THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a 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 and the accompanying form of proxy, to the purchaser(s) or the transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company and it must not be used for purpose of offering or inviting offers for any securities.

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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)

(1) SUBSCRIPTION FOR NEW SHARES IN CHINA MENGNIU DAIRY COMPANY LIMITED CONSTITUTING A CONNECTED TRANSACTION
(2) APPLICATION FOR WHITEWASH WAIVER
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to the Company

Deutsche Bank

Independent Financial Adviser to the Independent Board Committee

SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 9 to 28 of this circular. A letter of recommendation from the Independent Board Committee to the Independent Shareholders is set out on pages 29 to 30 of this circular. A letter from Somerley Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 31 to 57 of this circular.

A notice convening the EGM to be held at the Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong at 10 a.m. on Thursday, March 20, 2014 is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the proxy shall be deemed to be revoked.

* *For identification purposes only*

March 5, 2014

CONTENTS

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

"acting in concert"	has the meaning ascribed to it under the Takeovers Code
"Amended and Restated Side Letter"	the amended and restated side letter between Arla Foods and Danone Asia to be entered into on the Completion Date, amending and restating the side letter dated as of June 28, 2013, between Arla Foods and Danone Asia
"Announcement"	the announcement dated February 12, 2014 made by the Company in relation to, among others, the Subscription, the Share Restructuring and the application for the Whitewash Waiver
"Arla Foods"	Arla Foods Amba, a cooperative with limited liability established in Denmark
"Arla's Amendment Agreements"	(i) the amendment agreement between COFCO (HK), Farwill, Arla Foods and COFCO Dairy Holdings to be entered into on the Completion Date, amending the shareholders' agreement (as amended) dated as of June 15, 2012, between the same parties; and (ii) the amendment agreement between COFCO (HK), Farwill, Arla Foods and COFCO Dairy Holdings to be entered into on the Completion Date, amending the supplemental shareholders' agreement (as amended) dated as of June 15, 2012, between the same parties
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	board of Directors
"Business Day"	a day (excluding Saturday, Sunday and public holiday) on which licensed banks are generally open for business in Paris, Singapore, Hong Kong and the PRC
"COFCO (BVI)"	COFCO (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of COFCO Corporation

"COFCO (BVI) No. 9"	COFCO (BVI) No. 9 Limited, a company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of COFCO (BVI), which in turn owns, controls and has direction over 400,000 Shares representing approximately 0.02% of the issued share capital of the Company as of the date of this circular
"COFCO Corporation"	COFCO Corporation, a state-owned enterprise incorporated in the PRC under the purview of the State-owned Assets Supervision and Administration Commission of the State Council
"COFCO Dairy Holdings"	COFCO Dairy Holdings Limited, a company incorporated in the British Virgin Islands and is held as to 30% by Arla Foods and 70% by Farwill as of the date of this circular
"COFCO Dairy Investments"	COFCO Dairy Investments Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of COFCO Dairy Holdings as of the date of this circular
"COFCO Dairy Shares"	the ordinary shares of par value of HK$1.00 each in COFCO Dairy Investments
"COFCO (HK)"	COFCO (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of COFCO Corporation
"Colour Spring"	Colour Spring Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Farwill, which in turn is a wholly-owned subsidiary of COFCO (HK)
"Company"	China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands with limited liability and whose Shares are listed on the Stock Exchange (stock code: 2319)
"Completion Date"	the date on which each of the Subscription Completion and the Share Restructuring Completion is to occur
"Concert Group"	COFCO Dairy Investments, COFCO (HK), Arla Foods, Danone Asia and parties acting in concert with any of them (including Prominent Achiever, Farwill, Colour Spring, COFCO Dairy Holdings, COFCO Corporation and COFCO (BVI) No. 9)

"connected persons"	has the meaning as ascribed to it under the Listing Rules
"controlling shareholder"	has the meaning as ascribed to it under the Listing Rules
"Danone Asia"	Danone Asia Pte Ltd, a company established and existing under the laws of Singapore
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held on March 20, 2014 to approve, among other things, the Subscription, the Specific Mandate and the Whitewash Waiver
"Executive"	the Executive Director of the Corporate Finance Division of the SFC from time to time and any delegate of such Executive Director
"Farwill"	Farwill Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of COFCO (HK)
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HSBC"	the Hong Kong and Shanghai Banking Corporation Limited
"Independent Board Committee"	the committee comprising all the independent non-executive Directors, namely Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Liu Fuchun, Mr. Zhang Xiaoya, Mr. Andrew Y. Yan and Mr. Wu Kwok Keung Andrew (the non-executive Directors will not be on the Independent Board Committee as each of them holds office(s) in Danone Asia, Arla Foods or COFCO Corporation, and therefore, may be considered to have a material interest in the Subscription, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder) to be formed to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription Agreement and the Whitewash Waiver

"Independent Financial Adviser" or "Somerley"	Somerley Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than any member of the Concert Group, its associates and parties acting in concert with any of them and other Shareholders who are interested or involved in the Share Restructuring, the Subscription and/or the Whitewash Waiver
"Last Trading Day"	February 11, 2014, being the last Trading Day of the Shares on the Stock Exchange prior to the date of the Announcement
"Latest Practicable Date"	February 28, 2014, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan"	the indebtedness under the facility agreement dated June 17, 2013 among the Company as borrower, China Mengniu International Company Limited as offeror, HSBC and Standard Chartered Bank (Hong Kong) Limited as mandated lead arrangers, and HSBC as facility agent and as security agent
"Long Stop Date"	May 31, 2014 or such later date as the parties to the Subscription Agreement and the Share Restructuring and Subscription Agreement may agree in writing
"Mengniu Board Seat Agreement"	the agreement to be entered into by COFCO (HK) and Danone Asia for the purpose of governing the right of Danone Asia to appoint director(s) on the Board, to take effect upon Subscription Completion and Share Restructuring Completion

"Mengniu Investment Shares"	(i) the 616,850,379 Shares beneficially owned by COFCO Dairy Investments as of the date of the Shareholders' Agreement; and (ii) all other Shares, securities convertible into or exchangeable into Shares and all warrants or other rights to subscribe for Shares that COFCO Dairy Investments may beneficially own from time to time the acquisition of which is funded directly or indirectly by any shareholder of COFCO Dairy Investments
"New Concert Party Agreement"	the agreement to be entered into by COFCO (HK), Arla Foods and Danone Asia for the purpose of amending the existing concert party agreement among the same parties, to take effect upon Subscription Completion and Share Restructuring Completion
"Outstanding Options"	the options granted by the Company to subscribe for an aggregate of 48,658,039 new Shares under the share option schemes of the Company currently in force and adopted by the Company on August 18, 2008, November 23, 2009 and October 10, 2011, respectively
"PRC"	the People's Republic of China (for the purposes of this circular only, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan)
"Prominent Achiever"	Prominent Achiever Limited, a company incorporated in Hong Kong with limited liability and is held as to 51% by Colour Spring and 49% by Danone Asia as of the date of this circular
"Relevant Period"	the period commencing August 12, 2013, being the date falling 6 months before the date of Announcement, up to and including the Latest Practicable Date
"Relevant Securities"	any shares and any options, warrants, derivatives or convertible securities in respect of securities
"Sale Consideration"	the consideration for the Share Restructuring under the Share Restructuring and Subscription Agreement

"Sell"	in relation to the Subscription Shares, means any of the following: (a) sell, assign, transfer or otherwise dispose of, or grant any option over, any Subscription Shares or any of COFCO Dairy Investments' interest in the Subscription Shares; (b) create or permit to subsist any encumbrance over any Subscription Shares or any of COFCO Dairy Investments' interest in the Subscription Shares; (c) enter into any agreement in respect of the votes or any other rights attached to any Subscription Shares or any of COFCO Dairy Investments' interest in the Subscription Shares; or (d) renounce or assign any right to receive any Subscription Shares
"SFC"	Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Restructuring"	the transfer by Colour Spring and Danone Asia of the entire issued share capital of Prominent Achiever to COFCO Dairy Investments pursuant to the Share Restructuring and Subscription Agreement
"Share Restructuring and Subscription Agreement"	the share restructuring and subscription agreement dated February 12, 2014 and entered into between COFCO Dairy Investments, Prominent Achiever, Colour Spring and Danone Asia in relation to the transfer by Colour Spring and Danone Asia of the entire issued share capital of Prominent Achiever to COFCO Dairy Investments and the issuance of 75,487,152 and 72,526,870 COFCO Dairy Shares to Colour Spring and Danone Asia, respectively as settlement for the Sale Consideration
"Share Restructuring Completion"	the completion of the Share Restructuring in accordance with the terms and conditions of the Share Restructuring and Subscription Agreement
"Share Restructuring Conditions"	the conditions precedent to the Share Restructuring as set out in the section headed "Conditions of the Share Restructuring and Subscription" in the "Letter from the Board"
"Shareholder(s)"	holder(s) of Share(s)

"Shareholder's Loan"	HK$6,121,014,927.07, being that amount of the shareholder's loan granted by COFCO Dairy Holdings to COFCO Dairy Investments to be capitalized in full prior to the Share Restructuring Completion and the Subscription Completion
"Shareholders' Agreement"	the shareholders' agreement relating to COFCO Dairy Investments to be entered into among COFCO Dairy Investments, Colour Spring, Danone Asia and COFCO Dairy Holdings, in respect of the relationship among the shareholders of COFCO Dairy Investments upon the Share Restructuring Completion and Subscription Completion
"Shares"	ordinary shares of the Company of par value of HK$0.10 each
"Specific Mandate"	the authority to be sought from the Independent Shareholders to authorize the Board to issue the Subscription Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription for the Subscription Shares by COFCO Dairy Investments subject to the terms and conditions of the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated February 12, 2014 and entered into among the Company, COFCO Dairy Investments and Danone Asia in relation to the Subscription
"Subscription Completion"	the completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
"Subscription Conditions"	the conditions precedent to the Subscription Completion under the Subscription Agreement as set out in the section headed "Conditions of the Subscription" in the "Letter from the Board"
"Subscription Price"	HK$42.50 per Subscription Share
"Subscription Share(s)"	121,236,357 new Shares to be issued by the Company to COFCO Dairy Investments pursuant to the Subscription Agreement

"substantial shareholder"	has the meaning ascribed to it in the Listing Rules
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"Trading Day"	the days on which the Shares are traded on the Stock Exchange
"Transactions"	the Share Restructuring, the Subscription, the Whitewash Waiver, the Specific Mandate and the transactions contemplated under the Share Restructuring and Subscription Agreement, and the Subscription Agreement
"Whitewash Waiver"	the whitewash waiver as may be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of any obligation of the Concert Group to make a mandatory general offer for all the issued Shares and other securities of the Company not already owned (or agreed to be acquired) by any member of the Concert Group and parties acting in concert with it which might otherwise arise as a result of the Subscription
"%"	per cent.

Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

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)

Executive Directors:
Sun Yiping
Bai Ying
Wu Jingshui

Non-executive Directors:
Ning Gaoning *(Chairman)*
Yu Xubo
Niu Gensheng
Ma Jianping
Finn S. Hansen
Liu Ding
Christian Neu

Independent Non-executive Director:
Jiao Shuge (alias Jiao Zhen)
Julian Juul Wolhardt
Liu Fuchun
Zhang Xiaoya
Andrew Y. Yan
Wu Kwok Keung Andrew

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

March 5, 2014

To the Shareholders

Dear Sir or Madam,

(1) SUBSCRIPTION FOR NEW SHARES IN CHINA MENGNIU DAIRY COMPANY LIMITED CONSTITUTING A CONNECTED TRANSACTION
(2) APPLICATION FOR WHITEWASH WAIVER
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING

1. INTRODUCTION

Reference is made to the Announcement dated February 12, 2014. On February 12, 2014, Danone Asia, COFCO Dairy Investments and the Company entered into the

* *For identification purposes only*

Subscription Agreement, pursuant to which the Company conditionally agreed to issue and allot 121,236,357 Shares (representing approximately 6.2% of the entire issued share capital of the Company as enlarged by the issue of the Subscription Shares) to COFCO Dairy Investments, a joint venture company which upon Subscription Completion will be beneficially owned as to approximately 31.4% by Danone Asia, approximately 51.7% by COFCO (HK) (of which approximately (i) 39.5% will be held through COFCO (HK)'s interests in COFCO Dairy Holdings and (ii) 12.2% will be held through COFCO (HK)'s interests in Colour Spring) and approximately 16.9% by Arla Foods (which will be held through Arla Foods's interest in COFCO Dairy Holdings). Following the Subscription Completion, Danone Asia's effective interest in the Company will increase to approximately 9.9%.

The Subscription Price is HK$42.50 per Subscription Share (which represents a premium of approximately 15.3% to the closing price of HK$36.85 per Share as quoted on the Stock Exchange on the Last Trading Day). The total consideration of approximately HK$5,153 million will be payable to the Company in cash and will be financed in full by Danone Asia in the form of an equity injection into COFCO Dairy Investments.

The issuance of the Subscription Shares is subject to approval by the Independent Shareholders. An ordinary resolution will be proposed at the EGM to seek, among other things, a Specific Mandate to issue the Subscription Shares pursuant to the Subscription Agreement.

To ensure that Danone Asia's aggregate effective interest in the Company is held through a single holding vehicle, that is, COFCO Dairy Investments, a Share Restructuring and Subscription Agreement was also entered into on the same date among COFCO Dairy Investments, Prominent Achiever (a joint venture company between COFCO (HK) and Danone Asia) and the shareholders of Prominent Achiever, pursuant to which it was agreed that 100% of the issued share capital of Prominent Achiever (which owns, controls and has directions over approximately 8.1% of the issued share capital of the Company) be transferred to COFCO Dairy Investments.

Completion of the Subscription Agreement and the Share Restructuring and Subscription Agreement shall take place simultaneously and be inter-conditional.

COFCO Dairy Investments is a substantial shareholder of the Company and is therefore a connected person of the Company. Accordingly, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, and Independent Shareholders' approval requirements under the Listing Rules. Any member of the Concert Group and its associates and any other Shareholders who are involved or interested in the Share Restructuring, the Subscription and/or the Whitewash Waiver (including Prominent Achiever and COFCO Dairy Investments) shall abstain from voting at the EGM in respect of the resolution approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

As at the date of the Subscription Agreement, COFCO (HK), Arla Foods and Danone Asia, and parties acting in concert with any of them (being the Concert Group) indirectly owns, controls and has directions over in aggregate 496,014,022 Shares, representing approximately 27.0% of the voting rights of the Company. Upon the Subscription Completion, 121,236,357 Subscription Shares will be issued to COFCO Dairy Investments, and as a result, the interests of the Concert Group in the voting rights of the Company will be increased from approximately 27.0% to approximately 31.5% (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement and up to the Subscription Completion). Accordingly, the Concert Group would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it and any parties acting in concert with it pursuant to Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is obtained from the Executive.

An application to the Executive for the Whitewash Waiver in respect of the issue of the Subscription Shares has been made on behalf of the Concert Group. The Executive has indicated that it will grant the Whitewash Waiver subject to, among other things, the approval of Independent Shareholders at the EGM by way of poll.

The Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll. Any member of the Concert Group, its associates and any other Shareholders who are involved or interested in the Share Restructuring, the Subscription and/or the Whitewash Waiver (including Prominent Achiever and COFCO Dairy Investments) shall abstain from voting at the EGM in respect of the resolution approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver. The granting by the Executive of the Whitewash Waiver and the approval by the Independent Shareholders at the EGM are part of the Subscription Conditions and cannot be waived. If the Whitewash Waiver is not granted, the Subscription will not proceed.

The purpose of this circular is to provide you, among other things, (i) further details of the Subscription Agreement; (ii) further details of the Specific Mandate; (iii) further details of the Share Restructuring and Subscription Agreement; (iv) further details of the Shareholders' Agreement; (v) further details of the Whitewash Waiver; (vi) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Subscription, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder; (vii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder; (viii) a notice of the EGM; and (ix) other information as required under the Listing Rules and the Takeovers Code, for the purpose of the EGM.

2. THE SUBSCRIPTION AGREEMENT

Date: February 12, 2014

Parties:
(i) the Company;

(ii) COFCO Dairy Investments; and

(iii) Danone Asia

The Subscription Shares

Pursuant to the Subscription Agreement, COFCO Dairy Investments has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue and allot, the Subscription Shares at the Subscription Price of HK$42.50 per Subscription Share, for a total consideration of approximately HK$5,153 million payable to the Company in cash by Danone Asia.

As at the date of the Subscription Agreement, there were 1,835,967,963 Shares in issue and the Subscription Shares represent approximately 6.6% of the issued share capital of the Company as at the date of the Subscription Agreement and, assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement up to the Subscription Completion, approximately 6.2% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

Subscription Price

The Subscription Price is HK$42.50 per Subscription Share. The Subscription Price represents:

(i) a premium of approximately 15.3% to the closing price of HK$36.85 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 17.6% to the average closing price of HK$36.13 per Share as quoted on the Stock Exchange for the last five consecutive Trading Days up to and including the Last Trading Day;

(iii) a premium of approximately 18.9% to the average closing price of HK$35.73 per Share as quoted on the Stock Exchange for the last 10 consecutive Trading Days up to and including the Last Trading Day;

(iv) a premium of approximately 16.8% to the average closing price of HK$36.40 per Share as quoted on the Stock Exchange for the last 30 consecutive Trading Days up to and including the Last Trading Day; and

(v) a premium of approximately 322.7% to the Group's unaudited consolidated net asset value attributable to the Shareholder per Share as at June 30, 2013 of approximately HK$10.05 per Share, based on a total of 1,788,265,000 shares as at the date of June 30, 2013.

The Subscription Price was determined after arm's length negotiations among the Company, COFCO Dairy Investments and Danone Asia with reference to, among other factors, the financial position of the Group, the historical trading volume of the Shares on the Stock Exchange and the recent trading prices of the Shares as quoted on the Stock Exchange. The total consideration for the Subscription Shares in the sum of approximately HK$5,153 million will be financed in full by Danone Asia in the form of an equity injection into COFCO Dairy Investments, as consideration of which, COFCO Dairy Investments will issue to Danone Asia 121,236,357 additional COFCO Dairy Shares, representing approximately 19.7% of the total issued share capital of COFCO Dairy Investments on a fully diluted basis.

Rankings

The Subscription Shares, when issued and fully paid, will rank *pari passu* in all respects among themselves and with all the Shares in issue at the date of allotment and issue of the Subscription Shares, including the right to any dividends or distributions made or declared on or after the date of allotment and issue of the Subscription Shares.

Conditions of the Subscription

The Subscription Completion is conditional upon the following conditions having been fulfilled or validly waived (as the case may be):

(i) satisfaction or valid waiver (as the case may be) of each of the conditions set forth in the Share Restructuring and Subscription Agreement;

(ii) approval of the Subscription, the Specific Mandate, the Whitewash Waiver (including the grant thereof by the SFC) and the transactions contemplated therein by, among others, the Independent Shareholders at the EGM, the Stock Exchange and the Executive, in accordance with the requirements of the Stock Exchange, the SFC, the Listing Rules and the Takeovers Code, having been obtained;

(iii) the Listing Committee of the Stock Exchange granting or agreeing to grant a listing of and permission to deal in the Subscription Shares to be issued (and such listing and permission not being subsequently revoked prior to the Subscription Completion);

(iv) there not having been any material breach of any of the representations and warranties given by the Company, COFCO Dairy Investments and Danone Asia, respectively under the Subscription Agreement or any of the agreements, covenants and undertakings in the Subscription Agreement that are to be performed or complied with prior to the Subscription Completion;

(v) there not having occurred from the date of the Subscription Agreement, any event or circumstance which is or is reasonably likely to be, individually or in the aggregate, materially adverse to (i) the business, operations, assets, liabilities (including contingent liabilities), condition (financial, trading or otherwise), financial results or prospects of the Company and its subsidiaries taken as a whole, or (ii) the ability of the Company to consummate the Transactions or perform its material obligations under the Subscription Agreement, other than any event or circumstance arising out of or attributable to (i) any matter which is not within the control of the Company or its subsidiaries and does not affect the Company and its subsidiaries taken as a whole disproportionately when compared to other companies in the dairy industry in China or (ii) the public announcement of the Transactions or the consummation of the Transactions; and

(vi) the Share Restructuring Completion having taken place simultaneously.

The Subscription Conditions (i), (ii), (iii) and (vi) above cannot be waived in any event. The Subscription Conditions (iv) above may be waived by the party to the Subscription Agreement which is not in breach of the relevant warranty or covenant and the Subscription Condition (v) above may only be waived by Danone Asia. In the event that the Subscription Conditions are not satisfied (or, if applicable, waived) on or prior to the Long Stop Date, the Subscription Agreement will be terminated and no party to the Subscription Agreement shall have any claim against the others for costs, damages, compensation or otherwise except for any antecedent breaches of any obligation under the Subscription Agreement.

Completion of the Subscription

Subject to fulfillment (or, if applicable, waiver) of the Subscription Conditions, the Subscription Completion shall take place on the fifth Business Day of the satisfaction or waiver (where applicable) of the Subscription Conditions or such other date to be agreed by the Company, COFCO Dairy Investments and Danone Asia.

The Subscription Completion and the Share Restructuring Completion shall take place simultaneously and the Subscription Completion shall not take place if the Share Restructuring Completion fails to take place on the Completion Date.

Lock-up

COFCO Dairy Investments has undertaken to the Company that for the period from the date of the Subscription Completion and ending on the date which is three years after the date of the Subscription Completion, without the prior written consent of the Company, COFCO Dairy Investments shall not Sell any of the Subscription Shares.

Specific Mandate

The issuance of the Subscription Shares is subject to approval by the Independent Shareholders. An ordinary resolution will be proposed at the EGM to seek, among other things, a Specific Mandate to issue the Subscription Shares pursuant to the Subscription Agreement.

Application for Listing

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

3. SHARE RESTRUCTURING AND SUBSCRIPTION AGREEMENT

Date: February 12, 2014

Parties:

(i) COFCO Dairy Investments;

(ii) Prominent Achiever;

(iii) Colour Spring, a wholly-owned subsidiary of COFCO (HK); and

(iv) Danone Asia

The Share Restructuring and Subscription

Pursuant to the Share Restructuring and Subscription Agreement, (i) Colour Spring conditionally agreed to sell, and COFCO Dairy Investments conditionally agreed to purchase, 75,487,152 shares in Prominent Achiever, representing approximately 51% of the entire issued share capital of Prominent Achiever; and (ii) Danone Asia conditionally agreed to sell, and COFCO Dairy Investments conditionally agreed to purchase 72,526,870 shares in Prominent Achiever, representing approximately 49% of the entire issued share capital of Prominent Achiever.

The Sale Consideration is to be satisfied by the issuance of 75,487,152 and 72,526,870 new COFCO Dairy Shares by COFCO Dairy Investments to Colour Spring and Danone Asia, respectively, at the Share Restructuring Completion.

Conditions of the Share Restructuring and Subscription

The Share Restructuring Completion is subject to and conditional upon the following Share Restructuring Conditions having been fulfilled or validly waived (as the case may be):

(i) the satisfaction or valid waiver (as the case may be) of each of the conditions set forth in the Subscription Agreement;

(ii) if Share Restructuring Completion is to take place prior to March 3, 2014, the authorized share capital of COFCO Dairy Investments having been increased to HK$1,000,000,000, divided into 1,000,000,000 ordinary shares of par value of HK$1.00 each;

(iii) the issuance and allotment of 347,599,999 COFCO Dairy Shares to COFCO Dairy Holdings for the purpose of capitalizing the Shareholder's Loan;

(iv) there not having been any material breach of any of the representations and warranties given by each of COFCO Dairy Investments, Prominent Achiever, Colour Spring and Danone Asia, respectively under the Share Restructuring and Subscription Agreement, or any of the agreements, covenants and undertakings in the Share Restructuring and Subscription Agreement that are to be performed or complied with prior to the Share Restructuring Completion;

(v) Danone Asia shall have received by electronic means or otherwise, no later than the Share Restructuring Completion, 1 copy of the counterpart to the Amended and Restated Side Letter duly executed by Arla Foods;

(vi) COFCO (HK) and Danone Asia shall each have received by electronic means or otherwise, no later than the Share Restructuring Completion, 1 copy of the counterpart to the New Concert Party Agreement duly executed by Arla Foods; and

(vii) the Subscription Completion having taken place simultaneously.

The Share Restructuring Conditions (i), (ii) and (vii) cannot be waived in any event. The Share Restructuring Conditions (iii) above may be waived by the mutual written consent of Colour Spring and Danone Asia and the Share Restructuring Conditions (iv) above may be waived by the party to the Share Restructuring and Subscription Agreement which is not in breach of the relevant warranty or covenant. Further, the Share Restructuring Conditions (v) and (vi) may be waived only by the written consent of Danone Asia and COFCO Dairy Investments, and such waiver shall not be unreasonably withheld by Danone Asia and COFCO Dairy Investments. In the event that the Share Restructuring Conditions are not satisfied (or, if applicable, waived) on or prior to the Long Stop Date, the Share Restructuring and Subscription Agreement will be terminated and no party to the Share Restructuring and Subscription Agreement shall have any claim against the others for costs, damages, compensation or otherwise except for any antecedent breaches of any obligation under the Share Restructuring and Subscription Agreement.

The Share Restructuring Completion will take place after March 3, 2014 (if at all). Accordingly, the authorized share capital of COFCO Dairy Investments will not be required to be increased and the Share Restructuring Condition (ii) will be satisfied without any such increase in authorized share capital. The Share Restructuring Condition (ii) was in contemplation of the Companies Ordinance (Cap. 622) which came into effect on March 3, 2014, under which the concept of authorized share capital would be abolished in respect of a company incorporated under the laws of Hong Kong.

Completion of the Share Restructuring and Subscription

Subject to fulfillment (or, if applicable, waiver) of the Share Restructuring Conditions, the Share Restructuring Completion shall take place simultaneously upon the Subscription Completion and the Share Restructuring Completion shall not take place if the Subscription Completion fails to take place on the Completion Date.

The Transactions are subject to the satisfaction (or, if applicable, waiver) of a number of conditions as set out in this circular and, accordingly, the Transactions may or may not proceed and are possibilities only. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional adviser.

4. SHAREHOLDERS' AGREEMENT

Upon the Share Restructuring Completion and Subscription Completion, COFCO Dairy Holdings, Colour Spring, Danone Asia and COFCO Dairy Investments will enter into a Shareholders' Agreement relating to COFCO Dairy Investments. The Shareholders' Agreement is expected to contain the following provisions.

Duration and Termination

The Shareholders' Agreement shall continue in full force and effect until the earlier of (i) all the shareholders of COFCO Dairy Investments agreeing in writing to terminate it; (ii) the date on which all of the shares in COFCO Dairy Investments are owned by one shareholder only; and (iii) an effective resolution is passed or a binding order is made for the winding-up of COFCO Dairy Investments.

Key terms relating to the Company

The key terms in the Shareholders' Agreement relating to the Company are summarized as follows:

Purpose of the joint venture

The only business of COFCO Dairy Investments is to carry on the business of acquiring, transferring, dealing and holding the Mengniu Investment Shares. The parties to the Shareholders' Agreement shall closely cooperate with each other with a view to supporting the development of the Company in the areas of strategic investment, quality control, product supply, technology and branding, with the objective for the Company to deliver maximum investment return to its shareholders.

Restrictions in disposal of Mengniu Investment Shares

Unless otherwise agreed by all the directors of COFCO Dairy Investments, COFCO Dairy Investments and its subsidiaries shall not sell, assign, transfer or otherwise dispose of or create encumbrance over any Mengniu Investment Shares, except any such dealing which is in accordance with certain exceptions provided in the Shareholders' Agreement, for example,

(i) transfer of Mengniu Investment Shares to COFCO Dairy Investments or its wholly-owned subsidiary;

(ii) occurrence of certain events of default or deadlock events which remain unresolved among the shareholders, as specified in the Shareholders' Agreement; and

(iii) exercise by a shareholder of COFCO Dairy Investments of certain exit rights to sell Shares held through COFCO Dairy Investments, after a lock-up period of three years from the date of the Shareholders' Agreement (or, with respect to Shares held by COFCO Dairy Holdings through COFCO Dairy Investments, after a lock-up period of three years from June 26, 2012 or otherwise in accordance with the Arla's Amendment Agreements).

Reserved matters relating to the Company

Except in accordance with prior written approval of all the directors of COFCO Dairy Investments, each shareholder of COFCO Dairy Investments shall procure that any director of the Company nominated by it shall exercise their respective voting rights to vote against any of the following reserved matters in relation to the Company:

(i) any change in the business of the Company and its subsidiaries taken as a whole such that its principal business is no longer related to dairy or dairy products;

(ii) any dissolution, liquidation and winding up of the Company; or

(iii) the delisting of the Company from the Stock Exchange.

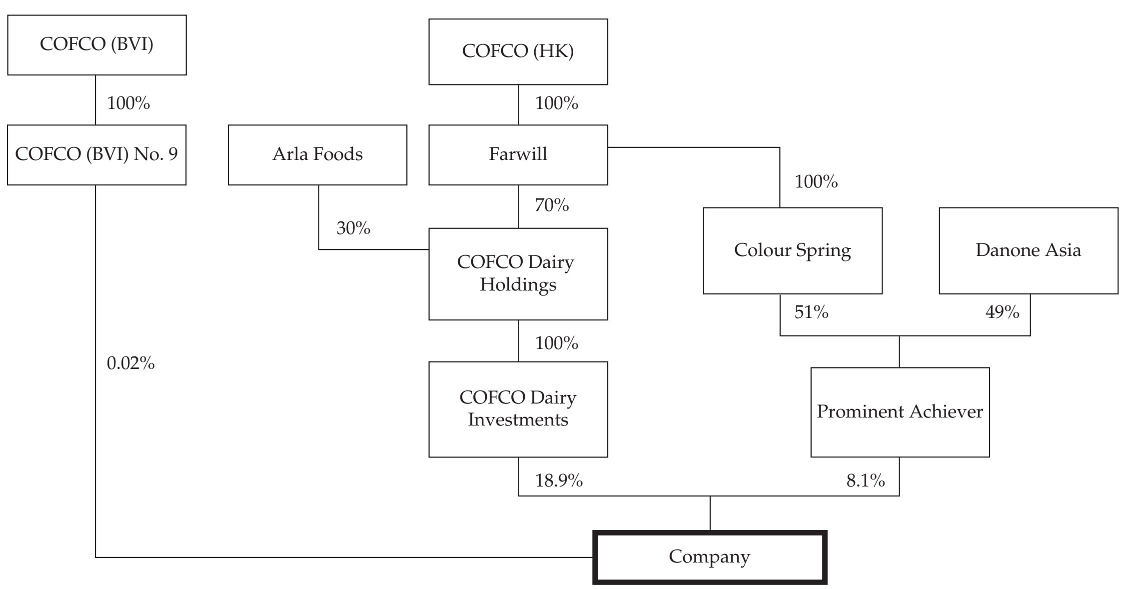
In the event that the board of directors of COFCO Dairy Investments cannot pass a resolution in respect of any of the reserved matters set out above as to the instructions on voting by representatives of COFCO Dairy Investments at the general meetings of the Company, meetings of the Board or the committees under the Board, the shareholders of COFCO Dairy Investments agree that: (i) insofar as voting at the general meetings of the Company is concerned, they shall procure COFCO Dairy Investments and each of its subsidiaries that holds any Mengniu Investment Shares to cast its votes by poll whereby a proportion of its votes corresponding to each shareholder's percentage holding of shares in COFCO Dairy Investments or percentage beneficial ownership of the issued share capital of such subsidiary shall be cast in accordance with the direction of such shareholder; and (ii) insofar as voting at meetings of the Board or the committees under the Board is concerned, the relevant representatives shall be free to cast their votes in accordance with the directions of the shareholders who nominated them.

5. EFFECTS OF THE TRANSACTIONS

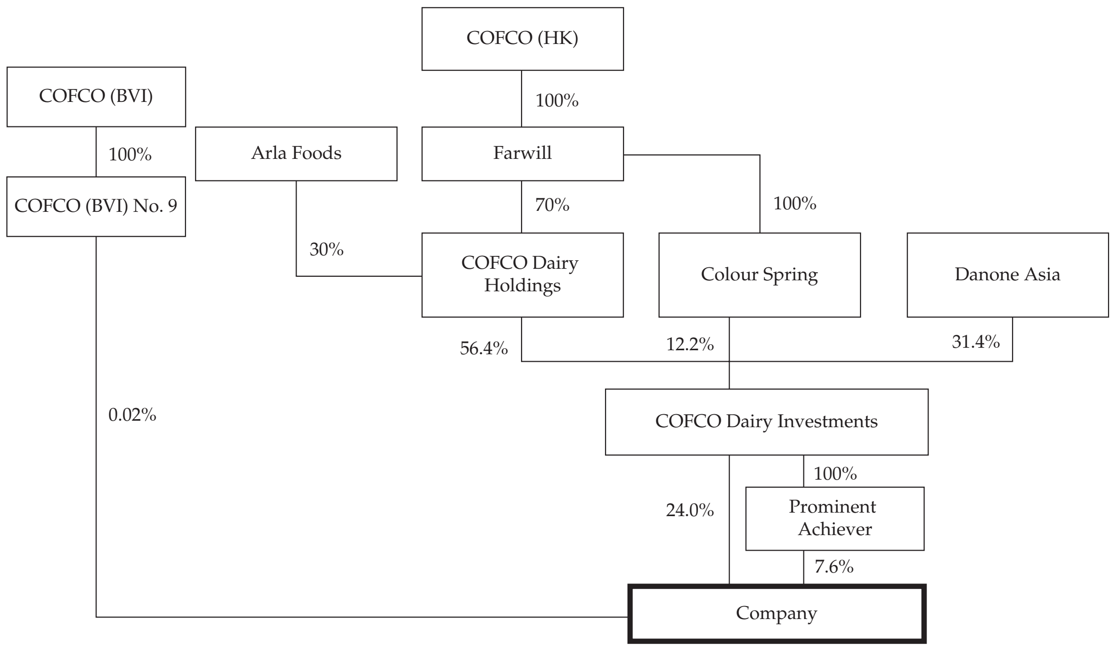
As at the date of this circular, the Company has in issue 1,835,967,963 Shares.

The following tables illustrate the shareholding structure of the Company: (a) as at the date of this circular; and (b) immediately following the Share Restructuring Completion and the Subscription Completion (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement and up to Subscription Completion):

As at the date of this circular:



Immediately after the Share Restructuring Completion and the Subscription Completion:



The following table shows the shareholding structure of the Company as at the Latest Practicable Date and immediately after the Share Restructuring Completion and the Subscription Completion, assuming that there is no change in the issued share capital of the Company on or before the Completion Date other than pursuant to the Subscription:

	As at the Latest Practicable Date		**Immediately after the Share Restructuring Completion and Subscription Completion**	
	number of Shares	*approximate %*	*number of Shares*	*approximate %*
I. The Concert Group				
COFCO Dairy Investments	347,600,000	18.9	468,836,357	24.0
Prominent Achiever	148,014,022	8.1	148,014,022	7.6
COFCO (BVI) No. 9 note 1	400,000	0.02	400,000	0.02
Sub-total: The Concert Group	496,014,022	27.0	617,250,379	31.5
II. Other Shareholders				
Bai Ying	603,209	0.03	603,209	0.03
Public Shareholders	1,339,350,732	73.0	1,339,350,732	68.4
Sub-total: Other Shareholders	1,339,953,941	73.0	1,339,953,941	68.5
Total	1,835,967,963	100.0	1,957,204,320	100.0

Note 1: COFCO (BVI) No. 9 is an indirect wholly-owned subsidiary of COFCO Corporation and is an investment holding company.

6. INFORMATION OF THE GROUP AND PRINCIPAL MEMBERS OF THE CONCERT GROUP

Information about the Group

The Group is one of the leading dairy products manufacturers in China, principally engaged in manufacturing and distribution of quality dairy products including liquid milk, ice-cream and other dairy products.

Information about COFCO Dairy Investments

COFCO Dairy Investments is a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of COFCO Dairy Holdings as of the date of this circular. COFCO Dairy Investments is an investment holding company, which owns, controls and has direction over 347,600,000 Shares representing approximately 18.9% of the issued share capital of the Company as of the date of this circular.

Information about COFCO Dairy Holdings

COFCO Dairy Holdings is a company incorporated in the British Virgin Islands with limited liability which is owned as to 70% by Farwill and 30% by Arla Foods. COFCO Dairy Holdings is an investment holding company.

Information about Farwill

Farwill is a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of COFCO (HK). Farwill is an investment holding company.

Information about COFCO (HK)

COFCO (HK) is a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of COFCO Corporation. COFCO (HK) is an investment holding company.

Information about COFCO Corporation

COFCO Corporation is a state-owned enterprise incorporated in the PRC under the purview of the State-owned Assets Supervision and Administration Commission of the State Council. COFCO Corporation engages in a wide array of businesses, including, amongst others, agricultural products trading and processing, food and beverages, in the PRC.

Information about Colour Spring

Colour Spring is a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Farwill Limited, which in turn is a wholly-owned subsidiary of COFCO (HK). Colour Spring is an investment holding company.

Information about Prominent Achiever

Prominent Achiever is a company incorporated in Hong Kong with limited liability, which is owned as to 51% by Colour Spring and 49% by Danone Asia as of the date of this circular. Prominent Achiever is an investment holding company, which owns, controls and has direction over 148,014,022 Shares representing approximately 8.1% of the issue share capital of the Company as of the date of this circular.

