010 Employee Share Options and the 2011 Employee Share Options.

28 DEFERRED INCOME

	The Target Group		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
As at the beginning of the year	37,045	42,928	30,669
Received during the year	11,000	–	–
Amortisation for the year	(5,117)	(12,259)	(12,042)
As at the end of the year	42,928	30,669	18,627

Deferred income represented the government grants received for acquisition of new plant and for certain technical innovation and production line expansion projects. These grants are deferred over the useful lives of relevant assets and the amount recognised as "Other revenue" in 2010, 2011 and 2012 are RMB5,117,000, RMB6,759,000 and RMB6,542,000 respectively and compensation for expenses incurred as "other revenue" in 2010, 2011 and 2012 is RMB nil, RMB5,500,000 and RMB5,500,000 respectively.

29 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Target Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Target Company's individual components of equity between the beginning and the end of the year are set out below:

The Target Company

	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Merger reserve RMB'000	Other reserve RMB'000	Equity-settled share based payment RMB'000	Accumul-ated losses RMB'000	Total equity RMB'000
Balance at January 1, 2010		–	–	–	–	–	–	–	–
Total comprehensive income		–	–	–	–	(64,330)	–	(3,975)	(68,305)
Shares issued upon reorganisation		9	–	–	1,449,863	–	–	–	1,449,872
Share issued by share offer		49,312	1,932,213	–	–	–	–	–	1,981,525
Capitalisation issue		251,364	(251,364)	–	–	–	–	–	–
Equity-settle share-based payments	29(c)(v)	–	–	–	–	–	7,389	–	7,389
Balance at December 31, 2010		300,685	1,680,849	–	1,449,863	(64,330)	7,389	(3,975)	3,370,481

The Target Company

	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Merger reserve RMB'000	Other reserve RMB'000	Equity-settled share based payment RMB'000	Accumul-ated losses RMB'000	Total equity RMB'000
Balance at January 1, 2011		300,685	1,680,849	–	1,449,863	(64,330)	7,389	(3,975)	3,370,481
Total comprehensive income		–	–	–	–	(138,651)	–	233,334	94,683
Dividends approved in respect of the previous year	*29(b)*	–	–	–	–	–	–	(234,692)	(234,692)
Share issued for exercised of share options	*29(c)(v)*	1,596	15,126	–	–	–	(7,360)	–	9,362
Purchase of own shares	*29(c)(iv)*								
– Par value paid		(818)	–	–	–	–	–	–	(818)
– Premium paid		–	(15,538)	–	–	–	–	–	(15,538)
– transfer between reserves		–	–	818	–	–	–	–	818
Equity-settle share-based payments	*29(c)(v)*	–	–	–	–	–	10,160	–	10,160
Balance at December 31, 2011		301,463	1,680,437	818	1,449,863	(202,981)	10,189	(5,333)	3,234,456
Balance at January 1, 2012		301,463	1,680,437	818	1,449,863	(202,981)	10,189	(5,333)	3,234,456
Total comprehensive income		–	–	–	–	(34,666)	–	202,009	167,343
Dividends approved in respect of the previous year	*29(b)*	–	–	–	–	–	–	(200,103)	(200,103)
Share issued for exercised of share options	*29(c)(v)*	1,138	1,904	–	–	–	(1,499)	–	1,543
Equity-settle share-based payments	*29(c)(v)*	–	–	–	–	–	6,933	–	6,933
Balance at December 31, 2012		302,601	1,682,341	818	1,449,863	(237,647)	15,623	(3,427)	3,210,172

(b) Dividends

(i) Dividends payable and proposed to equity shareholders of the Target Company attributable to the profit for the year:

	The Target Group		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Final dividend proposed after the balance sheet date of RMB7.00 cents, RMB5.68 cents and RMB11.31 cents per ordinary share for the year ended December 31, 2010, 2011 and 2012 respectively	234,692	200,103	400,285

The final dividend proposed after the end of the balance sheet date has not been recognised as a liability at the balance sheet date.

(ii) Dividends payable to equity shareholders of the Target Company attributable to the previous financial year, approved and paid during the year:

	The Target Group		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year of RMB nil, RMB7 cents and RMB5.68 cents for the year ended December 31, 2010, 2011 and 2012	–	234,692	200,103

(c) Share capital

Authorised and issued share capital

	2010		2011		2012	
	No. of shares		No. of shares		No. of shares	
	'000	*RMB'000*	*'000*	*RMB'000*	*'000*	*RMB'000*
Authorised:						
Ordinary shares of HKD0.1 each (i)	10,000,000	861,600	10,000,000	861,600	10,000,000	861,600
Ordinary shares, issued and fully paid:						
Shares issued upon the reorganisation (i)	100	9	100	9	100	9
Capitalisation issue (ii)	2,925,900	251,364	2,925,900	251,364	2,925,900	251,364
Shares issued by share offer (iii)	574,000	49,312	574,000	49,312	574,000	49,312
Shares repurchased in 2011 (iv)	–	–	(10,000)	(818)	(10,000)	(818)
Accumulated Share options exercised (v)	–	–	18,920	1,596	32,946	2,734
At December 31	3,500,000	300,685	3,508,920	301,463	3,522,946	302,601

(i) The Target Company was incorporated on June 3, 2010 with authorised capital of 3,800,000 shares at HK$0.10 per share. As part of the Reorganisation, the authorised capital of the Target Company was increased to HK$1,000,000,000 divided into 10,000,000,000 shares of HK$0.10 each. As at December 31, 2012, 3,518,920,081 shares had been issued and were fully paid.

(ii) Pursuant to the resolution of the Target Company's shareholders passed on October 8, 2010, the authorised share capital of the Target Company was increased from HKD380,000 to HKD1,000,000,000; in addition, 2,925,900,000 ordinary shares of HKD0.1 each were issued at par value to the shareholders of the Target Company as of October 8, 2010 by way of capitalization of HKD292,590,000 (equivalent to RMB251,364,000) from the Target Company's share premium account.

(iii) The shares of the Target Company were listed on the Main Board of the Hong Kong Stock Exchange on November 1, 2010, with a total number of 3,500,000,000 shares, among which 644,000,000 shares (18.4% of the total number of shares of the Target Company) were issued to the public, comprising 574,000,000 new shares and 70,000,000 sale shares. The gross proceeds received by the Target Company from the global offering were approximately HKD2,411 million.

(iv) *Purchase of own shares and cancellation*

On June 10 and June 13, 2011, the Target Company totally repurchased its own ordinary shares of 10,000,000 shares at aggregate price (including transaction fee and commission) of HKD18,692,000 (equivalent to RMB15,509,000).

The repurchased shares were cancelled and accordingly the issued share capital of the Target Company was reduced by the nominal value of these shares. Pursuant to section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled of HKD1,000,000 (equivalent to RMB818,000) was transferred to the capital redemption reserve. The premium and transaction cost paid on the repurchase and cancellation of the shares of HKD17,728,000 (equivalent to RMB14,720,000) was charged to reserves.

(v) *Share options exercised*

During the year 2011 and 2012, pursuant to the Target Company's share option schemes (note 27), options were exercised to subscribe for 18,920,081 and 14,026,051 ordinary shares respectively in the Target Company at a consideration of HKD11,098,000 (equivalent to RMB9,362,000) and HKD1,900,000 (equivalent to RMB1,543,000) of which RMB7,766,000 and RMB404,000 was credited into the share premium account respectively. For the year 2011 and 2012, RMB7,360,000 and RMB1,499,000 has been transferred from the equity-settled share-based payment reserve to share premium account respectively. The total number of shares which may be issued upon the exercise of all options outstanding from the Target Company's share option schemes is 94,601,115, 118,959,988 and 91,010,740 as at December 31, 2010, 2011 and 2012 respectively.

(d) Share premium

The excess of the issued price net of any issuance expenses over the par value of the shares issued has been credited to the share premium account of the Target Company.

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Target Company are distributable to the shareholders of the Target Company provided that immediately following the date on which the dividend is proposed to be distributed, the Target Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(e) Merger reserve

As part of the reorganisation of the Target Group in connection with the global offering, the then shareholders of Yashili (Guangdong) transferred their equity interests in Yashili (Guangdong) to Yashili (HK) on July 2, 2010. A merger reserve of RMB1,367,204,000 was resulted from these transfers for the purposes of the consolidated financial statements.

(f) PRC statutory reserves

PRC statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the Target Company's subsidiaries in the PRC. Transfers to the reserves were approved by the board of directors.

(g) Equity-settled share-based payment reserve

Equity-settled share-based payment reserve represents the fair value of the actual or estimated number if unexercised share options granted to employees of the Target Group in accordance with the accounting policy adopted for share-based payments in Note 2(m)(iv).

(h) Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in Note 2(e)(iii).

(i) Distributable reserve

The aggregate amount of distributable reserve of the Target Company at December 31, 2010, 2011 and 2012 are RMB1,676,874,000, RMB1,675,104,000 and RMB1,678,914,000 respectively. After the balance sheet date of 2010, 2011 and 2012 the directors proposed a final dividend of RMB7 cents, RMB5.68 cents and RMB11.31 cents per ordinary share, amounting to RMB246,324,000, RMB200,103,000 and RMB400,285,257 respectively. This dividend has not been recognised as a liability at the balance sheet date.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity and market risk arises in normal course of the Target Group's business. The Target Group's exposure to these risks and the financial risk management policies and practices used by the Target Group to manage these risks are described below.

(a) Credit risk

The Target Group's credit risk is primarily attributable to trade and other receivables. Exposure to the credit risks are monitored by management on an ongoing basis.

In respects of trade receivables, the Target Group has established a credit policy in place: fixed credits are granted to supermarkets and the periods range from 60 to 90 days; temporary credits are offered on transaction-by- transaction basis to distributor customers who have been trading with the Target Group for many years and have a good trading record and the credit periods range from 10 to 90 days. Special credit is granted to credit-worthy distributor customers when the Target Group promotes certain line of products. All the credits offered are unsecured. Full advances are required for sales to other customers. The Target Group regularly reviews ageing analysis of the trade receivables to monitor the credit exposure.

Majority of the Target Group's customers have been trading with the Target Group for years and the Target Group did not record significant bad debts losses during 2010, 2011 and 2012. At balance sheet dates, the Target Group has a certain concentration of credit risk of the trade receivables, the top five trade debtors represented 13.9%, 27.1% and 48.4% of total trade receivables as at December 31, 2010, 2011 and 2012 respectively. All the trade receivables are due from customers with good trade record and no impairment allowance is made against these customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets. The Target Group does not provide any other guarantees which would expose the Target Group to credit risk.