Information about Danone Asia

Danone Asia is a company incorporated under the laws of Singapore and is a wholly-owned subsidiary of Danone SA. Danone SA is an international company present on five continents. The Danone SA group holds top positions in healthy food through four businesses: fresh dairy products, waters, baby nutrition and medical nutrition.

Information about Arla Foods

Arla Foods is a cooperative with limited liability established in Denmark and is principally engaged in the business of manufacturing of dairy products.

7. REASONS FOR THE TRANSACTIONS

The dairy industry in China has experienced significant growth in recent years. The market size has nearly doubled from US$20,698 million in 2008 to US$40,603 million in 2013, and is expected to continue to grow in the next five years.

In anticipation of this continued growth in the dairy industry, a strategic alliance was formed between Danone Asia and the Company in May 2013 when Danone Asia became a strategic shareholder in the Company after both parties agreed to establish a joint venture to produce and sell chilled yoghurt products in China.

The enhanced collaboration between the Company and Danone Asia on both shareholding and operation level will benefit the Company in securing its leading market position in the dairy industry in China and providing a better position for the Company to capitalize on future opportunities.

The Transactions will:

- further strengthen the existing partnership between the Company and Danone Asia;

- better position the Company to capitalize on future opportunities; and
- provide catalyst for consolidating the key shareholder platform.

In addition, the Transactions will not reduce the liquidity of the Shares of the existing Shareholders, as the number of Shares in the public float will be maintained.

The Directors (including all the independent non-executive Directors after considering the advice of the Independent Financial Adviser) are of the view that the terms of the Subscription, which have been negotiated on an arm's length basis in accordance with normal commercial terms, are fair and reasonable and are in the best interest of the Company and the Shareholders as a whole. The proceeds raised from the Subscription will be used to repay the Loan and part of any other indebtedness of the Company. The Directors consider that raising funds through an injection of capital by Danone Asia (an existing strategic partner of the Company) presents a further opportunity for the Company to enhance its relationship with Danone Asia which the Directors believe will be beneficial to the Group given Danone SA's status as a leading international company with top positions in healthy food through four businesses: fresh dairy products, water, baby nutrition and medical nutrition. Moreover, the price at which Danone Asia is increasing its stake in the Company is at a premium of the Company's current market price and is considered to be a better option than an issuance of shares through a rights issue, an open offer or a placement to institutional investors, all of which are customarily undertaken at a discount to the market price.

8. INTENTION OF COFCO DAIRY INVESTMENTS

Upon Share Restructuring Completion and Subscription Completion, COFCO Dairy Investments will hold, directly and indirectly, approximately 31.5% of the issued share capital of the Company, assuming there is no change in the issued share capital of the Company on or before the Completion Date other than pursuant to the Subscription. COFCO Dairy Investments intends to continue the existing business of the Group and has no intention to cease or dispose of the Group's dairy related operations or introduce any major changes to the business of the Group, including any redeployment of the fixed assets of the Group. COFCO Dairy Investments and the Company will comply with the relevant requirements under the Listing Rules and the Takeovers Code and applicable laws and regulations in the event any possible diversification of the Group's business operations is proposed after Share Restructuring Completion and Subscription Completion. COFCO Dairy Investments also has no intention to make changes to the continued employment of the employees of the Group.

9. USE OF PROCEEDS FROM THE SUBSCRIPTION

The estimated net proceeds from the issuance of the Subscription Shares, after deduction of expenses, are approximately HK$5,137 million.

The net proceeds are intended to be applied to repay the Company's indebtedness under the Loan in respect of the offer for Yashili International Holdings Ltd and part of the other indebtedness of the Company. As at December 31, 2013, the nature and the outstanding balance of "the other indebtedness of the Company" comprised borrowings of approximately RMB7,890 million (excluding the outstanding balance of the Loan), contingent liabilities of approximately RMB649 million, capital commitments of approximately RMB498 million, guarantees of approximately RMB109 million, and unused credit limit of approximately RMB10,362 million. As at December 31, 2013, the total outstanding balance of the Loan was approximately HK$4.88 billion.

Accordingly, the gearing ratio (calculated as borrowings divided by total assets) of the Group will be reduced. Such reduction in the gearing ratio helps to strengthen the overall financial position of the Group.

An alternative source of financing which was being considered by the Company for the repayment of the Loan which matures in August 2014 was to raise debt financing, however, given the associated market interest rate of around 3.5% for such debt financing, the Company believes that the Subscription is the optimal source of financing for the Loan. In addition, the Subscription has the additional benefit of furthering the collaboration between the Company and Danone Asia.

10. LISTING RULES IMPLICATIONS

COFCO Dairy Investments currently owns, controls and has direction over 347,600,000 Shares, which represent approximately 18.9% of the existing issued share capital of the Company as at the date of this circular. After the Share Restructuring, it will, directly and indirectly, owns, controls and has direction over approximately 27.0% of the existing issued share capital of the Company. COFCO Dairy Investments is a substantial shareholder of the Company and is therefore a connected person of the Company. Accordingly, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, and Independent Shareholders' approval requirements under the Listing Rules.

Any member of the Concert Group and its associates and any other Shareholders who are involved or interested in the Share Restructuring, the Subscription and/or the Whitewash Waiver (including Prominent Achiever and COFCO Dairy Investments) shall abstain from voting at the EGM in respect of the resolution approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

As each of the non-executive Directors (namely Mr. Ning Gaoning, Mr. Yu Xubo, Mr. Niu Gensheng, Mr. Ma Jianping, Mr. Finn S. Hansen, Ms. Liu Ding and Mr. Christian Neu) holds office(s) in Danone Asia, Arla Foods or COFCO Corporation, all of such non-executive Directors may be considered to have a material interest in the Share Restructuring, the Subscription and/or the Whitewash Waiver and the transactions contemplated thereunder. Accordingly, the aforementioned non-executive Directors were required to abstain and have abstained from voting on the board resolution in respect of the Share Restructuring, the Subscription and/or the Whitewash Waiver and the transactions contemplated thereunder.

11. TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

As at the date of the Subscription Agreement, the Concert Group indirectly owns, controls and has directions over in aggregate 496,014,022 Shares, representing approximately 27.0% of the voting rights of the Company.

Upon the Subscription Completion, 121,236,357 Subscription Shares will be issued to COFCO Dairy Investments, and as a result, the interests of the Concert Group in the voting rights of the Company will be increased from approximately 27.0% to approximately 31.5% (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement and up to the Subscription Completion). Accordingly, the Concert Group would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it and any parties acting in concert with it pursuant to Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is obtained from the Executive.

An application to the Executive for the Whitewash Waiver in respect of the issue of the Subscription Shares has been made on behalf of the Concert Group. The Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll. Any member of the Concert Group, its associates and any other Shareholders who are involved or interested in the Share Restructuring, the Subscription and/or the Whitewash Waiver (including Prominent Achiever and COFCO Dairy Investments) shall abstain from voting at the EGM in respect of the resolution approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

The granting by the Executive of the Whitewash Waiver and the approval by the Independent Shareholders at the EGM are part of the Subscription Conditions and cannot be waived. If the Whitewash Waiver is not granted, the Subscription will not proceed.

12. NO EQUITY FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

Save for the Subscription, the Company did not undertake any equity fund raising activities in the past 12 months immediately prior to the date of the Announcement, and up to the date of this circular.

13. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been formed to advise the Independent Shareholders on the terms of the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder. None of the members of the Independent Board Committee has any interest or involvement in the transactions contemplated under the Subscription Agreement, the Specific Mandate or the Whitewash Waiver.

Pursuant to Rule 2.1 of the Takeovers Code, the Company has, with the approval of the Independent Board Committee, appointed Somerley Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the Subscription Agreement, the Specific Mandate and the Whitewash Waiver and give their recommendation on how to vote in respect of the Subscription Agreement, the Specific Mandate and the Whitewash Waiver, and the transactions contemplated thereunder. The appointment of Independent Financial Adviser has been approved by the Independent Board Committee.

14. EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at the Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong at 10 a.m. on Thursday, March 20, 2014 is set out on pages EGM-1 to EGM-2 of this circular. An ordinary resolution will be proposed at the EGM to consider and, if thought fit, to approve, among other things: (i) the execution, delivery and performance of the Subscription Agreement; (ii) the grant of the Specific Mandate; (iii) the allotment and issue of the Subscription Shares in accordance with the Subscription Agreement; and (iv) the Whitewash Waiver. In compliance with the Listing Rules and the Takeovers Code, the votes to be taken at the EGM in respect of the resolution to be proposed at the EGM will be taken by poll whereby any member of the Concert Group, its associates and other Shareholders who are interested or involved in the Subscription and the Whitewash Waiver (including Prominent Achiever and COFCO Dairy Investments) shall abstain from voting on the relevant ordinary resolution to be proposed at the EGM to approve the Subscription, the Specific Mandate and the Whitewash Waiver. The results of the poll will be published after the EGM.

To the best of Director's knowledge, information and belief, after making all reasonable enquiries, as at the Latest Practicable Date, save for the Subscription Shares:

(a) (i) there were no voting trusts or other agreements or arrangements or understandings (other than outright sale) entered into by or binding upon any member of the Concert Group, its associates and other Shareholders who are interested or involved in the Subscription and the Whitewash Waiver who are required to abstain from voting;

(ii) there were no obligations or entitlements of any member of the Concert Group, its associates and other Shareholders who are interested or involved in the Subscription and the Whitewash Waiver who are required to abstain from voting, whereby such persons had or might have temporarily or permanently passed control over the exercise of the voting right in respect of their Shares to third parties, either generally or on a case-by-case basis; and

(b) there were no discrepancies between the beneficial shareholding interests of any member of the Concert Group, its associates and other Shareholders who are interested or involved in the Subscription and the Whitewash Waiver who are required to abstain from voting and the number of Shares in respect of which they would control or would be entitled to exercise control over the voting right at the EGM. A form of proxy for use at the EGM is enclosed with this circular.

Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the proxy shall be deemed to be revoked.

15. RECOMMENDATIONS

The Directors (including all the independent non-executive Directors after considering the advice of the Independent Financial Adviser) consider that the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder are fair and reasonable and on normal commercial terms, and the Subscription, the Specific Mandate and the Whitewash Waiver are in the interests of the Group and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder.

Your attention is drawn to:

(a) this letter from the Board;

(b) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 29 to 30 of this circular; and

(c) the letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 31 to 57 of this circular.

16. FURTHER INFORMATION

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

Shareholders and potential investors should note that the Transactions are subject to the satisfaction (or, if applicable, waiver) of a number of conditions as set out in this circular and, accordingly, the Transactions may or may not proceed and are possibilities only. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional adviser.

By Order of the Board
China Mengniu Dairy Company Limited
Sun Yiping
Chief Executive Officer and Executive Director

The following is the full text of the letter of independent advice from the Independent Board Committee for the purpose of inclusion in 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)

March 5, 2014

To the Independent Shareholders

Dear Sir or Madam,

(1) SUBSCRIPTION FOR NEW SHARES IN CHINA MENGNIU DAIRY COMPANY LIMITED CONSTITUTING A CONNECTED TRANSACTION AND (2) APPLICATION FOR WHITEWASH WAIVER

The Independent Board Committee has been appointed to advise you on the terms of the Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated March 5, 2014 (the "**circular**") of which this letter forms part. Terms defined in the circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the Whitewash Waiver and the terms of the Subscription Agreement and the Specific Mandate, the Independent Board Committee has been formed to advise the Independent Shareholders as to whether, in our opinion, (i) the Whitewash Waiver, the terms of the Subscription Agreement and the Specific Mandate, and the transactions contemplated thereunder are in the interests of the Company and its Shareholders as a whole; (ii) the terms of the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned; (iii) the terms of the Subscription Agreement and the Specific Mandate are fair and reasonable so far as the Independent Shareholders are concerned; and (iv) the Independent Shareholders should vote in favour of the resolution to approve the Subscription, the Specific Mandate, the Whitewash Waiver, and the transactions contemplated thereunder at the EGM. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on these transactions.

* *For identification purposes only*

We wish to draw your attention to the "Letter from the Independent Financial Adviser" as set out on pages 31 to 57 of the circular. We have considered the terms and conditions of the Subscription Agreement, the Specific Mandate and Whitewash Waiver, the advice of the Independent Financial Adviser and the other factors contained in the "Letter from the Board" as set out on pages 9 to 28 of the circular.

In our opinion, we consider that the terms of the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned. We also consider the terms of the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder to be in the best interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolution to be proposed at the EGM to approve the Subscription, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee

Jiao Shuge *Independent Non-executive Director*	**Julian Juul Wolhardt** *Independent Non-executive Director*	**Liu Fuchun** *Independent Non-executive Director*
Zhang Xiaoya *Independent Non-executive Director*	**Andrew Y. Yan** *Independent Non-executive Director*	**Wu Kwok Keung Andrew** *Independent Non-executive Director*

The following is the text of a letter of advice from Somerley Capital Limited to the Independent Board Committee, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

March 5, 2014

To: the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

(1) SUBSCRIPTION FOR NEW SHARES IN CHINA MENGNIU DAIRY COMPANY LIMITED CONSTITUTING A CONNECTED TRANSACTION AND (2) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with (i) the Subscription pursuant to the Subscription Agreement entered into among the Company, COFCO Dairy Investments and Danone Asia; (ii) the Whitewash Waiver; and (iii) the Specific Mandate. Details of the Subscription, the Whitewash Waiver and the Specific Mandate are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated March 5, 2014 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As at the Latest Practicable Date, COFCO Dairy Investments is a substantial Shareholder and a connected person of the Company, as it owns, controls and has direction over 347,600,000 Shares, which represent approximately 18.9% of the existing issued share capital of the Company. Accordingly, the Subscription constitutes a connected transaction for the Company under the Listing Rules and is subject to the reporting, announcement, and Independent Shareholders' approval requirements under the Listing Rules.

As at the date of the Subscription Agreement, the Concert Group indirectly owns, controls and has directions over in aggregate 496,014,022 Shares, representing approximately 27.0% of the voting rights of the Company. Upon the Subscription

Completion, 121,236,357 Subscription Shares will be issued to COFCO Dairy Investments, and as a result, the interests of the Concert Group in the voting rights of the Company will increase from approximately 27.0% to approximately 31.5% (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement and up to the Subscription Completion). As this would take the Concert Group's holding above 30%, the Concert Group would be obliged to make a mandatory general offer to the Shareholders pursuant to Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is obtained from the Executive.

An application to the Executive for the Whitewash Waiver in respect of the issue of the Subscription Shares has been made on behalf of the Concert Group. The Executive has indicated that it will grant the Whitewash Waiver subject to, among other things, the approval of Independent Shareholders at the EGM by way of poll. The Subscription Agreement, the transactions contemplated thereunder and the Whitewash Waiver are subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll. The granting by the Executive of the Whitewash Waiver and the approval by the Independent Shareholders at the EGM are part of the Subscription Conditions and cannot be waived. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Subscription will not proceed.

An Independent Board Committee has been established comprising all of the six independent non-executive Directors, namely Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Liu Fuchun, Mr. Zhang Xiaoya, Mr. Andrew Y. Yan and Mr. Wu Kwok Keung Andrew. The non-executive Directors are not on the Independent Board Committee as each of them holds office(s) in Danone Asia, Arla Foods or COFCO Corporation, and are considered to have a material interest in the Subscription, the Specific Mandate and the Whitewash Waiver. The Independent Board Committee is making a recommendation to the Independent Shareholders on (1) whether the terms of the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned; (2) whether the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned; (3) whether the Subscription, the Specific Mandate and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole; and (4) the voting action that should be taken by the Independent Shareholders. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not associated or connected with the Company, COFCO Dairy Investments, Danone Asia and their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Subscription Agreement, the Specific Mandate and the Whitewash Waiver. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, COFCO Dairy Investments, Danone Asia and their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Circular; (ii) the interim report of the Company for the six months ended June 30, 2013; (iii) the announcements and circulars published by the Company on website of the Stock Exchange since January 1, 2013; and (iv) the material change statement set out in Appendix I to the Circular. We have relied on the information and facts supplied, and the opinions expressed, by the Directors, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have further assumed that all representations contained or referred to in the Circular are true, accurate and complete as at the date of the Circular. Independent Shareholders will be informed as soon as practicable if we become aware of any material change to such information. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Concert Group or respective parties acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering (1) whether the terms of the Subscription Agreement are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned; (2) whether the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned; (3) whether the Subscription, the Specific Mandate and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole; and (4) the voting action that should be taken by the Independent Shareholders, we have taken into account the principal factors and reasons set out below:

1. Background to and reasons for the Subscription Agreement

The Group is principally engaged in manufacturing and distribution of quality dairy products including liquid milk products, ice-cream and other dairy products. Liquid milk products include ultra-high temperature milk, milk beverages and yogurt.

The Danone SA group holds leading international positions in healthy food through four businesses in five continents: fresh dairy products, waters, baby nutrition and medical nutrition. According to the financial statement of the Danone SA group, the consolidated net sales and net income attributable to its shareholders for the year ended December 31, 2012 were approximately EUR20.9 billion and EUR1.7 billion respectively (equivalent to approximately HK$222.8 billion and HK$18.1 billion respectively at an exchange rate of EUR1 = HK$10.66). For the six months ended June 30, 2013, the consolidated net sales and net income attributable to its shareholders were approximately EUR11.1 billion and EUR972 million respectively (equivalent to approximately HK$118.3 billion and HK$10.4 billion respectively at an exchange rate of EUR1 = HK$10.66).

In May 2013, the Group entered into a framework agreement with Danone Asia regarding the proposed establishment of a joint venture which would be engaged in the production and sales of chilled yogurt, chilled yogurt drinks and chilled spoonable dairy-based desserts in the PRC. The two parties would contribute to and reorganise their chilled products businesses in the PRC for the joint venture. As at the Latest Practicable Date, both parties are still in the process of consolidating their respective operating entities, with the process expected to be completed in second quarter of 2014. The Danone SA group, through Prominent Achiever, became a strategic Shareholder in 2013. The executive Directors consider that the strategic alliance with the Danone SA group will benefit the Group's long-term development by capitalising on the Danone SA group's leading yogurt technology. Moreover, the Group can draw on the Danone SA group's brand management and marketing expertise to strengthen the Group's brand, and marketing and distribution network. The strategic alliance can also enhance the Group's technological innovation capabilities in the dairy industry so as to provide the Group's consumers with better quality dairy products.

As discussed above, the Group's strategic alliance relationship with the Danone SA group mainly relates to the yogurt business. The Group has also established a strategic cooperation with Arla Foods, mainly as regards operational matters. As disclosed in the 2013 interim report of the Company, the Group has introduced advanced dairy technology from Denmark. Specifically, the first phase of development and validation of the fingerprint spectrum testing project for raw milk systems has been successfully completed, and the second phase has commenced. We understand from the executive Directors that this can enhance control of raw milk quality, and promote the food safety of the Group's products. The Group continues to co-operate with marketing and technology professionals from Arla Foods to improve the Group's daily operations. For nutritious products, as set out in a news release published on the wesbsite of The WhiteWave Foods Company ("WhiteWave"), the Group has entered into an agreement with a subsidiary of WhiteWave to form a joint venture to manufacture, market and sell a range of nutritious products in the PRC. WhiteWave is one of leading consumer packaged food and beverage companies in North America and Europe with revenue and net income of approximately US$2.5 billion and US$97.0 million respectively for the year ended December 31, 2013.

After completion of the Transactions, the effective shareholding interest of Danone Asia in the Company will increase from approximately 4.0% to 9.9% representing, in the view of the executive Directors, the Danone SA group's confidence and long-term commitment to the Group. The opportunity is being taken to consolidate the respective shareholding interests in the Company held by COFCO (HK), Danone Asia and Arla Foods (in the case of Arla Foods, through COFCO Dairy Holdings) into a single shareholder platform (through COFCO Dairy Investments) as a result of the Transactions. The executive Directors consider that the shareholding consolidation can lead to closer co-operation among COFCO (HK), Danone Asia and Arla Foods in respect of their equity investment in the Company.

In June 2013, the Group announced an offer for Yashili International Holdings Ltd ("Yashili"). The Group financed the cash consideration of the offer for Yashili by way of a one year bridge loan (i.e. the Loan), originally drawing down approximately RMB8.0 billion. Upon the close of the offer, the Group became interested in approximately 89.8% of the share capital of Yashili. In order to restore the public float of Yashili, the Group disposed of certain Yashili shares as set out in the announcement dated November 11, 2013, partially repaying the Loan from the proceeds attributable to the Group. The Loan was further repaid in part by net proceeds from the issue of US$500 million bonds. As at December 31, 2013, the outstanding amount of the Loan was approximately HK$4.88 billion, which matures in August 2014. The Company has considered either an equity issue or debt financing for the repayment of the outstanding amount of the Loan. However, a higher interest rate (as compared to that of the Loan) will be involved in debt financing and thus the Company resolved to settle the outstanding amount of the Loan by way of an equity issue. The executive Directors consider that this is the optimal source of refinancing for the Loan with additional benefits of strengthening relationship and furthering the collaboration between the Company and Danone Asia. The estimated net proceeds from the Subscription of over HK$5 billion are sufficient to complete the repayment of outstanding amount of the Loan. The remaining net proceeds from the Subscription are intended for repayment of part of any other indebtedness of the Company, details of which are set out in the section headed "Use of proceeds from the Subscription" in the "Letter from the Board" contained in the Circular.

The executive Directors considered a number of ways of issuing equity, including a rights issue, open offer or placing to institutional investors, which customarily involve the issue of new Shares at a discount to the market price. In contrast, the price for the Subscription Shares has been set at HK$42.50 per Subscription Share, representing a premium over market price prior to the Subscription Agreement and above the all-time high for the closing prices of Shares for the period from date of listing to the Last Trading Day. In addition, the Subscription will strengthen the relationship with the Danone SA group as set out above. Accordingly, the executive Directors believe that it is in the interests of the Company and the Shareholders as a whole to proceed with the Subscription by entering into of the Subscription Agreement.

We concur with the executive Directors' view that the relationship between the Group and the Danone SA group will be strengthened through the Subscription and that this relationship can bring wide ranging benefits to the Group. We also consider that the repayment of the remaining outstanding amount of the Loan by way of an equity issue is, from a financial perspective, a prudent approach as it can replace the outstanding Loan by equity of the Company. Coupled with setting the Subscription Price at a premium over market price prior to the Subscription Agreement, we consider that the Subscription is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Subscription Agreement

Set out below is a summary of principal terms of the Subscription Agreement. Further details of terms of the Subscription Agreement are set out in the "Letter from the Board" contained in the Circular.

(a) The Subscription Agreement

Date: February 12, 2014

Parties: (i) the Company;

(ii) COFCO Dairy Investments; and

(iii) Danone Asia

Pursuant to the Subscription Agreement, COFCO Dairy Investments has conditionally agreed to subscribe for the Subscription Shares at the Subscription Price of HK$42.50 per Subscription Share. The total consideration, being approximately HK$5,153 million, shall be payable to the Company in cash and will be financed in full by Danone Asia in form of an equity injection into COFCO Dairy Investments.

As set out in the "Letter from the Board" contained in the Circular, the "Share Restructuring and Subscription Agreement" was also entered into on the same date. This is an additional agreement to the Subscription Agreement. The parties are COFCO Dairy Investments, Prominent Achiever (a joint venture company between COFCO (HK) and Danone Asia) and the shareholders of Prominent Achiever. The effect of this agreement is to consolidate the respective effective interests in the Company held by COFCO (HK), Danone Asia and Arla Foods (in the case of Arla Foods, through COFCO Dairy Holdings) in a single holding vehicle, COFCO Dairy Investments. Further details of the "Share Restructuring and Subscription Agreement" are set out in the section headed "Share Restructuring and Subscription Agreement" in the "Letter from the Board" contained in the Circular. The key terms of the "Share Restructuring and Subscription Agreement" and charts illustrating the interests held by the Concert Group in the Company after completion of the Transactions (i.e. completion of both of the "Subscription Agreement" and the "Share Restructuring and Subscription Agreement") are set out in the sub-section below headed "Whitewash Waiver — dilution effects of the Transactions", together with an explanation of the changes being implemented.

(b) The size of the Subscription, the rights of the Subscription Shares and the Specific Mandate

As at the date of the Subscription Agreement, there were 1,835,967,963 Shares in issue and the 121,236,357 Subscription Shares represented approximately 6.6% of the issued share capital of the Company as at the date of the Subscription Agreement. Assuming there is no change in the issued share capital of the Company other than the issue of the Subscription Shares up to the Subscription Completion, the Subscription Shares will represent approximately 6.2% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

The Subscription Shares, when issued and fully paid, will rank pari passu in all respects among themselves and with all the Shares in issue at the date of allotment and issue of the Subscription Shares, including the right to any dividends or distributions made or declared on or after the date of allotment and issue of the Subscription Shares. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

The issuance of the Subscription Shares is subject to approval by the Independent Shareholders. An ordinary solution will be proposed at the EGM to seek, among other things, authority under the Specific Mandate to issue the Subscription Shares pursuant to the Subscription Agreement.

(c) Subscription Price

The Subscription Price is HK$42.50 per Subscription Share. As stated in the "Letter from the Board" contained in the Circular, the Subscription Price was determined after arm's length negotiations between the parties to the Subscription Agreement with reference to, among other factors, the financial position of the Group, the historical trading volume of the Shares on the Stock Exchange and the then recent trading prices of the Shares as quoted on the Stock Exchange.

(d) Conditions of the Subscription

The Subscription Completion is conditional upon the Subscription Conditions having been fulfilled (or validly waived, as the case may be). Certain Subscription Conditions, including (1) the obtaining of the Independent Shareholders' approval of the Subscription, the Specific Mandate and the Whitewash Waiver; and (2) the granting of the Whitewash Waiver by the Executive, cannot be waived in any event, and certain Subscription Conditions may only be waived in specified circumstances. Further details are set out in the sub-section headed "Conditions of the Subscription" under the section headed "The Subscription Agreement" in the "Letter from the Board" contained in the Circular.

The Subscription Completion shall take place on the fifth Business Day after the satisfaction or waiver (where applicable) of the Subscription Conditions or such other date to be agreed by the Company, COFCO Dairy Investments and Danone Asia. As at the Latest Practicable Date, we understand from the executive Directors that none of the Subscription Conditions have been fulfilled (or validly waived, as the case may be).

The Subscription Completion and the Share Restructuring Completion shall take place simultaneously. The Subscription Completion shall not take place if the Share Restructuring Completion fails to take place on the Completion Date.

(e) Lock-up

COFCO Dairy Investments has undertaken to the Company that for a period of three years from the date of the Subscription Completion, without the prior written consent of the Company, COFCO Dairy Investments shall not Sell any of the Subscription Shares. The definition of "Sell", in relation to the Subscription Shares, means any of the following, (a) sell, assign, transfer or otherwise dispose of, or grant any option over, any Subscription Shares or any of COFCO Dairy Investments' interest in the Subscription Shares, (b) create or permit to subsist any encumbrance over any Subscription Shares or any of COFCO Dairy Investments' interest in the Subscription Shares; (c) enter into any agreement in respect of the votes or any other rights attached to any Subscription Shares or any of COFCO Dairy Investments' interest in the Subscription Shares; or (d) renounce or assign any right to receive any Subscription Shares.

3. Analysis of the historical price performance of the Shares

(a) Comparison of the Subscription Price to recent share prices

The Subscription Price of HK$42.50 per Subscription Share exceeds the all-time high for the closing prices of the Shares since the listing of the Shares in June 2004 as set out in the paragraph headed "Share price performance since listing" below of this sub-section. It also represents a premium of about 15–19% over recent Share prices on the following bases:

(i) a premium of approximately 15.3% over the closing price of HK$36.85 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 17.6% over the average closing price of HK$36.13 per Share as quoted on the Stock Exchange for the last five consecutive Trading Days up to and including the Last Trading Day;

(iii) a premium of approximately 18.9% over the average closing price of HK$35.73 per Share as quoted on the Stock Exchange for the last 10 consecutive Trading Days up to and including the Last Trading Day; and

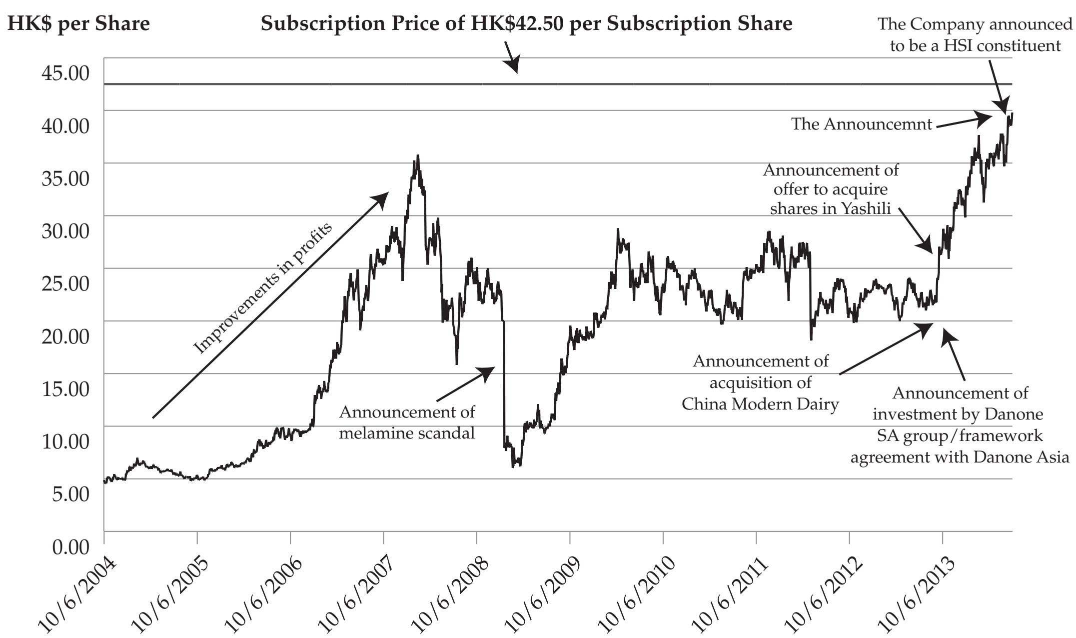
(iv) a premium of approximately 16.8% over the average closing price of HK$36.40 per Share as quoted on the Stock Exchange for the last 30 consecutive Trading Days up to and including the Last Trading Day.

As noted in the sub-section headed "Comparable issues" of this letter below, it is usually the case that such issues of new shares are carried out at a discount to recent market prices, as compared to a premium in this case.

(b) Share price performance since listing

Chart 1 below illustrates the daily closing price per Share from June 10, 2004, being the first day of trading of the Shares on the Stock Exchange, up to and including the Latest Practicable Date:

Chart 1: Share price chart



Source: Bloomberg

The Company went public in June 2004 at a price of HK$3.925 per Share.

From listing until around mid-October 2007, the closing prices of the Shares showed an increasingly strong trend while the Group achieved year-on-year improvements in profits attributable to owners of the Company from 2004 to 2006 (2004: approximately RMB319.4 million; 2005: approximately RMB456.8 million; and 2006: approximately RMB727.4 million) and for the six months ended June 30, 2007 (approximately RMB485.1 million as compared to RMB343.4 million for the six months ended June 30, 2006). In around mid-October 2007, the Share price briefly exceeded HK$35 per Share.

From around late October 2007 to around mid-September 2008, the Shares were affected by stock market conditions and showed a downward trend with certain short-term fluctuations, which was broadly in line with the movement of the Hang Seng Index ("HSI"). On September 17, 2008, trading in the Shares was suspended, having closed at HK$20.0 per Share on September 16, 2008. On September 19, 2008, the interim results of the Group for the six months ended June 30, 2008 were announced with net profits attributable to owners of the Company increased to approximately RMB582.9 million as compared to net profits attributable to owners of the Company of approximately RMB485.1 million for the corresponding period in 2007. The net profits attributable to owners of the Company of approximately RMB582.9 million represented approximately 62.3% of the net profits attributable to owners of the Company of approximately RMB935.8 million in 2007. On September 22, 2008, the Company published an announcement in relation to, among other things, the melamine scandal. Trading in the Shares resumed on September 23, 2008 and the Share closing price dropped to HK$7.95 per Share on September 23, 2008 even though there was an improvement of 2008 interim results. The Share prices remained at a low level for some months, probably due to spread of the melamine scandal and the global financial crisis in 2008.

From around first quarter in 2009 to mid-December 2009, the closing prices of the Shares were on an increasing trend coinciding with general recovery of stock market and the turnaround in the Group's profits attributable to owners of the Company for the six months ended June 30, 2009 (approximately RMB661.9 million) as compared to loss attributable to owners of the Company of approximately RMB948.6 million for the year ended December 31, 2008. The Share price remained broadly flat for a considerable period thereafter.

From early May 2013, the closing prices of the Shares showed an increasing trend. This period has included (i) the purchase of shares in China Modern Dairy Holdings Ltd. ("China Modern Dairy") as set out in the Company's announcement dated May 7, 2013; (ii) the investment by the Danone SA group and the entering into of a framework agreement between the Company and Danone Asia as set out in the Company's announcements both dated May 20, 2013; (iii) the Company's offer for Yashili; and (iv) the increase of the Group's 2013 interim unaudited profit attributable to owners of the Company by approximately 16.3% compared to same period in 2012.

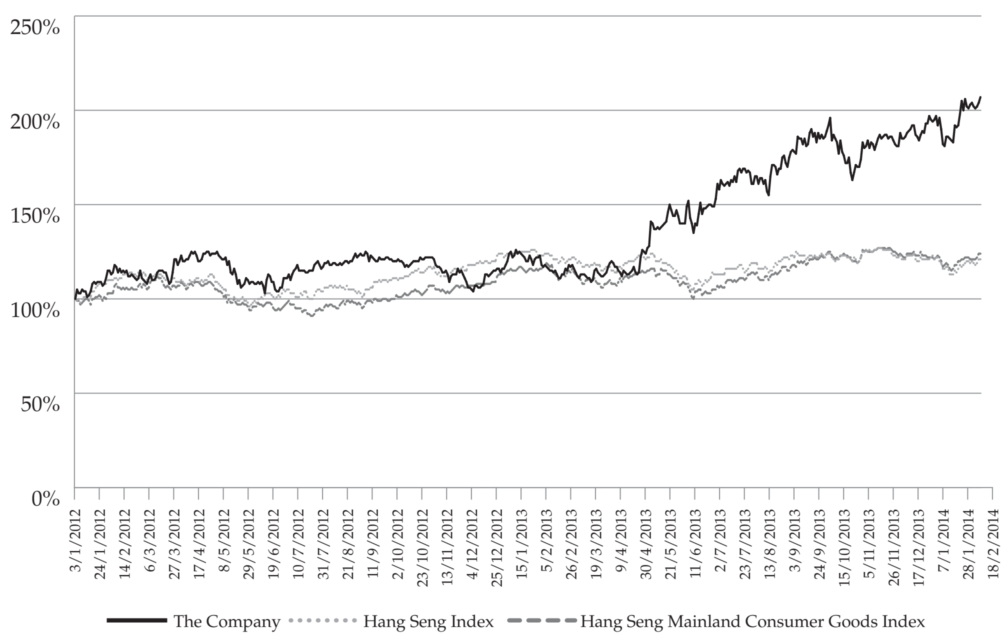
On November 11, 2013, the Company jointly published an announcement with Yashili regarding, among other things, sale of existing Yashili's shares and resumption of trading in Yashili's shares after restoring the public float of Yashili. The Share price closed at HK$32.1 per Share on November 11, 2013. On February 12, 2014, the Company published the Announcement. The Share price closed at HK$37.95 on that day. On the same day (after trading hours), Hang Seng Indexes Company Limited announced that the Company would be added as constituent of the HSI with effect from March 10, 2014. The Share price closed at HK$39.4 on February 13, 2014, representing an increase of approximately 3.8% as compared to closing price as of February 12, 2014. The Shares closed at a price of HK$39.8 per Share as at the Latest Practicable Date. The Subscription Price represents a premium of approximately 6.8% over the closing price of the Shares as at the Latest Practicable Date.

As illustrated in Chart 1 above, the Subscription Price was above the closing prices of the Share at all times during the period from listing of the Shares up to and including the Latest Practicable Date. In view of this, we consider that the timing of the Subscription Agreement is favourable to the Company and the Shareholders as a whole.

(c) Share price performance versus certain indicies

Chart 2 below compares the Share price performance against that of (i) HSI; and (ii) Hang Seng Mainland Consumer Goods Index (the "HSMCGI") from January 1, 2012 up to and including the Latest Practicable Date. The HSMCGI aims to reflect the overall performance of mainland companies listed in Hong Kong which are engaged in the manufacture and distribution of consumer goods. Although it is a more focussed index, its performance, as can be seen below, closely matched that of the HSI during this period.

Chart 2: Comparison of Share performance with Hang Seng Index and Hang Seng Mainland Consumer Goods Index



Source: Bloomberg

As illustrated in Chart 2 above, the fluctuation of the closing price of the Shares was, in general, in line with the overall market from January 1, 2012 until May 2013. However, since early May 2013, the Shares have outperformed the HSI and HSMCGI significantly, coinciding with the various factors set out in sub-paragraph (b) above. The closing price of the Shares of HK$36.85 per Share as at the Last Trading Day represented an increase of approximately 64.5% over the closing Share price at the same time last year (being closing price of the Share on February 8, 2013 which was the last trading day prior to February 11, 2013 (a public holiday)), whereas the HSI has declined by approximately 5.4%, and the HSMCGI has increased slightly by approximately 2.3% over the same period.