(b) Liquidity risk

The Target Group's approach to managing liquidity is to ensure, as far as possible, that the Target Group, as a whole has always maintained sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Target Group's reputation.

The following table presents the earliest contractual settlement dates of the Target Group's and the Target Company's financial liabilities at the balance sheet dates, which are based on contractual undiscounted cash flows and the earliest date the Target Group can be required to repay.

The following are the contractual maturities of financial liabilities (excluding advances from customers and derivative financial liabilities), including estimated interest payments and excluding the impact of netting agreements:

The Target Group

	2010 Contractual undiscounted cash outflow			
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**Total**	**Carrying amount at December 31 sheet**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans and borrowings	159,753	–	159,753	158,440
Amounts due to related parties	4,566	–	4,566	4,566
Trade and other payables (excluded advances from customers)	428,297	–	428,297	428,297
Total	592,616	–	592,616	591,303

	2011 Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 2 years	Total	Carrying amount at December 31 sheet carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans and borrowings	31,473	–	31,473	31,359
Amounts due to related parties	1,722	–	1,722	1,722
Trade and other payables (excluded advances from customers)	464,653	–	464,653	464,653
Total	497,848	–	497,848	497,734

	2012 Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 2 years	Total	Carrying amount at December 31 sheet carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans and borrowings	330,981	–	330,981	330,912
Amounts due to related parties	2,188	–	2,188	2,188
Trade and other payables (excluded advances from customers)	630,430	–	630,430	630,430
Total	963,599	–	963,599	963,530

The Target Company

	2012 Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 2 years	Total	Carrying amount at December 31 sheet carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans and borrowings	80,981	–	80,981	80,912

(c) Market risk

Increasing market fluctuations may result in significant cash-flow and profit volatility risk for the Target Group. The Target Group's income or the values of its holding of financial instruments are affected by changes in commodity price of raw materials, foreign exchange rate and interest rate. The objective of market risk management is to manage and control market risk exposures within the acceptable parameters, while minimising the costs on managing the risk.

The Target Group seeks to manage and control the market risks primarily through its regular operating and financial activities. All such transactions are carried out within the guidelines set by the Board of Directors.

(i) Commodity price risk

Raw materials and packing materials are the major materials of the Target Group's products which accounted for more than 85% of total cost of sales. Fluctuation on commodity price of raw materials and packing materials will have significant impact on the Target Group's earnings, cash flows as well as the value of inventories. The Target Group minimises the cost of materials by centralising purchase of raw materials for the Target Group and self-production of plastic bags and iron jars. The Target Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(ii) Interest rate risk

Interest rate profile

Except for bank deposits with stable interest rates, the Target Group has no other significant interest-bearing assets.

The Target Group does not account for any fixed interest rate financial assets or liabilities at fair value in the year, neither does the Target Group obtain any loans and borrowings at variable interest rates. Accordingly, the Target Group's finance income and expenses, operating and financing cashflow are substantially independent of changes in market rates.

The interest rates and terms of loans and borrowings are disclosed in Note26.

Sensitivity analysis

If interest rates on deposits with banks had been 27 basis points higher/lower with all other variables held constant, profit after tax for the year and retained profits would have been RMB7,238,000, RMB6,089,000 and RMB4,028,321 higher/lower mainly as a result of higher/lower interest income on deposits with banks as at December 31, 2010, 2011 and 2012 respectively.

(iii) Foreign currency risk

The Target Group is exposed to foreign currency risk primarily on bank deposits, other receivable and bank loan of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Hong Kong dollars and US dollars.

The Target Group's assets and liabilities denominated in US dollars as at December 31 are set out below:

	The Target Group		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	2,646	32,508	43,803
Other receivables	121	–	111
Trade payables	(8,459)	(6,522)	(58,119)
Bank loans	(17,437)	(31,017)	–
Net exposure arising from recognised assets and liabilities	(23,129)	(5,031)	(14,205)

The Target Group received approximately HKD2.4 billion from the global offering. In order to mitigate the exchange risk arising from the appreciation in the value of Renminbi against HK dollars, the Target Company converted major into RMB. The following table set out the Target Group's and the Target Company's financial assets and liabilities denominated in HK dollars as at December 31.

	The Target Group			The Target Company		
	2010	**2011**	**2012**	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	251,644	7,463	534	–	2,097	341
Bank loans	(11,003)	–	(80,912)	–	–	(80,912)
Other receivables	698	153	411	–	27	286
Other payables	(2,957)	(2)	(58)	–	–	–
Net exposure arising from recognised assets and liabilities	238,382	7,614	(80,025)	–	2,124	(80,285)

Sensitivity analysis

The foreign currency sensitivity analysis is calculated based on the major net foreign currency exposure of the Target Group as at the balance sheets dates, assuming 5% shift of RMB against US dollars and HK dollars.

Results from a 5% strengthening of the RMB against US dollars and HK dollars on the profit after tax and retained profits as at December 31 are shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	The Target Group			The Target Company		
	2010	**2011**	**2012**	**2010**	**2011**	**2012**
Effect in RMB	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
US Dollar	456	252	521	–	(33)	(6)
HK dollar	(11,919)	(381)	4,001	–	(86)	4,014

A 5% weakening of the RMB against US dollars and HK dollars as at the same dates would have had the equal but opposite effect.

(d) Capital management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Target Group uses different measures including adjusted net debt-to-equity ratios to monitor its capital. Net debt is calculated as total loans and borrowings, as shown in the consolidated balance sheet less cash and bank deposits (excluding frozen bank deposits). Total capital is calculated as equity holder's funds (i.e. total equity attributable to equity holders of the Target Company), as shown in the consolidated balance sheet.

	The Target Group			The Target Company		
	2010	**2011**	**2012**	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loans and borrowings *(Note 26)*	158,440	31,359	330,912	–	–	80,912
Bills payable	11,124	–	–	–	–	–
Total borrowings	169,564	31,359	330,912	–	–	80,912
Less:						
Cash and cash equivalents *(Note 23)*	2,759,273	2,581,563	2,073,161	–	16,762	348
Short-term bank deposits *(Note 23)*	–	–	611,972	–	–	–
Long-term bank deposits *(Note 23)*	–	–	306,142	–	–	–
Pledged bank deposits *(Note 22)*	32,904	63,050	299,609	–	–	–
Net debt	(2,622,613)	(2,613,254)	(2,959,972)	–	(16,762)	80,546
Total equity attributable to shareholders of the Target Company	3,730,815	3,802,698	4,079,059	–	(3,234,456)	3,210,172
Adjusted net debt-to-equity ratio	(0.70)	(0.69)	(0.73)	–	–	0.03

Neither the Target Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(e) Fair value

The carrying amounts of all financial assets and liabilities carried at amortised cost approximate their respective fair values as at December 31, 2010, 2011 and 2012 due to the short maturities of these instruments.

(f) Estimation of fair values

The following summaries the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Securities

Fair value is based on quoted market price at the balance sheet date without any deduction for transaction costs.

(ii) Derivatives

Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate.

(iii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

31 COMMITMENTS

(a) Capital commitments, outstanding at December 31 not provided for in the financial statements were as follows:

	The Target Group		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Contracted for	11,226	63,021	124,255
Authorized but not contracted for	–	–	700,000
	11,226	63,021	824,255

(b) At December 31 the total future minimum lease payments under non-cancellable operating leases in respect of land and properties were payable as follows:

	The Target Group		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	11,479	12,125	13,902
After one year but within five years	11,533	10,757	11,889
After five years	6,031	3,350	670
	29,043	26,232	26,461

The Target Group leases a number of land and properties under operating leases. The leases run for period from one to twenty-six years, certain of the leases are with an option to renew when all terms are renegotiated. None of the leases includes contingent rentals.

32 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, 2011 and 2012, the directors are of the view that related parties of the Target Group include the following individuals/companies.

Name of related party	**Relationship**
Mr. Zhang Likun, Mr. Zhang Lihui, Mr. Zhang Liming, Mr. Zhang Lidian, Mr. Zhang Libo and Ms. She Lifang (collectively referred to as "Zhang's Family")	the Controlling Shareholders
Shantou Zhang's Investment Co., Ltd. ("Zhang's Investment") ("汕頭張氏投資有限公司") (i)	Under common control of the Controlling Shareholders
Haoweijia Food Co., Ltd. ("Haoweijia Food") (廣東好味佳食品有限公司) (i)	Under common control of the Controlling Shareholders
Chaoan County Anbu Yingjia Paper and Plastic Products Factory ("Yingjia") (潮安縣庵埠營佳紙塑製品廠) (i)	Under the control of a close family member of a director of the Target Company

(i) The official name of the entity is in Chinese. The English translation of the name is for reference only.

Particulars of significant transactions between the Target Group and the above related parties during the year are as follows:

(a) Recurring transactions

	The Target Group		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Sale of packing materials to Haoweijia Food	2,572	2,087	1,608
Purchase of preserved fruit products from Haoweijia Food	5,004	4,176	2,669
Rent of property and plant from the Zhang's Investment	2,789	3,031	3,031
Purchase of plastic spoons and covers from Yingjia	6,093	7,924	11,735

The directors of the Target Company are of the opinion that the above related party transactions were conducted on normal commercial terms in the ordinary course of business.

(b) Balances with related parties

(i) Amounts due from related parties

	The Target Group		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Trade related			
– Haoweijia Food	1,432	1,801	879
Other receivables from			
– Haoweijia Food	24	15	32
	1,456	1,816	911

(ii) Amounts due to related parties

	The Target Group		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Trade related			
– Yingjia	1,157	815	1,859
– Haoweijia Food	3,356	878	300
Other payable to Zhang's Investment	53	29	29
	4,566	1,722	2,188

33 NON-ADJUSTED POST BALANCE SHEET EVENTS

Final dividend

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 29(b).

Proposed establishment of manufacturing facility in New Zealand

On January 10, 2013, the board of directors (the "Board") of the Target Company has approved the project plan for establishing a manufacturing facility for production of finished products and semi-finished products, including base milk powder in New Zealand (the "New Zealand Facility"). The total investment involved in the establishment of the New Zealand Facility by the Target Company is estimated to be RMB1.1 billion, out of which RMB950 million will be for acquisition of land and cost of construction, and RMB150 million will be utilized as working capital of Yashili New Zealand. Yashili New Zealand has entered into a conditional purchase agreement to acquire the land where the New Zealand Facility will be operated.