4. Comparable issues

For the purpose of our analysis, we have performed an analysis of comparable issues by searching the website of the Stock Exchange on a best efforts basis for all share issues (the "Comparable Issues") with an issue size of HK$1 billion or above announced since January 1, 2013 and up to the date immediately prior to the Latest Practicable Date by companies listed on the main board of the Stock Exchange which involve (i) the application of a whitewash waiver involving placing/subscription/issue of new shares; and (ii) placing/subscription/issue of new shares to/by a connected person in cash which are subject to shareholders' approval. We have excluded (i) issues announced by companies under prolonged suspension; (ii) issues involving convertible securities; and (iii) open offers or rights issues of new shares, which are usually made at discounts. To the best of our knowledge, the Comparable Issues represent all issues meeting the said criteria above. The table below illustrates the details of the Comparable Issues:

					Premium/(discount) of placing/subscription/issue price over/(to)			
Date of announcement	**Company name**	**Principal activities** *(note 1)*	**Closing market capitalisation as at the date of announcement** *(note 2)*	**Size of issue**	**closing share price as at the last day of trading immediately prior to the announcement** *(note 2)*	**average closing share price for the 5 trading days immediately prior to the announcement** *(note 2)*	**average closing share price for the 10 trading days immediately prior to the announcement** *(note 2)*	**average closing share price for the 30 trading days immediately prior to the announcement** *(note 2)*
			HK$ million (approximate)	*HK$ million (approximate)*	*% (approximate)*	*% (approximate)*	*% (approximate)*	*% (approximate)*
January 17, 2013	IRC Limited (stock code: 1029)	Exploration, development and production of iron ore and other industrial commodities products in the Russian Far East	4,961.5 *(note 3)*	1,844.8	(33.8)	(27.2)	(25.3)	(13.9)
January 17, 2013	Ping Shan Tea Group Limited (formerly known as "Huafeng Group Holdings Limited") (stock code: 364)	Provision of fabrics processing services and the manufacture and sale of fabrics, as well as the manufacture and sale of yarns and blankets	364.5	1,678.9	(29.3)	(29.3)	(29.6)	(30.9)

Date of announcement	Company name	Principal activities *(note 1)*	Closing market capitalisation as at the date of announcement *(note 2)* *HK$ million* *(approximate)*	Size of issue *HK$ million* *(approximate)*	Premium/(discount) of placing/subscription/issue price over/(to) closing share price as at the last day of trading immediately prior to the announcement *(note 2)* % *(approximate)*	average closing share price for the 5 trading days immediately prior to the announcement *(note 2)* % *(approximate)*	average closing share price for the 10 trading days immediately prior to the announcement *(note 2)* % *(approximate)*	average closing share price for the 30 trading days immediately prior to the announcement *(note 2)* % *(approximate)*
January 22, 2013	Shenzhen Investment Limited ("Shenzhen Investment") (stock code: 604)	Property development, property investment, property management, provision of transportation services and manufacturing and sale of industrial and commercial products	12,529.5	5,170.9	9.1	9.3	8.7	15.0
May 8, 2013	Greenland Hong Kong Holdings Limited (formerly known as "SPG Land (Holdings) Limited" ("SPG Land")) (stock code: 337) *(note 4)*	Development of large-scale, high-end residential communities, city centre integrated projects and travel & leisure projects that target the middle-to-high-end customer segment	4,015.3	1,302.2 *(note 4)*	(25.3)	(10.2)	5.1	15.4
May 23, 2013	China Huiyuan Juice Group Limited ("China Huiyuan") (stock code: 1886) *(note 5)*	Production and sale of fruit juice, fruit and vegetable juice and other beverages	4,832.9	1,386.7	(7.7)	(1.6)	(0.7)	2.0

Date of announcement	Company name	Principal activities *(note 1)*	Closing market capitalisation as at the date of announcement *(note 2)* *HK$ million* *(approximate)*	Size of issue *HK$ million* *(approximate)*	Premium/(discount) of placing/subscription/issue price over/(to) closing share price as at the last day of trading immediately prior to the announcement *(note 2)* % *(approximate)*	average closing share price for the 5 trading days immediately prior to the announcement *(note 2)* % *(approximate)*	average closing share price for the 10 trading days immediately prior to the announcement *(note 2)* % *(approximate)*	average closing share price for the 30 trading days immediately prior to the announcement *(note 2)* % *(approximate)*
September 27, 2013	Sino-Ocean Land Holdings Limited ("Sino-Ocean Land") (stock code: 3377)	Property development in Beijing and the Pan-Bohai Rim, actively accomplishing national strategic plan with a coastal and riparian focus, and focusing on developing mid-to-high end residential properties, high-end office premises and retail properties	27,412.1	6,268.9	1.7	1.4	0.5	2.1
September 30, 2013	Guangzhou Shipyard International Company Limited (stock code: 317)	Shipbuilding, focusing on building and exploiting handy size vessels and high tech shipbuilding market of roll-on/roll-off ships, roll-on/roll-off passenger vessels and semi-submersible heavy lift vessels	7,801.5	2,824.5	(5.3)	(5.6)	(6.0)	(3.1)
October 10, 2013	China New Town Development Company Limited ("China New Town") (stock code: 1278) *(note 6)*	Planning and development of new town projects in the PRC, particularly in relation to land development	3,058.8	1,443.9	(46.0)	(44.8)	(41.0)	(27.6)

Date of announcement	Company name	Principal activities (note 1)	Closing market capitalisation as at the date of announcement (note 2) HK$ million (approximate)	Size of issue HK$ million (approximate)	Premium/(discount) of placing/subscription/issue price over/(to) closing share price as at the last day of trading immediately prior to the announcement (note 2) % (approximate)	average closing share price for the 5 trading days immediately prior to the announcement (note 2) % (approximate)	average closing share price for the 10 trading days immediately prior to the announcement (note 2) % (approximate)	average closing share price for the 30 trading days immediately prior to the announcement (note 2) % (approximate)
January 23, 2014	CITIC 21CN Company Limited (stock code: 241)	System integration and software development as well as telecom value added services and the drug product identification, authentication, tracking system business	3,085.8	1,327.0	(63.9)	(61.8)	(61.2)	(51.2)
February 13, 2014	Same Time Holdings Limited ("Same Time") (stock code: 451) *(note 7)*	Manufacturing and selling of printed circuit boards	1,160.3	1,440.0	(47.1)	(44.0)	(42.3)	(45.0)
	The Subscription			**5,152.5**	**15.3**	**17.6**	**18.9**	**16.8**

Source: relevant announcements of the companies for the Comparable Issues

Notes:

1. The principal activities of the companies are extracted from the relevant announcements of the Comparable Issues.

2. The closing market capitalisation figures and closing share prices are sourced from Bloomberg.

3. The announcement of IRC Limited was published before morning section trading hours of the Stock Exchange on January 17, 2013. Accordingly, the above figure represents the closing market capitalisation of IRC Limited on January 16, 2013, the last trading day immediately prior to the date of announcement.

4. As mentioned in the announcement of SPG Land dated May 8, 2013, a special dividend of HK$1.275 per share was proposed by SPG Land after the completion of the subscription of shares by the subscriber. Since the subscriber had waived its entitlement to the special dividend and the shares of SPG Land were traded cum the special dividend, we have compared the subscription price of HK$1.9 per share (as set out in the announcement of SPG Land dated May 8, 2013) to the adjusted closing share prices of SPG Land to reflect the effect of the special dividend (being the closing price of shares of SPG Land on each relevant trading day less the special dividend of HK$1.275 per share).

   As mentioned in the announcement of SPG Land dated May 8, 2013, the number of ordinary shares to be issued to the subscriber would be in a range of between 315,338,479 and 685,374,853. We note from the announcement of SPG Land dated August 27, 2013 that 685,374,853 ordinary shares were issued to the subscriber. Accordingly, the size of issue is calculated based on the actual number of 685,374,853 ordinary shares issued to the subscriber.

5. It is stated in the announcement of China Huiyuan dated May 23, 2013 that the subscription price of HK$3.1 per share was determined with reference to the average closing price prior to the date of a possible acquisition announcement published on March 15, 2013 by China Huiyuan. As a result, we have taken March 14, 2013 as the last trading day for our assessment, including calculation of the average share prices of different periods prior to and including March 14, 2013.

6. China New Town published an announcement on January 18, 2013 in relation to, among other things, the discussions with several independent third parties regarding possible investment in China New Town in the form of subscription of new shares. As stated in the announcement of China New Town dated October 10, 2013, the subscription price of HK$0.27 per share was determined with reference to, among other things, average closing price of its shares for the three month period prior to the suspension of trading of the shares on January 14, 2013, i.e. the last trading day of the shares before the release of the aforesaid announcement dated January 18, 2013. Accordingly, we have taken January 14, 2013 as the last trading day for our assessment, including calculation of the average share prices of different periods prior to and including January 14, 2013.

7. Same Time published an announcement after trading hour on October 29, 2013 in relation to, among other things, the memorandum of understanding in respect of a possible subscription of new shares and convertible bonds in Same Time. Pursuant to the memorandum of understanding, the subscription price was determined at HK$4.0 per share with reference to, among other things, the then recent trading performance of the shares of Same Time. As stated in the announcement of Same Time dated February 13, 2014, the subscription price of HK$4.0 was arrived at with reference to, among other things, trading performance of the shares of Same Time prior to the date of the memorandum of understanding. Accordingly, we have taken October 29, 2013 as the last trading day for our assessment, including calculation of the average share prices of different periods prior to and including October 29, 2013.

The 10 Comparable Issues above have generally involved a placing, subscription or issue of new shares at discounts to their respective historical trading prices. As set out in the table above, the Subscription Price of HK$42.50 per Subscription Share represents a premium in a range of between approximately 15.3% and 18.9% over the historical Share price on the Last Trading Day and over the last five, ten and thirty consecutive Trading Days prior to the Last Trading Day. There are only two Comparable Issues (i.e. Shenzhen Investment and Sino-Ocean Land) where the placing/subscription/issue price represented a premium over the historical share price of all the different periods, with premium in a range of between approximately 0.5% and 15.0%. The premium represented by the Subscription Price over the historical prices of the Shares of different periods prior to the Subscription Agreement in a range of between approximately 15.3% and 18.9% compares favourably to that of both Shenzhen Investment and Sino-Ocean Land.

5. Financial information and prospects of the Group

(a) Financial information of the Group

As set out in the Company's 2013 unaudited interim report, the Group recorded revenue of approximately RMB20,668.0 million and profit attributable to owners of the Company of approximately RMB749.5 million for the six months ended June 30, 2013 (representing an increase of approximately 13.3% and 16.3% as compared to that for the six months ended June 30, 2012 respectively). The Group's unaudited equity attributable to owners of the Company was approximately RMB13,721.9 million as at June 30, 2013 (representing approximately RMB7.5 per Share, equivalent to approximately HK$9.5 per Share at an exchange rate of HK$1 to RMB0.7917, based on a total of 1,820,943,568 Shares in issue as at June 30, 2013). Upon the Subscription Completion, which shall take place simultaneously with the Share Restructuring Completion, 121,236,357 Subscription Shares will be issued by the Company. As set out in the section headed "Use of proceeds from the Subscription" in the "Letter from the Board" contained in the Circular, the estimated net proceeds from the issuance of the Subscription Shares, after deduction of expenses, are approximately HK$5,137 million (equivalent to approximately RMB4,067 million at an exchange rate of HK$1 to RMB0.7917). Immediately following the Subscription Completion, the equity attributable to owners of the Company is expected to be improved as a result of the net proceeds from the issuance of the Subscription Shares. For illustration purpose, assuming that the Subscription Completion had taken place on June 30, 2013, the total number of Shares in issue would increase to 1,942,179,925 (being the sum of 1,820,943,568 and 121,236,357), and the equity attributable to owners of the Company would increase to approximately RMB17,789 million (being the sum of approximately RMB13,722 million and approximately RMB4,067 million). On this basis, the equity attributable to owners of the Company per Share would become approximately RMB9.2 (equivalent to approximately HK$11.6 at an exchange rate of HK$1 to RMB0.7917), representing an increase of approximately 23% as compared to the unaudited equity attributable to owners of the Company per Share of approximately RMB7.5 as at June 30, 2013.

In June 2013, the Group announced a proposed acquisition of Yashili by way of a voluntary general offer. Following the close of the offer and a disposal of Yashili's shares to restore the public float, the Group became interested in approximately 76.6% of Yashili, as set out in the joint announcement of the Company and Yashili dated November 11, 2013. Accordingly, Yashili is a non-wholly owned subsidiary of the Group and the financial results of Yashili will be consolidated into the Group's financial statements. For the six months ended June 30, 2013, Yashili group recorded unaudited revenue of approximately RMB2,152.9 million and profit attributable to equity shareholders of Yashili of approximately RMB293.6 million. The unaudited net assets attributable to equity shareholders of Yashili were approximately RMB2,984.2 million as at June 30, 2013.

The respective audited consolidated net assets attributable to the owners of the Company and the equity shareholders of Yashili as at December 31, 2012 amounted to approximately RMB12.44 billion and RMB4.08 billion. On the basis set out in the unaudited pro forma financial information of the Group as enlarged by the acquisition of Yashili group contained in Appendix III to the circular of the Company dated June 28, 2013 (the "Yashili Acquisition Circular"), the unaudited pro forma consolidated net assets attributable to the Shareholders would have been approximately RMB12.39 billion as at December 31, 2012 under three different scenarios regarding the level of acceptance of the share offer by Yashili's shareholders, and the choices of accepting Yashili's shareholders in respect of the cash option, and the cash and share option.

The unaudited pro forma consolidated net assets attributable to the owners of the Company on this basis of approximately RMB12.39 billion is approximately RMB57 million lower than the audited consolidated net assets attributable to the owners of the Company of RMB12.44 billion as at December 31, 2012. The decrease of the consolidated net asset value attributable to the Shareholders is due to the charge of estimated transaction costs of approximately RMB57 million. Further details of the unaudited pro forma financial information (including the bases and assumptions) are set out in the Yashili Acquisition Circular.

It was stated in the 2013 interim report of the Company that the total cash consideration for the offer of Yashili's shares amounted to approximately RMB8.1 billion financed by the Group by way of the Loan. The Loan was partially repaid subsequently by the net proceed attributable to the Group from the disposal of Yashili shares to restore the public float of Yashili and net proceeds from the issue of 3.50% bonds due 2018 in an aggregate principal amount of US$500 million. Therefore, the level of indebtedness of the Group had increased after the acquisition of Yashili and the issue of bonds as compared to that as of June 30, 2013. As set out in the "Statement of Indebtedness" contained in Appendix I to the Circular, the Group's outstanding borrowings amounted to approximately RMB11,765 million (including the outstanding balance of the Loan) as at December 31, 2013.

Further details of bonds are set out in the announcements of the Company dated November 15, November 22 and November 27, 2013. The increase of indebtedness also resulted in additional finance costs to be incurred by the Group.

In addition to the Yashili acquisition, the Group completed another significant acquisition in 2013 in respect of approximately 27% of issued share capital of China Modern Dairy (a raw milk producer). Following completion of these two acquisitions, the business, product mix, financial position and prospects of the Group have changed substantially.

Independent Shareholders may refer to Appendix I to the Circular for details in respect of the Group's historical financial information, but should note that such annual results and the 2013 interim results (being the latest published financial results of the Group) do not include (1) all or most of the results of China Modern Dairy as the acquisition was announced in May 2013; and (2) the results of Yashili as the offer was made and completed in second half of 2013. We consider that the historical published financial information of the Group is of limited relevance to the Independent Shareholders in considering the terms of the Subscription Agreement.

With the acquisition of Yashili and approximately 27% of the issued share capital of China Modern Dairy, the Group became an integrated player in the dairy business with both of upstream and downstream operations. During the course of our analysis, we could not identify any companies listed on mainboard of the Stock Exchange with the group structure of an integrated dairy business operations put together through recent acquisitions comparable to that of the Group. Accordingly, our analysis has been focused on comparing the Subscription Price against (i) historical price performance of the Shares as set out in the sub-section headed "Analysis of the historical price performance of the Shares" above; and (ii) the Comparable Issues as set out in the sub-section headed "Comparable issues" above.

(b) Prospects of the Group

As set out above, the Group's unaudited revenue and profit attributable to owners of the Company for the six months ended June 30, 2013 increased by approximately 13.3% and 16.3% respectively as compared to same period last year. Furthermore, the PRC government has introduced a number of policies and measures to strengthen the dairy industry, which should accelerate industry consolidation and hasten the exit of small companies to favour leading domestic dairy companies. Furthermore, in view of the continuous urbanization, and the increasing spending power and health awareness of consumers, the long-term prospects of the PRC dairy industry remain positive. The recent announcement of the easing of the one-child policy by the PRC government may also bring positive long-term effects for both the baby formula and other dairy products due to stronger demand.

As stated in the Company's 2013 interim report, the Group intends to take advantage of the synergies resulting from cooperation with Arla Foods, the Danone SA group and Yashili to further expand the Group's yogurt and milk formula businesses including achieving organic growth, opening up new sales channels and developing imported products. Nonetheless, the Group faces a number of challenges in its expansion of business including intense competition from local and foreign players in the dairy sector and escalating costs (such as rising prices of raw milk).

6. Financial effects of the Subscription

According to the 2013 interim report of the Company, the Group's net cash (cash and bank balances (excluding pledged deposits) of approximately RMB7,389.0 million net of total bank loans of approximately RMB3,976.6 million) was approximately RMB3,412.4 million as at June 30, 2013. However, the Loan to finance the Yashili acquisition of up to approximately RMB8.1 billion (being the cash consideration for Yashili acquisition set out in 2013 interim report) exceeded the net cash of approximately RMB3.4 billion. The Loan was partially repaid by the net proceeds to the Group from the disposal of Yashili shares to restore the public float and net proceeds from the issue of 3.50% bonds due 2018 in an aggregate principal amount of US$500 million.

As set out in the "Statement of Indebtedness" contained in Appendix I to the Circular, the Group had outstanding borrowings of approximately RMB11,765 million (including the outstanding balance of the Loan) as at December 31, 2013. Upon the Subscription Completion, the estimated net proceeds from the issuance of the Subscription Shares (after deduction of expenses) of approximately HK$5,137 million (equivalent to approximately RMB4,067 million at an exchange rate of HK$1 to RMB0.7917) are intended to be applied to repay the Company's remaining indebtedness under the Loan, and part of any other indebtedness of the Company. As a result, the Company will save the associated finance costs and strengthen its financial position. For illustration purpose only, based on the Group's cash and bank balances as at June 30, 2013 of approximately RMB7,389 million and outstanding borrowings of approximately RMB11,765 million (including the outstanding balance of the Loan) as at December 31, 2013, the Group's net debt position would be approximately RMB4,376 million. Adding the expected net proceeds from the Subscription of approximately RMB4,067 million, the Group's net debt position would have been substantially eliminated.

7. Whitewash Waiver — dilution effects of the Transactions

(a) Key terms of the "Share Restructuring and Subscription Agreement"

On February 12, 2014, the "Share Restructuring and Subscription Agreement" was entered into among (i) COFCO Dairy Investments; (ii) Prominent Achiever; (iii) Colour Spring; and (iv) Danone Asia. Pursuant to this agreement, (a) Colour Spring has conditionally agreed to sell 75,487,152 shares in Prominent Achiever (representing approximately 51% interests in

Prominent Achiever) to COFCO Dairy Investments; and (b) Danone Asia has conditionally agreed to sell 72,526,870 shares in Prominent Achiever (representing approximately 49% interests in Prominent Achiever) to COFCO Dairy Investments. The Sale Consideration is to be satisfied by the issuance of 75,487,152 and 72,526,870 new shares of COFCO Dairy Investments by COFCO Dairy Investments to Colour Spring and Danone Asia, respectively, at the Share Restructuring Completion. In effect, Prominent Achiever, previously a 51/49% joint-venture between the COFCO group and the Danone SA group, will become a wholly-owned subsidiary of COFCO Dairy Investments through a share swap.

The "Share Restructuring and Subscription Agreement" is subject to the conditions as set out in the section headed "Share Restructuring and Subscription Agreement" contained in the "Letter from the Board" of the Circular. The Share Restructuring Completion shall take place simultaneously upon the Subscription Completion. Upon the Share Restructuring Completion and the Subscription Completion, COFCO Dairy Holdings, Colour Spring, Danone Asia and COFCO Dairy Investments will enter into a Shareholders' Agreement relating to COFCO Dairy Investments, details of which are set out in the section headed "Shareholders' Agreement" contained in the "Letter from the Board" of the Circular.

As seen from the Chart 2 below, upon the Share Restructuring Completion and the Subscription Completion, COFCO Dairy Investments will become the platform for holding the respective effective shareholding interests in the Company by the Company's strategic investors.

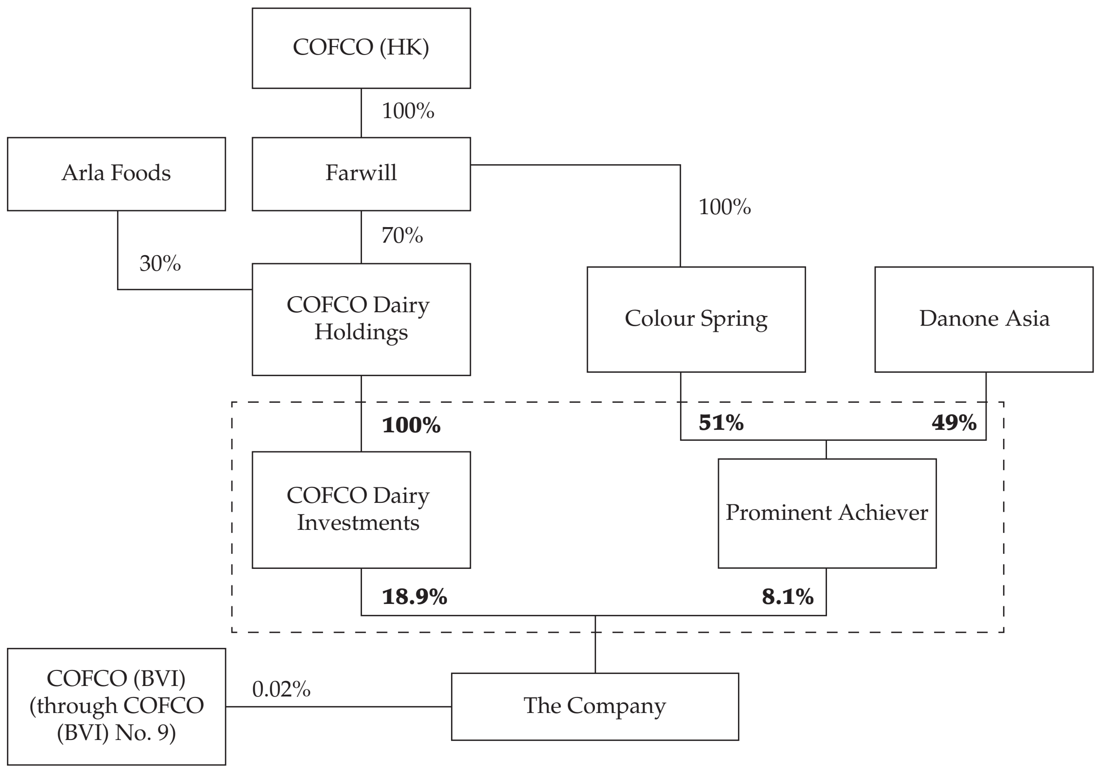
Furthermore, COFCO Dairy Investments will issue to Danone Asia 121,236,357 additional shares of COFCO Dairy Investments as consideration for Danone Asia's equity injection into COFCO Dairy Investments to finance the Subscription pursuant to the "Subscription Agreement". After completion of the Transactions, Danone Asia's effective interest in the Company will be increased from approximately 4.0% to 9.9%.

(b) Interests held by the Concert Group in the Company

The following charts illustrate the interests held by the Concert Group in the Company: (a) as at the Latest Practicable Date; and (b) immediately following the Share Restructuring Completion and the Subscription Completion (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement and up to the Subscription Completion). The holdings which change are highlighted in bold.

Chart 1

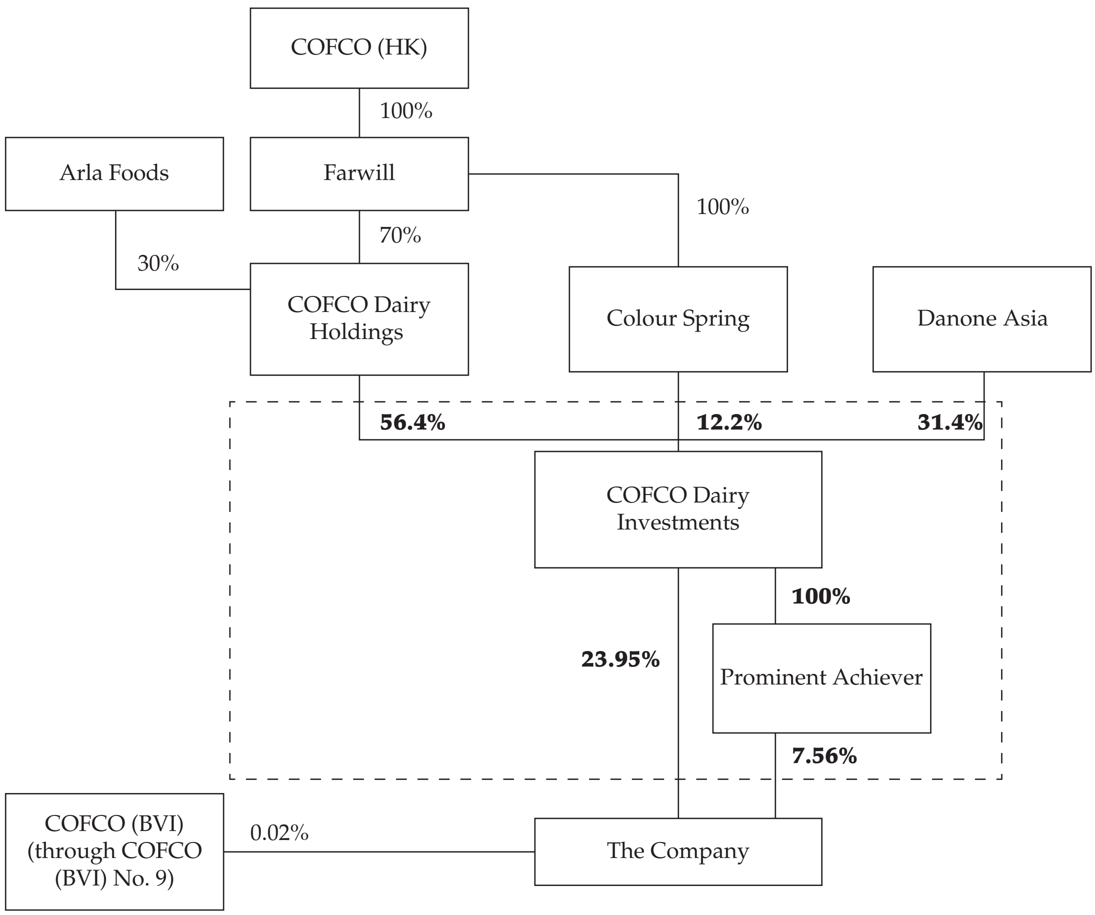
As at the Latest Practicable Date, COFCO Dairy Investments and Prominent Achiever held approximately 18.9% and 8.1% respectively of the Shares (an aggregate holding of approximately 27.0%) as follows:



Note: Shareholding structure changes take place within the dotted lines.

Chart 2

Immediately after the Share Restructuring Completion and the Subscription Completion, the shareholdings in COFCO Dairy Investments and the aggregate holding of COFCO Dairy Investments in the Company change as follows:



Note: Shareholding structure changes take place within the dotted lines.

Key effects of the Transactions in changing the shareholding structure immediately after the Subscription Completion and the Share Restructuring Completion are summarised as follows:

(i) the respective effective interest in the Company held by COFCO (HK), Danone Asia and Arla Foods (in the case of Arla Foods, through COFCO Dairy Holdings) will be held through a single holding vehicle, COFCO Dairy Investments, which will hold, in aggregate, directly and indirectly, approximately 31.5% of the Shares;

(ii) Danone Asia's effective interest in the Company will be increased from approximately 4.0% to 9.9%; and

(iii) the effective interest held by Arla Foods will drop to approximately 5.3%.

(c) Dilution of public Shareholders

The following table illustrates the dilution effect to public Shareholders immediately after the Share Restructuring Completion and the Subscription Completion:

	As at the Latest Practicable Date		Immediately after the Share Restructuring Completion and the Subscription Completion (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement and up to the Subscription Completion)	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*
The Concert Group	496,014,022	27.02%	617,250,379	31.53%
Director – Bai Ying	603,209	0.03%	603,209	0.03%
Public Shareholders	1,339,350,732	72.95%	1,339,350,732	68.44%
Total	1,835,967,963	100.00%	1,957,204,320	100.00%

As illustrated above, upon the Share Restructuring Completion and the Subscription Completion, the shareholding of the existing public Shareholders would be reduced from approximately 73.0% as at the Latest Practicable Date to approximately 68.4%.

8. Whitewash Waiver — Takeovers Code provisions

As at the date of the Subscription Agreement, the Concert Group indirectly owns, controls and has directions over in aggregate 496,014,022 Shares, representing approximately 27.0% of the voting rights of the Company. Upon the Subscription Completion, the interests of the Concert Group in the voting rights of the Company will be increased from approximately 27.0% to approximately 31.5% (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement and up to the Subscription Completion).

Pursuant to Rule 26 of the Takeovers Code, the acquisition of voting rights under such circumstances will trigger an obligation to make a mandatory general offer by the Concert Group for all the securities of the Company other than those already owned (or agreed to be acquired) by the Concert Group, unless the Whitewash Waiver is obtained from the Executive and approved by the Independent Shareholders by way of poll. An application to the Executive for the Whitewash Waiver in respect of the issue of the Subscription Shares has been made on behalf of the Concert Group. The Executive has indicated that it will grant the Whitewash Waiver subject to, among other things, the approval of Independent Shareholders at the EGM by way of poll. The Concert Group, its associates and any other Shareholders who are involved or interested in the Share Restructuring, the Subscription and/or the Whitewash Waiver (including Prominent Achiever and COFCO Dairy Investments) are required to abstain from voting at the EGM in respect of the resolution approving the Subscription Agreement, the Specific Mandate and the Whitewash Waiver.

Shareholders should note that the granting by the Executive of the Whitewash Waiver and the approval by the Independent Shareholders at the EGM are part of the Subscription Conditions and cannot be waived. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Subscription will not proceed.

Having taken into consideration (i) the strengthened strategic alliance relationships between the Group and the Danone SA group as set out in the sub-section headed "Background to and reasons for the Subscription Agreement" of this letter above; (ii) that the Subscription Price represents a premium over the closing price on the Last Trading Day and exceeds the closing price of the Shares at all times during the period from the date of listing to the Latest Practicable Date as detailed in the sub-section headed "Analysis of the historical price performance of the Shares" of this letter above; (iii) the improvement of financial position of the Group as detailed in the sub-section headed "Financial effects of the Subscription" of this letter above; and (iv) the degree of dilution to the existing public Shareholders set out in the sub-section headed "Whitewash Waiver — dilution effects of the Transactions" of this letter above, we are of the view that the Whitewash Waiver (the granting of which) being one of the Subscription Conditions is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

DISCUSSION AND ANALYSIS

(i) Reasons for the Subscription

We note that a principal effect of the Subscription on the interests held by the Concert Group in the Company (set out in Chart 2 in the sub-section headed "Whitewash Waiver — dilution effects of the Transactions" above) is that Danone Asia will increase its effective interest in the Company to approximately 9.9%. Danone SA is a long-established international company with leading positions in fresh dairy products, as well as water products and baby and medical nutrition. We concur with the executive Directors' view that raising funds by the Company from Danone Asia through Danone Asia's equity injection into COFCO Dairy Investments presents a good opportunity for the Company to enhance its relationship with Danone Asia and that this relationship is likely to bring significant long-term commercial benefits to the Group. We note there is a three-year lock-up for the Subscription Shares.

(ii) Use of proceeds

The main use of proceeds of the Subscription is to repay the Company's remaining indebtedness under the Loan (used to fund the acquisition of Yashili) and certain other indebtedness. The financial impact of the successful offer for Yashili was in effect to replace, on consolidation, the substantial majority of the equity of Yashili by debt. Accordingly, we consider that adjusting the proportions of debt and equity in the financing mix by means of the Subscription is a prudent policy following completion of the Yashili acquisition. Following the Subscription Completion, on the basis set out above, the executive Directors expect that the Group's net debt position would have been substantially eliminated.

(iii) Timing of the Subscription Agreement

As set out in the sub-section above headed "Analysis of the historical price performance of the Shares", the closing price of HK$36.85 per Share as at the Last Trading Day represented an increase of approximately 64.5% over to the closing Share price at the same time last year (being closing price of the Share on February 8, 2013 which was the last trading day prior to February 11, 2013 (a public holiday)), whereas the HSI has declined by approximately 5.4%, and the HSMCGI has increased slightly by approximately 2.3% over the same period. Consequently, we consider that the timing of the Subscription Agreement is favourable to the Independent Shareholders.

(iv) Pricing of the Subscription

The Subscription Price has been set at a premium of approximately 15.3% over the closing price on the Last Trading Day. This is unusual, as subscription prices for new shares are typically based on a discount to recent market prices, as illustrated by the Comparable Issues summarized in the sub-section headed "Comparable issues" above. In addition, the Subscription Price exceeds the all-time high for the closing prices of Shares since their floatation in 2004 and up to the Latest Practicable Date. Accordingly, we consider that the pricing of the Subscription is favourable to the Independent Shareholders.

(v) Method of issue

The Board considered other methods of issue to the Subscription, such as a rights issue, open offer or placement to institutional investors. However, to provide an incentive for shareholders to subscribe, and in the case of a rights issue to promote trading in the nil paid rights, it is market practice to make such issues at a discount to the market price before the announcement of the issue (adjusting for any ex-rights effect). Institutional placements are also customarily made at a discount. In this case, Danone Asia has agreed in effect to take the Subscription Shares at a premium over market of approximately 15.3% over the closing price on the Last Trading Day.

(vi) Significant acquisitions made in 2013 by the Group

Two significant acquisitions have been made in 2013 of interests in China Modern Dairy and Yashili, resulting in a larger and more diversified group. Given this, we consider that an analysis of historical financial information of the Group is of limited relevance to the Independent Shareholders in assessing the terms of the Subscription Agreement. In our assessment of the Subscription Price, we have relied principally on the historical Share price of the Company, and the discount and premium applicable to the Comparable Issues.

(vii) Whitewash Waiver

The effect of the Transactions on the shareholding structure of the Company is set out in the sub-section headed "Whitewash Waiver — dilution effects of the Transactions" of this letter above. The Subscription Shares amount to approximately 6.2% of the enlarged share capital of the Company, and the Subscription Completion will have the effect of diluting the Shares held by the public from approximately 73.0% to 68.4%. The Subscription Completion will also have the effect of increasing the Concert Group's holding from approximately 27.0% to 31.5%, which exceeds the 30% trigger point for a general offer under the Takeovers Code. Consequently, the Subscription is conditional on the Whitewash Waiver being granted. If it is granted, the Concert Group can exercise a greater degree of control than at present and increase its stake further over time (subject to the 2% annual "creeper" provision in the Takeovers Code) without having to make a general offer to all shareholders. However, taking into account the factors relating to the Subscription mentioned above, principally the strengthened relationship with Danone Asia, and the favourable timing and premium pricing of the Subscription, we consider the benefits of granting of the Whitewash Waiver, from the point of view of the Independent Shareholders, outweigh the drawbacks of ceding a greater degree of control to the Concert Group.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, although the Subscription is not in the ordinary and usual course of business of the Company, we consider that (1) the terms of the Subscription Agreement are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned; (2) the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned; and (3) the Subscription, the Specific Mandate and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

M.N. Sabine	**Richard Leung**
Chairman	*Director*

1. FINANCIAL SUMMARY

The following is a summary of the consolidated results and financial information of the Group for the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, details of which were extracted from the annual reports of the Company for each of the years ended 31 December 2010, 2011 and 2012 and the interim report of the Company for the six months ended 30 June 2013:

	For the year ended 31 December			For the six months ended 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(audited)		(unaudited)
Revenue	30,265,415	37,387,844	36,080,353	20,667,981
Cost of sales	(22,478,979)	(27,795,692)	(27,025,786)	(15,148,827)
Gross profit	7,786,436	9,592,152	9,054,567	5,519,154
Profit before taxation	1,538,102	2,060,630	1,685,034	1,036,064
Income tax expense	(182,185)	(276,081)	(245,476)	(185,684)
Profit for the year/the period attributable to:				
Owners of the Company	1,237,273	1,589,274	1,257,148	749,494
Non-controlling interests	118,644	195,275	182,410	100,886
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)				
– Basic	0.712	0.908	0.711	0.419
– Diluted	0.711	0.905	0.711	0.419
Dividends				
Dividend	278,078	349,953	282,917	0
Dividend per share (RMB)	0.160	0.198	0.160	0

The auditors of the Company for each of the three years ended 31 December 2010, 2011 and 2012, Ernst & Young, did not issue any qualified opinion on the financial statements of the Group for each of the three years ended 31 December 2010, 2011 and 2012.

The Group did not have any items which are exceptional because of size, nature or incidence for each of the three years ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013.

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

The following information is extracted from the audited financial statements of the Group as set out in the annual report of the Company for the year ended December 31, 2012:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	4	36,080,353	37,387,844
Cost of sales		(27,025,786)	(27,795,692)
GROSS PROFIT		9,054,567	9,592,152
Other income and gains	4	257,054	296,265
Selling and distribution expenses		(6,425,842)	(6,694,705)
Administrative expenses		(1,195,416)	(1,110,089)
Other expenses	5	(196,046)	(187,162)
PROFIT FROM OPERATING ACTIVITIES		1,494,317	1,896,461
Interest income		218,616	173,052
Finance costs	8	(41,754)	(60,942)
Share of profits and losses of associates	20	13,855	52,059
PROFIT BEFORE TAX	6	1,685,034	2,060,630
Income tax expense	9	(245,476)	(276,081)
PROFIT FOR THE YEAR		1,439,558	1,784,549
Attributable to:			
Owners of the Company		1,257,148	1,589,274
Non-controlling interests		182,410	195,275
		1,439,558	1,784,549
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (EXPRESSED IN RMB PER SHARE)	11		
– Basic		0.711	0.908
– Diluted		0.711	0.905

Details of the dividends payable and proposed for the year are disclosed in note 10 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
PROFIT FOR THE YEAR		1,439,558	1,784,549
OTHER COMPREHENSIVE INCOME			
Available-for-sale investments:			
Changes in fair value	22	61,504	(108,536)
Income tax effect	22	(10,221)	17,035
		51,283	(91,501)
Exchange differences on translation of foreign operations		474	(196,303)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		51,757	(287,804)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,491,315	1,496,745
Attributable to:			
Owners of the Company		1,306,848	1,304,899
Non-controlling interests		184,467	191,846
		1,491,315	1,496,745

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	7,891,914	6,806,539
Construction in progress	13	596,812	887,103
Land use rights	14	807,443	585,007
Long term prepayments	29	299,947	243,942
Goodwill	15	482,436	482,436
Other intangible assets	16	225,977	224,887
Investments in associates	20	77,921	153,352
Available-for-sale investments	22	509,788	295,206
Deferred tax assets	23	72,093	66,749
Other financial assets	24	53,521	69,961
Biological assets	25	211,686	–
		11,229,538	9,815,182
CURRENT ASSETS			
Available-for-sale investments	22	240,000	–
Inventories	26	1,419,898	1,685,247
Bills receivable	27	176,386	261,024
Trade receivables	28	625,087	574,734
Prepayments and deposits	29	949,956	774,907
Other receivables	30	359,877	289,427
Investment deposits	31	160,000	102,800
Pledged deposits	32	51,602	175,289
Cash and bank balances	32	5,778,390	6,523,075
		9,761,196	10,386,503
CURRENT LIABILITIES			
Trade payables	33	2,381,955	2,543,405
Bills payable	34	1,296,910	1,141,141
Deferred income	40	19,056	18,912
Other payables	35	1,632,144	1,581,781
Accruals and customers' deposits	36	993,460	1,180,720
Interest-bearing bank loans	37	573,777	537,544
Other loans	38	24,915	119,094
Income tax payable		58,426	103,228
		6,980,643	7,225,825
NET CURRENT ASSETS		2,780,553	3,160,678
TOTAL ASSETS LESS CURRENT LIABILITIES		14,010,091	12,975,860

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT LIABILITIES			
Long term payables	39	144,593	188,739
Deferred income	40	215,740	234,940
Deferred tax liabilities	23	33,051	22,830
Other financial liabilities	41	544,858	480,531
		938,242	927,040
NET ASSETS		13,071,849	12,048,820
EQUITY			
Equity attributable to owners of the Company			
Issued capital	42	181,151	181,087
Retained earnings		3,745,840	3,074,337
Other reserves	43(A)	8,516,301	8,215,634
		12,443,292	11,471,058
Non-controlling interests		628,557	577,762
TOTAL EQUITY		13,071,849	12,048,820

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

		Attributable to owners of the Company					
	Notes	**Issued capital** *RMB'000*	**Other reserves** *RMB'000* *Note 43(A)*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2011		178,679	7,529,169	2,050,216	9,758,064	459,445	10,217,509
Profit for the year		–	–	1,589,274	1,589,274	195,275	1,784,549
Other comprehensive income for the year:							
Changes in fair value of available-for-sale investments, net of tax		–	(88,072)	–	(88,072)	(3,429)	(91,501)
Exchange difference on translation of foreign operations		–	(196,303)	–	(196,303)	–	(196,303)
Total comprehensive income for the year		–	(284,375)	1,589,274	1,304,899	191,846	1,496,745
Shares issued under equity-settled share option arrangements	45	2,408	518,208	–	520,616	–	520,616
Equity-settled share option arrangements	45	–	173,541	–	173,541	–	173,541
Transfer to statutory reserves		–	285,920	(285,920)	–	–	–
Final 2010 dividend declared	10	–	–	(279,233)	(279,233)	–	(279,233)
Dividends paid to non-controlling shareholders		–	–	–	–	(51,047)	(51,047)
Acquisition of a subsidiary	46	–	–	–	–	21,635	21,635
Derecognition of puttable non-controlling interests	41	–	(6,829)	–	(6,829)	(44,117)	(50,946)
At 31 December 2011		181,087	8,215,634	3,074,337	11,471,058	577,762	12,048,820

		Attributable to owners of the Company					
		Issued capital	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			Note 43(A)				
At 1 January 2012		181,087	8,215,634	3,074,337	11,471,058	577,762	12,048,820
Profit for the year		–	–	1,257,148	1,257,148	182,410	1,439,558
Other comprehensive income for the year:							
Changes in fair value of available-for-sale investments, net of tax		–	49,226	–	49,226	2,057	51,283
Exchange difference on translation of foreign operations		–	474	–	474	–	474
Total comprehensive income for the year		–	49,700	1,257,148	1,306,848	184,467	1,491,315
Shares issued under equity-settled share option arrangements	45	64	12,063	–	12,127	–	12,127
Equity-settled share option arrangements	45	–	19,172	–	19,172	–	19,172
Transfer to statutory reserves		–	235,636	(235,636)	–	–	–
Final 2011 dividend declared	10	–	–	(350,009)	(350,009)	–	(350,009)
Dividends paid to non-controlling shareholders		–	–	–	–	(79,363)	(79,363)
Acquisition of non-controlling interests		–	(2,346)	–	(2,346)	(8,367)	(10,713)
Derecognition of puttable non-controlling interests	41	–	(13,558)	–	(13,558)	(45,942)	(59,500)
At 31 December 2012		181,151	8,516,301	3,745,840	12,443,292	628,557	13,071,849

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Profit before tax		1,685,034	2,060,630
Adjustments for:			
Interest income		(218,616)	(173,052)
Finance costs	8	41,754	60,942
Depreciation of items of property, plant and equipment	6	993,853	839,264
Amortisation of land use rights	6	14,863	12,538
Amortisation of other intangible assets	6	8,156	11,735
Loss on disposal of items of property, plant and equipment	5	6,035	8,502
Loss on disposal of biological assets	5	428	–
Share-based payment expense	45	19,172	173,541
Provision for trade receivables and other receivables	6	31,198	12,973
Share of profits and losses of associates	20	(13,855)	(52,059)
Write-down of inventories to net realisable value	5	2,637	1,522
Government grants		(103,493)	(55,771)
Amortisation of deferred income	4	(19,056)	(17,257)
Foreign exchange differences, net	5	289	(143,693)
Gain on deemed disposal of an associate	4	(4,384)	(21,566)
Gain on disposal of associates	4	(50,635)	–
Unrealised fair value losses on derivative financial instruments		–	6,731
		2,393,380	2,724,980
Decrease/(increase) in other financial assets		20,974	(26,230)
Decrease/(increase) in inventories		252,085	(512,744)
Increase in trade and bills receivables		(11,728)	(272,752)
Decrease/(increase) in pledged deposits		(11,278)	57,175
Increase in prepayments, deposits and other receivables		(143,577)	(167,288)
Decrease/(increase) in trade and bills payables		(137,781)	252,847
Decrease/(increase) in accruals and other payables		(36,288)	706,936
Cash generated from operations		2,325,787	2,762,924
Interest paid		(19,183)	(46,420)
Income taxes paid		(299,708)	(196,447)
Net cash flows from operating activities		2,006,896	2,520,057

	Notes	2012 RMB'000	2011 RMB'000
Cash flows from investing activities			
Proceeds from disposal of items of property, plant and equipment		14,738	12,371
Proceeds from disposal of biological asset		300	–
Purchase of items of property, plant and equipment		(770,678)	(586,726)
Purchase of biological assets		(143,893)	–
Purchase of construction in progress	*13*	(1,189,527)	(1,705,881)
Purchase of other intangible assets	*16*	(3,750)	(6,796)
Purchase of land use rights		(195,146)	(94,110)
Purchase of available-for-sale investments		(370,258)	(106,491)
Disposal of available-for-sale investments		400	3,870
Acquisition of subsidiaries		(5,200)	3,268
Capital injection to associates		(1,871)	(738)
Capital injection to a jointly-controlled entity		–	(20,000)
Receipt of government grants		–	20,630
Withdrawal/(purchase) of time deposits with original maturity of more than three months		(671,297)	759,355
Interest received		175,552	167,721
Dividends received from associates		22,398	11,163
Dividends received from an available-for-sale investment		153	144
Disposal of associates		101,810	–
Advances to a jointly-controlled entity		(135,000)	–
Purchase of investment deposits		(2,800,960)	(102,800)
Withdrawal of investment deposits		2,743,760	–
Acquisition of non-controlling interests		(10,713)	–
Net cash flows used in investing activities		(3,239,182)	(1,645,020)

	Notes	2012 RMB'000	2011 RMB'000
Cash flows from financing activities			
Proceeds from interest-bearing bank loans		549,925	404,186
Repayment of interest-bearing bank loans		(421,895)	(723,682)
Repayment of other loans		–	(2,646)
Decrease/(Increase) in pledged deposits for bank loans		134,965	(130,065)
Dividends paid to owners of the Company	*10*	(350,009)	(279,233)
Dividends paid to non-controlling shareholders		(71,397)	(51,970)
Proceeds from other loans		18,500	42,493
Repayment of long term payables		(53,712)	(37,886)
Capital contribution by a joint venture partner		–	20,000
Shares issued under equity-settled share option arrangements	*45*	12,127	520,616
Net cash flows from financing activities		(181,496)	(238,187)
Net increase/(decrease) in cash and cash equivalents		(1,413,782)	636,850
Cash and cash equivalents at beginning of year	*32*	4,359,872	3,775,255
Effect of foreign exchange rate changes, net		(2,200)	(52,233)
Cash and cash equivalents at end of year	*32*	2,943,890	4,359,872
Analysis of balances of cash and cash equivalents			
Cash and bank balances as stated in the consolidated statement of financial position	*32*	5,778,390	6,523,075
Time deposits with original maturity more than three months	*32*	(2,834,500)	(2,163,203)
Cash and cash equivalents as stated in the consolidated statement of cash flows	*32*	2,943,890	4,359,872

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	342	28
Available-for-sale investments	22	89,642	69,008
Loans to a subsidiary	18	2,657,176	2,656,684
Investments in subsidiaries	19	5,108,191	5,043,682
		7,855,351	7,769,402
CURRENT ASSETS			
Other receivables	30	802,202	647,991
Cash and bank balances	32	751,922	622,766
		1,554,124	1,270,757
CURRENT LIABILITIES			
Other payables		1,629	1,133
Interest-bearing bank loans	37	405,425	–
		407,054	1,133
NET CURRENT ASSETS		1,147,070	1,269,624
NET ASSETS		9,002,421	9,039,026
EQUITY			
Issued capital	42	181,151	181,087
Reserves	43(B)	8,821,270	8,857,939
TOTAL EQUITY		9,002,421	9,039,026

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands. The Company is an investment holding company and its subsidiaries are engaged in the manufacture and distribution of dairy products mainly in the People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared on a historical cost basis except for share options, certain available-for-sale equity investments, biological assets and derivative financial instruments, which have been measured at fair value. They are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The result of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the day that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in the consolidated income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate.

2.2 IMPACT OF REVISED IFRSS

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
IAS 19 Amendments	*Employee Benefits*[2]
IAS 27 (Revised)	*Separate Financial Statements*[2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009–2011 Cycle	Amendments to a number of IFRSs issued in May 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of determining whether these new and revised standards and interpretations will have any material impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held-for-sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in its jointly-controlled entities are accounted for by the proportionate consolidation method, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the

Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportional share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at the acquisition date fair value and any resulting gain or loss is recognised in the consolidated income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in the consolidated income statement or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in the consolidated income statement as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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 Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(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).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	20 years
Plant and machinery	5 to 10 years
Office equipment	5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress

Construction in progress represents plants and properties under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Trademarks

Trademarks acquired separately are measured at cost. Trademarks acquired as part of a business combination are valued at fair value based on the royalty relief method.

Trademarks with finite useful lives are amortised on the straight-line basis over their estimated useful lives of 10 years. Trademarks with indefinite useful lives are tested for impairment annually.

Computer softwares

Acquired computer softwares are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the straight-line basis over their estimated useful lives of 3 to 10 years.

Research and development costs

All research costs are charged to the consolidated income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating lease are initially stated at cost and subsequently recognised as an expense in the consolidated income statement on the straight-line basis over the lease terms of 50 years.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classifications of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the consolidated income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied.

The Group evaluates its financial assets held for trading to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in the consolidated income statement. The loss arising from impairment is recognised in the consolidated income statement in finance costs for loans and in other expenses for receivables.

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain and loss is recognised in the consolidated income statement in other income and gains, or until the investment is determined to be impaired when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the consolidated income statement in other expenses. Interest and dividends earned while holding the available-for-sale investments are reported as interest income and dividend income, respectively and are recognised in the consolidated income statement as "Other income and gains" in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to the consolidated income statement over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to the impaired, then the amount recorded in equity is reclassified to the consolidated income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of the event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the consolidated income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale investments

For available-for-sale investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is removed from other comprehensive income and recognised in the consolidated income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the consolidated income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, financial guarantee contracts, interest-bearing bank loans, other loans, and other financial liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the consolidated income statement. The net fair value gain or loss recognized in the consolidated income statement does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active financial markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing model.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments to hedge certain business risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative under IAS 39 are recognised in the consolidated income statement as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the consolidated income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows):

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.

- Embedded derivates that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into a current portions and non-current portions only if a reliable allocation can be made.

Biological assets

Dairy cows

Dairy cows, including milkable cows, heifers and calves, are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resultant gain or loss recognised in the consolidated income statement for the year in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation cost and excluding finance costs and income taxes. The fair value of dairy cows is determined based on its present location and condition and is determined independently by a professional valuer.

The feeding costs and other related costs including the depreciation charge, utilities cost and consumables incurred for the raising of heifers and calves are capitalised, until such time as the heifers and calves begin to produce milk.

Agricultural produce

Milk

Agricultural produce represents milk. Milk is recognised at the point of harvest at its fair value less costs to sell. The fair value of milk is determined based on market prices in the local area.

Inventories

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

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials	–	cost on a weighted average basis;
Finished goods	–	cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs on a weighted average basis.

Net realisable value is the estimated selling price less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provisions is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into considerations interpretations and practices prevailing in the countries in which the Group operates.

Deferred income tax

Deferred tax is provided, using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and a joint venture, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Grants relating to biological assets

An unconditional government grant related to a biological asset measured at its fair value less costs to sell is recognised in the consolidated income statement when, and only when, the government grant becomes receivable. If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, the Group recognises the government grant in the consolidated income statement when, and only when, the conditions attaching to the government grant are met.

Other grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the consolidated income statement by way of a reduced depreciation charge.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Rental income

Revenue is recognised on a time proportion basis over the lease terms.

Interest income

Revenue is recognised as interest accrues using the effective interest method by applying the rate that exactly discounts estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment has been established.

Employee benefits

Retirement benefits

The Group's subsidiaries operating in the People's Republic of China except for Hong Kong ("Mainland China") participate in a central defined contribution retirement benefit plan managed by the local municipal government in the locations in which they operate. Contributions are made based on a percentage of the companies' payroll costs and are charged to the consolidated income statement as they become payable in accordance with the rules of the central defined contribution retirement benefit plan.

The Company also participates in the defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for the its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 45 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payments or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to prepare for their intended use, are capitalised as a part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the consolidated income statement in the period in which they are incurred.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

Foreign currencies

Each entity in the Group determines its own functional currency based on the assessment of its specific facts and circumstances. The Company, established in the Cayman Islands, uses the Hong Kong dollar as its functional currency and the subsidiaries, established in the PRC, use the Renminbi ("RMB") as their functional currency. As the Group mainly operates in Mainland China, RMB is used as the presentation currency of the Group. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or the consolidated income statement is also recognised in other comprehensive income or the consolidated income statement, respectively).

As at the reporting date, the assets and liabilities of companies whose functional currency differs from the presentation currency are translated into the presentation currency of the Group at the rates of exchange prevailing at the end of the reporting period and their income statements are translated at the weighted average exchange rates for the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends or on whether certain companies of the Group is determined to be a Chinese resident enterprise by the PRC governing tax authorities in the future. Management considered that it is not probable that the Group's PRC subsidiaries will distribute profits earned on or after 1 January 2008 till the end of 2012 in the foreseeable future, and accordingly no additional provision for withholding tax was made in 2012. Where the final outcome of these matters is different from the amounts originally rewarded, the difference will impact the deferred tax provision in the period in which the differences realise.

Operating lease commitments – group as lessor

The Group has entered into commercial leases on certain of its ranch facilities comprising of plant and machinery included in the property, plant and equipment account. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Operating lease commitments – group as lessee

The Group has entered into commercial leases on certain machinery. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it does not bear all the significant risks and rewards of ownership of these machinery and accounts for the contracts as operating leases.

Classification between investment properties and own-occupied properties

The Group determines whether a property qualified as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Details of goodwill are given in note 17 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and all unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, which affects the probability of utilisation and the tax rate to be used in the calculations. Details of deferred tax assets are contained in note 23 to the financial statements.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment of available-for-sale investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, historical share price movements and the duration or extent to which the fair value of an investment is less than its cost.

Impairment of trade and other receivables

The Group determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition. Management reassesses the provisions at the end of each reporting period.

Fair value of contingent considerations

Contingent considerations, resulting from business combinations, are valued at fair value at the acquisition date as part of the business combinations. Where the contingent consideration meets the definition of a derivative and thus, a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factors.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in note 45 to the financial statements.

Useful lives, residual values and depreciation of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charges where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expenses in the future periods.

Fair value of dairy cows

The Group's dairy cows are valued at fair value less costs to sell. The fair value of dairy cows is determined based on either the market-determined prices as at the end of the reporting period adjusted with reference to the species, age, growing condition, costs incurred and expected yield of the milk to reflect differences in characteristics and/or stages of growth of the dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable; or the cost when appropriate. Any change in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of dairy cows. Details of assumptions used are disclosed in note 25.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- Liquid milk products segment – manufacture and distribution of ultra-high temperature milk ("UHT milk"), milk beverages and yogurt;
- Ice cream products segment – manufacture and distribution of ice cream; and
- Other dairy products segment – mainly manufacture and distribution of milk powder.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, dividend income, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude equity investments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2012

	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Other dairy products *RMB'000*	Total *RMB'000*
Segment revenue:				
Sales to external customers	32,336,980	3,171,482	571,891	36,080,353
Intersegment sales	245,591	27,153	223,935	496,679
	32,582,571	3,198,635	795,826	36,577,032
Reconciliation:				
Elimination of intersegment sales				(496,679)
Revenue				36,080,353
Segment results	1,830,740	39,048	(144,035)	1,725,753
Reconciliation:				
Interest income				218,616
Finance costs				(41,754)
Share of profits and losses of associates				13,855
Unallocated corporate expenses				(231,436)
Profit before tax				1,685,034
Income tax expense				(245,476)
Profit for the year				1,439,558
Segment assets	16,458,513	1,405,014	599,990	18,463,517
Reconciliation:				
Elimination of intersegment receivables				(5,392,320)
Unallocated corporate assets				7,919,537
Total assets				20,990,734
Segment liabilities	10,988,647	816,066	675,978	12,480,691
Reconciliation:				
Elimination of intersegment payables				(5,392,320)
Unallocated corporate liabilities				830,514
Total liabilities				7,918,885

	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Other dairy products *RMB'000*	Total *RMB'000*
Other segment information:				
Depreciation and amortisation	851,104	90,441	27,085	968,630
Unallocated amounts				48,242
Total depreciation and amortisation				1,016,872
Capital expenditure	1,819,585	334,865	8,789	2,163,239
Unallocated amounts				103,291
Total capital expenditure				2,266,530
Impairment losses recognised in the consolidated income statement	31,396	418	2,021	33,835
Other non-cash expenses	21,273	3,277	(380)	24,170
Unallocated amounts				(4,998)
Total non-cash expenses				53,007

* *Capital expenditure consists of additions to property, plant and equipment, construction in progress, intangible assets, land use rights, biological assets, and assets from the acquisition of associates and subsidiaries.*

Year ended 31 December 2011

	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Other dairy products *RMB'000*	Total *RMB'000*
Segment revenue:				
Sales to external customers	33,701,215	3,258,602	428,027	37,387,844
Intersegment sales	185,099	17,057	89,761	291,917
	33,886,314	3,275,659	517,788	37,679,761
Reconciliation:				
Elimination of intersegment sales				(291,917)
Revenue				37,387,844
Segment results	2,026,108	31,181	(21,188)	2,036,101
Reconciliation:				
Interest income				173,052
Finance costs				(60,942)
Share of profits and losses of associates				52,059
Unallocated corporate expenses				(139,640)
Profit before tax				2,060,630
Income tax expense				(276,081)
Profit for the year				1,784,549
Segment assets	14,940,212	1,613,604	343,248	16,897,064
Reconciliation:				
Elimination of intersegment receivables				(4,756,443)
Unallocated corporate assets				8,061,064
Total assets				20,201,685
Segment liabilities	10,814,233	1,016,822	261,879	12,092,934
Reconciliation:				
Elimination of intersegment payables				(4,756,443)
Unallocated corporate liabilities				816,374
Total liabilities				8,152,865

	Liquid milk products RMB'000	Ice cream products RMB'000	Other dairy products RMB'000	Total RMB'000
Other segment information:				
Depreciation and amortisation	706,532	85,752	23,113	815,397
Unallocated amounts				48,140
Total depreciation and amortisation				863,537
Capital expenditure	2,393,609	230,444	7,260	2,631,313
Unallocated amounts				64,951
Total capital expenditure				2,696,264*
Impairment losses recognised in the consolidated income statement	1,868	12,596	31	14,495
Other non-cash expenses	66,420	6,357	652	73,429
Unallocated amounts				100,112
Total non-cash expenses				188,036

* *Capital expenditure consists of additions to property, plant and equipment, construction in progress, intangible assets, land use rights, and assets from the acquisition of associates and subsidiaries.*

Geographical information

a. *Revenue from external customers*

Over 90% of the revenue is contributed by customers in Mainland China.

b. *Non-current assets*

Over 90% of the Group's non-current assets are located in Mainland China.

4. REVENUE, OTHER INCOME AND GAINS

Revenue, being the turnover of the Group, represents the net invoiced value of goods sold, after allowances for goods returns and trade discounts, and after eliminations of all significant intra-group transactions.

An analysis of the Group's revenue, other income and gains is as follows:

		2012	2011
	Notes	*RMB'000*	*RMB'000*
Revenue:			
Sale of goods		36,080,353	37,387,844
Other income and gains:			
Government grants related to			
– Biological assets	*(a)*	7,000	–
– Other assets	*(b)*	19,056	17,257
– Income	*(c)*	136,544	59,488
Gain on deemed disposal of an associate		4,384	21,566
Gain on disposal of associates		50,635	–
Foreign exchange gains, net		–	143,693
Others		39,435	54,261
		257,054	296,265
		36,337,407	37,684,109

Notes:

(a) These government grants are unconditional government subsidies paid in the form of cash by relevant government agencies for the purpose of supporting the Group to purchase dairy cows.

(b) The Group has received certain government grants in the form of property, plant and equipment donations or cash donations to purchase items of property, plant and equipment. The grants are initially recorded as deferred income and amortised to match the depreciation charge of the underlying property, plant and equipment in accordance with the assets' estimated useful lives (note 40).

(c) The government grants in the form of cash donations have been received for the Group's contribution to the development of the local dairy products industry. There are no unfulfilled conditions or contingencies attaching to these grants.

5. OTHER EXPENSES

	2012	2011
	RMB'000	*RMB'000*
Write-off of inventories	4,828	6,258
Write-down of inventories to net realisable value	2,637	1,522
Loss on disposal of items of property, plant and equipment	6,035	8,502
Loss on disposal of biological assets	428	–
Donations	6,046	7,924
Provision for trade receivables and other receivables	31,198	12,973
Educational surcharges and city construction tax	134,944	143,005
Foreign exchange losss, net	289	–
Others	9,641	6,978
	196,046	187,162

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2012	2011
	RMB'000	*RMB'000*
Cost of inventories sold	27,024,074	27,788,961
Realised and unrealised fair value losses of derivative financial instruments, net *(a)*	1,712	6,731
Cost of sales	27,025,786	27,795,692
Employee benefit expense (excluding directors' and chief executive's remuneration as disclosed in note 7)		
– Wages, salaries, housing benefits and other allowances	1,738,773	1,471,455
– Retirement benefit contributions	174,963	137,049
– Share-based payment expense *(note 45)*	16,508	136,620
	1,930,244	1,745,124
Depreciation of items of property, plant and equipment	993,853	839,264
Amortisation of land use rights	14,863	12,538
Amortisation of other intangible assets	8,156	11,735
Research and development costs		
– current year expenditure	55,401	54,787
Provision for trade receivables and other receivables	31,198	12,973
Minimum lease payments under operating leases on buildings and certain production equipment	212,739	153,082
Display space leasing fees	590,251	593,090
Auditors' remuneration	4,220	4,140

(a) Since 2011, the Group has entered into various commodity futures contracts to manage its price exposure to future purchases of white sugar. A net fair value loss on derivative financial instruments of RMB1,712,000 (2011: RMB6,731,000) was charged to the consolidated income statement.

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2012	**2011**
	RMB'000	*RMB'000*
Fees	1,062	1,010
Other emoluments		
– Basic salaries, housing benefits, other allowances and benefits in kind	8,887	7,224
– Retirement benefit contributions	334	249
	10,283	8,483

	Notes	**Fees**	**Basic salaries, housing benefits, other allowances and benefits in kind**	**Retirement benefit contributions**	**Total remuneration**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2012					
Executive directors					
– Ms. Sun Yiping	*(a)*	20	2,064	50	2,134
– Mr. Yang Wenjun	*(a)*	17	1,375	46	1,438
– Mr. Wu Jingshui		30	1,062	46	1,138
– Mr. Bai Ying		30	2,181	73	2,284
– Mr. Ding Sheng		30	1,845	73	1,948
Non-executive directors					
– Mr. Ning Gaoning		100	–	–	100
– Mr. Yu Xubo		100	–	–	100
– Mr. Niu Gensheng		100	360	46	506
– Mr. Ma Jianping		100	–	–	100
– Mr. Fang Fenglei	*(a)*	58	–	–	58
– Mr. Ma Wangjun	*(a)*	33	–	–	33
– Mr. Tim Ørting Jørgensen	*(a)*	42	–	–	42
– Mr. Finn S. Hansen	*(a)*	42	–	–	42
Independent non-executive directors					
– Mr. Jiao Shuge	*(b)*	–	–	–	–
– Mr. Julian Juul Wolhardt	*(b)*	–	–	–	–
– Mr. Zhang Xiaoya		120	–	–	120
– Mr. Liu Fuchun		120	–	–	120
– Mr. Xie Tao	*(a)*	120	–	–	120
		1,062	8,887	334	10,283

	Notes	Fees RMB'000	Basic salaries, housing benefits, other allowances and benefits in kind RMB'000	Retirement benefit contributions RMB'000	Total remuneration RMB'000
2011					
Executive directors					
– Mr. Yang Wenjun	*(a)*	30	2,425	43	2,498
– Mr. Wu Jingshui		30	1,069	43	1,142
– Mr. Bai Ying		30	2,108	53	2,191
– Mr. Ding Sheng		30	1,185	67	1,282
Non-executive directors					
– Mr. Ning Gaoning		100	–	–	100
– Mr. Niu Gensheng		30	437	43	510
– Mr. Jiao Shuge	*(b)*	–	–	–	–
– Mr. Julian Juul Wolhardt	*(b)*	–	–	–	–
– Mr. Yu Xubo		100	–	–	100
– Mr. Ma Jianping		100	–	–	100
– Mr. Fang Fenglei	*(a)*	100	–	–	100
– Mr. Ma Wangjun	*(a)*	100	–	–	100
Independent non-executive directors					
– Mr. Zhang Julin	*(a)*	50	–	–	50
– Mr. Zhang Xiaoya		120	–	–	120
– Mr. Liu Fuchun		120	–	–	120
– Mr. Xie Tao	*(a)*	70	–	–	70
		1,010	7,224	249	8,483

Notes:

a. Mr. Zhang Julin and Mr. Ma Wangjun resigned as directors on 10 June 2011 and 12 April 2012, respectively. Mr. Yang Wenjun and Mr. Fang Fenglei resigned as directors on 30 July 2012. Mr. Xie Tao and Ms. Sun Yiping were appointed as directors on 10 June 2011 and 12 April 2012, respectively. Mr. Tim Ørting Jørgensen and Mr. Finn S. Hansen were appointed as directors on 30 July 2012.

b. During 2012, the two directors agreed to waive their entitlements to directors' fees totalling RMB230,000 (2011: RMB200,000) for the year. Other than the aforementioned, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

c. During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 45 to the financial statements. In accordance with IFRS 2, share option benefits represent the fair value at the grant date of the share options issued under the share option scheme of the Company amortised to the consolidated income statement during the year disregarding whether the options have been vested/exercised or not. During the year, the share option benefits relating to the share options granted to Mr. Wu Jingshui, Mr. Bai Ying and Mr. Ding Sheng were approximately RMB2,787,000 (2011:RMB4,298,000), RMB3,035,000 (2011: RMB8,448,000) and RMB3,832,000 (2011: RMB5,223,000), respectively. In addition, there was a reversal of share-based payment expenses of RMB6,990,000 relating to the share options granted to Mr. Yang Wenjun in prior years but lapsed in the current year as a result of his resignation in July 2012 (2011: expenses charged in the consolidated income statement: RMB18,952,000). Share option benefits relating to the share options granted to the directors are not included in the above analysis.

Four (2011: four) of the five highest paid individuals were directors whose emoluments have been shown above. Details of emoluments paid to the remaining one (2011: one) non-director, highest paid individual, who is a senior executive, for the year was as follows:

	2012	**2011**
	RMB'000	*RMB'000*
Basic salaries, housing benefits, other allowances and benefits in kind	1,788	1,715
Retirement scheme contributions	73	67
	1,861	1,782

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2012	**2011**
HK$2,000,001 to HK$2,500,000	1	1
	1	1

During the year, share options were granted to one (2011: one) non-director, highest paid employee in respect of her services to the Group, further details of which are set out in note 45 to the financial statements. During the year, the share option benefits relating to the share options granted to the non-director, highest paid employee was approximately RMB1,942,000 (2011: RMB2,319,000) in aggregate. The share option benefits relating to the share options granted to this non-director, highest paid employee is not included in the above analysis.

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2012	**2011**
	RMB'000	*RMB'000*
Interest on long term payables	15,913	9,846
Interest on bank loans wholly repayable within five years	21,014	46,540
Increase in discounted amounts of contingent consideration arising from the passage of time	4,827	4,556
	41,754	60,942

9. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year. The tax charge represents the provision for the PRC corporate income tax ("CIT") and deferred tax for the year.

Under the Law of the People's Republic of China on Corporate Income Tax ("PRC CIT law"), except for certain preferential treatment available to eighteen (2011: sixteen) of the Group's subsidiaries and a jointly-controlled entity, the entities within the Group are subject to CIT at a rate of 25% (2011: 25%) on the taxable income as reported in their statutory accounts which are prepared in accordance with the PRC accounting standards and financial regulations.

	2012	**2011**
	RMB'000	*RMB'000*
Current income tax		
Current income tax charge	255,739	260,330
Adjustments recognised in the year for current tax of prior years	(4,919)	1,440
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences *(note 23)*	(5,344)	14,311
	245,476	276,081

A reconciliation of the income tax expense applicable to profit before tax at the statutory income tax rate to the income tax expense at the Group's effective income tax rate for the year is as follows:

		2012	**2011**
	Notes	*RMB'000*	*RMB'000*
Profit before tax		1,685,034	2,060,630
At CIT rate of 25% (2011: 25%)		421,259	515,157
Non-deductible items and others, net		4,645	17,352
Adjustment recognised in the year for current tax of prior years		(4,919)	1,440
Effect of preferential tax rates	*(a)*	(65,011)	(102,931)
Effect of tax exemptions	*(a)*	(124,537)	(132,691)
Tax losses not recognised		34,821	13,566
Utilisation of previously unrecognised tax credits		(20,782)	(35,812)
At the effective income tax rate of 14.6% (2011: 13.4%)		245,476	276,081

Notes:

(a) Eighteen (2011: sixteen) subsidiaries and a jointly-controlled entity were subject to tax concessions in 2012. The total taxable profits of the subsidiaries that are subject to tax concessions amounted to approximately RMB723,966,000 (2011: RMB541,960,000) in aggregate. Out of the eighteen subsidiaries, nine (2011: six) were granted tax concessions by the state tax bureau in accordance with the PRC CIT law and the corresponding transitional tax concession policy and "The notice of tax policies relating to the implementation of the western China development strategy". Fifteen (2011: thirteen) subsidiaries were granted tax concessions in accordance with the policy of "The notice of preferential tax policy for preliminary processing of agriculture products".

(b) The share of tax attributable to associates amounting to approximately RMB8,613,000 (2011: RMB17,447,000) is included in the share of profits and losses of associates on the face of the consolidated income statement.

10. DIVIDENDS

	Notes	2012 RMB'000	2011 RMB'000
Declared and paid during the year			
Equity dividends on ordinary shares		350,009	279,233
Proposed for approval at the AGM			
Equity dividends on ordinary shares: Proposed final – RMB0.16 (2011: 0.198) per ordinary share	*(a)/(b)*	282,917	349,953

Notes:

a. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (the "AGM"). This dividend was not recognised as a liability in the consolidated financial statements as at 31 December 2012 but was reflected as an appropriation of retained earnings for the year ending 31 December 2013.

b. The proposed final dividend for the year is appropriated from the undistributed profit earned before 1 January 2008.

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The basic earnings per share for the year is calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

The diluted earnings per share was calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during that year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year pursuant to the contingent ordinary share provision in IAS 33 *Earnings per Share*.

A reconciliation of the weighted average number of shares used in calculating the basic and diluted earnings per share amount is as follows:

	2012 Number of shares *'000*	2011 Number of shares *'000*
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	1,767,801	1,750,820
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the year	165	5,728
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	1,767,966	1,756,548

12. PROPERTY, PLANT AND EQUIPMENT

Movements of the Group's property, plant and equipment during the year are as follows:

	Buildings and structures *RMB'000*	Plant and machinery *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 1 January 2012, net of accumulated depreciation	2,326,945	4,245,648	195,909	38,037	6,806,539
Acquisition of a subsidiary *(note 46)*	8,323	5,784	148	15	14,270
Additions	192,498	307,299	107,273	20,977	628,047
Transfers from construction in progress *(note 13)*	457,579	998,385	12,835	5,598	1,474,397
Disposals	(1,066)	(33,584)	(1,862)	(974)	(37,486)
Depreciation provided during the year	(158,273)	(753,963)	(68,749)	(12,868)	(993,853)
At 31 December 2012, net of accumulated depreciation	2,826,006	4,769,569	245,554	50,785	7,891,914
At 1 January 2012					
Cost	2,937,279	7,547,572	427,662	88,157	11,000,670
Accumulated depreciation	(610,334)	(3,301,924)	(231,753)	(50,120)	(4,194,131)
Net carrying amount	2,326,945	4,245,648	195,909	38,037	6,806,539
At 31 December 2012					
Cost	3,598,090	8,768,330	533,117	101,762	13,001,299
Accumulated depreciation	(772,084)	(3,998,761)	(287,563)	(50,977)	(5,109,385)
Net carrying amount	2,826,006	4,769,569	245,554	50,785	7,891,914

	Buildings and structures RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2011, net of accumulated depreciation	1,722,074	3,468,268	157,939	32,104	5,380,385
Acquisition of a subsidiary *(note 46)*	16,065	25,850	1,521	244	43,680
Additions	102,097	693,933	79,876	12,833	888,739
Transfers from construction in progress *(note 13)*	603,541	722,168	15,063	3,721	1,344,493
Disposals	(561)	(9,539)	(923)	(471)	(11,494)
Depreciation provided during the year	(116,271)	(655,032)	(57,567)	(10,394)	(839,264)
At 31 December 2011, net of accumulated depreciation	2,326,945	4,245,648	195,909	38,037	6,806,539
At 1 January 2011					
Cost	2,207,809	6,139,155	347,408	72,540	8,766,912
Accumulated depreciation	(485,735)	(2,670,887)	(189,469)	(40,436)	(3,386,527)
Net carrying amount	1,722,074	3,468,268	157,939	32,104	5,380,385
At 31 December 2011					
Cost	2,937,279	7,547,572	427,662	88,157	11,000,670
Accumulated depreciation	(610,334)	(3,301,924)	(231,753)	(50,120)	(4,194,131)
Net carrying amount	2,326,945	4,245,648	195,909	38,037	6,806,539

(a) All of the Group's buildings are located in Mainland China.