34 PARENT AND ULTIMATE HOLDING COMPANY

At December 31, 2010, 2011 and 2012, the directors consider the immediate parent and ultimate holding company of the Target Group to be Zhang International investment Ltd., which is incorporated in BVI with limited liability and beneficially owned by Zhang's Family. This entity does not produce financial statements available for public use.

35 ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Target Group's accounting policies, management has made the following accounting judgements:

(i) Impairment loss for trade and other receivables

As explained in Note 2(l), the Target Group makes impairment loss for trade and other receivables based on the Target Group's estimates of the present value of the estimated future cash flow. Given the uncertainties involved in estimating the future cash flow of individual customer, the actual recoverable amount may be higher or lower than that estimated at the balance sheet date.

(ii) Provision for inventories

As explained in Note 2(k), the Target Group's inventories are stated at the lower of cost and net realisable value. Based on the Target Group's recent experience and the nature of the inventories, the Target Group makes estimates of the selling prices, the costs of completion in case for work in progress, and the costs to be incurred in selling the inventories. Uncertainty exists in these estimations.

(iii) Impairment loss for property, plant and equipment

As explained in Note 2(l), the Target Group's makes impairment loss for property, plant and equipment based on the Target Group's estimates of the recoverable amount. Uncertainty exists in these estimations.

(iv) Deferred tax assets

Deferred tax assets are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Target Group and require a significant level of judgment exercised by the Directors. Any change in such assumptions and judgment would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2012

Up to the date of issue of these financial statements, the IASB has issued the a number of amendments and Interpretations and one new standard which are not yet effective for the year ended December 31, 2012 and which have not been adopted in these financial statements. These include the following which may be relevant to the Target Group.

	Effective for annual periods beginning on or after
IFRS 10, Consolidated financial statements	January 1, 2013
IFRS 13, Fair value measurement	January 1, 2013
Revised IAS 19, employee benefits	January 1, 2013
IAS 27,Separate financial statements (2011)	January 1, 2013
IFRS 9, Financial Instruments	January 1, 2015

The Target Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Target Group's results of operations and financial position.

C SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

Subsequent financial statement

No audited financial statements have been prepared by the Target Company and its subsidiaries comprising the Target Group in respect of any period subsequent to December 31, 2012.

Special dividend

On May 3, 2013, the Board of the Target Company has resolved to recommend a special dividend of RMB28.25 cents per share for the year ended December 31, 2012, in addition to the proposed final dividend of RMB11.31 cents per share (Section B Note 29(b)). The special dividend which amounted to approximately RMB1,000 million will be paid in cash.

At the annual general meeting of Yashili International Holdings Ltd held on June 6, 2013, the proposed resolutions of the final dividend of RMB11.31 cents and a special dividend of RMB28.25 cents per share have been approved.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong

2 MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF THE TARGET GROUP

Management's discussion and analysis

The Target Group's financial results

The Target Group's key results and performance ratios are set out as follows:

Year ended December 31, *(All amounts in RMB million unless otherwise stated)*	**2010**	**2011**	**2012**
Key results			
Turnover	2,954.4	2,957.8	3,655.1
Gross profit	1,681.7	1,538.3	1,961.7
Operating profit	590.6	313.0	559.4
Profit attributable to equity holders of the Target Company	502.4	306.3	468.5
Net operating cash flow *(Note 1)*	313.0	458.3	772.0
Basic earnings per share *(RMB cents) (Note 2)*	16.6	8.7	13.3
Diluted earnings per share *(RMB cents) (Note 3)*	16.3	8.6	13.2
Proposed final dividend per share *(RMB cents)*	7.00	5.68	11.31
Net asset value per share *(RMB)*	1.07	1.08	1.16
Proposed final dividend	246.3	200.1	400.3
Dividend payout ratio	49.0%	65.3%	85.4%
Key performance ratios			
Profitability ratios			
Gross profit margin	56.9%	52.0%	53.7%
Operating profit margin	20.0%	10.6%	15.3%
Net profit margin	17.0%	10.4%	12.9%
Margin of profit attributable to equity holders	17.0%	10.4%	12.8%
Return to net asset	13.5%	8.1%	11.5%
Net profit to total asset *(Note 10)*	11.2%	6.6%	8.4%
Asset ratios			
Current ratio *(Note 4)*	5.0	4.5	2.8
Inventory turnover days *(Note 5)*	112	149	141
Trade receivable turnover days *(Note 6)*	24	6	3
Trade payable turnover days *(Note 7)*	70	74	89
Debt to equity ratio *(Note 8)*	20.1%	22.1%	36.5%
Gearing ratio *(Note 9)*	3.5%	0.7%	5.9%

Notes:

1. Cash inflow generated from operating activities for the year less cash outflow generated from operating activities for the year.

2. Profit attributable to equity holders of the Target Company for the year divided by the weighted average number of ordinary shares in issue before dilution for the year.

3. Profit attributable to equity holders of the Target Company for the year divided by the weighted average number of ordinary shares in issue after dilution for the year.

4. Total current assets at year end divided by total current liabilities at year end.

5. Inventory balances at year end divided by cost of sales for the year and multiplied by 365 days.

6. Balances of trade and bills receivables at year end divided by turnover for the year and multiplied by 365 days.

7. Balances of trade and bills payables at year end divided by cost of sales for the year and multiplied by 365 days.

8. Total liabilities at year end divided by equity attributable to total equity holders of the Target Company at year end.

9. Total interest-bearing bank loans at year end divided by total assets at year end.

10. Profit for the year divided by the total assets at year end.

Financial Review

Turnover

The Target Group's revenue for the year ended December 31, 2010 amounted to RMB2,954.4 million. For the year ended December 31, 2011, its revenue amounted to RMB2,957.8 million, representing a 0.1% increase compared to the preceding year. For the year ended December 31, 2012, its revenue amounted to RMB3,655.1 million, representing a 23.6% increase compared to the preceding year.

Revenue breakdown by brand and product category

(RMB million)	**2010**	**2011**	**2012**
Yashily paediatric milk formula products	1,816.1	1,825.5	2,478.3
Scient paediatric milk formula products	624.3	608.6	653.4
Nutrition products	466.7	473.3	489.4
Others	47.3	50.4	34.0
Total	2,954.4	2,957.8	3,655.1

Revenue from the Target Group's Yashily paediatric milk formula products amounted to RMB1,816.1 million for the year ended December 31, 2010. For the year ended December 31, 2011, revenue from the Target Group's Yashily paediatric milk formula products amounted RMB1,825.5 million, representing an increase of 0.5% from the preceding year. This was mainly due to the fact that the Target Group was able to increase selling prices of its products and improve its product mix. The increment was partially offset by the increase in sales discount granted to distributors. For the year ended December 31, 2012, sales revenue from the Target Group's Yashily paediatric milk formula products amounted to RMB2,478.3 million, representing an increase of 35.8% from the preceding year, which was mainly attributable to overall growth of sales volume boosted by the successful sales strategies.

Revenue from the Target Group's Scient paediatric milk formula amounted to RMB624.3 million for the year ended December 31, 2010. For the year ended December 31, 2011, revenue from the Target Group's Scient paediatric milk formula amounted to RMB608.6 million, representing a decrease of 2.5% from the preceding year. This was mainly due to the decrease in sales volume caused by the fierce market competition. Sales revenue from the Target Group's Scient paediatric milk formula amounted to RMB653.4 million for the year ended December 31, 2012, representing an increase of 7.4% from the preceding year. Growth momentum of Scient brand was mainly contributed to the launch of Merla series into market in the middle of 2012.

Revenue from the Target Group's nutrition products amounted to RMB466.7 million in 2010. For the year ended December 31, 2011, revenue from the Target Group's nutrition products amounted to RMB473.3 million, representing an increase of 1.4% from the preceding year. This was mainly due to the growth in sales revenue from milk powder for adults and oatmeal. For the year ended December 31, 2012, sales revenue from the Target Group's nutrition products amounted to RMB489.4 million, representing an increase of 3.4% from the preceding year, which was mainly due to the growth in sales revenue from oatmeal and milk powder for adults driven by the growth in market demand.

Revenue from other products amounted to RMB47.3 million for the year ended December 31, 2010. For the year ended December 31, 2011, revenue from other products amounted to RMB50.4 million, representing an increase of 6.6% from the preceding year, primarily due to the increase in the sales of surplus raw material. Revenue from other products decreased to RMB34.0 million in 2012, mainly due to the decrease in the sales of surplus raw material.

Percentage revenue by city tiers

Yashily paediatric milk formula *(%)*	**2010**	**2011**	**2012**
First-tier cities(1)	16.9%	14.4%	12.7%
Second-tier cities(2)	55.4%	51.0%	44.7%
Third-tier cities and others(3)	27.7%	34.6%	42.6%
Total	100.0%	100.0%	100.0%

Scient paediatric milk formula *(%)*	**2010**	**2011**	**2012**
First-tier cities(1)	14.6%	10.6%	10.1%
Second-tier cities(2)	74.6%	71.9%	66.9%
Third-tier cities and others(3)	10.8%	17.5%	23.0%
Total	100.0%	100.0%	100.0%

(1) Includes direct-controlled municipalities, provincial capital cities and capital cities of autonomous regions such as Beijing, Shanghai, Guangzhou, Chongqing, Nanchang and Shijiazhuang.

(2) Includes prefecture-level cities such as Dongguan, Nanyang, Jiujiang and Foshan.

(3) Includes county-level cities such as Jinjiang, Yunmeng, Bozhou, Kunshan and Luohe.

The above sales are classified based on the tier of the cities where the distributors are registered.

Boosted by the successful sales strategies, sales for both Yashily and Scient paediatric milk formula reported growth.

In 2010–2012, the Target Group has further expanded its distribution channel downward. Some of the third-tier and other markets covered by distributors in first and second-tier cities are operated by local distributors. In addition, Yashily and Scient brand have stronger market advantage in third-tier and other level of cities, where both brands achieved growth rate of over 40% in third-tier cities and cities of other tiers in 2012.