(b) Certain property, plant and equipment of the Group with a net book value of approximately RMB271,327,000 (2011: RMB345,261,000) and RMB8,047,000 (2011: RMB31,958,000) have been pledged to secure the long term payables and short term bank loans, respectively, details of which are set out in notes 39 and 37 to the financial statements.

(c) The Group leases its ranch facilities included in property, plant and equipment with a net book value of approximately RMB233,971,000 (2011: RMB185,243,000) to certain dairy farm companies under operating lease arrangements, with lease terms ranging from five to six years (note 49(a)).

Movements of the Company's property, plant and equipment during the year, which comprise only office equipment, are as follows:

	Company	
	2012	**2011**
	RMB'000	*RMB'000*
At 1 January, net of accumulated depreciation	28	17
Additions	363	21
Depreciation provided during the year	(49)	(10)
At 31 December, net of accumulated depreciation	342	28
At 1 January		
Cost	188	167
Accumulated depreciation	(160)	(150)
Net carrying amount	28	17
At 31 December		
Cost	463	188
Accumulated depreciation	(121)	(160)
Net carrying amount	342	28

13. CONSTRUCTION IN PROGRESS

Movements of the Group's construction in progress, all of which are located in Mainland China, are as follows:

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Carrying amount at beginning of year	887,103	535,104
Acquisition of a subsidiary *(note 46)*	45	10,994
Additions during the year	1,189,527	1,705,881
Transfers to property, plant and equipment *(note 12)*	(1,474,397)	(1,344,493)
Transfers to land use rights *(note 14)*	–	(15,003)
Transfers to other intangible assets *(note 16)*	(5,466)	(5,380)
Carrying amount at end of year	596,812	887,103

14. LAND USE RIGHTS

	Group 2012	2011
	RMB'000	*RMB'000*
Carrying amount at beginning of year	597,806	495,052
Acquisition of a subsidiary *(note 46)*	5,448	6,179
Additions during the year	236,696	94,110
Transfers from construction in progress *(note 13)*	–	15,003
Amortisation provided during the year	(14,863)	(12,538)
Carrying amount at end of year	825,087	597,806
Current portion included in prepayments and deposits under current assets *(note 29)*	17,644	12,799
Non-current portion	807,443	585,007
	825,087	597,806

(a) The leasehold land is held under a long term lease of 50 years and is situated in Mainland China.

(b) Certain land use rights of the Group with a net book value of approximately RMB2,530,000 (2011: RMB2,595,000) have been pledged to secure the short term bank loans of the Group, details of which are set out in note 37 to the financial statements.

15. GOODWILL

	Group 2012	2011
	RMB'000	*RMB'000*
Carrying amount at 1 January	482,436	451,613
Acquisition of a subsidiary *(note 46)*	–	30,823
Carrying amount at 31 December	482,436	482,436

During 2012, the Group acquired a 100% equity interest in Shijiazhuang Taihang Dairy Co., Ltd. ("Taihang"). The business acquisition did not give rise to any goodwill.

During 2011, the Group acquired an additional 41.66% equity interest in Shijiazhuang Junlebao Leshi Dairy Co., Ltd. ("Leshi"). The business acquisition gave rise to goodwill of RMB30,823,000. Further details of the acquisition are included in note 46 to the financial statements.

As at 31 December 2012 and 2011, the goodwill was tested for impairment (note 17).

16. OTHER INTANGIBLE ASSETS

Movements of the Group's other intangible assets are as follows:

	Patents and licences	Trademarks	Computer software	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(a)		(b)	
Cost at 1 January 2012, net of accumulated amortisation	3,819	182,499	35,952	2,617	224,887
Acquisition of a subsidiary *(note 46)*	–	–	30	–	30
Additions	251	–	3,499	–	3,750
Transfers from construction in progress *(note 13)*	–	–	5,466	–	5,466
Amortisation provided during the year	(522)	(1,560)	(5,413)	(661)	(8,156)
At 31 December 2012	3,548	180,939	39,534	1,956	225,977
At 31 December 2012					
Cost	6,664	189,909	58,843	9,503	264,919
Accumulated amortisation	(3,116)	(8,970)	(19,309)	(7,547)	(38,942)
Net carrying amount	3,548	180,939	39,534	1,956	225,977
Cost at 1 January 2011, net of accumulated amortisation	1,062	184,059	27,936	8,451	221,508
Acquisition of a subsidiary *(note 46)*	2,938	–	–	–	2,938
Additions	–	–	6,796	–	6,796
Transfers from construction in progress *(note 13)*	–	–	5,380	–	5,380
Amortisation provided during the year	(181)	(1,560)	(4,160)	(5,834)	(11,735)
At 31 December 2011	3,819	182,499	35,952	2,617	224,887
At 31 December 2011					
Cost	6,413	189,909	49,904	9,503	255,729
Accumulated amortisation	(2,594)	(7,410)	(13,952)	(6,886)	(30,842)
Net carrying amount	3,819	182,499	35,952	2,617	224,887

(a) There were two trademarks: a trademark acquired in 2007 at a cost of RMB15,690,000, which was stated at cost less any impairment losses and was amortised on the straight-line basis over its estimated useful life of 10 years; a trademark acquired as part of a business combination in 2010 at RMB174,219,000, which was regarded as having an indefinite useful life because the trademarked product is expected to generate net cash inflows indefinitely. As at 31 December 2012 and 2011, the trademark was tested for impairment (note 17).

(b) Others mainly represented the exclusive right of milk supply, distribution channels and a right to receive dividends acquired as part of a business combination in 2010 at RMB5,982,000, RMB2,195,000 and RMB1,326,000, respectively. Their useful lives ranged from six months to 10 years.

17. IMPAIRMENT TESTING OF GOODWILL AND TRADEMARKS WITH INDEFINITE LIVES

Goodwill acquired through business combinations and trademarks with indefinite lives have been allocated to the following cash-generating units (the "CGUs") for impairment testing:

– liquid milk products excluding CGU of Shijiazhuang Junlebao Dairy Co., Ltd. ("Junlebao");

– ice cream products CGU;

– other dairy products CGU; and

– Junlebao CGU.

The carrying amounts of goodwill and trademarks with indefinite useful lives allocated to each of the cash generating units are as follows:

	Liquid milk products excluding Junlebao		Ice cream products		Other dairy products		Junlebao		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Goodwill	167,433	167,433	23,865	23,865	7,845	7,845	283,293	283,293	482,436	482,436
Trademarks	–	–	–	–	–	–	174,219	174,219	174,219	174,219
	167,433	167,433	23,865	23,865	7,845	7,845	457,512	457,512	656,655	656,655

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets or forecasts approved by senior management covering a five-year period. The growth rates used to extrapolate the cash flows beyond the five-year period are based on the estimated growth rate of each unit taking into account the industry growth rate, past experience and the medium or long term growth target of each CGU. The growth rates for these CGUs are higher than the respective average industry growth rates. Senior management believes such growth rates are justified because:

– the growth rates of these CGUs have significantly exceeded those in the market in the past years;

– the new product launch and new market expansion have been successful in the past;

– market share grew continuously in the past years due to strong brand equity and marketing capability; and

– expertise on product innovation, portfolio enhancement and marketing will be further leveraged.

The discount rates applied to cash flow projections and the growth rates used to extrapolate cash flows beyond the five-year period are as follows:

	Discount rate		Growth rate	
	2012	2011	2012	2011
Liquid milk products excluding Junlebao CGU	13.18%	13.93%	4.0%	4.0%
Ice cream products CGU	13.19%	14.03%	3.0%	3.0%
Other dairy products CGU	13.06%	13.82%	4.0%	4.0%
Junlebao CGU	15.74%	15.44%	4.0%	4.0%

Assumptions were used in the value in use calculation of each CGU. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

a) Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margin achieved in the year immediately before the budget year, adjusted for expected efficiency improvements and expected increase in production costs.

b) Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant CGUs.

c) Raw materials price fluctuation – Reference is made to the actual data of the past year of countries from where raw materials are sourced.

The values assigned to key assumptions are consistent with external information sources.

In the opinion of the Company's directors, any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

18. LOANS TO A SUBSIDIARY

The loans to a subsidiary included in the Company's non-current assets of RMB2,657,176,000 (2011: RMB2,656,684,000) are unsecured and repayable within twenty years. The annual interest rates had been made by reference to the Hong Kong Interbank Offered Rate. The carrying amount of the loans to a subsidiary approximates to their fair value.

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB'000	*RMB'000*
Unlisted shares, at cost	4,366,994	4,302,622
Loans to a subsidiary	741,197	741,060
	5,108,191	5,043,682

Loans to a subsidiary included in the investments in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the loans are considered as quasi-equity loans to the subsidiary. The carrying amount of the loans to a subsidiary approximates to their fair value.

Details of the Company's principal subsidiaries at 31 December 2012 are set out below:

Name	Date of incorporation/ registration and operation*	Issued/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
China Dairy Holdings (i)	5 June 2002	US$214	100%	–	Investment holding
China Dairy (Mauritius) Limited (i)	15 June 2002	US$100	–	100%	Investment holding
China Mengniu Investment Company Limited (i)	11 April 2011	HK$1,000	100%	–	Investment holding
Inner Mongolia Mengniu Dairy (Group) Company Limited ("Inner Mongolia Mengniu") (iii)	18 August 1999	RMB1,504,290,870	8.97%	84.32%	Manufacture and sale of dairy products
Beijing Mengniu Dairy Co., Ltd. (i) (ii) (iv)	4 July 2000	RMB500,000	–	48.51%	Packaging and sale of dairy products
Inner Mongolia Mengniu Founding Industry Management Co., Ltd. (i) (ii)	9 February 2002	RMB45,000,000	–	93.29%	Investment holding
Mengniu Dairy (Wulanhaote) Co., Ltd. (i) (ii)	18 June 2002	RMB60,000,000	–	93.29%	Manufacture and sale of dairy products
Inner Mongolia Mengniu Dairy Keerqin Co., Ltd. (i) (ii)	19 June 2002	RMB100,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy (Dangyang) Co., Ltd. (i) (ii)	7 November 2002	RMB42,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy (Beijing) Co., Ltd. (i) (iii)	11 November 2002	RMB120,000,000	26.70%	68.38%	Manufacture and sale of dairy products
Jinhua Mengniu Fronzen Food Co., Ltd. (Former name: Jinhua Mengniu Dairy Co., Ltd.) (i) (ii) (iv)	19 February 2003	RMB500,000	–	47.58%	Manufacture and sale of dairy products
Mengniu Dairy (Shenyang) Co., Ltd. (i) (iii)	4 December 2003	RMB100,000,000	26.05%	68.99%	Manufacture and sale of dairy products
Beijing Mengniu Hongda Dairy Co., Ltd. (i) (ii) (iv)	12 September 2002	RMB20,000,000	–	48.51%	Packaging and sale of dairy products
Inner Mongolia Mengniu Dairy Baotou Co., Ltd. (i) (iii)	9 January 2003	RMB30,000,000	26.40%	68.66%	Manufacture and sale of dairy products
Mengniu Dairy (Dengkou Bayan Gaole) Co., Ltd. (i) (ii)	13 July 2003	RMB70,000,000	–	93.29%	Manufacture and sale of dairy products
Inner Mongolia Mengniu Dairy (Group) Shanxi Dairy Co., Ltd. (i) (ii)	14 July 2003	RMB10,000,000	–	83.96%	Manufacture and sale of dairy products

Name	Date of incorporation/ registration and operation*	Issued/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Mengniu Dairy (Jiaozuo) Co., Ltd. (i) (ii)	6 November 2003	RMB170,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy Taian Co., Ltd. (i) (iii)	18 November 2003	RMB110,000,000	26.03%	69.01%	Manufacture and sale of dairy products
Mengniu Dairy (Luannan) Co., Ltd. (i) (iii)	31 March 2004	RMB56,000,000	26.06%	68.98%	Manufacture and sale of dairy products
Mengniu Dairy (Tangshan) Co., Ltd. (i) (iii)	31 March 2004	RMB70,000,000	26.05%	68.99%	Manufacture and sale of dairy products
Mengniu Dairy (Maanshan) Co., Ltd. (i) (ii)	4 February 2005	RMB355,000,000	–	93.29%	Manufacture and sale of dairy products
Hubei Frealth Dairy Co., Ltd. (i) (ii)	6 January 2006	RMB120,000,000	–	93.29%	Manufacture and sale of dairy products
Inner Mongolia Mengniu Hi-tech Dairy Co., Ltd. (i) (ii)	2 August 2006	RMB150,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy (Tai Yuan) Co., Ltd. (i) (ii)	13 April 2006	RMB116,670,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy (Shangzhi) Co., Ltd. (i) (ii)	10 June 2005	RMB80,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy (Chabei) Co., Ltd. (i) (ii)	15 June 2005	RMB30,000,000	–	72.77%	Manufacture and sale of dairy products
Mengniu Dairy (Baoji) Co., Ltd. (i) (iii)	1 November 2005	RMB96,840,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy (Baoding) Co., Ltd. (i) (ii)	22 January 2007	RMB62,000,000	–	93.29%	Manufacture and sale of dairy products
Beijing Mengniu Cheese Co., Ltd. (i) (ii)	23 May 2007	RMB5,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy Meishan Co., Ltd. (i) (ii)	29 August 2007	RMB60,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Saibei Dairy Co., Ltd. (i) (iii)	29 August 2007	RMB67,121,418	26%	69.03%	Manufacture and sale of dairy products
Mengniu Dairy (Qiqihaer) Co., Ltd. (i) (iii)	23 November 2007	RMB75,000,000	26%	69.03%	Manufacture and sale of dairy products
Mengniu Dairy (Qingyuan) Co., Ltd. (i) (ii)	25 September 2009	RMB120,000,000	–	93.29%	Manufacture and sale of dairy products

Name	Date of incorporation/ registration and operation*	Issued/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Mengniu Dairy (Suqian) Co., Ltd. (i) (ii)	20 September 2010	RMB110,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy (Tianjin) Co., Ltd. (i) (iii)	9 July 2010	RMB134,000,000	26%	69.03%	Manufacture and sale of dairy products
Mengniu Dairy (Yinchuan) Co., Ltd. (i) (ii)	27 July 2010	RMB210,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy Hehe Investment Co., Ltd. (i) (ii)	29 November 2010	RMB200,000,000	–	93.29%	Investment holding
Mengniu Dairy (Hengshui) Co., Ltd. (i) (iii)	16 May 2011	RMB150,000,000	26%	69.03%	Manufacture and sale of dairy products
Baoding Mengniu Beverage Co., Ltd. (i) (iii)	17 May 2011	RMB80,000,000	26%	69.03%	Manufacture and sale of dairy products
Mengniu Dairy (Jinhua) Co., Ltd. (i) (iii)	31 December 2011	RMB172,458,007	26.06%	68.98%	Research and development of dairy products
Sichuan Mengniu Dairy Co., Ltd. (i) (ii)	1 April 2012	RMB5,000,000	–	93.29%	Manufacture and sale of dairy products
Xinjiang Mengniu Dairy Co., Ltd. (i) (ii)	13 February 2012	RMB10,000,000	–	93.29%	Packaging and sale of dairy products
Beijing Fangshan Mengniu Dairy Co., Ltd. (i) (ii)	5 September 2012	RMB50,000,000	–	93.29%	Technology development
Arla Foods Dairy Products Imp. & Exp. Co., Ltd. (i) (ii)	16 August 2012	RMB50,000,000	–	93.29%	Packaging and sale of dairy products
Chengdu Founding Sales Dairy Co., Ltd. (i) (ii)	25 November 2012	RMB7,000,000	–	93.29%	Packaging and sale of dairy products
Inner Mongolia Fuyuan Farming Co., Ltd. (i) (ii)	17 February 2012	RMB100,000,000	–	93.29%	Dairy farming
Wuzhong Nuogan Farming Co., Ltd. (i) (ii)	24 July 2012	RMB20,000,000	–	93.29%	Dairy farming
Inner Mongolia Saihan Fuyuan Huasheng Farming Co., Ltd. (i) (ii)	23 August 2012	RMB25,000,000	–	93.29%	Dairy farming
Inner Mongolia Tuoketuo Fuyuan Huatai Farming Co., Ltd. (i) (ii)	23 August 2012	RMB50,000,000	–	93.29%	Dairy farming
Suqian Nuogan Farming Co., Ltd. (i) (ii)	29 July 2011	RMB55,000,000	–	93.29%	Dairy farming

Name	Date of incorporation/ registration and operation*	Issued/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Xing'anmeng Nuogan Farming Co., Ltd. (i) (ii)	15 June 2012	RMB10,000,000	–	93.29%	Dairy farming
Zhangjiakou Saibei Nuogan Farming Co., Ltd. (i) (ii)	29 June 2012	RMB20,000,000	–	93.29%	Dairy farming
Shijiazhuang Junlebao Dairy Co., Ltd. (ii) (iv)	21 April 2000	RMB53,251,700	–	47.58%	Manufacture and sale of dairy products
Shijiazhuang Yongsheng Dairy Co., Ltd. (i) (ii) (iv)	25 September 2007	RMB80,000,000	–	47.58%	Manufacture and sale of dairy products
Baoding Junlebao Dairy Co., Ltd. (i) (ii) (iv)	25 August 2003	RMB32,540,000	–	24.23%	Manufacture and sale of dairy products
Hebei Guanwei Dairy Co., Ltd. (i) (ii) (iv)	30 July 1996	RMB9,650,000	–	24.26%	Manufacture and sale of dairy products
Jiangsu Junlebao Dairy Co., Ltd. (i) (ii) (iv)	8 March 2004	RMB20,617,666	–	24.26%	Manufacture and sale of dairy products
Xuzhou Junlebao Guorun Dairy Co., Ltd. (i) (ii) (iv)	20 June 2008	RMB10,000,000	–	24.26%	Manufacture and sale of dairy products
Shijiazhuang Junlebao Leshi Dairy Co., Ltd. (i) (ii) (iv)	20 June 2008	RMB29,000,300	–	34.21%	Manufacture and sale of dairy products
Shijiazhuang Taihang Dairy Co., Ltd. (i) (ii) (iv)	12 September 2006	RMB20,637,500	–	47.58%	Manufacture and sale of dairy products

* Except for China Dairy Holdings and China Dairy (Mauritius) Limited, which were incorporated in the Cayman Islands and Mauritius, respectively, all subsidiaries were established in the PRC.

(i) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(ii) The subsidiaries are registered as companies with limited liability under PRC law.

(iii) The subsidiaries are registered as Sino-foreign equity joint ventures under PRC law.

(iv) Since more than 50% of the equity interest of the subsidiaries was held by either Inner Mongolia Mengniu Dairy (Group) Company Limited ("Inner Mongolia Mengniu") or Inner Mongolia Hehe Investment Co., Ltd. ("Hehe") in which the Company held a 93.29% equity interest, the Company had control over the subsidiaries even with less than 50% of equity interest held indirectly as at the end of the reporting period.

20. INVESTMENTS IN ASSOCIATES

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Share of net assets	77,921	153,352

Details of the Group's principal associates at 31 December 2012 are set out below:

Name	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group (indirect) 2012	2011	Principal activities
Xinjiang Tianxue Food Co., Ltd. (i)	Registered capital	Mainland China	23%	23%	Trading of dairy products
Fuzhou Mengxin Trading Co., Ltd. (i)	Registered capital	Mainland China	43%	43%	Trading of dairy products
Shijiazhuang Mengniu Ice Cream Sales Co., Ltd. (i)	Registered capital	Mainland China	37%	37%	Trading of dairy products
Tianjin Mengniu Ice Cream Sales Co., Ltd. (i)	Registered capital	Mainland China	37%	37%	Trading of dairy products
Guangzhou Mengniu Dairy Trading Co., Ltd. (i)	Registered capital	Mainland China	–	37%	Trading of dairy products
Wuhan Mengniu Dairy Co., Ltd. (i)	Registered capital	Mainland China	26%	26%	Trading of dairy products
Guilin Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	37%	37%	Trading of dairy products
Tianjin Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	37%	37%	Trading of dairy products
Wenzhou Mengniu Dairy Co., Ltd. (i)	Registered capital	Mainland China	37%	37%	Trading of dairy products
Heilongjiang Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Chengdu Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	34%	34%	Trading of dairy products
Nanjing Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Jinan Mengniu Dairy Co., Ltd. (i)	Registered capital	Mainland China	46%	46%	Trading of dairy products
Taiyuan Mengniu Dairy Co., Ltd. (i)	Registered capital	Mainland China	46%	46%	Trading of dairy products

Name	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group (indirect) 2012	2011	Principal activities
Nanchang Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Chongqing Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	46%	46%	Trading of dairy products
Hefei Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	43%	43%	Trading of dairy products
Shijiazhuang Jinmengyuan Trading Co., Ltd. (i)	Registered capital	Mainland China	37%	37%	Trading of dairy products
Beijing Mengniu Technical Development Co., Ltd. (i) (ii)	Registered capital	Mainland China	19%	19%	Technology development
Wulumuqi Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	37%	37%	Trading of dairy products
Kunming Deluxe Commercial Trading Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Changsha Mengniu Dairy Co., Ltd. (i)	Registered capital	Mainland China	37%	37%	Trading of dairy products
Xi'an Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	43%	43%	Trading of dairy products
Changchun Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	46%	46%	Trading of dairy products
Xuzhou Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	37%	37%	Trading of dairy products
Foshan Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	37%	46%	Trading of dairy products
Guiyang Mengniu Dairy Trading Co., Ltd. (i)	Registered capital	Mainland China	37%	37%	Trading of dairy products
Shengyang Mengniu Dairy Sales Co., Ltd. (i) (ii)	Registered capital	Mainland China	19%	19%	Trading of dairy products
Xiangfan Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	46%	46%	Trading of dairy products
Hangzhou Mengniu Dairy Trading Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Suzhou Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products

Name	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group (indirect) 2012	2011	Principal activities
Guangzhou Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	29%	29%	Trading of dairy products
Shanghai Mengniu Food Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Hohhot Menglai Trading Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Cangzhou Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Changsha Mengniu Frealth Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Changsha Mengniu Ice Cream Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Wuhan Mengniu Hongtai Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Nanjing Wanjiahao Mengniu Ice Cream Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Hefei Mengniu Ice Cream Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Nanjing Mengniu Low Temperature Dairy Products Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Changsha Mengniu Low Temperature Dairy Products Sales Co., Ltd. (i)	Registered capital	Mainland China	37%	37%	Trading of dairy products
Guangzhou Mengniu Low Temperature Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Jinhua Mengniu Ice Cream Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Dalian Mengniu Ice Cream Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Nanchang Mengniu Ice Cream Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Taiyuan Mengniu Low Temperature Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Xi'an Mengniu Low Temperature Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products

Name	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group (indirect) 2012	2011	Principal activities
Zhanjiang Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	46%	42%	Trading of dairy products
Dezhou Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Zhaoqing Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	46%	29%	Trading of dairy products
Liuzhou Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	33%	33%	Trading of dairy products
Quanzhou Mengniu Hongtai Sales Co., Ltd. (i)	Registered capital	Mainland China	23%	23%	Trading of dairy products
Harbin Mengniu Frozen Food Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Harbin Mengniu Trading Co., Ltd. (i)	Registered capital	Mainland China	28%	37%	Trading of dairy products
Jiaxing Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	46%	46%	Trading of dairy products
Hengshui Guangyuanjuxing Trading Co., Ltd. (i)	Registered capital	Mainland China	46%	46%	Trading of dairy products
Kunming Mengniu Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Inner Mongolia Saikexing Reproductive Biotechnology Co., Ltd. ("Saikexing") (i) (iii)	Registered capital	Mainland China	4%	20%	Cultivation and sale of cattle embryos
Xianyang Mengniu Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Wuhan Mengniu Frealth Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	37%	37%	Trading of dairy products
Tianjin Mengniu Trading Co., Ltd. (i)	Registered capital	Mainland China	45%	45%	Trading of dairy products
Shenzhen Mengniu Trading Co., Ltd. (i)	Registered capital	Mainland China	37%	37%	Trading of dairy products
Changzhou Mengniu Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	42%	42%	Trading of dairy products
Beijing Mengniu Dairy Trading Co., Ltd. (i)	Registered capital	Mainland China	45%	45%	Trading of dairy products

Name	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group (indirect) 2012	2011	Principal activities
Chengdu Mengniu Low Temperature Dairy Sales Co., Ltd. (i)	Registered capital	Mainland China	46%	46%	Trading of dairy products
Zhengzhou Mengyuan Trading Co., Ltd. (i)	Registered capital	Mainland China	33%	–	Trading of dairy products
Shijiazhuang Junelebao Langsheng Food Sales Co., Ltd. (i)	Registered capital	Mainland China	23%	–	Trading of dairy products

(i) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(ii) Since more than 20% of the equity interest of the associates was held by Inner Mongolia Mengniu, the Company had significant influence over the associates even with less than 20% of equity interest held indirectly as at the end of the reporting period.

(iii) Saikexing ceased to be accounted for as an associate of the Group after the Group disposed of certain ordinary share in Saikexing in 2012.

The following table illustrates the summarised financial information of the Group's associates extracted from their unaudited management accounts:

	2012 *RMB'000*	2011 *RMB'000*
Share of the associates' assets and liabilities:		
Current assets	275,868	415,951
Non-current assets	5,517	49,137
Current liabilities	(203,464)	(300,035)
Non-current liabilities	–	(11,701)
Net assets	77,921	153,352
Share of the associates' revenues and profits and losses:		
Revenues	1,769,294	2,150,137
Profits and losses	13,855	52,059

All the above associates have been accounted for using the equity method in these financial statements. The Group has discontinued the recognition of its share of losses of certain associates because the share of losses of the associates exceeded the Group's interests in the associates. The amounts of the Group's unrecognised share of losses of these associates for the current year and cumulatively were RMB22,378,000 (2011: RMB6,607,000) and RMB53,502,000 (2011: RMB33,142,000), respectively.

21. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

Details of the Company's jointly-controlled entity are set out below:

Name	Particulars of issued shares held	Place of establishment and operations	Percentage of equity interest attributable to the Group (indirect) 2012	2011	Principal activities
Mengniu Arla (Inner Mongolia) Dairy Products Co., Ltd. ("Mengniu Arla")	Registered capital	Mainland China	46.65%	46.65%	Manufacture and sale of dairy products

The share of the assets, liabilities, income and expenses of the jointly-controlled entity at 31 December 2012 and for the year then ended, which is included in the consolidated financial statements, is as follows:

	2012 RMB'000	2011 RMB'000
Share of the assets and liabilities:		
Current assets	104,757	110,090
Non-current assets	169,921	190,659
Current liabilities	(315,185)	(222,736)
Net assets	(40,507)	78,013
Share of the revenue and loss:		
Revenue	79,355	286,595
Cost of sales and operating expenses	(197,865)	(321,543)
Loss	(118,510)	(34,948)

22. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	Group 2012 RMB'000	Group 2011 RMB'000
Non-current assets:			
Listed equity investments, at fair value:			
Hong Kong	*(a)*	89,642	69,008
Unlisted equity investments, at fair value	*(a)*	144,201	103,319
Unlisted equity investments, at cost	*(b)*	275,945	122,879
		420,146	226,198
		509,788	295,206
Current assets:			
Unlisted equity investments, at cost	*(c)*	240,000	–

		Company	
		2012	2011
	Notes	*RMB'000*	*RMB'000*
Listed equity investments, at fair value:			
Hong Kong	*(a)*	89,642	69,008

Notes:

(a) The holding company of an unlisted company, in which the Group held a 2.13% equity interest at the cost of RMB12,000,000 at that time, was listed in 2010. Accordingly, the fair value of the unlisted equity investment has been estimated by reference to the quoted market share price of its holding company, taking into account the liquidity factors.

In addition, the Company invested cash of approximately HK$151,512,000 (equivalent to RMB128,926,000) into the aforementioned holding company upon its listing, representing a 1.08% equity interest in the holding company at that time. The fair value of the listed equity securities is determined by reference to published quotations in an active market.

The above equity investments have no fixed maturity date or coupon rate and were designated as available-for-sale financial assets.

Changes in fair value of the Group's above available-for-sale investments recognised in other comprehensive income amounted to RMB51,283,000 (2011: loss of RMB91,501,000), net of tax of RMB10,221,000 (2011: RMB17,035,000) (note 23).

(b) As at 31 December 2012, certain unlisted equity investments with a carrying amount of RMB145,687,000 (2011: RMB122,879,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

In addition, during the year of 2012, the Group, as one of the beneficiaries, purchased 130,000,000 units in certain unit trusts set up and managed by an affiliate of a substantial shareholder and connected party of the Company, at a consideration of RMB130,258,000. According to the trust documents, the trust shall apply the entire amount of trust fund invested by its beneficiaries to finance certain specific projects owned and operated by an independent third party. The investments in unit trusts were unsecured with no guaranteed return amount and with original maturity of more than one year, which were measured at costs less impairment under non-current assets because the range of reasonable fair value estimates is so significant that the directors are of opinion that their fair value cannot be measured reliably.

(c) As at 31 December 2012, the available-for-sale investments of approximately RMB240,000,000 with original maturity of less than one year, which were measured at costs less impairment under current assets because the range of reasonable fair value estimates is so significant that the directors are of opinion that their fair value cannot be measured reliably, represented certain investment instruments acquired from domestic financial institutions. The investment instruments were unsecured with no guaranteed return amount.

23. DEFERRED TAX

The movements in the deferred tax assets and liabilities during the year are as follows:

Deferred tax assets:

	Group 2012	Group 2011
	RMB'000	*RMB'000*
At 1 January	66,749	81,060
Deferred tax debited to the consolidated income statement during the year *(note 9)*	5,344	(14,311)
Gross deferred tax assets at 31 December	72,093	66,749

Deferred tax liabilities:

	Group 2012	Group 2011
	RMB'000	*RMB'000*
At 1 January	22,830	39,865
Deferred tax credited to the consolidated statement of comprehensive income arising from fair value changes of available-for-sale investments during the year *(note 22(a))*	10,221	(17,035)
Gross deferred tax liabilities at 31 December	33,051	22,830

Deferred income tax assets at 31 December 2012 related to the following:

	Consolidated statement of financial position		Consolidated income statement	
	2012	2011	2012	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Tax losses available for offsetting against future taxable profits	26,268	10,244	16,024	(46,321)
Write-down of inventories to net realisable value	224	257	(33)	154
Un-invoiced accruals	21,797	30,859	(9,062)	30,859
Deferred income	23,804	25,389	(1,585)	997
Deferred tax assets	72,093	66,749		
Deferred income tax expense *(note 9)*			5,344	(14,311)

Management expects it is probable that taxable profits will be available against which the above tax losses and deductible temporary differences can be utilised in the coming years.

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Tax losses arising in Mainland China (i)	278,673	160,102
Tax credits related to purchases of domestic equipment (ii)	2,100	20,749
Deductible temporary differences	134,474	132,379
	415,247	313,230

(i) The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose for a maximum of five years.

(ii) Tax credits can be carried forward for five to seven years to offset the tax payables if the future year tax exceeded the base year tax.

Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that tax profits will be available against which the above items can be utilised or tax authorities should approve the Group to utilise the above tax credits or deductible temporary differences.

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2012, no deferred tax liabilities (2011: Nil) have been recognised for the withholding taxes that would be payable on the unremitted earnings that are subject to withholding tax of Inner Mongolia Mengniu and other subsidiaries located in Mainland China whose equity interests were directly held by the Company. The directors of the Company represented that there was no plan to distribute the earnings generated in 2009, 2010, 2011 and 2012.

At 31 December 2012, there were no significant unrecognised deferred tax liabilities (2011: Nil) for taxes that would be payable on the unremitted earnings of certain of Inner Mongolia Mengniu's subsidiaries and associates, as Inner Mongolia Mengniu has no liability to additional tax should such amount be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Except for the amount disclosed above, the Group and the Company did not have any material unrecognised deferred tax liabilities or deferred tax assets at 31 December 2012 (2011: Nil).

24. OTHER FINANCIAL ASSETS

Other financial assets represented entrusted loans to certain dairy farmers via banks. A maturity analysis of the entrusted loans of the Group is as follows:

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Within 1 year	41,377	45,911
1 to 2 years	45,318	41,564
2 to 3 years	7,051	24,666
Over 3 years	1,152	3,731
Total entrusted loans	94,898	115,872
Less: Amount due within one year included in current assets under other receivables *(note 30)*	(41,377)	(45,911)
	53,521	69,961

The above entrusted loans are unsecured, with annual interest rates ranging from 5% to 9.98% (2011: 5.40% to 6.90%).

The above entrusted loans are neither past due nor impaired and have no recent history of default.

As the Group's entrusted loans related to a large number of diversified suppliers, there is no significant concentration of credit risk.

25. BIOLOGICAL ASSETS

(A) Nature of activities

Certain subsidiaries of the Company are milk production companies that principally engaged in the production and sales of milk. Dairy cows are primarily held to produce milk. The quantity of dairy cows owned by the Group and the output of milk during the year at end of the reporting period are shown below.

	Group	
	2012	**2011**
	Head of dairy cows	**Head of dairy cows**
Milkable cows	86	–
Heifers and calves	8,923	–
Total dairy cows	9,009	–

Milkable cows are those dairy cows that are held for milk production. Heifers and calves are those dairy cows that have not reached the age that can produce milk.

In general, the heifers are inseminated with semen when heifers reached approximately 14 months old. After an approximately 9 month pregnancy term, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 340 days before a dry period of approximately 60 days.

When a heifer begins to produce milk, it would be transferred to the category of milkable cows based on the estimated fair value on the date of transfer. The sales of dairy cows is not one of the Group's principal activities and is not included as revenue. The sales of dairy cows are determined based on the actual selling price.

	Group	
	2012	**2011**
	KG	*KG*
Volume of sales of milk produced	24,320	–

The Group is exposed to fair value risks arising from changes in price of the dairy products. The Group does not anticipate that the price of the dairy products will decline significantly in the foreseeable future and the directors of the Company are of the view that there is no available derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the dairy products.

(B) Value of dairy cows

The value of dairy cows at the end of the reporting period was:

		Group	
	Heifers and calves	**Milkable cows**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2012	–	–	–
Increases due to purchase	193,639	–	193,639
Increase due to raising (Feeding cost and others)	18,775	–	18,775
Transfer	(2,007)	2,007	–
Decrease due to sales	(728)	–	(728)
Gains (loss) arising from changes in fair value less costs to sell	–	–	–
At 31 December 2012	209,679	2,007	211,686

The Group's dairy cows in the PRC were valued by an independent qualified professional valuer. The fair value of dairy cows approximates to their purchase costs plus raising costs at the end of the reporting period.

26. INVENTORIES

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Raw materials	865,596	1,155,840
Finished goods	554,302	529,407
Total inventories at the lower of cost and net realisable value	1,419,898	1,685,247

The amount of write-down of inventories recognised as an expense was RMB2,637,000 (2011: RMB1,522,000). This was recognised in other expenses (note 5).

27. BILLS RECEIVABLE

An aged analysis of the bills receivable as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Within 3 months	123,024	224,987
4 to 6 months	53,362	36,037
	176,386	261,024

The amount due from associates of approximately RMB45,838,000 (2011: RMB66,316,000) is included in the above balances.

None of the bills receivable is either past due or impaired, for which there were no recent history of default.

Certain bills receivable of the Group amounting to approximately RMB13,800,000 (2011: Nil) have been pledged to secure the bills payable of the Group, details of which are set out in note 34 to the financial statements.

28. TRADE RECEIVABLES

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Trade receivables	641,788	576,578
Impairment	(16,701)	(1,844)
	625,087	574,734

The Group normally allows a credit limit to its customers which is adjustable in certain circumstances. The Group closely monitors overdue balances. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivables. The trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice dated and net of provision, is as follows:

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Within 3 months	488,313	465,053
4 to 6 months	129,015	86,195
7 to 12 months	6,811	15,347
Over 1 year	948	8,139
	625,087	574,734

The movements in the provision for impairment of trade receivables are as follows:

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
At 1 January	1,844	1,489
Impairment losses recognised	31,212	14,818
Amount written-off as uncollectible	(16,341)	(12,541)
Impairment losses reversed	(14)	(1,922)
At 31 December	16,701	1,844

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Neither past due nor impaired	591,009	573,220
Past due but not impaired		
– Within 3 months	10	249
– Over 3 months	–	–
	591,019	573,469

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment 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 amounts due from associates of approximately RMB300,303,000 (2011: RMB259,948,000) and due from a jointly-controlled entity of approximately RMB48,770,000 (2011: Nil) are included in the above balances. These balances are unsecured, non-interest-bearing and are repayable on credit terms similar to those offered to other major customers of the Group.

29. PREPAYMENTS AND DEPOSITS

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Deposits	8,271	11,406
Prepayments	708,221	644,627
Value-added tax recoverable	161,870	82,204
Corporate income tax recoverable	12,101	10,357
Land use rights – current portion *(note 14)*	17,644	12,799
Long term prepayments *(note a)*	341,796	257,456
Total prepayments and deposits	1,249,903	1,018,849
Less: Long term prepayments – non-current portion *(note a)*	(299,947)	(243,942)
	949,956	774,907

Notes:

(a) During the year, the Group has entered into various long term raw milk supply contracts with certain milking cow raising companies. In accordance with these contracts, the Group prepaid for raw milk supplies for the next two to five years.

(b) The amount due from associates of approximately RMB12,886,000 (2011: RMB32,215,000) is included in the above balances. As at 31 December 2011, an amount due from a jointly-controlled entity of approximately RMB20,689,000 is included in the above balances. These balances are unsecured, non-interest-bearing and are repayable on credit terms similar to those offered to other major customers of the Group.