Gross profit

The Target Group's gross profit and gross profit margin for the year ended December 31, 2010 were RMB1,681.7 million and 56.9% respectively. For the year ended December 31, 2011, the Target Group recorded gross profit of RMB1,538.3 million, representing a decline of 8.5% from the preceding year, and gross profit margin was 52.0%. The decline of gross profit was mainly due to the significant surge in both raw milk powder and its supplements during the year and the increment in the operating cost of the Target Group's subsidiaries, which are foreign investment enterprises (FIE) given that construction tax and educational surcharge are levied on FIE since December 2010. In addition, to boost up the market, the Target Group granted more sales discounts and sample gifts to the customers and such also led to the decrease in gross profit. The Target Group offset part of the impact of the above via the optimization of product structure.

For the year ended December 31, 2012, the Target Group recorded gross profit of RMB1,961.7 million, representing an increase of 27.5% from the preceding year, and gross profit margin was 53.7%. In order to push the further development of the market, more sales discount has been granted by the Target Group. On the other hand, the optimization of product structure and the decrease in the average cost of raw milk powder during the year positively improved the profit margin. Due to the combined effects, gross profit margin grew by 1.7% compared with the preceding year.

Other Revenue

Other revenue mainly consisted of government grants, compensation income, write-off of trade payables, rental income, exemption of value- added tax ("VAT") expenses and others.

Other revenue of the Target Group amounted to RMB61.2 million in 2010. Other revenue amounted to RMB28.7 million in 2011, representing a 53.1% decrease compared to 2010 and increased to RMB37.6 million in 2012, representing a 31.1% increase compared to 2011.

The decrease in 2011 was mainly due to the exemption of VAT expenses of RMB22.8 million (no such item in 2011) obtained by the Target Company in 2010.

Selling and distribution expenses

Selling and distribution expenses consisted primarily of advertising expenses, promotional expenses, transportation expenses, salaries and employee benefits for sales personnel and other related expenses.

The Target Group's selling and distribution expenses amounted to RMB957.5 million for the year ended December 31, 2010, and the selling and distribution expenses accounted for 32.4% of the Target Group's revenue.

The Target Group's selling and distribution expenses amounted to RMB1,061.9 million for the year ended December 31, 2011, representing a 10.9% increase compared to the preceding year. Selling and distribution expenses accounted for 35.9% of the Target Group's revenue, which was due to the increase in advertising and promotional expenses and salary. In the first half of 2011, to raise the awareness and reputation of its products sustainably, the Target Group increased its investment in the television advertisement in the prime time (19:30 to 19:32) of CCTV. The expense for the advertisement was RMB59.8 million. The commercial has finished broadcasting in the first half of 2011.

For the year ended December 31, 2012, the Target Group has incurred selling and distribution expenses of RMB1,222.7 million, representing an increase of 15.1% from the preceding year, which was mainly due to the increase in salary, social security fees, expenses in sales promoters and promotion expenses. Although the sales revenue grew by 23.6%, while selling and distribution cost increased by only 15.1%. The ratio of selling and distribution cost over revenue decreased to 33.5% among which advertisement expenses incurred in 2012 was lower than that of 2011, positively driving down the selling and distribution cost ratio over revenue.

Administrative expenses

Administrative expenses consisted primarily of salaries and employee benefits of administrative and management staff, depreciation and amortization expenses, travel and entertainment expenses, audit fees, research and development expenses, provisions for doubtful receivables, office rental expenses and other related expenses.

The Target Group's administrative expenses amounted to RMB182.8 million for the year ended December 31, 2010 and the administrative expenses accounted for 6.2% of the Target Group's revenue.

The Target Group's administrative expenses amounted to RMB185.5 million for the year ended December 31, 2011, representing a 1.5% increase compared to the preceding year. Administrative expenses accounted for 6.3% of the Target Group's revenue. The increase was primarily due to the growth in staff costs and office expenses.

For the year ended December 31, 2012, administrative expenses amounted to RMB202.1 million, representing an increase of 8.9% from the preceding year, which was mainly due to the increase in salary, social security fees and taxes expenses.

Finance income and costs

For the year ended December 31, 2010, the Target Group's finance income and finance costs amounted to RMB11.9 million and RMB13.0 million respectively. The Target Group's finance income mainly consisted of bank interest income and the Target Group's finance costs primarily consisted of interest expenses on bank borrowings.

For the year ended December 31, 2011, the Target Group's finance income amounted to RMB65.1 million, representing an increase of 447.1% compared to the preceding year. The Target Group's finance income mainly consisted of bank interest income. The increase was primarily due to the growth in operating cash inflow and the interest income arising from the listing proceeds. Its finance costs amounted to RMB2.7 million, representing a decrease of 79.2% compared to the preceding year. Finance costs primarily consisted of interest expenses on bank borrowings. The decrease was primarily due to the decrease in the weighted average balance on the Target Group's outstanding bank borrowings.

For the year ended December 31, 2012, net finance income amounted to RMB86.9 million (2011: RMB62.4 million). The growth was primarily due to the increase in investment income during the year and gain from fair value changes from the wealth management products with capital preservation as at December 31, 2012.

Income tax expense

For the year ended December 31, 2010, the Target Group's income tax expense amounted to RMB86.3 million. The effective tax rate was 14.6%.

For the year ended December 31, 2011, the Target Group provided income tax expense of RMB67.0 million, and the effective income tax rate was 17.8%, representing an increase as compared to the effective income tax rate of 14.6% in 2010, which were mainly due to the fact that the preferential taxation period for Yashili (Guangdong), the Target Group's major subsidiary, expired. The expiry of the preferential taxation period resulted in an increase in income tax rate from 12.5% in 2010 to 25% in 2011, thereby raising the overall effective income tax rate of the Target Group during the period. On the other hand, in 2011, the Target Group's subsidiary, Scient (Guangzhou) has recognized deferred tax asset on the deductible tax loss brought forward from previous year and thereby partially offset the increment in the tax rate caused by Yashili (Guangdong).

For the year ended December 31, 2012, the Target Group provided income tax expense of RMB175.9 million, and the effective income tax rate was 27.2%. The increase in income tax expense was mainly due to the surge in total profit before tax. The overwhelming majority of the Target Group's profit before tax comes from subsidiaries located in the Mainland China. Since 2012, the applicable income tax rate for the Target Group's subsidiaries in the Mainland China was 25% except for Yashili (Zhengzhou) which is in construction period. In addition, withholding tax rate of 5% is applicable for profit distribution from the Target Group's subsidiaries in Mainland China to oversea subsidiaries in Hong Kong. So the effective integrated tax rate for 2012 was 27.2%. In 2011, its subsidiary, Scient (Guangzhou) has recognised deferred income tax asset on the deductible tax loss brought forward from previous years and therefore resulting in the lower effective income tax rate in 2011.

Investment property

As at December 31, 2010, the balance of investment property of the Target Group amounted to RMB71.8 million.

As at December 31, 2011, the balance of investment property of the Target Group amounted to RMB76.3 million.

As at December 31, 2012, the balance of investment property of the Target Group amounted to RMB112.0 million. The increase was mainly due to surplus warehouse leased by the Target Group to third parties during the year.

Prepayments and other receivables

As at December 31, 2010, balance of non-current prepayment for acquisition of property, plant and equipment of the Target Group amounted to RMB16.5 million.

As at December 31, 2011, balance of non-current prepayment for acquisition of property, plant and equipment of the Target Group amounted to RMB11.0 million.

As at December 31, 2012, balance of non-current prepayments and other receivables of the Target Group amounted to RMB184.2 million. The increase in the balance mainly represented deposit for acquisition of land use right, and prepayments for purchase of equipment for production of liquid drink in Zhengzhou plant. In the second half of 2012, the Target Group successfully won the bidding for land in Central Business District in Shantou City's key economic planning zone for construction of new headquarters in Mainland China and Food Research Institute. The project is planned to be funded by proceeds from the listing and the Target Group's own fund.

Inventory

As at December 31, 2010, inventory balance of the Target Group amounted to RMB390.8 million.

As at December 31, 2011, inventory balance of the Target Group amounted to RMB577.7 million, representing a 47.8% increase from the balance of RMB390.8 million as at December 31, 2010. The increase was mainly attributable to raw materials, work in progress and finished goods. To satisfy the blooming market demand in Chinese New Year in January 2012, the Target Group had stored up more inventories. In addition, in the fourth quarter in 2011, the Target Group adopted a strategic policy to purchase at a lower price more raw materials in raw milk production peak season. Besides, raw milk powder from New Zealand within the import quota will enjoy the favorable custom duty at a rate of 5.8%. The custom duty rate will be changed to 10% when the nation-wide imported quantity exceeds the quota. As at December 31, 2011, the balance of the Target Group's inventory included raw material powder in transit amounted to RMB65.1 million, which arrived in early 2012 and custom duty was levied at a favorable rate.

As at December 31, 2012, the Target Group's inventory balance amounted to RMB652.9 million, of which, balance for raw materials and finished goods increased by RMB46.8 million and RMB48.0 million respectively. To satisfy more strong market demand in 2013, the Target Group had stored up more raw materials and finished goods.

Other investment and other bank deposits

As at December 31, 2011, balance of other investment of the Target Group amounted to RMB180.0 million (December 31, 2010: nil), which consisted of two Renminbi structural deposits and one wealth management products acquired from banks. The above investments were redeemed by January 31, 2012, representing annualized yield between 5.8% and 6.0%.

As at December 31, 2012, other investment represents wealth management product with capital preservation and anticipated annualized yields ranging from 2.8% to 3.7%.

As at December 31, 2012, other bank deposits include short-term bank deposits amounted to RMB612.0 million which will be mature in one year and long-term bank deposits amounted to RMB306.1 million which will be mature in 2–3 years with interest rates between 3.2%–4.7% per annum.

Trade and bills receivables

As at December 31, 2010, the Target Group's trade and bills receivables amounted to RMB192.3 million, and the trade receivable turnover days were 24 days.

As at December 31, 2011, the Target Group's trade and bills receivables amounted to RMB52.3 million, and the trade receivable turnover days were 6 days.

As at December 31, 2012, the Target Group's trade and bills receivables amounted to RMB26.8 million, which was mainly due to the improvement of credit limit control by the Target Group. In 2012, the trade receivable turnover days were 3 days.

Trade and other payables

As at December 31, 2010, balance of trade and other payables of the Target Group amounted to RMB499.9 million.