30. OTHER RECEIVABLES

The balance of other receivables can be analysed as follows:

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Dividends receivable	7,391	13,302
Other financial assets *(note 24)*	41,377	45,911
Others	311,109	230,214
Total	359,877	289,427

The amount due from associates of approximately RMB30,000 (2011: RMB29,000) is included in the above balances.These balances are unsecured, non-interest-bearing and are repayable on demand.

In addition, during the year of 2012, the Group lent an amount of RMB270,000,000 (2011: Nil) to a jointly-controlled entity to repay its interest-bearing bank loans and accordingly when applying the proportionate consolidation method, an amount due from a jointly-controlled entity of approximately RMB135,000,000 (2011: Nil) is included in the above balances.

	Company	
	2012	**2011**
	RMB'000	*RMB'000*
Dividends receivable	729,756	595,820
Loans to a subsidiary	72,306	52,034
Others	140	137
Total	802,202	647,991

The loans to a subsidiary included in other receivables above are unsecured, interest-bearing and repayable within one year. The carrying amount of the loans to a subsidiary approximates to their fair value.

31. INVESTMENT DEPOSITS

As at 31 December 2012, the Group's investment deposits were purchased from a domestic bank with good credit rating and were stated at amortised cost. The investment deposits were acquired with original maturity of three months or one year and were not allowed to be withdrawn prior to the maturity date without the bank's consent. The investment deposits were unsecured with guaranteed return amount and had an expected annual interest rate of 5.05% (2011: 5.9%).

32. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Cash and cash equivalents	2,943,890	4,359,872
Pledged deposits	51,602	175,289
Time deposits with original maturity of more than three months	2,834,500	2,163,203
	5,829,992	6,698,364
Less: Deposits pledged for banking facilities *(note 34 and 37)*	(51,602)	(175,289)
Cash and bank balances	5,778,390	6,523,075

	Company	
	2012	**2011**
	RMB'000	*RMB'000*
Cash and bank balances	751,922	622,766

At the end of the reporting period, cash and bank balances of the Group and the Company denominated in RMB amounted to approximately RMB5,650,315,000 (2011: RMB6,395,613,000) and RMB607,402,000 (2011: RMB402,307,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at the prevailing market interest rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term time deposit rate. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

33. TRADE PAYABLES

An aged analysis of the trade payables of the Group, based on the invoice date, is as follows:

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Within 3 months	2,282,063	2,350,904
4 to 6 months	72,400	177,669
7 to 12 months	23,501	12,114
Over 1 year	3,991	2,718
	2,381,955	2,543,405

The amount due to an associate of approximately RMB8,000 (2011: RMB1,000) and the amount due to a jointly-controlled entity of approximately RMB7,318,000 (2011: RMB10,000) are included in the above balances. The balance is unsecured, non-interest-bearing and repayable on demand.

The Group's trade payables are unsecured and non-interest-bearing.

34. BILLS PAYABLE

An aged analysis of the bills payable of the Group, based on the invoice date, is as follows:

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Within 3 months	600,589	617,363
4 to 6 months	696,321	523,778
	1,296,910	1,141,141

Except for an aggregate balance of approximately RMB110,081,000 (2011: RMB121,629,000) secured by the pledge of certain of the Group's deposits amounting to approximately RMB49,602,000 (2011: RMB37,504,000) (note 32) and certain of the Group's bills receivable amounting to approximately RMB13,800,000 (2011: Nil) (note27), bills payable are unsecured. The above balances are non-interest-bearing.

35. OTHER PAYABLES

As at 31 December 2011, an amount of RMB6,731,000, included in other payables, represents unrealised fair value losses of derivative financial instruments.

The amounts due to associates of approximately RMB12,706,000 (2011: RMB3,675,000) are included in other payables. As at 31 December 2011, an amount due to a jointly-controlled entity of approximately RMB32,000 is included in other payables. These balances are unsecured, non-interest-bearing and repayable on demand.

36. ACCRUALS AND CUSTOMERS' DEPOSITS

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Advances from customers	676,231	919,197
Salary and welfare payables	317,229	261,523
	993,460	1,180,720

The amount due to associates of approximately RMB80,642,000 (2011: RMB112,217,000) is included in the above balances. The balances are unsecured, non-interest-bearing and are repayable on demand.

37. INTEREST-BEARING BANK LOANS

	Group					
	2012			2011		
	Maturity	Fixed rate	Floating rate	Maturity	Fixed rate	Floating rate
		RMB'000	*RMB'000*		*RMB'000*	*RMB'000*
Current						
Short term bank loans, secured	2013	16,000	–	2012	128,575	45,000
Short term bank loans, unsecured	2013	77,352	480,425	2012	38,500	175,469
Current portion of long term bank loans – unsecured	–	–	–	2012	–	150,000
		93,352	480,425		167,075	370,469

The repayment schedule of the bank loans is as follows:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Within 1 year	573,777	537,544

	Company					
	2012			2011		
	Maturity	Fixed rate	Floating rate	Maturity	Fixed rate	Floating rate
		RMB'000	*RMB'000*		*RMB'000*	*RMB'000*
Current						
Short term bank loans, unsecured	2013	–	405,425	–	–	–

The repayment schedule of the bank loans is as follows:

	Company	
	2012	2011
	RMB'000	*RMB'000*
Within 1 year	405,425	–

Notes:

(a) At 31 December 2012, short term bank loans of approximately RMB16,000,000 (2011: RMB45,000,000) were secured by certain land use rights (note 14) and property, plant and equipment (note 12(b)) of the Group. At 31 December 2011, short term bank loans of approximately RMB128,575,000 were secured by certain pledged deposits (note 32) of the Group.

(b) As at 31 December 2012, except for a short term bank loan of HK$500,000,000 equivalent to approximately RMB405,425,000 (2011: Nil) denominated in Hong Kong dollars and a short term bank loan of US$6,216,000 (2011: US$41,906,000) equivalent to approximately RMB38,852,000 (2011: RMB264,044,000), all the Group's interest-bearing bank loans were denominated in RMB.

(c) During the year, the annual interest rates of the short term bank loans varied from 1.11% to 7.22% (2011: varied from 1.95% to 9.36%). During 2011, the annual interest rates of the long term bank loans varied from 4.86% to 5.76%.

38. OTHER LOANS

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Short term loans	24,915	119,094

The Group's other loans are unsecured, interest-free, and with no repayment terms.

Other loans were all granted by local government authorities in the PRC for the purpose of supporting the Group's establishment of production plants in various locations in the PRC.

39. LONG TERM PAYABLES

The Group's long term payables represent the amortised costs of the outstanding instalments payable for the purchase of production equipment. The effective interest rate used for the amortisation is the prevailing market interest rate. The balances are repayable as follows:

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Within 1 year	51,536	61,822
1 to 2 years	48,859	47,648
2 to 5 years	95,734	126,111
Over 5 years	–	14,980
Total long term payables	196,129	250,561
Less: Amount due within one year included in current liabilities under other payables	(51,536)	(61,822)
	144,593	188,739

Certain long term payables are secured by the Group's property, plant and equipment (note 12(b)).

40. DEFERRED INCOME

Various local government authorities have granted certain property, plant and equipment to the Group for nil consideration and provided finance to the Group for the purchase of certain property, plant and equipment by way of a cash donation. Both the property, plant and equipment and grants are recorded initially at fair value. The grants received are regarded as deferred income, which is amortised to match the depreciation charge of the property, plant and equipment granted or purchased in accordance with their estimated useful lives. Movements of the balances during the year are as follows:

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
At beginning of year	253,852	241,131
Received during the year	–	29,978
Amortisation during the year *(note 4)*	(19,056)	(17,257)
At end of year	234,796	253,852
Current portion	19,056	18,912
Non-current portion	215,740	234,940
	234,796	253,852

41. OTHER FINANCIAL LIABILITIES

		Group	
		2012	**2011**
	Notes	*RMB'000*	*RMB'000*
Contingent consideration	*(a)*	101,486	96,659
Present value of redemption amount for potential acquisition of puttable non-controlling interests	*(b)*	443,372	383,872
		544,858	480,531

Notes:

(a) The fair value of the contingent consideration of RMB100,000,000 arising from the Group's acquisition of Junlebao in 2010 was remeasured to RMB95,887,000 as at 31 December 2012 (2011: RMB91,401,000).

The fair value of the contingent consideration of RMB6,025,000 arising from the Group's acquisition of Leshi in 2011 was remeasured to RMB5,599,000 as at 31 December 2012 (2011: RMB5,258,000).

(b) According to the equity purchase agreement entered into among the Group, Junlebao and the non-controlling shareholders of Junlebao, the Group granted a put option to the non-controlling shareholders under which the non-controlling shareholders have the right to sell, and the Group has an obligation to buy the 49% equity interest in Junlebao after 2016. At 31 December 2012, the Group derecognised the carrying amount of non-controlling interests of RMB276,137,000 (2011: RMB231,170,000) and recognised a financial liability at the present value of the amount payable upon exercise of the option of RMB443,372,000 (2011: RMB383,872,000) and accounted for the difference in equity.

42. SHARE CAPITAL

	2012	2011
	RMB'000	*RMB'000*
Authorised:		
3,000,000,000 ordinary shares of HK$0.1 each	319,235	319,235

	Note	**Number of ordinary shares** *'000*	*RMB'000*
Issued and fully paid:			
At 1 January 2012		1,767,440	181,087
Shares issued under the equity-settled share option scheme	*(a)*	792	64
At 31 December 2012		1,768,232	181,151

	Note	**Number of ordinary shares** *'000*	*RMB'000*
At 1 January 2011		1,737,988	178,679
Shares issued under the equity-settled share option scheme	*(a)*	29,452	2,408
At 31 December 2011		1,767,440	181,087

Note:

(a) Details of the Company's share option scheme and the share options issued under the scheme are included in note 45 to the financial statements.

43. RESERVES

(A) Group

The movements of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 87 to 88 of the financial statements.

Movements in the other reserves of the Group during the year are as follows:

	Share premium RMB'000	Contributed surplus RMB'000 Note (a)	Statutory reserves RMB'000 Note (b)	Currency translation differences RMB'000	Available-for-sale investment revaluation reserve RMB'000 Note 22	Share option reserve RMB'000 Note 45	Other reserve RMB'000	Total RMB'000
At 1 January 2011	5,626,570	232,020	1,189,795	(292,866)	97,476	811,801	(135,627)	7,529,169
Other comprehensive income for the year:								
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	(88,072)	–	–	(88,072)
Exchange difference on translation of foreign operations	–	–	–	(196,303)	–	–	–	(196,303)
Total comprehensive income for the year	–	–	–	(196,303)	(88,072)	–	–	(284,375)
Shares issued under equity-settled share option arrangements	518,208	–	–	–	–	–	–	518,208
Equity-settled share option arrangements *(note 45)*	–	–	–	–	–	173,541	–	173,541
Transfer to statutory reserves	–	–	285,920	–	–	–	–	285,920
Derecognition of puttable non-controlling interests *(note 41)*	–	–	–	–	–	–	(6,829)	(6,829)
Transfer of share option reserve upon exercise of share options	182,813	–	–	–	–	(182,813)	–	–
At 1 January 2012	6,327,591	232,020	1,475,715	(489,169)	9,404	802,529	(142,456)	8,215,634

	Share premium *RMB'000*	Contributed surplus *RMB'000* *Note (a)*	Statutory reserves *RMB'000* *Note (b)*	Currency translation differences *RMB'000*	Available-for-sale investment revaluation reserve *RMB'000* *Note 22*	Share option reserve *RMB'000* *Note 45*	Other reserve *RMB'000*	Total *RMB'000*
Other comprehensive income for the year:								
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	49,226	–	–	49,226
Exchange difference on translation of foreign operations	–	–	–	474	–	–	–	474
Total comprehensive income for the year	–	–	–	474	49,226	–	–	49,700
Shares issued under equity-settled share option arrangements	12,063	–	–	–	–	–	–	12,063
Equity-settled share option arrangements *(note 45)*	–	–	–	–	–	19,172	–	19,172
Transfer to statutory reserves	–	–	235,636	–	–	–	–	235,636
Acquisition of non-controlling interests	–	–	–	–	–	–	(2,346)	(2,346)
Derecognition of puttable non-controlling interests *(note 41)*	–	–	–	–	–	–	(13,558)	(13,558)
Transfer of share option reserve upon exercise of share options	4,285	–	–	–	–	(4,285)	–	–
At 31 December 2012	6,343,939	232,020	1,711,351	(488,695)	58,630	817,416	(158,360)	8,516,301

(B) Company

Movements in the reserves of the Company during the year are as follows:

	Share premium *RMB'000*	Contributed surplus *RMB'000* *Note (a)*	Currency translation differences *RMB'000*	Available-for-sale investment revaluation reserve *RMB'000* *Note 22*	Retained earnings *RMB'000*	Share option reserve *RMB'000* *Note 45*	Total *RMB'000*
At 1 January 2011	7,975,623	387,574	(731,728)	(14,095)	197,553	811,801	8,626,728
Profit for the year *(note (d))*	–	–	–	–	280,383	–	280,383
Other comprehensive income for the year:							
Change in fair value of available-for-sale investments, net of tax	–	–	–	(40,395)	–	–	(40,395)
Exchange difference on translation of foreign operations	–	–	(421,293)	–	–	–	(421,293)
Total comprehensive income for the year	–	–	(421,293)	(40,395)	280,383	–	(181,305)
Shares issued under equity-settled share option arrangements	518,208	–	–	–	–	–	518,208
Equity-settled share option arrangements *(note 45)*	–	–	–	–	–	173,541	173,541
Transfer of share option reserve upon exercise of share options	182,813	–	–	–	–	(182,813)	–
Final 2010 dividend declared	–	–	–	–	(279,233)	–	(279,233)
At 1 January 2012	8,676,644	387,574	(1,153,021)	(54,490)	198,703	802,529	8,857,939

	Share premium RMB'000	Contributed surplus RMB'000 Note (a)	Currency translation differences RMB'000	Available-for-sale investment revaluation reserve RMB'000 Note 22	Retained earnings RMB'000	Share option reserve RMB'000 Note 45	Total RMB'000
Profit for the year *(note (d))*	–	–	–	–	259,846	–	259,846
Other comprehensive income for the year:							
Change in fair value of available-for-sale investments, net of tax	–	–	–	20,622	–	–	20,622
Exchange difference on translation of foreign operations	–	–	1,637	–	–	–	1,637
Total comprehensive income for the year	–	–	1,637	20,622	259,846	–	282,105
Shares issued under equity-settled share option arrangements	12,063	–	–	–	–	–	12,063
Equity-settled share option arrangements *(note 45)*	–	–	–	–	–	19,172	19,172
Transfer of share option reserve upon exercise of share options	4,285	–	–	–	–	(4,285)	–
Final 2011 dividend declared	–	–	–	–	(350,009)	–	(350,009)
At 31 December 2012	8,692,992	387,574	(1,151,384)	(33,868)	108,540	817,416	8,821,270

Notes:

(a) Contributed surplus

The balance of the contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation over the nominal value of the shares of the Company issued in exchange therefor, and the excess of the amount of capital injected by the minority shareholder over its additional interest in the subsidiary's net assets attributable to the Company's owners was recorded as contributed surplus of the Group.

The contributed surplus of the Company represents the difference between the then combined net assets value of the subsidiaries acquired pursuant to the group reorganisation over the nominal value of the shares of the Company issued in exchange therefor.

(b) Statutory reserves

In accordance with the relevant PRC laws and regulations, the PRC domestic companies are required to transfer 10% of their profit after income tax, as determined under the PRC accounting standards and financial regulations, to the statutory common reserve. Subject to certain restrictions as set out in the relevant PRC laws and regulations, the statutory common reserve may be used to offset against the accumulated losses, if any.

(c) **Distributable reserves**

Under the Companies Law (2004 Revision) of the Cayman Islands, the share premium and contributed surplus of the Company are distributable to shareholders, provided that immediately following such distributions, the Company is able to pay off its debts as and when they fall due in the ordinary course of business.

(d) The profit attributable to owners of the Company for the year ended 31 December 2012 dealt with in the financial statements of the Company was RMB259,846,000 (2011: RMB280,383,000), including the dividend income from subsidiaries amounting to approximately RMB266,641,000 (2011: RMB238,573,000).

44. MAJOR NON-CASH TRANSACTIONS

During 2011, the Group purchased property, plant and equipment by means of long term payables with a total contractual amount and a total amortised cost of approximately RMB297,457,000 and RMB235,028,000, respectively.

45. SHARE-BASED PAYMENT PLAN

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers and any person or entity that provides research, development or technological support to the Group. The Scheme became effective on 28 June 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the total number of shares of the Company in issue as at the date of approval and adoption of the Scheme provided that the Group may at any time seek approval from its shareholders to refresh the limit to 10% of the shares in issue as at the date of approval by the shareholders in a general meeting where such limit is refreshed. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the total shares of the Company in issue at any time. Any further grant of share options in excess of these limits is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 20 business days from the date of offer, upon payment of a consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than seven years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") closing price of the Company's shares on the offer date of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five business days immediately preceding the offer date; and (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Particulars of share options

Date of grant	Exercise period of share options (both dates inclusive)	Exercise price per share option (note f) *(HK$)*	Weighted average fair value per share option *(HK$)*
26 October 2006	26 October 2007 to 25 October 2012 *(note a)*	13.40	4.82
9 November 2007	9 November 2009 to 8 November 2013 *(note b)*	32.24	10.61
18 August 2008	18 August 2010 to 17 August 2014 *(note b)*	22.03	7.60
23 November 2009	23 November 2011 to 22 November 2015 *(note c)*	24.40	8.50
6 December 2010	6 December 2012 to 5 December 2016 *(note d)*	22.80	7.25
10 October 2011	10 October 2011 to 9 October 2018 *(note e)*	24.10	8.37

(a) The share options will be vested in four equal batches with 25% of the share options granted vesting on the first, second, third and fourth anniversaries of the date of grant. In addition, the share options will only be vested if and when the pre-set performance targets of the Group, the division of the grantee and the grantee are achieved. Unless all of these targets are met, the share options will lapse.

(b) The share options will be vested in two equal batches with 50% of the share options granted vesting on the second and third anniversaries of the date of grant. In addition, the share options will only be vested if and when the pre-set performance targets of the Group, the division of the grantee and the grantee are achieved. Unless all of these targets are met, the share options will lapse.

(c) The share options will be vested in three batches with 20%, 40% and 40% of the share options granted vesting on, respectively, the second, third and fourth anniversaries of the date of the grant. In addition, the share options will only be vested if and when the pre-set performance targets of the Group, the division of the grantee and the grantee are achieved. Unless all of these targets are met, the share options will lapse.

Out of the 89,025,000 share options granted, in aggregate, 20,116,500 share options are granted in exchange for and replacement of the outstanding share options previously granted on 9 November 2007 to better achieve the objectives of the Scheme (the "Replacement").

(d) The share options will be vested in three batches with 20%, 40% and 40% of the share options granted vesting on, respectively, the second, third and fourth anniversaries of the date of the grant. In addition, the share options will only be vested if and when the pre-set performance targets of the Group, the division of the grantee and the grantee are achieved. Unless all of these targets are met, the share options will lapse.

(e) The share options will be vested in two equal batches with 50% of the share options granted vesting on the fourth and fifth anniversaries of the date of grant. In addition, the share options will only be vested if and when the pre-set performance targets of the Group, the division of the grantee and the grantee are achieved. Unless all of these targets are met, the share options will lapse.

(f) The exercise price per share option was the average closing share price for the five business days immediately preceding the grant date or the closing price of the share on the grant date.

(g) Except for the options granted on 10 October 2011, which have a contractual life of seven years, the contractual life of the above options granted is six years. All the above options granted have no cash alternatives.

Movements of share options
2012

Date of grant	As at 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2012	Exercisable at 31 December 2012
26 October 2006	212,108	–	(212,108)	–	–	–
18 August 2008	37,870,494	–	(579,590)	–	37,290,904	37,290,904
23 November 2009	74,698,868	–	–	(6,401,473)	68,297,395	41,237,095
6 December 2010	4,370,000	–	–	(300,000)	4,070,000	814,000
10 October 2011	65,000,000	–	–	(12,000,000)	53,000,000	–
Total	182,151,470	–	(791,698)	(18,701,473)	162,658,299	79,341,999

2011

Date of grant	As at 1 January 2011	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2011	Exercisable at 31 December 2011
26 October 2006	1,757,642	–	(1,497,827)	(47,707)	212,108	212,108
18 August 2008	73,125,280	–	(27,435,173)	(7,819,613)	37,870,494	37,870,494
23 November 2009	86,538,000	–	(519,442)	(11,319,690)	74,698,868	12,911,988
6 December 2010	4,470,000	–	–	(100,000)	4,370,000	–
10 October 2011	–	65,000,000	–	–	65,000,000	–
Total	165,890,922	65,000,000	(29,452,442)	(19,287,010)	182,151,470	50,994,590

Subsequent to the end of the reporting period, out of the total outstanding share options of 162,658,299 (2011: 182,151,470) as at 31 December 2012, 28,688,800 (2011:1,058,720) share options had lapsed due to the unfulfilment of vesting conditions.

The fair value of the share options granted during 2011 was estimated to be RMB444,559,000 (RMB6.84 each) at the grant date. The Group recognised an expense of RMB19,172,000 in 2012 (2011: RMB173,541,000) (note 6 and note 7).

The fair value of the above equity-settled share options was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the instruments were granted.

The following table lists the inputs to the model used for the option scheme granted in the year of 2011:

	Date of grant 10 October 2011
Dividend yield (%)	1
Expected volatility (%)	38
Risk-free interest rate (%)	1.2
Expected life of options (years)	7
Spot price (HK$ per share)	24.1
Exercise price (HK$ per share)	24.1

In light of the lack of a historical exercise record, the expected life of the options is based on the results of empirical studies performed in the United States and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The spot price is the closing price of the Company's shares at the grant date.

The 791,698 share options (2011: 29,452,442) exercised during the year resulted in the issue of 791,698 (2011: 29,452,442) ordinary shares of the Company and new share capital of RMB64,000 (2011: RMB2,408,000) and share premium of RMB12,063,000 (2011: RMB518,208,000), as further detailed in note 42 to the financial statements. The weighted average share price at the date of exercise of these options was HK$23.40 (2011: HK$26.78).

At the end of the reporting period, the Company had 79,341,499 (2011: 50,994,590) vested share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 79,341,499 (2011: 50,994,590) additional ordinary shares of the Company and additional share capital of RMB6,433,000 (2011: RMB4,134,000) and share premium of RMB1,488,948,000 (2011: RMB929,940,000) (before issue expenses).

46. BUSINESS COMBINATION

(a) Acquisition of a subsidiary in 2012:

On 11 April 2012, the Group acquired a 100% interest in Taihang from independent third parties. Taihang is mainly engaged in the production of dairy products. The acquisition was made as part of the Group's strategy to expand its market share of dairy products in the PRC. The purchase consideration for the acquisition was in the form of cash, with RMB5,200,000 paid at the acquisition date and the remaining RMB7,800,000 to pay when Taihang completes certain business administrative registration procedures.

The fair values of the identifiable assets and liabilities of Taihang as at the date of acquisition were as follows:

	Fair value recognised on acquisition
	RMB'000
Assets	
Property, plant and equipment	14,270
Construction in progress	45
Land use rights	5,448
Other intangible assets	30
Trade receivables	391
Prepayments and deposits	1,220
Other receivables	70
Inventories	33
	21,507
Liabilities	
Trade payables	(3,526)
Accruals and customers' deposits	(480)
Other payables	(750)
Other loans	(3,416)
Income tax payables	(335)
	(8,507)
Total identifiable net assets at fair value	13,000
Goodwill arising on acquisition *(note 15)*	–
Purchase consideration	13,000

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB391,000 and RMB70,000, respectively. The gross amounts of trade receivables and other receivables were RMB391,000 and RMB70,000, respectively.

The Group incurred transaction costs of RMB45,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated income statement.

An analysis of the cash flows in respect of the acquisition of Taihang is as follows:

	RMB' 000
Cash consideration	5,200
Cash and bank balances acquired	–
Net outflow of cash and cash equivalents included in cash flows from investing activities	5,200
Transaction costs of the acquisition included in cash flows from operating activities	45
	5,245

Since its acquisition, Taihang contributed nil to the Group's turnover and net losses of RMB3,327,000 to the consolidated profit for the year ended 31 December 2012.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been RMB36,080,353,000 and RMB1,438,732,000, respectively.

(b) Acquisition of a subsidiary in 2011:

On 17 March 2011, the Group acquired an additional 41.66% equity interest in Leshi, in which the Group originally had an equity interest of 22.41%, from independent third parties. Leshi is mainly engaged in the production of dairy products. The acquisition was made as part of the Group's strategy to expand its market share of yogurt products in the PRC. The acquisition was made in the form of cash, with RMB50,907,000 paid at the acquisition date and the remaining RMB6,025,000 as a contingent consideration, which is to be paid in 2014 if certain operating results criteria can be achieved by Leshi over the three years subsequent to the acquisition date.

The Group has elected to measure the non-controlling interest in Leshi at the non-controlling interests' proportionate share of Leshi's identifiable net assets.

The fair values of the identifiable assets and liabilities of Leshi as at the date of acquisition were as follows:

	Fair value recognised on acquisition
	RMB'000
Assets	
Property, plant and equipment	43,680
Construction in progress	10,994
Land use rights	6,179
Other intangible assets	2,938
Available-for-sale investments	1,000
Cash and bank balances	54,175
Trade receivables	430
Prepayments and deposits	2,714
Other receivables	97
Inventories	7,307
	129,514
Liabilities	
Trade payables	(21,779)
Accruals and customers' deposits	(1,409)
Other payables	(26,611)
Interest-bearing bank loans	(19,500)
	(69,299)
Total identifiable net assets at fair value	60,215
Non-controlling interests' proportionate share of identifiable net assets	(21,635)
Acquisition-date fair value of the Group's initial 22.41% equity interest in Leshi	(13,494)
Goodwill arising on acquisition *(note 15)*	30,823
Purchase consideration	55,909

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB430,000 and RMB97,000, respectively. The gross amounts of trade receivables and other receivables were RMB430,000 and RMB97,000, respectively.

The Group incurred transaction costs of RMB12,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated income statement.

The goodwill of RMB30,823,000 represents the value of expected synergies from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair value of the contingent consideration of RMB6,025,000 was recognised at RMB5,002,000 as at the acquisition date and then remeasured to RMB5,599,000 as at 31 December 2012 (2011: RMB5,258,000). This was classified as other financial liabilities (note 41).

An analysis of the cash flows in respect of the acquisition of Leshi is as follows:

	RMB'000
Cash consideration	50,907
Cash and bank balances acquired	(54,175)
Net inflow of cash and cash equivalents included in cash flows from investing activities	(3,268)
Transaction costs of the acquisition included in cash flows from operating activities	12
	(3,256)

Since its acquisition, Leshi contributed RMB262,824,000 to the Group's turnover and RMB20,444,000 to the consolidated profit for the year ended 31 December 2011.

Had the combination taken place at the beginning of the year ended 31 December 2011, the revenue and the profit of the Group for the year ended 31 December 2011 would have been RMB37,430,289,000 and RMB1,785,271,000, respectively.

47. CONTINGENT LIABILITIES

Save as the disclosures in note 41 and 51(b), the Group did not have any significant contingent liabilities at the end of the reporting period.

The Company did not have any significant contingent liabilities at the end of the reporting period.

48. PLEDGE OF ASSETS

Details of the Group's bills payable, bank loans and long term payables, which are secured by the assets of the Group, are included in notes 34, 37 and 39, respectively, to the financial statements.

49. OPERATING LEASE ARRANGEMENTS

(a) As lessor

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Within one year	15,415	762
In the second to fifth years, inclusive	64,442	69,467
	79,857	70,229

(b) As lessee

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases in respect of buildings and certain production equipment as follows:

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Within one year	88,758	71,252
In the second to fifth years, inclusive	190,748	205,406
Over five years	3,425	13,801
	282,931	290,459

50. COMMITMENTS

In addition to the operating lease commitments detailed in note 49, the Group had the following outstanding capital commitments in respect of the purchase and construction of property, plant and equipment as at the end of the reporting period:

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Contracted, but not provided for	520,464	694,483

Subsequent to the end of the reporting date, the board of directors approved the capital expenditure (not contracted for) amounting to approximately RMB2,276,557,500 (2011: RMB2,500,748,000). As at 31 December 2011, the amount related to the Group's share of capital expenditure of a jointly-controlled entity of approximately RMB7,725,000 is included in the above balances.

The Company did not have any significant commitments at the end of the reporting period.

51. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances which are disclosed elsewhere in these financial statements, the Group had the following significant transactions with its associates, a jointly-controlled entity and other related parties.

			Group	
			2012	**2011**
		Note	*RMB'000*	*RMB'000*
(I)	Sales of liquid milk products to associates	*(i)*	4,261,668	4,719,948
(II)	Sales of ice cream products to associates	*(i)*	243,711	336,646
(III)	Sales of other dairy products to associates	*(i)*	18,479	14,734
(IV)	Sales of raw materials to a jointly-controlled entity	*(ii)*	169,304	51,908
(V)	Sales of raw materials to affiliates of a substantial shareholder of the Company	*(i)*	–	158
(VI)	Purchase of raw materials from a jointly-controlled entity	*(ii)*	(112,791)	(84,300)
(VII)	Purchase of ice cream products from an associate	*(i)*	(8,394)	(56,565)
(VIII)	Purchase of liquid milk products from an associate	*(i)*	–	(42,445)
(IX)	Purchase of raw materials from affiliates of a substantial shareholder of the Company	*(i)*	(411,311)	(265,832)

Notes:

(i) The considerations were determined with reference to the then prevailing market prices/rates and the prices charged to third parties.

(ii) These transactions were conducted at cost, which approximated to the prevailing market prices of the materials.

(b) Other transactions with related parties

		Group	
		2012	**2011**
		RMB'000	*RMB'000*
(I)	Guarantees in connection with interest-bearing bank loans provided for a jointly-controlled entity	–	2,709

(II) During the year of 2012, Inner Mongolia Mengniu sold 32,000,000 ordinary shares in Saikexing, an associate of Inner Mongolia Mengniu, to a former executive director and chief executive officer of the Company at the price of RM101,760,000. The consideration of RMB101,760,000 was arrived at after negotiation taking into consideration the appraised value of the shares prepared by an independent valuer.

(c) Compensation of key management personnel of the Group

Key management compensation is detailed in note 7 to the financial statements.

Except for (a.V), (a.IX) and (b.II), the above transactions did not constitute connected transactions as defined in the Listing Rules.

52. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Group					
	2012			2011		
	Loans and receivables	Available-for-sale financial assets	Total	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments	–	749,788	749,788	–	295,206	295,206
Bills receivable	176,386	–	176,386	261,024	–	261,024
Trade receivables	625,087	–	625,087	574,734	–	574,734
Other receivables	359,877	–	359,877	289,427	–	289,427
Other financial assets	53,521	–	53,521	69,961	–	69,961
Investment deposits	160,000	–	160,000	102,800	–	102,800
Pledged deposits	51,602	–	51,602	175,289	–	175,289
Cash and bank balances	5,778,390	–	5,778,390	6,523,075	–	6,523,075
	7,204,863	749,788	7,954,651	7,996,310	295,206	8,291,516

Financial liabilities

	Group			
	2012		2011	
	Financial liabilities at fair value	Financial liabilities at amortised cost	Financial liabilities at fair value	Financial liabilities at amortised cost
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	2,381,955	–	2,543,405
Bills payable	–	1,296,910	–	1,141,141
Other payables	–	1,632,144	6,731	1,575,050
Interest-bearing bank loans	–	573,777	–	537,544
Other loans	–	24,915	–	119,094
Long term payables	–	144,593	–	188,739
Other financial liabilities	–	544,858	–	480,531
	–	6,599,152	6,731	6,585,504

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Company					
	2012			2011		
	Loans and receivables	Available-for-sale financial assets	Total	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loans to a subsidiary included in interests in subsidiaries *(note 19)*	741,197	–	741,197	741,060	–	741,060
Loans to a subsidiary *(note 18)*	2,657,176	–	2,657,176	2,656,684	–	2,656,684
Financial assets included in other receivables	72,446	–	72,446	52,171	–	52,171
Cash and bank balances	751,922	–	751,922	622,766	–	622,766
Available-for-sale investments	–	89,642	89,642	–	69,008	69,008
	4,222,741	89,642	4,312,383	4,072,681	69,008	4,141,689

Financial liabilities

	Company	
	2012	2011
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	RMB'000	*RMB'000*
Other payables	1,629	1,133
Interest-bearing bank loans	405,425	–

53. FAIR VALUES AND FAIR VALUE HIERARCHY

Fair value

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, the current portion of pledged deposits, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, current interest-bearing bank loans, other loans, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of other financial assets, loans to a subsidiary, the non-current portion of interest-bearing bank loans and long term payables and other financial liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted available-for-sale equity investments have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group enters into derivative financial instruments with established commodity trading exchanges. Derivative financial instruments are measured using market quoted prices. The carrying amounts of the commodity futures contracts are the same as their fair values.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value:

		Group	
		2012	
	Level 1	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Available-for-sale investments	89,642	144,201	233,843
Biological asset	–	211,686	211,686
	89,642	355,887	445,529

		Company	
		2012	
	Level 1	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Available-for-sale investments	89,642	–	89,642

Assets measured at fair value:

		Group	
		2011	
	Level 1	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Available-for-sale investments	69,008	103,319	172,327

	Company 2011		
	Level 1	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Available-for-sale investments	69,008	–	69,008

The movements in fair value measurements in Level 3 during the year are as follows:

	2012	**2011**
	RMB'000	*RMB'000*
Available-for-sale investments – unlisted		
At 1 January	103,319	171,461
Total gains/(losses) recognised in other comprehensive income	40,882	(68,142)
At 31 December	144,201	103,319

Liabilities measured at fair value:

	Group 2012	
	Level 1	**Total**
	RMB'000	*RMB'000*
Other payables – derivative financial instruments at fair value	–	–

Liabilities measured at fair value:

	Group 2011	
	Level 1	**Total**
	RMB'000	*RMB'000*
Other payables – derivative financial instruments at fair value	6,731	6,731

The Company did not have any financial liabilities measured at fair value as at 31 December 2012 and 2011.

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk management

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents, trade receivables and payables, other receivables and payables, balances with related parties, interest-bearing bank loans, other loans and long term payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also entered into derivative transactions, mainly commodity futures contracts. The purpose is to manage the commodity risks arising from the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors and senior management meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group adopts prudent strategies on its risk management.

(i) *Interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's borrowings with floating interest rates. The Group closely monitors its interest rate risk by performing periodic reviews and evaluations of its debt portfolio and gearing ratio. The interest rates and terms of repayment of the bank loans of the Group are disclosed in note 37 to the financial statements. In the opinion of the directors, the Group has no significant interest rate risk and has not used any interest rate swaps to hedge its exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings):

	Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax**
		RMB'000
2012		
RMB	50	(2,797)
RMB	(50)	2,797
Hong Kong dollars	50	(1,901)
Hong Kong dollars	(50)	1,901
United States dollar	50	–
United States dollar	(50)	–
2011		
RMB	50	(3,471)
RMB	(50)	3,471
Hong Kong dollars	50	–
Hong Kong dollars	(50)	–
United States dollar	50	(210)
United States dollar	(50)	210

(ii) *Foreign currency risk*

The Group's businesses are principally located in Mainland China and substantially all transactions are conducted in RMB, except for the purchases of imported machinery and equipment and sales of dairy products to Hong Kong and Macau. As at 31 December 2012, substantially all of the Group's assets and liabilities were denominated in RMB except the cash and bank balances of approximately RMB327,503,000 (2011: RMB139,724,000), RMB12,565,000 (2011: RMB163,027,000) and RMB23,000 (2011: Nil) which were denominated in United States dollars, Hong Kong dollars and European dollars, respectively, the interest-bearing bank loans of approximately RMB405,425,000 (2011: Nil) and approximately RMB38,852,000 (2011: RMB264,044,000) which were denominated in Hong Kong dollars and United States dollars, respectively, and the long term payables of approximately RMB79,867,000 (2011: RMB100,128,000) which were denominated in United States dollars. The fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations. However, in the opinion of the directors, the foreign currency risk exposure is under management's control.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB exchange rate as compared to United States dollars, Hong Kong dollars, European dollars, Japanese yen, Canadian dollars and Australian dollars with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and equity:

	Increase/ (decrease) in RMB rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	*RMB'000*	*RMB'000*
2012	5	148,648	(191,538)
	(5)	(148,648)	191,538
2011	5	220,456	(218,838)
	(5)	(220,456)	218,838

(iii) *Credit risk*

The cash and bank balances, as well as the pledged deposits, of the Group are mainly deposited with state-owned commercial banks in Mainland China.

The majority of the Group's sales are conducted on a cash basis. The Group has implemented policies to ensure that sales of products are made to distributors, who wish to trade on credit terms, with an appropriate credit history which is subject to periodic reviews. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these assets.

The Group is also exposed to credit risk through the provision of financial guarantees, further details of which are disclosed in note 51(b) to the financial statements.

Except for the above, the Group has no significant concentration of credit risk, with exposure spreading over a number of counterparties.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 28 to the financial statements.