As at December 31, 2011, balance of trade and other payables of the Target Group amounted to RMB720.1 million, representing a 44.0% increase from the balance of RMB499.9 million as at December 31, 2010. The increase in balance was mainly due to the substantial amount of payment for goods to the Target Group for purchases in anticipation of the blooming market demand during Chinese New Year in January 2012. Balance of customers' prepayments increased from RMB71.7 million as at December 31, 2010 to RMB255.5 million as at December 31, 2011.

As at December 31, 2012, balance of trade and other payables of the Target Group amounted to RMB1,028.6 million. The increase in balance was mainly due to 2 factors: (1) The Target Group has procured more raw material to satisfy strong market demand in the fourth quarter of 2012, therefore amount payable for raw material increased by RMB110.4 million; (2) The balance of customers' prepayments received by the Target Group increased by RMB142.7 million due to strong market demand in January 2013.

Contingent liabilities

As at December 31, 2012, the Target Group did not have any material contingent liabilities (December 31, 2010: nil; December 31, 2011: nil).

Capital commitment

The total capital commitment of the Target Group as at December 31, 2010 and December 31, 2011 amounted to RMB11.2 million and RMB63.0 million respectively.

As at December 31, 2012, total capital commitment of the Target Group amounted to RMB824.3 million. The balance as at December 31, 2012 included part of the capital expenditure budget for Yashili New Zealand plant amounting to RMB700.0 million, authorised by the board but not contracted.

Profit attributable to equity shareholders of the Target Company

For the year ended December 31, 2010, the Target Group's profit attributable to equity shareholders of the Target Company amounted to RMB502.4 million. Margin of profit attributable to equity shareholders of the Target Company was 17.0%.

For the year ended December 31, 2011, the Target Group's profit attributable to equity shareholders of the Target Company amounted to RMB306.3 million, a 39.0% decrease compared to the preceding year. This was mainly due to the impact of the decrease in gross profit margin, increase in advertising expenses, surge in labour cost and increase in income tax rate.

For the year ended December 31, 2012, the Target Group's profit attributable to equity shareholders of the Target Company amounted to RMB468.5 million, a 53.0% increase compared to the preceding year. This was mainly contributed by growth in profit margin, decrease in the ratio of selling and distribution expenses over the Target Group's revenue and increase in income from wealth management products with capital preservation.

Provision for doubtful debts

As at December 31, 2010, the Target Group had provision for doubtful debts of RMB1.6 million.

At December 31, 2011, the Target Group had provision for doubtful debts of RMB1.6 million. The provision was for individually impaired receivables relating to customers that were in default or delinquency of payments. The Target Group did not hold any collateral or other credit enhancements over such amounts. It regularly reviewed aging of receivables and considered provision based on a number of factors such as whether the debtors encounter significant financial difficulties, the probability that the debtor will file for bankruptcy or be subject to financial reorganization, and the possibility of default or delinquent payments.

At December 31, 2012, the Target Group had provision for doubtful debts of RMB0.9 million. The provision was for individually impaired receivables relating to customers that were in default or delinquency of payments. The Target Group did not hold any collateral or other credit enhancements over such amounts. It regularly reviewed aging of receivables and considered provision based on a number of factors such as whether the debtors encounter significant financial difficulties, the probability that the debtor will file for bankruptcy or be subject to financial reorganization, and the possibility of default or delinquent payments.

Provision for impairment and disposal losses of inventories

As at December 31, 2010, the Target Group had provisions for impairment of inventories of RMB0.7 million. In addition, it also recorded losses on disposal of inventory of RMB8.0 million, which were primarily relating to general stocktake losses, disposal of dampened or deteriorated inventory and disposal of unused packaging materials.

At December 31, 2011, the Target Group had provisions for impairment of inventories of RMB3.2 million. In addition, it also recorded losses on disposal of inventory of RMB2.6 million, which were primarily relating to general stocktake losses, disposal of dampened or deteriorated inventory and disposal of unused packaging materials.

At December 31, 2012, the Target Group had provisions for impairment of inventories of RMB0.1 million. In addition, it also recorded losses on disposal of inventory of RMB2.1 million, which were primarily due to disposal of deteriorated inventory and disposal of unused packaging materials.

Pledge of assets

At December 31, 2010, property, plant and equipment with carrying amounts of RMB108.6 million, investment properties with carrying amounts of RMB70.1, lease prepayments, with carrying amounts of RMB38.4 million and bank deposit with carrying amount of RMB32.9 million were pledged to secure certain bank borrowings and services of the Target Group. In addition, bank deposits amounting to RMB9.4 million were frozen by a PRC court in relation to certain pending litigations.

At December 31, 2011, bank deposits, bill receivables and certain property, plant and equipment with aggregate carrying amounts of approximately RMB92.5 million (December 31, 2010: RMB150.9 million) were pledged by the Target Group. Details are set out in the relevant notes to the annual financial statements.

At December 31, 2011, property, plant and equipment with carrying amounts of RMB20.0 million, no investment properties, no lease prepayments and bank deposit with carrying amount of RMB63.1 million were pledged to secure certain bank borrowings and services of the Target Group. In addition, bank deposits amounting to RMB9.4 million were frozen by a PRC court in relation to certain pending litigations.

At December 31, 2012, bank deposits, other investment and certain property, plant and equipment with aggregate carrying amounts of approximately RMB417.0 million were pledged by the Target Group to secure certain loans and borrowings and issuance of letter of credit.

Liquidity and capital resources

The Target Group's liquidity has been strengthened due to the successful listing in the Hong Kong Stock Exchange in the second half of 2010. The net listing proceeds received from the listing amounted to RMB1,965.8 million (excluding the exchange loss arising from converting part of listing proceeds and after deduction of related expenses).

At December 31, 2012, the Target Group's liquidity included cash and cash equivalents, restricted bank deposits to be released within one year, bank fixed deposits to be mature within one year and wealth management products with capital preservation of RMB3,184.7 million in aggregate (December 31, 2011: RMB2,834.0 million). The increase in the total amount of liquidity was mainly contributed by net cash inflow generated from the realization of net profit ended in 2012.

Operating activities

For the year ended December 31, 2010, the Target Group's operations provided RMB313.0 million of cash, compared to net cash outflow of RMB105.5 million in the preceding year. The strong cash inflow was mainly due to advance payment received from most of the Target Group's sales and its working capital operation being normalised during the year.

For the year ended December 31, 2011, the Target Group's operation provided RMB458.3 million of cash, compared to the net cash outflow of RMB313.0 million in the preceding year. The strong cash inflow was mainly benefited from the improvement in credit limit control by the Target Group, which lowered the balance of trade receivables.

For the year ended December 31, 2012, the Target Group's operation provided RMB772.0 million of cash, compared to the net cash inflow of RMB458.3 million in the preceding year. The strong cash inflow was mainly benefited from the growth in operating profit and increase in advances received from customers.

Investing activities

For the year ended December 31, 2010, net cash used for investing activities was RMB51.0 million, primarily reflecting capital expenditure in property, plant and machinery.

For the year ended December 31, 2011, net cash used in investing activities amounted to RMB229.4 million, expenses for investing activities were mainly used in the construction of facilities and plants.

For the year ended December 31, 2012, net cash used in investing activities amounted to RMB1,144.9 million, expenses for investing activities were mainly used in the addition of other bank deposits and the construction of facilities and plants.

Financing activities

For the year ended December 31, 2010, net cash generating from financing activities was RMB1,840.4 million, primarily reflecting RMB1,965.8 million of listing proceeds received (net of exchange loss arising from conversion of part of listing proceeds), proceeds from loans and borrowings amounting to RMB173.1 million, release of restricted bank deposits in relation to bank loans amounting to RMB90.2 million, payment for acquisition of non-controlling interest amounting to RMB30.7 million, repayment of bank loan amounting to RMB345.2 million and interest expense payment amounting to RMB12.9 million.

For the year ended December 31, 2011, net cash used in financing activities amounted to RMB403.7 million, primarily reflecting RMB36.2 million of proceeds from loans and borrowings, RMB163.3 million for the repayment of bank loan, RMB234.7 million for the distribution of dividends and RMB15.5 million for share repurchase.

For the year ended December 31, 2012, net cash used in financing activities amounted to RMB130.4 million, primarily reflecting RMB361.3 million of proceeds from loans and borrowings, RMB227.2 million for increase in restricted bank deposits in relation to bank loans, RMB61.8 million for the repayment of bank loan and RMB200.1 million for the distribution of dividends.

Loans and borrowings

As at December 31, 2010, the Target Group's bank loans amounted to RMB158.4 million, which were required to be repaid on demand within a year.

As at December 31, 2011, the Target Group's bank loans amounted to RMB31.4 million, which were required to be repaid on demand within a year.

As at December 31, 2011, the Target Group total equity amounted to RMB3,804.0 million (December 31, 2010: RMB3,729.9 million), and the debt-to-equity ratio (total bank loan balance at period end divided by total equity at period end) was 0.8% (December 31, 2010: 4.2%).

As at December 31, 2012, the Target Group's loans and borrowings amounted to RMB330.9 million. The annualised interest rates for loans and borrowings is from 1.55% to 2.6%, which are secured by deposit or wealth management products with yields from 2.8% to 3.08% per annum.

Human Resources

As at December 31, 2010, the Target Group had a total of 5,194 employees. The total employee cost for 2010 was approximately RMB197.9 million.

As at December 31, 2011, the Target Group has a total of 5,313 employees. The total employee cost for 2011 was approximately RMB246.3 million.

As at December 31, 2012, the Target Group has a total of 5,929 full-time employees. The total employee cost of the Target Group for 2012 was approximately RMB313.7 million. The increment in total employee cost was mainly due to the increase in head count, average salary and expenses on social insurance.

The Target Group places high concern on the motivation of staff, and has established and maintained a performance review system based on staff's performance and competence and remuneration incentive system, which matches employee's income positively with personal effectiveness. The Target Group provides guidance on staff's career development and improvement in capabilities, together with basic salary and basic incentives such as performance-based bonus, welfare and benefits as well as long-term incentive of share option schemes, to attract and retain more outstanding talents.

Upholding the concept that "talents are the most invaluable asset of the company", the Target Group formulates middle and long term human resources planning in accordance with its needs on strategic development in the future, while fosters the building of its pools of talents and provides elites with systematic and specific nurturing plans. The Target Group also continues to promote the optimisation of its training system, and will commence the construction of the Corporate University of Yashili, with an aim to establish a strong and industry-leading talent development system in line with its future corporate development.

The Target Group also strives to deepen the establishment of corporate culture, and has started to streamline its corporate culture and concept, with an aim to fully utilise its functions of soft power via the establishment of core culture and sharing of value and objectives, matching of strategies as well as guidance on the establishment of corporate system and human resources structure. The Target Group will motivate and encourage its staff and build up a professional team with passion and pursuit of excellence, which will in turn enhance the overall operation efficiency of the enterprise, staff loyalty as well as overall profitability.

Foreign Currency Risk

The Target Group's subsidiary, Chaoan Victory Trading Limited, which was acquired on June 25, 2010, was exposed to foreign currency risk through overseas purchases which give rise to payables that are denominated in foreign currency. Upon settlement of the trade payables denominated in US dollars, Chaoan Victory Trading Limited entered into a number of forward exchange contracts in which the bank offered a lower rate (as compared to the spot rate) to the Target Group to purchase US dollars when the Target Group settled the due letters of credit, and at the same time the bank granted loans in US dollars with the same amounts and duration. These derivatives had not been designated as hedges for accounting purposes. In addition to above, with establishment of overseas entities, the Target Group is exposed to foreign currency risk on bank deposits, other receivable and bank loans of the overseas entities.

As at December 31, 2010, December 31, 2011 and December 31, 2012 respectively, the Target Group does not have significant foreign currency assets or liabilities.

The Target Group received approximately HKD2.4 billion from the global offering. In order to mitigate the exchange risk arising from the appreciation in the value of RMB against HK dollars, the Target converted substantial portion of the proceeds into RMB.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(i) Basis of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group

The accompanying unaudited pro forma consolidated statement of financial position (the "Unaudited Pro Forma Financial Information") of the Enlarged Group (being the Company and its subsidiaries (the "Group") together with Yashili International Holdings Ltd (the "Target Company") and its subsidiaries (collectively referred to as the "Target Group") as at December 31, 2012 has been prepared based on:

(a) the audited consolidated statement of financial position of the Group as at December 31, 2012 which has been extracted from the annual report of the Company for the year ended December 31, 2012;

(b) the audited consolidated statement of financial position of the Target Group as at December 31, 2012 which has been extracted from Appendix II to this circular; and

(c) after taking into account of the unaudited pro forma adjustments as described in the notes thereto to demonstrate how the proposed acquisition of the Target Group (the "Proposed Acquisition") might have affected the historical financial information in respect of the Group as if the Proposed Acquisition had been completed on December 31, 2012.

The Unaudited Pro Forma Financial Information of the Enlarged Group is for illustrative purposes only and is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Proposed Acquisition been completed on the dates indicated herein. Furthermore, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position.

The key assumptions made by the directors when preparing for the Unaudited Pro Forma Financial Information for Scenario I, II and II are as follows:

	Scenario I	**Scenario II**	**Scenario III**
In respect of the Option Offer	None of the outstanding Options are exercised prior to the Closing Date and the Group cancels all outstanding Options with cash consideration	Same as Scenario I	Same as Scenario I
In respect of the Share Offer	Only Zhang International and CA Dairy accept the Share Offer (where Zhang International, which has committed, pursuant to the Zhang Irrevocable Undertaking, opts for the Cash and Share Option for all of the Target Shares held by it, and CA Dairy, which has committed, pursuant to the CA Dairy Irrevocable Undertaking, opts for the Cash Option for all of the Target Shares held by it)	All the Target Shareholders accept the Share Offer and opt for the Cash Option for all of the Target Shares held by them (apart from Zhang International, which has committed, pursuant to the Zhang Irrevocable Undertaking, to opts for the Cash and Share Option for all of the Target Shares held by it)	All the Target Shareholders accept the Share Offer and opt for the Cash and Share Option for all of the Target Shares held by them (apart from CA Dairy, which has committed, pursuant to the CA Dairy Irrevocable Undertaking, to opts for the Cash Option for all the Target Shares held by it)

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the audited financial statements of the Group for the year ended December 31, 2012 as set out in annual report of the Company for the year ended December 31, 2012, and the audited financial information of the Target Group as set out in the reporting accountants' reports in Appendix II to this circular, and other financial information included elsewhere in this circular.

(ii) Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group as at December 31, 2012 – Scenario I

	The Group as at December 31, 2012	The Target Group as at December 31, 2012	Unaudited Pro Forma Adjustments Note 1	Note 2	Note 3	The Enlarged Group as at December 31, 2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS						
Property, plant and equipment	8,488,726	743,863				9,232,589
Investment properties	–	112,004		107,837		219,841
Biological assets	211,686	–				211,686
Goodwill and intangible assets	708,413	3,937		4,421,352		5,133,702
Land use rights	807,443	130,432		46,069		983,944
Interests in associates	77,921	–				77,921
Available-for-sale investments	509,788	–				509,788
Deferred tax assets	72,093	80,015				152,108
Long term bank deposits	–	306,142				306,142
Other non-current assets	–	8,285				8,285
Other financial assets	53,521	–				53,521
Long term prepayments	299,947	184,170				484,117
	11,229,538	1,568,848	–	4,575,258	–	17,373,644
CURRENT ASSETS						
Inventories	1,419,898	652,922				2,072,820
Trade and bills receivables	801,473	26,779				828,252
Available-for-sale investments	240,000	–				240,000
Prepayments and other receivables	1,309,833	136,578				1,446,411
Investment deposits	160,000	–				160,000
Pledged deposits	51,602	299,609				351,211
Short term bank deposits	–	611,972				611,972
Other investments	–	200,000				200,000
Cash and bank balances	5,778,390	2,073,161	10,682,290	(6,709,253)	(57,000)	11,767,588
	9,761,196	4,001,021	10,682,290	(6,709,253)	(57,000)	17,678,254

	The Group as at December 31, 2012	The Target Group as at December 31, 2012	Unaudited Pro Forma Adjustments Note 1	Note 2	Note 3	The Enlarged Group as at December 31, 2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
CURRENT LIABILITIES						
Trade and other payables	6,329,384	1,030,761				7,360,145
Deferred income	19,056	–				19,056
Interest-bearing bank loans	573,777	330,912	10,682,290			11,586,979
Income tax payable	58,426	89,223				147,649
	6,980,643	1,450,896	10,682,290	–	–	19,113,829
NET CURRENT ASSETS/(LIABILITIES)	2,780,553	2,550,125	–	(6,709,253)	(57,000)	(1,435,575)
TOTAL ASSETS LESS CURRENT LIABILITIES	14,010,091	4,118,973	–	(2,133,995)	(57,000)	15,938,069
NON-CURRENT LIABILITIES						
Long term payables	144,593	–				144,593
Deferred income	215,740	18,627				234,367
Deferred tax liabilities	33,051	18,000		38,477		89,528
Other financial liabilities	544,858	–				544,858
	938,242	36,627	–	38,477		1,013,346
NET ASSETS	13,071,849	4,082,346	–	(2,172,472)	(57,000)	14,924,723
EQUITY						
Equity attributable to owners of the Company						
Issued capital	181,151	302,601		(302,601)		181,151
Reserves	12,262,141	3,776,458		(3,776,458)	(57,000)	12,205,141
	12,443,292	4,079,059	–	(4,079,059)	(57,000)	12,386,292
Non-controlling interests	628,557	3,287	–	1,906,587	–	2,538,431
TOTAL EQUITY	13,071,849	4,082,346	–	(2,172,472)	(57,000)	14,924,723

Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group as at December 31, 2012 – Scenario II

	The Group as at December 31, 2012	The Target Group as at December 31, 2012	Unaudited Pro Forma Adjustments Note 1	Note 2	Note 3	The Enlarged Group as at December 31, 2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS						
Property, plant and equipment	8,488,726	743,863				9,232,589
Investment properties	–	112,004		107,837		219,841
Biological assets	211,686	–				211,686
Goodwill and intangible assets	708,413	3,937		5,557,875		6,270,225
Land use rights	807,443	130,432		46,069		983,944
Interests in associates	77,921	–				77,921
Available-for-sale investments	509,788	–				509,788
Deferred tax assets	72,093	80,015				152,108
Long term bank deposits	–	306,142				306,142
Other non-current assets	–	8,285				8,285
Other financial assets	53,521	–				53,521
Long term prepayments	299,947	184,170				484,117
	11,229,538	1,568,848	–	5,711,781	–	18,510,167
CURRENT ASSETS						
Inventories	1,419,898	652,922				2,072,820
Trade and bills receivables	801,473	26,779				828,252
Available-for-sale investments	240,000	–				240,000
Prepayments and other receivables	1,309,833	136,578				1,446,411
Investment deposits	160,000	–				160,000
Pledged deposits	51,602	299,609				351,211
Short term bank deposits	–	611,972				611,972
Other investments	–	200,000				200,000
Cash and bank balances	5,778,390	2,073,161	10,682,290	(9,202,914)	(57,000)	9,273,927
	9,761,196	4,001,021	10,682,290	(9,202,914)	(57,000)	15,184,593

	The Group as at December 31, 2012	The Target Group as at December 31, 2012	Unaudited Pro Forma Adjustments Note 1	Note 2	Note 3	The Enlarged Group as at December 31, 2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
CURRENT LIABILITIES						
Trade and other payables	6,329,384	1,030,761				7,360,145
Deferred income	19,056	–				19,056
Interest-bearing bank loans	573,777	330,912	10,682,290			11,586,979
Income tax payable	58,426	89,223				147,649
	6,980,643	1,450,896	10,682,290	–	–	19,113,829
NET CURRENT ASSETS/(LIABILITIES)	2,780,553	2,550,125	–	(9,202,914)	(57,000)	(3,929,236)
TOTAL ASSETS LESS CURRENT LIABILITIES	14,010,091	4,118,973	–	(3,491,133)	(57,000)	14,580,931
NON-CURRENT LIABILITIES						
Long term payables	144,593	–				144,593
Deferred income	215,740	18,627				234,367
Deferred tax liabilities	33,051	18,000		38,477		89,528
Other financial liabilities	544,858	–				544,858
	938,242	36,627		38,477		1,013,346
NET ASSETS	13,071,849	4,082,346	–	(3,529,610)	(57,000)	13,567,585
EQUITY						
Equity attributable to owners of the Company						
Issued capital	181,151	302,601		(302,601)		181,151
Reserves	12,262,141	3,776,458		(3,776,458)	(57,000)	12,205,141
	12,443,292	4,079,059	–	(4,079,059)	(57,000)	12,386,292
Non-controlling interests	628,557	3,287	–	549,449	–	1,181,293
TOTAL EQUITY	13,071,849	4,082,346	–	(3,529,610)	(57,000)	13,567,585

Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group as at December 31, 2012 – Scenario III

	The Group as at December 31, 2012	The Target Group as at December 31, 2012	Unaudited Pro Forma Adjustments Note 1	Note 2	Note 3	The Enlarged Group as at December 31, 2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS						
Property, plant and equipment	8,488,726	743,863				9,232,589
Investment properties	–	112,004		107,837		219,841
Biological assets	211,686	–				211,686
Goodwill and intangible assets	708,413	3,937		5,337,127		6,049,477
Land use rights	807,443	130,432		46,069		983,944
Investments in associates	77,921	–				77,921
Available-for-sale investments	509,788	–				509,788
Deferred tax assets	72,093	80,015				152,108
Long term bank deposits	–	306,142				306,142
Other non-current assets	–	8,285				8,285
Other financial assets	53,521	–				53,521
Long term prepayments	299,947	184,170				484,117
	11,229,538	1,568,848	–	5,491,033	–	18,289,419
CURRENT ASSETS						
Inventories	1,419,898	652,922				2,072,820
Trade and bills receivables	801,473	26,779				828,252
Available-for-sale investments	240,000	–				240,000
Prepayments and other receivables	1,309,833	136,578				1,446,411
Investment deposits	160,000	–				160,000
Pledged deposits	51,602	299,609				351,211
Short term bank deposits	–	611,972				611,972
Other investments	–	200,000				200,000
Cash and bank balances	5,778,390	2,073,161	10,682,290	(8,718,431)	(57,000)	9,758,410
	9,761,196	4,001,021	10,682,290	(8,718,431)	(57,000)	15,669,076

	The Group as at December 31, 2012	The Target Group as at December 31, 2012	Unaudited Pro Forma Adjustments Note 1	Note 2	Note 3	The Enlarged Group as at December 31, 2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
CURRENT LIABILITIES						
Trade and other payables	6,329,384	1,030,761				7,360,145
Deferred income	19,056	–				19,056
Interest-bearing bank loans	573,777	330,912	10,682,290			11,586,979
Income tax payable	58,426	89,223	–			147,649
	6,980,643	1,450,896	10,682,290	–	–	19,113,829
NET CURRENT ASSETS/(LIABILITIES)	2,780,553	2,550,125	–	(8,718,431)	(57,000)	(3,444,753)
TOTAL ASSETS LESS CURRENT LIABILITIES	14,010,091	4,118,973	–	(3,227,398)	(57,000)	14,844,666
NON-CURRENT LIABILITIES						
Long term payables	144,593	–				144,593
Deferred income	215,740	18,627				234,367
Deferred tax liabilities	33,051	18,000		38,477		89,528
Other financial liabilities	544,858	–				544,858
	938,242	36,627	–	38,477	–	1,013,346
NET ASSETS	13,071,849	4,082,346	–	(3,265,875)	(57,000)	13,831,320
EQUITY						
Equity attributable to owners of the Company						
Issued capital	181,151	302,601		(302,601)		181,151
Reserves	12,262,141	3,776,458		(3,776,458)	(57,000)	12,205,141
	12,443,292	4,079,059	–	(4,079,059)	(57,000)	12,386,292
Non-controlling interests	628,557	3,287	–	813,184	–	1,445,028
TOTAL EQUITY	13,071,849	4,082,346	–	(3,265,875)	(57,000)	13,831,320

(iii) Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The Unaudited Pro Forma Financial Information has been prepared based on the assumption that the Company will fully utilise external banking facility of HK$13,175,000,000 (or approximately RMB10,682,290,000) obtained from the Joint Financial Advisors to satisfy the cash consideration for the Proposed Acquisition.

2. The adjustments reflect the allocation of the cost of the Proposed Acquisition to the identifiable assets acquired and liabilities assumed by the Company. Upon completion of the Proposed Acquisition, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the purchase method of accounting in accordance with IFRS 3 (Revised) "Business Combinations" ("IFRS 3").

   For the purpose of this Unaudited Pro Forma Financial Information, the directors of the Company have estimated the fair value of the identifiable assets and liabilities of the Target Group based on the assumption that the Proposed Acquisition was completed on December 31, 2012. The details of the fair value adjustments are as follows:

   (a) The recognition of the fair value adjustments of RMB153,906,000 on identifiable tangible assets and liabilities, which represents fair value gains on the Target Group's land use rights of RMB46,069,000 and investment properties of RMB107,837,000, respectively. The fair value of the land use rights and investment properties is determined by the directors based on the valuation analysis on an open market value basis with reference to market transactions of similar properties.

   Except for the above land use rights and investment properties, the directors assume that the fair values of other identifiable tangible assets and liabilities of the Target Group approximated to their carrying amounts as at December 31, 2012.

   The fair values of identifiable intangible assets arising from the Proposed Acquisition are grouped with goodwill under "Goodwill and intangible assets" in the Unaudited Pro Forma Financial Information.

   (b) Deferred tax liabilities of RMB38,477,000 are also recognised in the Unaudited Pro Forma Financial Information of the Enlarged Group as at December 31, 2012 as a result of the aforesaid fair value gains on land use rights and investment properties.

(c) For Scenario I, the computation of goodwill and intangible assets arising from the Proposed Acquisition is analyzed as follows:

	Total
	RMB'000
Cancellation fee for the Option Offer	109,900
Cash consideration for the Share Offer	6,599,353
Non-controlling interests arising from the Proposed Acquisition	1,906,587
Total Cost of the Proposed Acquisition	8,615,840
Less: Carrying amount of the net assets acquired	(4,079,059)
Fair value adjustments on land use rights *(note a)*	(46,069)
Fair value adjustments on investment properties (note a)	(107,837)
Add: Deferred tax liabilities recognized as a result of the fair value adjustments *(note b)*	38,477
Goodwill and intangible assets	4,421,352

The cancellation fee for the Option Offer of RMB109,900,000 is calculated based on the assumption that none of the outstanding Options are exercised prior to the Closing Date and that the Group cancels all outstanding Options of 52,519,756 units with cash consideration with details as shown below:

	Number of outstanding options	**Offer price for cancellation of each option** *(in HK$)*	**Cancellation Fee** *(in RMB'000)*
(i) In respect of Options with an exercise price of RMB0.11 per share	26,256,211	3.361	71,551
(ii) In respect of Options with an exercise price of RMB1.84 per share	6,308,661	1.171	5,990
(iii) In respect of Options with an exercise price of HK$1.5 per share	19,954,884	2.000	32,359
Total	52,519,756		109,900

The cash consideration of RMB6,599,353,000 and the non-controlling interests of RMB1,906,587,000 arising from the Proposed Acquisition for the Share Offer is calculated based on the assumption that only Zhang International and CA Dairy accept the Share Offer (where Zhang International, which has committed, pursuant to the Zhang Irrevocable Undertaking, opts for the Cash and Share Option for all of the 1,826,808,760 Target Shares held by it and CA Dairy, which has committed, pursuant to the CA Dairy Irrevocable Undertaking, opts for the Cash Option for all of the 853,631,240 Target Shares held by it).

The non-controlling interests of RMB1,906,587,000 represent non-controlling interests attributable to the 34.7% indirect equity interests in total held by the Target Shareholders except for the CA Dairy based on the above assumptions, of the fair value of identifiable assets and liabilities of the Target Group as at December 31, 2012.

Goodwill and intangible assets mainly represent goodwill, trademarks, and other intangible assets that do not qualify for separate recognition.

(d) For Scenario II, the computation of goodwill and intangible assets arising from the Proposed Acquisition is analyzed as follows:

	Total
	RMB'000
Cancellation fee for the Option Offer	109,900
Cash consideration for the Share Offer	9,093,014
Non-controlling interests arising from the Proposed Acquisition	549,449
Total Cost of the Proposed Acquisition	9,752,363
Less: Carrying amount of the net assets acquired	(4,079,059)
Fair value adjustments on land use rights *(note a)*	(46,069)
Fair value adjustments on investment properties *(note a)*	(107,837)
Add: Deferred tax liabilities recognized as a result of the fair value adjustments *(note b)*	38,477
Goodwill and intangible assets	5,557,875

The cancellation fee for the Option Offer of RMB109,900,000 is calculated based on the assumption that none of the outstanding Options are exercised prior to the Closing Date and the Group cancels all outstanding Options of 52,519,756 units for cash consideration with detailed computation disclosed in Note 2(c).

The cash consideration of RMB9,093,014,000 and the non-controlling interests of RMB549,449,000 arising from the Proposed Acquisition for the Share Offer is calculated based on the assumption that all shareholders accept the Share Offer and opt for the Cash Option for all of the 3,559,170,222 Target Shares held by them (apart from Zhang International, which has committed, pursuant to the Zhang Irrevocable Undertaking, to opts for the Cash and Share Option for all of the 1,826,808,760 Target Shares held by it).

The non-controlling interests of RMB549,449,000 represent non-controlling interests attributable to Zhang International's share (10% indirect equity interests based on the above assumptions) of the fair value of identifiable assets and liabilities of the Target Group as at December 31, 2012.

Goodwill and intangible assets mainly represent goodwill, trademarks, and other intangible assets that do not qualify for separate recognition.

(e) For Scenario III, the computation of goodwill and intangible assets arising from the Proposed Acquisition is analyzed as follows:

	Total
	RMB'000
Cancellation fee for the Option Offer	109,900
Cash consideration for the Share Offer	8,608,531
Non-controlling interests arising from the Proposed Acquisition	813,184
Total Cost of the Proposed Acquisition	9,531,615
Less: Carrying amount of the net assets acquired	(4,079,059)
Fair value adjustments on land use rights *(note a)*	(46,069)
Fair value adjustments on investment properties *(note a)*	(107,837)
Add: Deferred tax liabilities recognized as a result of the fair value adjustments *(note b)*	38,477
Goodwill and intangible assets	5,337,127

The cancellation fee for the Option Offer of RMB109,900,000 is calculated based on the assumption that none of the outstanding Options are exercised prior to the Closing Date and the Group cancels all outstanding Options of 52,519,756 units for cash consideration with detailed computation disclosed in Note 2(c).