(iv) *Liquidity risk*

The Group closely monitors its liquidity risk by performing periodic reviews and evaluations of its liquidity with regard to the industry characteristics, market conditions, business strategies and changes in the Group's state of affairs and adjusting the current and non-current portions of the Group's debt portfolio on a proper and timely basis. In addition, the Group aims to ensure a continuity of funds and flexibility through the use of various means of financing and by keeping committed credit lines available.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012 based on contractual undiscounted payments.

	2012				
	On demand	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank loans	–	581,925	–	–	581,925
Other loans	24,915	–	–	–	24,915
Trade and bills payables	–	3,678,865	–	–	3,678,865
Other payables, excluding current portion of long term payables	–	1,580,608	–	–	1,580,608
Long term payables	–	60,330	162,127	–	222,457
Other financial liabilities	–	–	647,113	309,275	956,388

	2011				
	On demand	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank loans	–	547,951	–	–	547,951
Other loans	119,094	–	–	–	119,094
Trade and bills payables	–	3,684,546	–	–	3,684,546
Other payables, excluding current portion of long term payables	–	1,519,959	–	–	1,519,959
Long term payables	–	72,216	203,068	15,204	290,488
Other financial liabilities	–	–	363,328	593,060	956,388

(v) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale investments (note 22) as at 31 December 2012.

The following table demonstrates the sensitivity to every 5% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the available-for-sale equity investments, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact the consolidated income statement.

2012	**Carrying amount of equity investments**	**Change in equity**
	RMB'000	*RMB'000*
Investments listed in:		
Hong Kong – available-for-sale	89,642	4,482
Unlisted investments at fair value:		
Available-for-sale	144,201	7,210

2011	**Carrying amount of equity investments**	**Change in equity**
	RMB'000	*RMB'000*
Investments listed in:		
Hong Kong – available-for-sale	69,008	3,540
Unlisted investments at fair value:		
Available-for-sale	103,319	5,166

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank loans and other loans, trade, bills and other payables, accruals and customers' deposits, long term payables, other financial liabilities, less cash and bank balances, and excludes discontinued operations. Capital represents equity attributable to owners of the Company. The gearing ratios as at the ends of reporting periods were as follows:

	Group	
	2012	**2011**
	RMB'000	*RMB'000*
Interest-bearing bank loans	573,777	537,544
Trade and bills payables	3,678,865	3,684,546
Accruals and customers' deposits	993,460	1,180,720
Other payables	1,632,144	1,581,781
Other loans	24,915	119,094
Long term payables	144,593	188,739
Other financial liabilities	544,858	480,531
Less: Cash and bank balances	(5,778,390)	(6,523,075)
Net debt	1,814,222	1,249,880
Equity attributable to owners of the Company	12,443,292	11,471,058
Capital and net debt	14,257,514	12,720,938
Gearing ratio	12.72%	9.83%

55. EVENTS AFTER THE REPORTING PERIOD

During 2013, Inner Mongolia Mengniu acquired an additional 49% interest in Mengniu Arla, in which Inner Mongolia Mengniu originally had an equity interest of 50%. The acquisition was made as part of the Group's strategy to expand its market share of dairy products in the PRC. The acquisition was made in the form of cash, with RMB60,000,000 paid at the acquisition date, a total of RMB40,000,000 to be paid equally on the first, second, third and fourth anniversaries, and the remaining RMB150,000,000 as a contingent consideration, which is to be paid if certain operating results criteria can be achieved by Mengniu Arla subsequent to the acquisition date.

56. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2013.

3. LATEST UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2013

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited For the six months ended 30 June	
		2013	**2012**
	Notes	*RMB'000*	*RMB'000*
			Restated*
Revenue	4	20,667,981	18,243,824
Cost of sales		(15,148,827)	(13,600,271)
Gross profit		5,519,154	4,643,553
Other income and gains	4	129,636	108,435
Gain arising from changes in fair value less cost to sell of dairy cows	14	13,087	–
Selling and distribution costs		(3,806,962)	(3,191,812)
Administrative expenses		(809,531)	(563,449)
Other operating expenses	5	(137,680)	(124,860)
Profit from operating activities		907,704	871,867
Interest income		132,423	101,774
Finance costs	7	(33,714)	(10,581)
Share of profits and losses of associates and joint ventures		29,651	(60,470)
Profit before tax	6	1,036,064	902,590
Income tax expense	8	(185,684)	(154,678)
Profit for the period		850,380	747,912
Attributable to:			
Owners of the Company		749,494	644,690
Non-controlling interests		100,886	103,222
		850,380	747,912
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)	9		
– Basic		0.419	0.365
– Diluted		0.419	0.365

Details of the dividends payable and proposed for the period are disclosed in Note 10 to the condensed consolidated financial statements.

* *Certain amounts stated above do not correspond to the interim condensed consolidated financial statements as at 30 June 2012 but reflect the adjustments made as described in Note 34.*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited For the six months ended 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
		Restated*
Profit for the period	850,380	747,912
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	(98,334)	26,409
Income tax effect	33,051	(4,804)
	(65,283)	21,605
Exchange differences on translation of foreign operations	(67,543)	23,982
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(132,826)	45,587
Net other comprehensive income not being reclassified to profit or loss in subsequent periods	–	–
Other comprehensive income, net of tax	(132,826)	45,587
Total comprehensive income for the period, net of tax	717,554	793,499
Attributable to:		
Owners of the Company	616,668	689,310
Non-controlling interests	100,886	104,189
	717,554	793,499

* *Certain amounts stated above do not correspond to the interim condensed consolidated financial statements as at 30 June 2012 but reflect the adjustments made as described in Note 34.*

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000 Restated*
NON-CURRENT ASSETS			
Property, plant and equipment	11	8,160,671	7,739,259
Construction in progress	12	765,478	596,812
Land use rights		803,635	801,191
Long term prepayments	20	296,497	299,947
Goodwill	13	747,351	482,436
Biological assets	14	398,676	211,686
Other intangible assets		239,696	224,228
Investments in associates	15	2,763,406	77,921
Available-for-sale investments	16	295,545	509,788
Deferred tax assets		57,342	72,093
Other financial assets		52,173	53,521
		14,580,470	11,068,882
CURRENT ASSETS			
Available-for-sale investments	16	–	240,000
Inventories	17	1,385,658	1,362,673
Bills receivable	18	272,972	172,596
Trade receivables	19	867,165	683,112
Prepayments and deposits	20	1,058,306	947,966
Other receivables		293,491	477,022
Investment deposits	21	850,000	160,000
Pledged deposits	22	444,823	51,602
Cash and bank balances	22	7,389,036	5,752,041
		12,561,451	9,847,012
CURRENT LIABILITIES			
Trade payables	23	3,499,210	2,332,550
Bills payable	24	993,468	1,296,910
Deferred income		19,389	19,056
Other payables	25	2,349,161	1,575,266
Accruals and customers' deposits	26	914,004	975,645
Interest-bearing bank loans	27	3,957,676	573,777
Other loans	28	33,187	24,915
Income tax payable		63,470	58,426
		11,829,565	6,856,545
NET CURRENT ASSETS		731,886	2,990,467
TOTAL ASSETS LESS CURRENT LIABILITIES		15,312,356	14,059,349

	Notes	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000 Restated*
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	27	18,941	–
Long term payables	29	110,088	144,593
Deferred income		205,015	215,740
Deferred tax liabilities		–	33,051
Other financial liabilities	30	633,768	544,858
		967,812	938,242
NET ASSETS		14,344,544	13,121,107
EQUITY			
Equity attributable to owners of the Company			
Issued capital	31	185,350	181,151
Shares held under Restricted Share Award Scheme	31/35	(131,812)	–
Retained earnings		4,371,291	3,816,793
Other reserves	32	9,297,055	8,491,301
		13,721,884	12,489,245
Non-controlling interests		622,660	631,862
TOTAL EQUITY		14,344,544	13,121,107

* *Certain amounts stated above do not correspond to the audited consolidated financial statements as at 31 December 2012 but reflect the adjustments made as described in Note 34.*

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						
	Issued capital	Shares held under Restricted Share Award Scheme	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 31)	*(Note 31)*	*(Note 32)*				
For the six months ended 30 June 2013 (unaudited)							
At 1 January 2013	181,151	–	8,491,301	3,816,793	12,489,245	631,862	13,121,107
Profit for the period	–	–	–	749,494	749,494	100,886	850,380
Other comprehensive income for the period							
Changes in fair value of available-for-sale investments, net of tax	–	–	(58,630)	–	(58,630)	(6,653)	(65,283)
Exchange differences on translation of foreign operations	–	–	(67,543)	–	(67,543)	–	(67,543)
Total comprehensive income for the period	–	–	(126,173)	749,494	623,321	94,233	717,554
Shares issued under equity-settled share option arrangements *(Note31)*	4,199	–	955,227	–	959,426	–	959,426
Equity-settled share option arrangements	–	–	40,529	–	40,529	–	40,529
Transfer of share option reserve upon forfeiture or expiry of share options	–	–	(95,492)	95,492	–	–	–
Shares purchases for Restricted Share Award Scheme	–	(131,812)	–	–	(131,812)	–	(131,812)
Restricted Share Award Scheme	–	–	39,960	–	39,960	–	39,960
Dividends paid/payable to owners of the Company	–	–	–	(290,488)	(290,488)	–	(290,488)
Dividends paid/payable to non-controlling interests	–	–	–	–	–	(76,863)	(76,863)
Derecognition of puttable non-controlling interests	–	–	(8,297)	–	(8,297)	(26,064)	(34,361)
Acquisition of a subsidiary	–	–	–	–	–	(508)	(508)
At 30 June 2013	185,350	(131,812)	9,297,055	4,371,291	13,721,884	622,660	14,344,544

	Attributable to owners of the Company					
	Issued capital RMB'000 (Note 31)	Other reserves RMB'000 (Note 32)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
For the six months ended 30 June 2012 (unaudited)						
At 1 January 2012 (Restated*)	181,087	8,190,634	3,099,337	11,471,058	577,762	12,048,820
Profit for the period	–	–	644,690	644,690	103,222	747,912
Other comprehensive income for the period						
Changes in fair value of available-for-sale investments, net of tax	–	20,638	–	20,638	967	21,605
Exchange differences on translation of foreign operations	–	23,982	–	23,982	–	23,982
Total comprehensive income for the period	–	44,620	644,690	689,310	104,189	793,499
Shares issued under equity-settled share option arrangements	23	4,234	–	4,257	–	4,257
Equity-settled share option arrangements	–	108,022	–	108,022	–	108,022
Dividends paid/payable to owners of the Company	–	–	(350,009)	(350,009)	–	(350,009)
Dividends paid/payable to non-controlling interests	–	–	–	–	(77,530)	(77,530)
Derecognition of puttable non-controlling interests	–	(3,177)	–	(3,177)	(26,573)	(29,750)
At 30 June 2012	181,110	8,344,333	3,394,018	11,919,461	577,848	12,497,309

* *Certain amounts stated above do not correspond to the interim condensed consolidated financial statements as at 30 June 2012 but reflect the adjustments made as described in Note 34.*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Unaudited For the six months ended 30 June 2013 RMB'000	2012 RMB'000 Restated*
Net cash inflow from operating activities		2,331,577	1,156,476
Net cash outflow from investing activities	*(a)*	(6,234,842)	(1,967,125)
Net cash inflow from financing activities		3,568,424	47,618
Net decrease in cash and cash equivalents		(334,841)	(763,031)
Effect of foreign exchange rate changes, net		(17,822)	(2,371)
Cash and cash equivalents at 1 January	22	2,917,541	4,322,066
Cash and cash equivalents at 30 June	22	2,564,878	3,556,664

Notes:

a. The balances included the additions of time deposits with original maturity of more than three months, investment deposits and short term available-for-sale investments, with a total amount of RMB2,439,659,000(six months ended 30 June 2012: RMB989,236,000) during the period.

* *Certain amounts stated above do not correspond to the interim condensed consolidated financial statements as at 30 June 2012 but reflect the adjustments made as described in Note 34.*

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands. The Company is an investment holding company and its subsidiaries are engaged in the manufacture and distribution of dairy products mainly in the People's Republic of China (the "PRC").

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2013 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the disclosure requirements of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2012.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those in the Group's annual financial statements for the year ended 31 December 2012, except for the adoption of the following new or revised standards and interpretations as of 1 January 2013.

The Group applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 19 (Revised 2011) *Employee Benefits*, IFRS 13 *Fair Value Measurement* and amendments to IAS 1 *Presentation of Financial Statements*. As required by IAS 34, the nature and the effect of these changes are disclosed below. In addition, the application of IFRS 12 *Disclosure of Interest in Other Entities* would result in additional disclosures in the annual consolidated financial statements.

Several other new standards and amendments are applicable for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

The nature and the impact of each new standard/amendment is described below:

IAS 1 *Presentation of Items of Other Comprehensive Income* – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments affected presentation only and had no impact on the Group's financial position or performance.

IAS 1 *Clarification of the requirement for comparative information* (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim condensed financial statements do not include a third balance sheet.

IAS 32 *Tax effects of distributions to holders of equity instruments* (Amendment)

The amendment to IAS 32 *Financial Instruments: Presentation* clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed consolidated financial statements for the Group, as there are no tax consequences attached to cash or non-cash distribution.

IAS 34 *Interim financial reporting and segment information for total assets and liabilities* (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 *Operating Segments*. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker. The amendment did not have an impact on the interim condensed consolidated financial statements for the Group, as the Group has disclosed the relevant segment information.

IAS 19 *Employee Benefits* (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit or loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. As the Group has no defined benefit plans, the amendment does not have an impact on the Group.

IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities –* Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

IFRS 10 *Consolidated Financial Statements* and IAS 27 *Separate Financial Statements*

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously in IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 *Joint Arrangements* and IAS 28 *Investments in Associates and Joint Ventures*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.

The application of this new standard impacted the financial position of the Group by replacing proportionate consolidation of the joint venture in Mengniu Arla (Inner Mongolia) Dairy Products Co., Ltd ("Mengniu Arla") (see Note 34) with the equity method of accounting. IFRS 11 is effective for annual periods beginning on or after 1 January 2013. The effect of IFRS 11 is described in more detail in Note 34, which includes quantification of the effect on the financial statements.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specially required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements.

In addition to the above-mentioned amendments and new standards, IFRS 1 *First-time Adoption of International Financial Reporting Standards* was amended with effect for reporting periods beginning on or after 1 January 2013. The Group is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- liquid milk products segment – manufacture and distribution of ultra-high temperature milk ("UHT milk"), milk beverages and yogurt;

- ice cream products segment – manufacture and distribution of ice cream; and

- other dairy products segment – mainly manufacture and distribution of milk powder.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, share of profits and losses of associates and joint ventures, dividend income, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude equity investments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following tables present the revenue, profit and certain asset and liability information for the Group's operating segments:

For the six months ended 30 June 2013 (Unaudited)	**Liquid milk products**	**Ice cream products**	**Other dairy products**	**Intersegment eliminations**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:					
Sales to external customers	18,262,536	1,954,407	451,038	–	20,667,981
Intersegment sales	131,536	19,465	53,859	(204,860)	–
Total	18,394,072	1,973,872	504,897	(204,860)	20,667,981
Segment results	1,087,114	40,584	(46,889)	–	1,080,809
Interest income					132,423
Finance costs					(33,714)
Share of profits and losses of associates and joint ventures					29,651
Unallocated corporate expenses					(173,105)
Profit before tax					1,036,064
Income tax expense					(185,684)
Profit for the period					850,380
At 30 June 2013 (Unaudited)					
Assets and liabilities					
Segment assets	17,785,602	1,798,266	1,113,644	–	20,697,512
Intragroup elimination					(6,700,004)
Unallocated corporate assets					13,144,413
Total assets					27,141,921
Segment liabilities	12,542,465	1,457,136	961,390	–	14,960,991
Intragroup elimination					(6,700,004)
Unallocated corporate liabilities					4,536,390
Total liabilities					12,797,377

For the six months ended 30 June 2012 (Restated)	Liquid milk products RMB'000	Ice cream products RMB'000	Other dairy products RMB'000	Intersegment eliminations RMB'000	Consolidated RMB'000
Segment revenue:					
Sales to external customers	15,963,272	2,158,257	122,295	–	18,243,824
Intersegment sales	103,774	66	86,846	(190,686)	–
Total	16,067,046	2,158,323	209,141	(190,686)	18,243,824
Segment results	993,748	59,793	(5,933)	–	1,047,608
Interest income					101,774
Finance costs					(10,581)
Share of profits and losses of associates and joint ventures					(60,470)
Unallocated corporate expenses					(175,741)
Profit before tax					902,590
Income tax expense					(154,678)
Profit for the period					747,912
At 31 December 2012 (Audited)					
Assets and liabilities					
Segment assets	16,458,513	1,405,014	366,459	–	18,229,986
Intragroup elimination					(5,233,628)
Unallocated corporate assets					7,919,536
Total assets					20,915,894
Segment liabilities	10,988,647	816,066	393,189	–	12,197,902
Intragroup elimination					(5,233,628)
Unallocated corporate liabilities					830,513
Total liabilities					7,794,787

4. REVENUE, OTHER INCOME AND GAINS

Revenue, being the turnover of the Group, represents the net invoiced value of goods sold, after allowances for goods returns and trade discounts, and after eliminations of all significant intra-group transactions.

An analysis of the Group's revenue, other income and gains is as follows:

		Unaudited For the six months ended 30 June	
		2013	**2012**
	Notes	*RMB'000*	*RMB'000*
Revenue:			
Sales of goods		20,667,981	18,243,824
Other income and gains:			
Government grants related to			
– Assets	*(a)*	9,695	9,361
– Income	*(b)*	30,573	81,823
Foreign exchange gains, net		73,583	–
Others		15,785	17,251
		129,636	108,435
		20,797,617	18,352,259

Notes:

(a) The Group has received certain government grants in the form of property, plant and equipment donations or cash donations to purchase items of property, plant and equipment. The grants are initially recorded as deferred income and amortised to match the depreciation charge of the underlying property, plant and equipment in accordance with the assets' estimated useful lives.

(b) The government grants in the form of cash donations have been received for the Group's contribution to the development of the local dairy products industry. There are no unfulfilled conditions or contingencies attaching to these grants.

5. OTHER OPERATING EXPENSES

	Unaudited For the six months ended 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
Provision for trade receivables and other receivables	144	15,962
Provision for inventories	286	5,283
Loss on disposal of items of property, plant and equipment	11,990	1,191
Donations	11,513	2,610
Tax associated charges	93,832	70,539
Foreign exchange losses, net	–	17,135
Others	19,915	12,140
	137,680	124,860

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Unaudited For the six months ended 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
Cost of inventories sold	15,148,827	13,596,975
Realised and unrealised fair value losses of derivative financial instruments, net	–	3,296
Cost of sales	15,148,827	13,600,271
Depreciation of property, plant and equipment	562,627	465,161
Amortisation of land use rights	10,408	7,213
Amortisation of other intangible assets	6,992	3,891
Employee benefit expense (excluding directors' and senior executive's emoluments)	1,363,124	877,595

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Unaudited For the six months ended 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
Interest on long term payables	7,201	6,754
Interest on bank loans wholly repayable within five years	18,133	1,414
Increase in discounted amounts of contingent consideration arising from the passage of time	8,380	2,413
	33,714	10,581

8. INCOME TAX EXPENSE

The major components of income tax expense in the condensed consolidated income statement are:

	Unaudited For the six months ended 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
Current income tax		
Current income tax charge	170,933	149,403
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	14,751	5,275
	185,684	154,678

(a) Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the period.

(b) The tax charge represents the provision for PRC corporate income tax ("CIT") for the period at the prevailing tax rates applicable thereto.

During the period, certain PRC subsidiaries were subject to tax exemption in accordance with (i) the PRC CIT Law; (ii) "The notice of tax policies relating to the implementation of western China development strategy"; and (iii) "The notice of preferential tax policy for preliminary processing of agricultural products".

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The basic earnings per share for the period is calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share is calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during that period, as used in the basic earnings per share calculation; and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period pursuant to contingent ordinary share provision in IAS 33 *Earnings Per Share*.

The following reflects the profit and the number of shares used in the basic and diluted earnings per share calculations:

	Unaudited For the six months ended 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the Company	749,494	644,690

	Number of shares *(in thousand)*	Number of shares *(in thousand)*
Weighted average number of ordinary shares less shares held for Restricted Share Award Scheme for the purpose of the basic earnings per share calculation	1,786,914	1,767,571
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the period	1,351	58
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	1,788,265	1,767,629

10. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil). During the six months ended 30 June 2013, the Company declared and paid final dividends of RMB0.16 (six months ended 30 June 2012: RMB0.198) per share as proposed for the year ended 31 December 2012 to the shareholders of the Company.

11. PROPERTY, PLANT AND EQUIPMENT

Movements in the Group's property, plant and equipment are as follows:

	Unaudited 2013 *RMB'000*	Unaudited 2012 *RMB'000*
Carrying amount at 1 January	7,739,259	6,635,921
Additions	331,107	223,685
Transfers from construction in progress *(Note 12)*	337,954	588,697
Disposals	(20,530)	(34,310)
Acquisition of a subsidiary *(Note 33)*	335,508	14,270
Depreciation charge for the period *(Note 6)*	(562,627)	(465,161)
Carrying amount at 30 June	8,160,671	6,963,102

Certain property, plant and equipment of the Group with net book values of approximately RMB250,137,000 (31 December 2012: RMB271,327,000) and RMB7,941,000 (31 December 2012: RMB8,047,000) have been pledged to secure the long term payables and short-term bank loans of the Group, respectively, details of which are set out in note 29 and note 27 to the interim financial statements.

12. CONSTRUCTION IN PROGRESS

Movements in the Group's construction in progress, all of which is located in Mainland China, are as follows:

	Unaudited 2013 *RMB'000*	Unaudited 2012 *RMB'000*
Carrying amount at 1 January	596,812	886,674
Additions	507,697	635,199
Acquisition of a subsidiary *(Note 33)*	–	45
Transfers to property, plant and equipment *(Note 11)*	(337,954)	(588,697)
Transfers to land use right	–	(3,498)
Transfers to other intangible assets	(1,077)	–
Carrying amount at 30 June	765,478	929,723

13. GOODWILL

	Unaudited 2013 *RMB'000*	Unaudited 2012 *RMB'000*
Carrying amount at 1 January	482,436	482,436
Acquisition of a subsidiary *(Note 33)*	272,760	–
Decrease	(7,845)	–
Carrying amount at 30 June	747,351	482,436

14. BIOLOGICAL ASSETS

The value of dairy cows at the end of the reporting period was:

	Unaudited 2013 *RMB'000*	Unaudited 2012 *RMB'000*
Carrying amount at 1 January	211,686	–
Increases due to purchase	124,080	–
Increases due to raising (Feeding cost and others)	55,011	–
Decrease due to sales	(5,188)	–
Gains arising from changes in fair value less costs to sell	13,087	–
Carrying amount at 30 June	398,676	–

The Group's dairy cows in the PRC were valued by an independent qualified professional valuer.

15. INVESTMENTS IN ASSOCIATES

During the period, the Company acquired an aggregate of 1,296,000,000 shares of China Modern Dairy Holdings Ltd. ("China Modern Dairy"), a Hong Kong listed company, representing approximately a 26.92% equity interest in China Modern Dairy as at the date of acquisition, at an aggregate purchase consideration of approximately RMB2,536,594,000. The acquisition was completed on 21 May 2013 and since then China Modern Dairy became an associate of the Company.

Particular of China Modern Dairy is as follows:

Name	Particulars of issued shares held	Place of Incorporation/ registration	Percentage of equity interest attributable to the Group 2013	2012	Principal activities
China Modern Dairy Holdings Ltd.	Ordinary Share of HK$0.1 each	Cayman Islands	28%	1.08%	Production and sale of milk

16. AVAILABLE-FOR-SALE INVESTMENTS

	Unaudited 30 June 2013 *RMB'000*	Audited 31 December 2012 *RMB'000*
Non-current Assets:		
Listed equity investments, at fair value: Hong Kong	–	89,642
Unlisted equity investments, at fair value	–	144,201
Unlisted equity investments, at cost	295,545	275,945
	295,545	420,146
	295,545	509,788
Current Assets:		
Unlisted equity investments, at cost *(Note)*	–	240,000

Note:

As at 31 December 2012, the available-for-sale investments measured at cost under current assets represented certain investment instruments with original maturity of less than one year acquired from domestic financial institutions. The investment instruments were unsecured with no guaranteed return amount.

17. INVENTORIES

	Unaudited 30 June 2013 *RMB'000*	Audited 31 December 2012 *RMB'000*
Raw materials	872,825	819,605
Finished goods	512,833	543,068
Total inventories at the lower of cost and net realisable value	1,385,658	1,362,673

18. BILLS RECEIVABLE

An aged analysis of the bills receivable of the Group is as follows:

	Unaudited 30 June 2013 *RMB'000*	Audited 31 December 2012 *RMB'000*
Within 3 months	191,866	121,600
4 to 6 months	81,106	50,996
	272,972	172,596

The amounts due from associates of approximately RMB75,212,000 (31 December 2012: RMB45,838,000) were included in the above balance. Certain bills receivable of the Group amounting to approximately RMB74,683,000 (31 December 2012: RMB13,800,000) have been pledged to secure the bills payable of the Group. Details of which are set out in Note 24 to the condensed consolidated financial statements.

19. TRADE RECEIVABLES

The Group normally allows a credit period of not more than 30 days to its customers which is extendable in certain circumstances. The Group closely monitors overdue balances. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The trade receivables are non-interest-bearing.

An aged analysis of the trade receivables of the Group, net of provision for doubtful debts, based on the invoice date, is as follows:

	Unaudited 30 June 2013 *RMB'000*	Audited 31 December 2012 *RMB'000*
Within 3 months	745,701	491,954
4 to 6 months	97,712	182,074
7 to 12 months	22,941	7,240
Over 1 year	811	1,844
	867,165	683,112

The amounts due from associates of approximately RMB170,674,000 (31 December 2012: RMB299,247,000) were included in the above balance. As at 31 December 2012, an amount due from a joint venture of approximately RMB97,539,000 was included in the above balances. These balances are unsecured, non-interest-bearing and are repayable on credit terms similar to those offered to other major customers of the Group.

20. PREPAYMENTS AND DEPOSITS

The Group has entered into various long term raw milk supply contracts with certain milking cow raising companies. In accordance with these contracts, the Group prepaid for raw milk supplies for the next six years.

As at 30 June 2013, an amount due from an associate of approximately RMB11,886,000 (31 December 2012: RMB12,886,000) was included in the balances. The above balances are unsecured, non-interest-bearing and are repayable on credit terms similar to those offered to other major customers of the Group.

21. INVESTMENT DEPOSITS

As at 30 June 2013, the Group's investment deposits were purchased from domestic banks with good credit rating and were stated at amortised cost. The investment deposits were acquired with original maturity of three months or less than three months and were not allowed to be withdrawn prior to the maturity date without the bank's consent. The investment deposits were unsecured and had an expected annual interest rate of 5.02% (31 December 2012: 5.05%).

22. CASH AND BANK BALANCES, PLEDGED DEPOSITS

	Unaudited 30 June 2013 *RMB'000*	**Audited 31 December 2012** *RMB'000*
Cash and cash equivalents	2,564,878	2,917,541
Pledged deposits	444,823	51,602
Time deposits with original maturity of more than three months	4,824,158	2,834,500
	7,833,859	5,803,643
Less: Deposits pledged for banking facilities *(Note 24 and Note 27)*	(444,823)	(51,602)
Cash and bank balances	7,389,036	5,752,041

23. TRADE PAYABLES

An aged analysis of the trade payables of the Group, based on the invoice date, is as follows:

	Unaudited 30 June 2013 *RMB'000*	**Audited 31 December 2012** *RMB'000*
Within 3 months	3,414,616	2,283,674
4 to 6 months	55,483	32,727
7 to 12 months	25,684	12,442
Over 1 year	3,427	3,707
	3,499,210	2,332,550

The amount due to an associate of approximately RMB2,200,000 (31 December 2012: RMB8,000) was included in the above balances. As at 31 December 2012, an amount due to a joint venture of approximately RMB14,637,000 was included in the above balances. The balances are unsecured, non-interest-bearing and are repayable on demand.

The Group's trade payables are unsecured and non-interest-bearing.

24. BILLS PAYABLE

An aged analysis of the bills payable of the Group is as follows:

	Unaudited 30 June 2013 *RMB'000*	**Audited 31 December 2012** *RMB'000*
Within 3 months	593,183	600,589
4 to 6 months	400,285	696,321
	993,468	1,296,910

Except for an aggregate balance of approximately RMB149,107,000 (31 December 2012: RMB110,081,000) secured by the pledge of certain of the Group's deposits amounting to approximately RMB32,141,000 (31 December 2012: RMB49,602,000) (Note 22), and certain of the Group's bills receivable amounting to RMB74,683,000 (31 December 2012: RMB13,800,000) (Note 18), the bills payable are unsecured. The above balances are non-interest-bearing.

25. OTHER PAYABLES

The amounts due to associates of approximately RMB1,303,000 (31 December 2012: RMB12,681,000) were included in the balances. The balances are unsecured, non-interest-bearing and are repayable on demand.

26. ACCRUALS AND CUSTOMERS' DEPOSITS

	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000
Advances from customers	364,489	664,684
Salary and welfare payables	549,515	310,961
	914,004	975,645

The amounts due to associates of approximately RMB28,993,000 (31 December 2012: RMB80,392,000) were included in the above balances. The balances are unsecured, non-interest-bearing and are repayable on demand.

27. INTEREST-BEARING BANK LOANS

	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000
Current:		
Short term bank loans, secured	475,827	16,000
Short term bank loans, unsecured	3,218,925	557,777
Current portion of long term bank loans, unsecured	262,924	–
	3,957,676	573,777
Non-current:		
Long term bank loans, unsecured	18,941	–

Notes:

(a) As at 30 June 2013, short term bank loans of approximately RMB475,827,000 (31 December 2012: RMB16,000,000) were secured by certain plants (Note 11) and pledged deposits (Note 22) of the Group.

(b) As at 30 June 2013, except for a short term bank loan of US$334,963,000 equivalent to approximately RMB2,068,246,000 (31 December 2012: RMB38,852,000) and a long term bank loan of US$45,362,000 equivalent to approximately RMB281,865,000 (31 December 2012: nil) denominated in United States dollars and a short term bank loan of HK$1,885,000,000 equivalent to approximately RMB1,501,591,000 (31 December 2012: RMB405,425,000) denominated in Hong Kong dollars, all the Group's interest-bearing bank loans were denominated in RMB.

(c) During the six months ended 30 June 2013, the annual interest rates of the short term bank loans and the long term bank loans varied from 1.17% to 9.47% and 2.22% to 2.25% (six months ended 30 June 2012: varied from 1.75% to 9.47% and 4.86% to 5.76%), respectively.

28. OTHER LOANS

Other loans were all granted by local government authorities in the PRC for the purpose of supporting the Group's establishment of production plants in various locations in the PRC. The balances are unsecured, interest-free, and with no repayment terms.

29. LONG TERM PAYABLES

The Group's long term payables represent the amortised costs of outstanding instalments payable for the purchase of production equipment. The effective interest rate used for the amortisation is the prevailing market interest rate. The balances are repayable as follows:

	Unaudited 30 June 2013 *RMB'000*	Audited 31 December 2012 *RMB'000*
Within 1 year	48,267	51,536
1 to 2 years	47,894	48,859
2 to 5 years	62,194	95,734
Total long term payables	158,355	196,129
Less: Amount due within 1 year included in current liabilities under other payables	(48,267)	(51,536)
	110,088	144,593

Certain long term payables are secured by the Group's property, plant and equipment (Note 11).

30. OTHER FINANCIAL LIABILITIES

	Notes	Unaudited 30 June 2013 *RMB'000*	Audited 31 December 2012 *RMB'000*
Contingent consideration	*(a)*	130,167	101,486
Present value of considerations to be paid in coming years	*(b)*	25,867	–
Present value of a redemption amount for potential acquisition of puttable non-controlling interests	*(c)*	477,734	443,372
		633,768	544,858

Notes:

(a) During the period, the Group has agreed to pay on demand the contingent consideration of RMB100,000,000 arising from the Group's acquisition of Shijiazhuang Junlebao Dairy Co., Ltd. ("Junlebao") in 2010 and therefore reclassified the amount to other payables. As at 31 December 2012, the fair value of the contingent consideration was RMB95,887,000.

The fair value of the contingent consideration of RMB6,000,000 arising from the Group's acquisition of Shijiazhuang Junlebao Leshi Dairy Co., Ltd. ("Leshi") in 2011 was re-measured to RMB5,770,000 as at 30 June 2013 (31 December 2012: RMB5,599,000).

The fair value of the contingent consideration arising from the Group's acquisition of Mengniu Arla is RMB120,131,000 at the acquisition date and re-measured to RMB124,397,000 as at 30 June 2013.

(b) The fair value of the considerations to be paid in the coming years arising from the Group's acquisition of Mengniu Arla is RMB25,038,000 at the acquisition date and re-measured to RMB25,867,000 as at 30 June 2013.

(c) According to the equity purchase agreement entered into among the Group, Junlebao and the non-controlling shareholders of Junlebao, the Group granted a put option to the non-controlling shareholders under which the non-controlling shareholders have the right to sell, and the Group has an obligation to buy the 49% equity interest in Junlebao after 2016. At 30 June 2013, the Group derecognised the carrying amount of non-controlling interests of RMB301,605,000 (31 December 2012: RMB276,137,000) and recognised a financial liability at the present value of the amount payable upon exercise of the option of RMB477,734,000 (31 December 2012: RMB443,372,000) and accounted for the difference into equity.

31. SHARE CAPITAL AND SHARES HELD FOR RESTRICTED SHARE AWARD SCHEME

	Unaudited 30 June 2013	**Audited 31 December 2012**
	RMB'000	*RMB'000*
Authorised:		
3,000,000,000 ordinary shares of HK$0.1 each	319,235	319,235

	Notes	**Number of ordinary shares**	
		000	*RMB'000*
Issued and fully paid:		1,768,232	181,151
At 1 January 2013 (Audited)			
Shares issued under equity-settled share option arrangements	*(a)*	52,711	4,199
At 30 June 2013 (Unaudited)		1,820,943	185,350
At 1 January 2012 (Audited)		1,767,400	181,087
Shares issued under equity-settled share option arrangements	*(a)*	282	23
At 30 June 2012 (Unaudited)		1,767,722	181,110

Notes:

(a) The 52,710,856 (2012: 282,487) share options exercised during the period resulted in the issue of 52,710,856 (2012: 282,487) ordinary shares of the Company and issued capital of RMB4,199,000 (2012: RMB23,000) and share premium of RMB955,227,000 (2012: RMB4,234,000). The weighted average share price at the date of exercise for these options was HK$26.09 (2012: HK$23.53) per share.

(b) During the period, the Restricted Share Award Scheme (Note 35) acquired 6,256,000 of the Company's shares (2012: nil) through purchases on the open market. The total amount paid to acquire the shares during the period was RMB131,812,000 (HK$165,478,000) (2012: nil).

32. OTHER RESERVES

Movements in other reserves of the Group during the period are as follows:

	Share premium *RMB'000*	Contributed surplus *RMB'000*	Statutory reserves *RMB'000*	Currency translation differences *RMB'000*	Available-for-sale investment revaluation reserve *RMB'000*	Share option reserve/ Restricted Share Award reserve *RMB'000*	Other reserve *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2013 (unaudited)								
At 1 January 2013	6,318,939	232,020	1,711,351	(488,695)	58,630	817,416	(158,360)	8,491,301
Other comprehensive income:								
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	(58,630)	–	–	(58,630)
Exchange difference on translation of foreign operations	–	–	–	(67,543)	–	–	–	(67,543)
Total comprehensive income for the period	–	–	–	(67,543)	(58,630)	–	–	(126,173)
Shares issued under equity-settled share option arrangements *(Note 31(a))*	955,227	–	–	–	–	–	–	955,227
Equity-settled share option arrangements	–	–	–	–	–	40,529	–	40,529
Transfer of share option reserve upon exercise of share options	434,032	–	–	–	–	(434,032)	–	–
Transfer of share option reserve upon forfeiture or expiry of share options	–	–	–	–	–	(95,492)	–	(95,492)
Restricted Share Award Scheme	–	–	–	–	–	39,960	–	39,960
Derecognition of puttable non-controlling interests	–	–	–	–	–	–	(8,297)	(8,297)
At 30 June 2013	7,708,198	232,020	1,711,351	(556,238)	–	368,381	(166,657)	9,297,055

	Share premium RMB'000	Contributed surplus RMB'000	Statutory reserves RMB'000	Currency translation differences RMB'000	Available-for-sale investment revaluation reserve RMB'000	Share option reserve RMB'000	Other reserve RMB'000	Total RMB'000
For the six months ended 30 June 2012 (unaudited)								
At 1 January 2012	6,302,591	232,020	1,475,715	(489,169)	9,404	802,529	(142,456)	8,190,634
Other comprehensive income:								
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	20,638	–	–	20,638
Exchange difference on translation of foreign operations	–	–	–	23,982	–	–	–	23,982
Total comprehensive income for the period	–	–	–	23,982	20,638	–	–	44,620
Shares issued under equity-settled share option arrangements *(Note 31(a))*	4,234	–	–	–	–	–	–	4,234
Equity-settled share option arrangements	–	–	–	–	–	108,022	–	108,022
Transfer of share option reserve upon exercise of share options	4,285	–	–	–	–	(4,285)	–	–
Derecognition of puttable non-controlling interests	–	–	–	–	–	–	(3,177)	(3,177)
At 30 June 2012	6,311,110	232,020	1,475,715	(465,187)	30,042	906,266	(145,633)	8,344,333

33. BUSINESS COMBINATION

(a) Acquisition of a subsidiary in 2013:

On 10 January 2013, the Group acquired a 49% equity interest in Mengniu Arla (Inner Mongolia) Dairy Products Co., Ltd. ("Mengniu Arla"), a previously jointly-controlled entity, from the joint venture partner. Mengniu Arla is mainly engaged in the production of milk powder. The acquisition was made as part of the Group's strategy to expand its market share of milk powder in the PRC. Pursuant to the original joint venture contract entered into in 2006, except for Mengniu Alar, the Group was not allowed to establish or set up other entities to run the milk powder business in the PRC. Subsequent to this business combination, this restriction was void.