The cash consideration of RMB8,608,531,000 and the non-controlling interests of RMB813,184,000 arising from the Proposed Acquisition for the Share Offer is calculated based on the assumption that all the Target Shareholders accept the Share Offer and opt for the Cash and Share Option for all of the 3,559,170,222 Target Shares held by them (apart from CA Dairy, which has committed, pursuant to the CA Dairy Irrevocable Undertaking, to opts for the Cash Option for all the 853,631,240 Target Shares held by it).

The non-controlling interests of RMB813,184,000 represent non-controlling interests attributable to the 14.8% indirect equity interests in total held by the Target Shareholders except for the CA Dairy based on the above assumptions, of the fair value of identifiable assets and liabilities of the Target Group as at December 31, 2012.

Goodwill and intangible assets mainly represent goodwill, trademarks, and other intangible assets that do not qualify for separate recognition.

(f) For the purpose of this Unaudited Pro Forma Financial Information, the Company has assessed if there is any impairment loss on the goodwill arising from the Proposed Acquisition in accordance with the International Accounting Standard No. 36 *Impairment of Assets* ("IAS 36") which is consistent with the Company's accounting policy.

In accordance to the requirements of IAS 36, management has assessed the impairment of goodwill by considering whether the carrying amounts of goodwill plus the net identifiable assets of the Target Group exceed the recoverable amount of such underlying business as at December 31, 2012. Should the recoverable amount is below the carrying amounts of goodwill plus the net identifiable assets of the Target Group, the goodwill will be impaired.

The Directors are of the view that, after performing the impairment assessment, there is no impairment indication of the goodwill arising from the Proposed Acquisition as set out in the Unaudited Pro Forma Financial Information.

(g) Since the fair value of the identifiable net assets of the Target Group at the date of the completion of the Proposed Acquisition may be substantially different from the respective value used in the Unaudited Pro Forma Financial Information of the Enlarged Group, the goodwill recognised at the completion date of the Proposed Acquisition may be different from the amount presented above.

3. The adjustment represents the estimated transaction costs of approximately RMB57,000,000 related to the Proposed Acquisition. The expenses are charged to income statement directly.

4. For the purpose of this Unaudited Pro Forma Financial Information, conversion of HK$ into RMB is based on the exchanged rate of HK$1.00 to RMB0.8108 (closing rate on December 31, 2012).

(B) LETTER ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

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June 28, 2013

The Directors
China Mengniu Dairy Company Limited

Dear Sirs,

We report on the unaudited pro forma financial information set out on pages III-1 to III-14 under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Section A of Appendix III of the circular dated 28 June 2013 (the "Circular") of China Mengniu Dairy Company Limited (the "Company"), in connection with the proposed acquisition of Yashili International Holdings Ltd (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") (the "Proposed Acquisition") by the Offeror (as defined in the Circular). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Proposed Acquisition might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on section A of Appendix III to the Circular.

Respective Responsibilities of Directors of the Company and the reporting accountants

It is the responsibility solely of the Directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with the Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at December 31, 2012 or any future date.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular or this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors' interests and short positions in the Company Shares, underlying Shares and debentures of the Company or its associated corporations

As at the Latest Practicable Date, the interests and short positions of each of the Directors and the chief executive of the Company in the Company Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules were as follows:

Long position in the Company Shares

Name of Director	Company/Name of Associated Corporation	Nature of Interest	Total Number of Ordinary Shares	Percentage of the Company's/ Associated Corporation's Issued Share Capital
Bai Ying (白瑛)	The Company	Personal Interest	603,209	0.03%[1]
	Inner Mongolia Mengniu Dairy (Group) Company Limited	Personal Interest	448,201	0.03%

Note:

1. The calculation is based on the number of shares as a percentage of the total number of issued Company Shares (i.e. 1,820,807,168 Company Shares) as at the Latest Practicable Date.

Long position in the underlying Company Shares

Name of Director	Number of Share Options of the Company	Date of grant of share options	Exercise period of share options (both dates inclusive)	Exercise price of share options	Percentage of the Company's Issued Share Capital
Executive Directors					
Bai Ying (白瑛)	1,926,000	23.11.2009	23.11.2011 to 22.11.2015	24.40	0.11%
	3,200,000	10.10.2011	10.10.2015 to 9.10.2018	24.10	0.18%
Wu Jingshui (吳景水)	2,400,000	10.10.2011	10.10.2015 to 9.10.2018	24.10	0.13%
Ding Sheng (丁聖)	3,200,000	10.10.2011	10.10.2015 to 9.10.2018	24.10	0.18%

Notes:

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had any interests or short positions in any Company Shares, underlying Company Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed below, the Directors were not aware of any other Directors who was a director or employee of a company which had an interest in the Company Shares or underlying Company Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Name of Director	Title	Company
Ning Gaoning	Chairman	COFCO Corporation
	Chairman	COFCO (Hong Kong) Limited
	Director	COFCO Dairy Holdings Limited
	Director	COFCO Dairy Investments Limited
	Director	Farwill Limited
Yu Xubo	President	COFCO Corporation
	Director	COFCO (Hong Kong) Limited
	Director	COFCO Dairy Holdings Limited
	Director	COFCO Dairy Investments Limited
	Director	Farwill Limited
Ma Jianping	Vice-president	COFCO Corporation
Liu Ding	Director	COFCO Corporation
Tim Ørting Jørgensen	Executive vice president	Arla Foods Amba
Finn S. Hansen	Executive vice president	Arla Foods Amba

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Offeror Group which will not expire or be determinable by the relevant member of the Offeror Group within one year without payment of compensation (other than statutory compensation).

4. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, no member of the Enlarged Group was engaged in any litigation or arbitration or claims of material importance and the Directors were not aware of any litigation or claims of material importance pending or threatened against any member of the Enlarged Group.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the businesses of the Offeror Group (which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company.

6. INTEREST IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect in any assets which have been, since December 31, 2012 (being the date to which the latest published audited financial statements of the Enlarged Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

There is no contract or arrangement subsisting as at the date of this circular, in which any of the Directors are materially interested and which is significant to the business of the Enlarged Group.

7. QUALIFICATION AND CONSENTS OF EXPERTS

The names and qualifications of the professional advisers who have been named in this circular or given their opinion or advice which are contained in this circular are set forth below:

Name	Qualification
Ernst & Young	Certified Public Accountants
KPMG	Certified Public Accountants

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or reference to its name or opinion in the form and context in which it appears.

Save as disclosed herein, as at the Latest Practicable Date, the professional advisors above do not have any shareholding in any member of the Offeror Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Offeror Group.

8. MATERIAL CONTRACTS

The Enlarged Group had entered into the following material contracts (not being contracts entered into in the ordinary course of business) within two years immediately preceding the Latest Practicable Date:

(a) Irrevocable Undertakings;

(b) the sale and purchase agreement dated May 7, 2013 entered into between the Company and Advanced Dairy Company Limited ("**Advanced Dairy**"), pursuant to which the Company purchased 984,000,000 shares in Modern Dairy from Advanced Dairy at a consideration of HK$2,412.56 million; and

(c) the sale and purchase agreement dated May 7, 2013 entered into between the Company and Crystal Dairy Holdings (CDH) Limited ("**Crystal Dairy**"), pursuant to which the Company purchased 312,000,000 shares in Modern Dairy from Crystal Dairy at a consideration of HK$764.96 million.

9. GENERAL

(a) The address of the registered office of the Company is at Maples Corporate Services Limited P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands.

(b) The company secretary of the Company is Mr. Kwok Wai Cheong, Chris, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants.

(c) The Hong Kong Branch Share Registrar is at Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong.

(d) In case of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the place of business of the Company in Hong Kong at Suite 1602, 16th Floor, Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong, from the date of this circular and up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the published annual reports of the Company including the audited accounts for each of the two financial years ended December 31, 2011 and 2012;

(c) the accountants' report of the Target, the text of which is set out in Appendix II to this circular;

(d) the letter from Ernst & Young in connection with the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(e) the written consents referred to under the paragraph headed "General information — Qualifications and Consents of Experts" in this Appendix IV;

(f) copies of each of the material contracts referred to under the paragraph headed "General information — Material contracts" in this Appendix IV; and

(g) this circular.

CHINA MENGNIU DAIRY COMPANY LIMITED
中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2319)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting of China Mengniu Dairy Company Limited (the "**Company**") will be held at Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, July 16, 2013 at 10:00 a.m. to consider and, if thought fit, to pass with or without amendments the following ordinary resolution:

ORDINARY RESOLUTION

That (a) the acquisition of all the outstanding shares in the issued share capital of Yashili International Holdings Ltd ("**Yashili**", Stock Code: 1230) and the cancellation of the outstanding options of Yashili granted pursuant to its pre-IPO share option scheme and share option scheme by way of a voluntary general offer (the "**Offers**") by UBS on behalf of the China Mengniu International Company Limited (the "**Offeror**"), the details of which are set out in the joint announcement published by the Company, the Offeror and Yashili dated June 18, 2013, and all transactions contemplated thereunder, including the Irrevocable Undertakings given by Zhang International Investment Ltd. and CA Dairy Holdings in favour of the Company and the Offeror, be and are hereby approved, ratified and confirmed; and (b) any one director of the Company be and is hereby authorized for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary or desirable for the purpose of and in connection with the implementation of the Offers or any revisions thereof and the transactions contemplated thereunder and to agree to such variations, amendments or revisions of/to any of the terms or the structure of the Offers and the transactions and transaction documents contemplated thereunder and such waivers of conditions to the Offers (where applicable) as he/she may in his/her absolute discretion consider necessary or desirable.

By order of the Board
Kwok Wai Cheong, Chris
Company Secretary

Hong Kong, June 28, 2013

* *For identification purpose only*

Notes:

(1) Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company. All proxies, together with powers of attorney or other authorities, if any, under which they are signed or notarially certified copies thereof, must be deposited with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 48 hours before the time of the EGM. Completion and delivery of the proxy form will not preclude a member from attending and voting in person at the meeting if he so wishes.

(2) The register of members of the Company will be closed from Monday, July 15, 2013 to Tuesday, July 16, 2013 both days inclusive, for the purpose of ascertaining shareholders' eligibility to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, July 12, 2013; and

(3) Where there are joint registered holders of any Share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders are present at any meeting personally or by proxy, that the more senior shall alone be entitled to vote in respect of such Share and, for this purpose, seniority shall be determined by the order in which the names of the joint holders stand on the register of the relevant joint holding.