The acquisition was made in the form of cash, with RMB60,000,000 paid at the acquisition date, an aggregate of RMB40,000,000 paid equally in the first, second, third and fourth anniversaries of the acquisition date, and the remaining RMB150,000,000 as a contingent consideration, which is to be paid if certain operating results criteria can be achieved or by the Group over the subsequent years.

The fair values of the identifiable assets and liabilities of Mengniu Arla as at the date of acquisition were as follows:

	Fair value recognised on acquisition *RMB'000*
Assets	
Property, plant and equipment	335,508
Land use rights	12,796
Other intangible assets	20,996
Trade receivables	32,912
Long term investment	2
Prepayments and deposits	3,688
Other receivables	6,501
Inventories	114,451
Cash and bank balances	52,696
	579,550
Liabilities	
Trade payables	(213,542)
Accruals and customers' deposits	(35,630)
Other payables	(381,198)
	(630,370)
Total identifiable net liabilities at fair value	(50,820)
Less: Non-controlling interests' proportionate share of identifiable net liabilities	(508)
Less: Goodwill previously allocated to Mengniu Arla	(7,845)
Add: Goodwill arising on acquisition *(Note 13)*	272,760
Purchase consideration at fair value	214,603

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB32,912,000 and RMB6,501,000, respectively. The gross amounts of trade receivables and other receivables were RMB32,912,000 and RMB6,501,000, respectively.

The Group incurred transaction costs of RMB3,680,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the condensed consolidated income statement.

An analysis of the cash flows in respect of the acquisition of Mengniu Arla for the current period is as follows:

	RMB'000
Cash consideration	60,000
Cash and bank balances acquired	(52,696)
Net outflow of cash and cash equivalents included in cash flows from investing activities	7,304
Transaction costs of the acquisition included in cash flows from operating activities	3,680
	10,984

Since its acquisition, Mengniu Arla contributed RMB394,351,000 to the Group's turnover and net losses of RMB18,068,000 to the consolidated profit for the six-month period ended 30 June 2013.

(b) Acquisition of a subsidiary in 2012:

On 11 April 2012, the Group acquired a 100% interest in Shijiazhuang Taihang Dairy Co., Ltd. ("Taihang") from independent third parties. Taihang is mainly engaged in the production of dairy products. The acquisition was made as part of the Group's strategy to expand its market share of dairy products in the PRC. The purchase consideration for the acquisition was in the form of cash of RMB13,000,000 paid at the acquisition date.

The fair values of the identifiable assets and liabilities of Taihang as at the date of acquisition were as follows:

	Fair value recognised on acquisition *RMB'000*
Assets	
Property, plant and equipment	14,270
Construction in progress	45
Land use rights	5,448
Other intangible assets	30
Trade receivables	391
Prepayments and deposits	1,220
Other receivables	70
Inventories	33
	21,507
Liabilities	
Trade payables	(3,526)
Accruals and customers' deposits	(480)
Other payables	(750)
Other loans	(3,416)
Income tax payables	(335)
	(8,507)
Total identifiable net assets at fair value	13,000
Goodwill arising on acquisition *(Note 13)*	–
Purchase consideration	13,000

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB391,000 and RMB70,000, respectively. The gross amounts of trade receivables and other receivables were RMB391,000 and RMB70,000, respectively.

The Group incurred transaction costs of RMB45,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the condensed consolidated income statement.

An analysis of the cash flows in respect of the acquisition of Taihang is as follows:

	RMB'000
Cash consideration	13,000
Cash and bank balances acquired	–
Net outflow of cash and cash equivalents included in cash flows from investing activities	13,000
Transaction costs of the acquisition included in cash flows from operating activities	45
	13,045

Since its acquisition, Taihang contributed nil to the Group's turnover and net losses of RMB499,000 to the consolidated profit for the six-month period ended 30 June 2012.

Had the combination taken place at the beginning of the period, the revenue and the profit of the Group for the period ended 30 June 2012 would have been RMB18,360,566,000 and RMB747,086,000, respectively.

34. INVESTMENT IN A JOINT VENTURE

The Group had a 50% interest in Mengniu Arla before 10 January 2013. Under IAS 31 Investment in Joint Ventures (prior to the transition to IFRS 11), the Group's interest in Mengniu Arla was classified as a jointly controlled entity and the Group's share of the assets, liabilities, revenue, income and expenses was proportionately consolidated in the condensed consolidated financial statements. Upon the adoption of IFRS 11, the Group has determined its interest to be a joint venture and it is required to be accounted for using the equity method. The initial investment as at 1 January 2012 is measured as the aggregate of the carrying amounts of the assets and liabilities that the Group has previously proportionately consolidated to the extent that the Group's investment in the joint venture is reduced to zero. The effect of applying IFRS 11 in the comparative period is as follows:

Impact on the condensed consolidated income statement	**For the six months ended 30 June 2012** *RMB'000*
Decrease in revenue	(116,742)
Decrease in cost of sales	49,753
Decrease in gross profit	(66,989)
Decrease in other income and gains	(349)
Decrease in selling and distribution expenses	105,640
Decrease in administrative expenses	6,146
Decrease in other operating expenses	3,860
Increase in operating profit	48,308
Decrease in interest income	(73)
Decrease in finance costs	1,456
Share of losses of a joint venture	(49,691)
Net impact on profit before tax	–
Net impact on income tax expense	–
Net impact on profit for the period	–

Impact on the consolidated statement of financial position	**As at 31 December 2012** *RMB'000*
Decrease in property, plant and equipment	(152,655)
Decrease in land use rights	(6,252)
Decrease in other intangible assets	(1,749)
Increase in trade receivables	58,025
Decrease in bills receivable	(3,790)
Decrease in inventories	(57,225)
Decrease in prepayments and deposits	(1,990)
Increase in other receivables	117,145
Decrease in cash and bank balances	(26,349)
Decrease in assets	(74,840)
Decrease in trade payables	(49,405)
Decrease in other payables	(56,878)
Decrease in accruals and customers' deposits	(17,815)
Decrease in liabilities	(124,098)
Increase in equity	49,258

As at 31 December 2012, the Group's unrecognised share of accumulated losses of the investment in a joint venture was RMB49,258,000, as the Group has no legal or constructive obligation for the losses or the negative net assets and accordingly the Group did not recognize the corresponding liabilities and adjusted it against the retained earnings.

This change in accounting policy does not have material impact on the interim condensed consolidated statement of cash flows, other comprehensive income or the basic and diluted earnings per share.

35. RESTRICTED SHARE AWARD SCHEME

The restricted share award scheme (the "Restricted Share Award Scheme") of the Company was adopted by the board on 26 March 2013 (the "Adoption Date"). The purpose of the Restricted Share Award Scheme is an incentive to encourage the Participants for the continual operation and development of the Group.

Subject to the terms of the Restricted Share Award Scheme and the Listing Rules, the board may at any time make an offer to any eligible person it may in its absolute discretion select to accept the grant of an award over such a number of shares as it may determine. Existing shares of the Company will be purchased by the independent trustee (the "Trustee") of the Restricted Share Award Scheme from the market out of cash contributed by the Group and be held in trust for the relevant Participants until such shares are vested with the relevant Participants in accordance with the provisions of the Restricted Share Award Scheme. The shares of the Company granted and held by the Trustee until vesting are referred to as the Restricted Share and each Restricted Share shall represent one ordinary share of the Company.

No Shares shall be purchased pursuant to the Restricted Shares Award Scheme, nor any amounts paid to the Trustee for the purpose of making such a purchase, if as a result of such purchase, the number of Shares administered under the Restricted Shares Award Scheme shall exceed 5% of the issued share capital of the Company, and the maximum number of Restricted Shares which may be granted to a Participant at any one time or in aggregate may not exceed 0.5% of the issued share capital of the Company at the Adoption Date.

Subject to any early termination as may be determined by the board, the Restricted Share Award Scheme shall be valid and effective until the later of (i) 5th anniversary of the Adoption Date and (ii) the date on which the audited financial results of the Company for the year ended 31 December 2017 are published in accordance with the Listing Rules.

On 26 April 2013, a total number of 17,569,400 Restricted Shares, representing 0.99% of the issued capital of the Company as at the Adoption Date, were granted to the Selected Participants. The Selected Participants are persons who, in the opinion of the Administration Committee, contributed directly to the overall business performance and will contribute to the sustainable development of the Group. Out of the total shares granted, 8,425,800 Restricted Shares were granted to the Chief Executive Officer, who is also an executive Director of the Company, which would vest in five tranches each on the first, second, third, fourth and fifth anniversaries of the Grant Date in accordance with certain vesting conditions (including the Group's performance targets), subject to the publication of the full-year results of the Company for the relevant financial year. The grant of Restricted Shares to other directors, senior management, heads of departments and other employees of the Group shall vest in full on 31 March 2014 in accordance with the vesting conditions (including the Group's performance targets), subject to the publication of the full-year results of the Company for the relevant financial year.

During the period ended 30 June 2013, based on the Company's instructions, the trustee of the Restricted Share Award Scheme has purchased a total of 6,256,000 ordinary shares of the Company on the Stock Exchange at a total consideration of approximately RMB131,812,000 equivalent to HK$165,478,000.

The fair value of the Restricted Shares granted was calculated based on the market price of the Company's shares at the respective grant dates. No dividend will be considered. The weighted average fair value of the Restricted Shares granted during the period ended 30 June 2013 was HK$21.65 per share. The Group recognised the Restricted Share expenses of approximately RMB39,960,000 (30 June 2012: Nil) into the condensed consolidated income statement during the period.

36. CONTINGENT LIABILITIES

Aside from the disclosure in note 30 and 38, the Group had contingent liabilities not provided for in the interim financial statements at the end of the reporting period as follows:

	Unaudited 30 June 2013 *RMB'000*	**Audited 31 December 2012** *RMB'000*
Guarantees given to banks in connection with facilities granted to:		
Third parties	163,000	–

37. CAPITAL COMMITMENTS

The Group had the following outstanding capital commitments in respect of the purchase and construction of property, plant and equipment as at the end of the reporting period:

	Unaudited 30 June 2013 *RMB'000*	**Audited 31 December 2012** *RMB'000*
Contracted, but not provided for	237,147	520,464

38. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances which are disclosed elsewhere in these financial statements, the Group had the following significant transactions with its associates, a joint venture and other related parties.

	Notes	Unaudited For the six months ended 30 June 2013 RMB'000	2012 RMB'000
(I) Sale of liquid milk products to associates	*(i)*	2,200,980	2,104,840
(II) Sale of ice cream products to associates	*(i)*	154,827	157,545
(III) Sale of other dairy products to associates	*(i)*	15,905	9,087
(IV) Sale of raw materials to a joint venture	*(ii)*	–	72,858
(V) Purchase of raw materials from affiliates of a major shareholder of the Company	*(i)*	149,018	277,740
(VI) Purchase of raw materials from an associate	*(i)*	160,765	–
(VII) Purchase of ice cream products from an associate	*(i)*	62,702	63,313
(VIII) Purchase of raw materials from a joint venture	*(ii)*	–	58

Notes:

(i) The considerations were determined with reference to the then prevailing market prices and the prices charged to third parties.

(ii) Such transactions were conducted at cost, which approximated to the prevailing market price of the raw materials.

(b) Other transactions with related parties

The Group has guarantees of the below amounts in connection with interest-bearing bank loans:

	Unaudited For the six months ended 30 June 2013 RMB'000	2012 RMB'000
Guarantees provided for a joint venture	–	2,720

(c) Compensation of key management personnel of the Group

	Unaudited For the six months ended 30 June 2013 *RMB'000*	2012 *RMB'000*
Directors' Fees	885	420
Salaries and allowances	4,907	5,085
Retirement benefit contributions	258	222

Notes:

(i) The key management compensation represented remuneration paid or payable to the directors and senior executives of the Company.

(ii) During the period from 2006 to 2012, certain directors and senior executives were granted share options in respect of their services to the Group under the share option schemes of the Company. In accordance with IFRS 2, share-based payment benefits represent the fair value at the grant date of the share options amortised to the condensed consolidated income statement during the period disregarding whether the options have been vested/exercised or not. During the period, the share-based payments relating to the share options granted to these directors and senior executives were approximately RMB6,277,000 (six months ended 30 June 2012: RMB31,547,000).

(iii) During 2013, certain directors and senior executives were granted restricted shares in respect of their services to the Group under the Restricted Share Award Scheme of the Company. In accordance with IFRS 2, share-based payments represent the fair value at the grant date of the restricted shares amortised to the condensed consolidated income statement during the period disregarding whether the restricted shares have been vested/exercised or not. During the period, the share-based payments relating to the restricted shares granted to these directors and senior executives were approximately RMB9,726,000 (six months ended 30 June 2012: Nil).

39. FINANCIAL INSTRUMENTS

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial Assets:

	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	*RMB'000*	*RMB'000*
Available-for-sale investments	–	295,545	295,545
Bills receivable	272,972	–	272,972
Trade receivables	867,165	–	867,165
Other receivables	293,491	–	293,491
Other financial assets	52,173	–	52,173
Investment deposits	850,000	–	850,000
Pledged deposits	444,823	–	444,823
Cash and bank balances	7,389,036	–	7,389,036
	10,169,660	295,545	10,465,205

Financial liabilities:

	Financial liabilities at amortised cost
	RMB'000
Trade payables	3,499,210
Bills payable	993,468
Other payables	2,349,161
Interest-bearing bank loans	3,976,617
Other loans	33,187
Long term payables	110,088
Other financial liabilities	633,768
	11,595,499

Fair value

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, the current portion of pledged deposits, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, current interest-bearing bank loans and other loans, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of other financial assets, the non-current portion of interest-bearing bank loans and long term payables and other financial liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

The movements in fair value measurements in Level 3 during the reporting period are as follows:

	30 June 2013
	RMB'000
Available-for-sale investments – unlisted	
At 1 January	144,201
Reversal through other comprehensive income	(144,201)
At 30 June	–

40. SUBSEQUENT EVENTS

On 18 June 2013, the Company announced to make a general offer to Yashili International Holdings Ltd ("Yashili") a company listed in Hong Kong. As at 13 August 2013 (the final closing date of the general offer), valid acceptances of the share offer have been received in respect of 3,196,747,945 Yashili shares, representing approximately 89.82% of the issued share capital of Yashili. Upon completion of the acquisition, Yashili will become a subsidiary of the Company. Yashili is mainly engaged in the production of formula milk powder. The acquisition was made as part of the Group's strategy to expand its market share of formula milk powder in the PRC.

On 20 May 2013, the Group entered into a framework agreement with Danone Asia Ptd Ltd in relation to the planned establishment of a yogurt joint venture. The two parties are to merge and reorganise their chilled products businesses in PRC. On 9 August 2013, The two parties entered into the Equity Joint Venture Contract in relation to the establishment of a joint venture holding company, which will be engaged in the production and sales of chilled yogurt, chilled yogurt drinks and spoonable dairy based dessert in PRC. An 80% interest in the joint venture was held by the Group, with the remaining 20% interest held by Danone.

41. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 28 August 2012.

4. STATEMENT OF INDEBTEDNESS

As at December 31, 2013, the Group had outstanding borrowings of approximately RMB11,765 million (including the outstanding balance of the Loan), outstanding contingent liabilities of approximately RMB649 million, outstanding capital commitments of approximately RMB498 million, outstanding guarantees of approximately RMB109 million, and unused credit limit of approximately RMB10,362 million. Save as disclosed in this paragraph, the Group has no other borrowings including guarantees. As at December 31, 2013, the outstanding borrowings of approximately RMB4,255 million (including the outstanding balance of the Loan, which is HK$4.88 billion, or equivalent to RMB3,875 million) were secured, the remainder of the borrowings were unsecured.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have any mortgages, charges, debentures, loan capital, bank loan and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance creditors, or any guarantees, or other material contingent liabilities outstanding at the close of business on December 31, 2013.

The directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since December 31, 2013 up to and including the Latest Practicable Date.

5. MATERIAL CHANGE

Save as disclosed in this section headed "Material Change", there has been no material change in the financial or trading position or outlook of the Group since December 31, 2012, being the date to which the last audited consolidated financial results of the Group were made up, to and including the Latest Practicable Date.

(i) On May 7, 2013, the Company announced its acquisition of 1,296,000,000 shares in China Modern Dairy Holdings Ltd. ("**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 Company and its subsidiaries. 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 of the Company 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, 2012 and 2013 could be found on the website of the Stock Exchange (http://www.hkexnews.hk/).

(ii) On 18 June 2013, the Company announced a general offer to acquire the entire outstanding share capital of Yashili International Holdings Ltd ("**Yashili**"). The acquisition was approved at the extraordinary general meeting of the Company held on 16 July 2013. At the closing of the offer being August 13, 2013, valid acceptances have been received in respect of 3,196,747,945 Yashili shares. The Company completed its acquisition of Yashili at the end of August 2013 at a total consideration of approximately HK$10.09 billion (or approximately RMB8.01 billion).

After the Yashili acquisition, the trading of Yashili's shares on the Stock Exchange was temporarily suspended from August 15, 2013 and pending the restoration of the public float of Yashili to at least 23.43% (the "**Minimum Public Float Percentage**") of its total issued shares.

On November 11, 2013, the Company entered into share purchase agreements to sell 471,135,389 Yashili Shares at a price of HK$3.50 per share, representing an aggregate purchase price of HK$1,648,973,862. To the best of the Company and Yashili's knowledge, none of the purchasers of the Yashili shares in this transaction was a connected person (as defined in the Listing Rules) of Yashili. After the completion of this transaction, the Company holds 2,725,612,556 shares of Yashili, representing approximately 76.58% of its existing issued share capital and Yashili satisfied the Minimum Public Float Percentage accordingly with its shares resuming trading on November 11, 2013.

Yashili 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: 1230). Yashili is principally engaged in production and sales of pediatric milk formula products and nutrition food.

The accountants' report for the financial statements of Yashili for the years ended December 31, 2011 and 2012 and for the six months ended June 30, 2013 could be found on the website of the Stock Exchange (http://www.hkexnews.hk/).

(iii) On November 21, 2013, the Company entered into a subscription agreement with Standard Chartered Bank, Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited and Barclays Bank PLC, in connection with the issue of US$500,000,000 3.50% bonds due 2018 (the "**Bonds**").

The Bonds bear interest from and including November 27, 2013 at the rate of 3.50% per annum, payable semi-annually in arrear. The Bonds are direct, unconditional, unsubordinated and unsecured obligations of the Company which will at all times rank at least pari passu without preference among themselves and rank at least equally with the other present and future unsecured and unsubordinated obligations of the Company.

The net proceeds of the issuance of the Bonds, after deduction of the underwriting discounts and commission and other estimated expenses, amounted to approximately US$493 million. The Company used the net proceeds to refinance its outstanding indebtedness, including part of the Loan. Details of the issuance of the Bonds are set out in the announcement of the Company dated November 22, 2013.

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 herein or this circular misleading.

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to COFCO Dairy Investments) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed (other than those expressed by COFCO Dairy Investments) in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The information in relation to COFCO Dairy Investments contained in this circular has been supplied by the directors of COFCO Dairy Investments. The directors of COFCO Dairy Investments jointly and severally accept full responsibility for the accuracy of the information in relation to COFCO Dairy Investments contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed by COFCO Dairy Investments in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in relation to COFCO Dairy Investments in this circular misleading.

2. MARKET PRICE

The table below sets out the closing prices of the Shares on the Stock Exchange (i) at the end of each of calendar months during the Relevant Period; (ii) on February 11, 2014 (being the Last Trading Day); and (iii) on the Latest Practicable Date.

Date	**Closing price per Share** *HK$*
August 30, 2013	32.80
September 30, 2013	34.75
October 31, 2013	34.10
November 29, 2013	35.45
December 31, 2013	36.80
January 30, 2014	35.75
February 11, 2014 (being the Last Trading Day)	36.85
February 28, 2014 (being the Latest Practicable Date)	39.80

The lowest and highest closing market prices of the Shares recorded on the Stock Exchange during the Relevant Period were HK$29.85 on August 28, 2013 and HK$39.80 on February 28, 2014, respectively.

3. SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE SECURITIES

(i) Share capital

Set out below are the authorized and issued share capital of the Company as at the Latest Practicable Date:

Authorized		*HK$*
3,000,000,000	Shares	300,000,000

Issued and fully paid or credited as fully paid		*HK$*
1,835,967,963	Shares	183,596,796

New shares to be issued pursuant to the Subscription Agreement		*HK$*
121,236,357	Shares	12,123,636

All the issued Shares rank *pari passu* with each other in all respects including the rights in respect of capital, dividend and voting.

The Shares are listed on and traded on the Main Board of the Stock Exchange. No Shares are listed on or dealt in, nor is any listing of or permission to deal in the Shares being, or proposed to be, sought on any other stock exchange.

There has been no alteration to the authorized share capital of the Company since December 31, 2012, being the date on which the latest audited financial statements of the Company were made up and 67,735,251 new shares of the Company has been issued since December 31, 2012 and up to the Latest Practicable Date.

(ii) Share options

As at the Latest Practicable Date, the Company has 48,658,039 Outstanding Options granted under the share option schemes of the Company.

(iii) Convertible securities

As at the Latest Practicable Date, the Company had no warrants or convertible securities in issue.

Save as disclosed in the section headed "Share Capital, Share Options and Converting Securities" in this Appendix and as at the Latest Practicable Date, the Company had no other outstanding options, warrants or conversion rights affecting the Shares.

4. DIRECTORS' INTERESTS

(a) As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares or underlying shares of the Company or 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 were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to Model

Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in Shares / the shares of the associated corporations

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
Sun Yiping	The Company	Personal Interest	8,425,800[1]	0.46%[2]
Bai Ying	The Company	Personal Interest	603,209	0.03%[2]
	Inner Mongolia Mengniu Dairy (Group) Company Limited	Personal Interest	448,201	0.02%

(1) This represents the 8,425,800 restricted shares granted to Ms. Sun Yiping under the restricted share award scheme of the Company adopted by the Board on March 26, 2013. As of the Latest Practicable Date, none of the 8,425,800 restricted shares granted to Ms. Sun Yiping was vested in accordance with the vesting conditions as specified under the relevant grant letter and the rules relating to the restricted share award scheme of the Company.

(2) The calculation is based on the number of shares as a percentage of the total number of issued Shares (i.e. 1,835,967,963 Shares) as at the Latest Practicable Date.

(ii) Long position in options granted pursuant to the share option schemes of the Company

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
Bai Ying	831,000	23.11.2009	23.11.2011 to 22.11.2015	24.40	0.05%
	3,200,000	10.10.2011	10.10.2015 to 9.10.2018	24.10	0.17%
Wu Jingshui	2,400,000	10.10.2011	10.10.2015 to 9.10.2018	24.10	0.13%

Save as disclosed in the section headed "Directors' Interests" in this Appendix, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest and short positions in the shares or underlying shares of the Company or 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 in which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

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 Shares or underlying 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
Finn S. Hansen	Executive vice president	Arla Foods Amba
Christian Neu	Strategic Advisor	Danone SA

5. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, the following persons and entities, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Number of Shares *(Note 1)*	Capacity	Approximate percentage of shareholding
COFCO Corporation	617,250,379(L)	Interest of controlled corporation	33.62%
COFCO (HK)	617,250,379(L)	Interest of controlled corporation and interest of parties to agreement under section 317 of SFO	33.62%

Name of Shareholder	Number of Shares *(Note 1)*	Capacity	Approximate percentage of shareholding
Farwill Limited	617,250,379(L)	Interest of controlled corporation and interest of parties to agreement under section 317 of SFO	33.62%
COFCO Dairy Holdings	617,250,379(L)	Interest of controlled corporation and interest of parties to agreement under section 317 of SFO	33.62%
COFCO Dairy Investments	616,850,379(L)	Interest of controlled corporation and beneficial owner	33.60%
Colour Spring	617,250,379(L)	Interest of parties to agreement under section 317 of SFO	33.62%
Prominent Achiever	617,250,379(L)	Beneficial owner and interest of parties to agreement under section 317 of SFO	33.62%
Arla Foods	617,250,379(L)	Interest of parties to agreement under section 317 of SFO	33.62%
Danone SA	617,250,379(L)	Interest of controlled corporation	33.62%
Danone Asia	617,250,379(L)	Interest of parties to agreement under section 317 of SFO	33.62%
Commonwealth Bank of Australia	126,104,496(L)	Inerest of controlled corporation	6.86%
JP Morgan Chase & Co	93,748,201(L) 500,000(S) 88,418,630(P)	Beneficial owner, investment manager and custodian corporation/approved lending agent	5.11% 0.03% 4.82%

Note 1: (L) Long position

(S) Short position

(P) Lending pool

Save as disclosed in the section headed "Substantial Shareholders' Interests" in this Appendix II, as at the Latest Practicable Date, no person or entity other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

As at the Latest Practicable Date, there was no benefit given or agreed to be given to any Director as compensation for loss of office or otherwise in connection with the Subscription, the Specific Mandate or the Whitewash Waiver.

As at the Latest Practicable Date, other than the Subscription Agreement, there was no agreement, arrangement or understanding between any Director and any other person which was conditional on or dependent upon the outcome of the Subscription or the Whitewash Waiver or otherwise connected with the Subscription or the Whitewash Waiver.

As at the Latest Practicable Date, other than the Subscription Agreement, the Share Restructuring and Subscription Agreement, the Shareholders' Agreement, the New Concert Party Agreement, the Amended and Restated Side Letter, the Arla's Amendment Agreements and the Mengniu Board Seat Agreement, there was no agreement, arrangement or understanding (including any compensation arrangement) between COFCO Dairy Investments or any person acting in concert with it and any of the Directors, recent Directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Subscription, the Specific Mandate or the Whitewash Waiver.

As at the Latest Practicable Date, other than the Subscription Agreement, no material contracts were entered into by COFCO Dairy Investments and the party acting in concert with it in which any Director had a material personal interest.

6. DISCLOSURE UNDER TAKEOVERS CODE

As at the Latest Practicable Date:

(a) the Company did not hold, control or have direction over any Relevant Securities in COFCO Dairy Investments or any person acting in concert with it, and the Company has not dealt for value in any such securities of COFCO Dairy Investments or any person acting in concert with it during the Relevant Period;

(b) save as disclosed in the section "4. Directors' Interests" in this Appendix II, none of the Directors held, controlled or had direction over any Relevant Securities in the Company, COFCO Dairy Investments or any person acting in concert with it, and none of the Directors has dealt for value in any such securities in the Company, COFCO Dairy Investments or any person acting in concert with it during the Relevant Period;

(c) save as the 691,000 Shares held by Deutsche Bank, the financial adviser of the Company, none of the subsidiaries of the Company, any pension funds of the

Company and/or its subsidiaries or any advisers to the Company as specified in class (2) of the definition of "associates" under the Takeovers Code (but excluding exempt principal traders of Deutsche Bank) owned, controlled or had direction over any Relevant Securities in the Company;

(d) save for the Shareholders' Agreement, the New Concert Party Agreement, the Amended and Restated Side Letter, the Arla's Amendment Agreements and Mengniu Board Seat Agreement, none of COFCO Dairy Investments or any person acting in concert with it entered into any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code with any other person, and none of the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of an associate under the Takeovers Code entered into any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code with any other person, and no person who had any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code with COFCO Dairy Investments or any person acting in concert with it, the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of an associate under the Takeovers Code held, controlled or had direction over any Relevant Securities in the Company, and no person who had any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code with COFCO Dairy Investments or any person acting in concert with it has dealt for value in any such securities of the Company during the Relevant Period;

(e) no Relevant Securities of the Company were managed on a discretionary basis by fund managers connected with the Company;

(f) Mr. Bai Ying does not hold any office in any member of the Concert Group, and does not have any interest in the Subscription, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder which is different from the interest of the other Independent Shareholders. Mr. Bai Ying intended to vote in favour of the resolution approving the Subscription Agreement, the Specific Mandate and the Whitewash Waiver and the transactions contemplated thereunder at the EGM in respect of his shareholdings in the Company. The other Directors did not hold any Shares as at the Latest Practicable Date (8,425,800 restricted shares were granted to Ms. Sun Yiping under the restricted share award scheme of the Company adopted by the Board on March 26, 2013. None of the 8,425,800 restricted shares granted to Ms. Sun Yiping would be vested at or prior to the EGM under the vesting conditions as specified under the relevant grant letter and the rules relating to the restricted share award scheme of the Company and therefore, none of the 8,425,800 restricted shares would carry any voting rights at the EGM);

(g) and during the Relevant Period, no person had irrevocably committed himself or herself to, and COFCO Dairy Investments and parties acting in concert with it had not received any irrevocable commitment to, vote in favor of or against the resolution approving the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder at the EGM;

(h) neither the Company nor any of the Directors has borrowed or lent any Relevant Securities in the Company during the Relevant Period;

(i) none of COFCO Dairy Investments or any person acting in concert with it has borrowed or lent any Relevant Securities in the Company; and

(j) none of COFCO Dairy Investments or any person acting in concert with it has any agreements or arrangements to which it is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the transactions contemplated under the Subscription Agreement, the Share Restructuring and Subscription Agreement or the Whitewash Waiver (including any such agreements or arrangements that would result in any break fees being payable.)

As at the Latest Practicable Date, save as disclosed under the paragraphs headed "Effects of the Transactions" in the Letter from the Board in this circular and the paragraph headed "Substantial Shareholders' Interests" in this Appendix II:

(a) none of COFCO Dairy Investments or any person acting in concert with it held, controlled or had direction over any Relevant Securities in the Company and none of them has dealt for value in any such securities in the Company during the Relevant Period; and

(b) none of the directors of COFCO Dairy Investments or any person acting in concert with it held, controlled or had direction over any Relevant Securities in the Company and none of them has dealt for value in any such securities of the Company during the Relevant Period.

As at the Latest Practicable Date, no Shares acquired by COFCO Dairy Investments or any person acting in concert with it in pursuance of the Subscription has been transferred, charged or pledged to or will be transferred, charged or pledged to any other persons, and there is no agreement, arrangement or understanding or any related charges or pledge which may result in the transfer of voting rights in such Shares.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the Company, or any of its subsidiaries or associated companies which:

(i) (including both continuous and fixed term contracts) had been entered into or amended within 6 months before the date of the Announcement;

(ii) was a continuous contract with a notice period of 12 months or more;

(iii) was a fixed term contract with more than 12 months to run irrespective of the notice period; or

(iv) was not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

8. MATERIAL CONTRACTS

During the two years immediately preceding the date of the Announcement, the following contracts, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries, have been entered into by a member of the Group and which are or may be material:

(i) the subscription agreement dated November 21, 2013 entered into by the Company, Standard Chartered Bank, Deutsche Bank AG, Singapore Branch, The Hongkong And Shanghai Banking Corporation Limited and Barclays Bank PLC in relation to the issuance by the Company of the US$500,000,000 3.50% bonds due 2018;

(ii) the irrevocable undertaking dated June 17, 2013 given by CA Dairy Holdings in favour of the Company and China Mengniu International Company Limited in relation to the general offer for Yashili International Holdings Ltd;

(iii) the irrevocable undertaking dated June 17, 2013 given by Zhang International Investment Ltd. in favour of the Company and China Mengniu International Company Limited in relation to the general offer for Yashili International Holdings Ltd;

(iv) 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

(v) 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. MATERIAL CHANGE

Save as disclosed in the section headed "Material Change" in Appendix I, there has been no material change in the financial or trading position or outlook of the Group since December 31, 2012, being the date to which the last audited consolidated financial results of the Group were made up, to and including the Latest Practicable Date.

10. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors nor their respective associates had any interests in other business, which competes or may compete, either directly or indirectly, with the business of the Group.

11. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date:

(a) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement, which was significant in relation to the business of the Group; and

(b) none of the Directors nor their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since December 31, 2012, being the date to which the latest published audited consolidated financial statements of the Group were made up.

12. MATERIAL LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

13. EXPERT

(a) The following sets out the qualifications of the expert who has given its opinions or advice as contained in this circular:

Name	Qualification
Somerley	a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO

(b) As at the Latest Practicable Date, Somerley had no shareholding in the Company or any other member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.

(c) As at the Latest Practicable Date, Somerley had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 December 2012 (the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased.

(d) Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letters, reports and/or summary of its opinions (as the case may be) and references to its name and logo in the form and context in which they respectively appear.

14. MISCELLANEOUS

(a) The registered office of the Company is at Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands and the place of business in Hong Kong is situated at Suite 1602, 16th Floor, Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong.

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

(c) The registered address of each of COFCO (HK), COFCO Dairy Investments and Prominent Achiever is at 33/F, Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong. The registered address of COFCO Corporation is at No. 8, Chao Yang Men South St., Chao Yang District, Beijing, China. The registered address of each of COFCO Dairy Holdings, Colour Spring and Farwill is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The registered address of Danone Asia is at 50 Raffles Place, #32-01, Singapore Land Tower, Singapore 048623. The registered address of Arla Foods is at Sonderhoj 14 8260 Viby J, Denmark.

(d) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong.

(e) The Independent Financial Adviser is Somerley whose address is at 20th Floor, China Building, 29 Queen's Road Central, Hong Kong.

(f) The financial adviser of the Company is Deutsche Bank and its business office is situated at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

(g) As at the Latest Practicable Date, the board of the COFCO (HK) comprises Mr. Ning Gaoning, Mr. Yu Xubo, Mr. Dong Zhongxin, Mr. Liu Yongfu and Mr. Wang Jinjun.

(h) As at the Latest Practicable Date, the board of COFCO Dairy Holdings comprises Mr. Ning Gaoning, Mr. Yu Xubo, Mr. Dong Zhongxin, Mr. Peder Tuborgh and Mr. Frederick Ma Si-hang.

(i) As at the Latest Practicable Date, the board of COFCO Dairy Investments comprises Mr. Ning Gaoning, Mr. Yu Xubo, Mr. Dong Zhongxin, Mr. Peder Tuborgh and Mr. Frederick Ma Si-hang.

(j) As at the Latest Practicable Date, the board of Colour Spring comprises Mr. Ning Gaoning, Mr. Yu Xubo and Mr. Dong Zhongxin.

(k) As at the Latest Practicable Date, the board of Farwill comprises Mr. Ning Gaoning, Mr. Yu Xubo and Mr. Dong Zhongxin.

(l) As at the Latest Practicable Date, the board of Prominent Achiever comprises Mr. Ning Gaoning, Mr. Yu Xubo, Mr. Dong Zhongxin, Mr. Philippe Terisse Pierre-Andre and Mr. Emmanuel Faber.

(m) As at the Latest Practicable Date, the board of Danone Asia Pte Ltd comprises Mr. Pierre Marie Albert Stevens, Ms. Magdalena Broseta Solano, Ms. Laurent Serge Didier Mercier, Mr. Dariusz Michal Kucz and Mr. Jeffrey Howe Teong Wee.

(n) The ultimate controlling shareholder of COFCO (HK) is COFCO Corporation. As at the Latest Practicable Date, the board of COFCO Corporation comprises Mr. Ning Gaoning (Chairman), Mr. Yu Xubo, Ms. Liu Ding, Ms. Jiang Hua, Mr. Frederick Ma Si-hang, Mr. Stephen Lee, Mr.Liu Zhi, Mr. Gong Huazhang and Ms. Hao Yinfei.

(o) As at the Latest Practicable Date, the board of Arla Foods comprises Mr. Ake Hantoft (Chairman), Mr. Ian Toft Norgaard, Mr. Viggo Bloch, Mr. Palle Borgstrom, Mr. Jonas Carlgren, Mr. Manfred Graff, Ms. Helene Gunnarson, Mr. Bjorn Jepsen, Mr. Thomas Johansen, Mr. Steen Norgaard Madsen, Mr. Toben Myrup, Mr. Jonathan Ovens, Mr. Johnnie Russel, Mr. Manfred Sievers, Mr. Peter Winstone, Mr. Oliver Brandes, Mr. Leif Eriksson, Mr. Ib Bjerglund Nielsen and Mr. Harry Shaw.

(p) The ultimate controlling shareholder of Danone Asia is Danone SA. As at the Latest Practicable Date, the board of Danone SA comprises Mr. Franck Ribound, Mr. Emmanuel Faber, Mr. Bernard Hours, Mr. Bruno Bonnel, Mr. Richard Goblet D'Alviella, Mr. Jacques-Antoine Granjon, Mr. Jean Laurent, Mr. Benoit Potier, Ms. Isabelle Seillier, Ms. Mouna Sepehri, Mr. Jean-Michel Severino, Ms. Virginia A. Stallings and Mr. Jacques Vincent.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. on any Business Days from the date of this circular up to and including 14 days (except public holidays) at the Company's place of business of Hong Kong situated at Suite 1602, 16th Floor, Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong and will also be available for inspection on the website of the SFC at www.sfc.hk and the website of the Company at www.mengniuir.com from the date of this circular up to and including the date of the EGM:

(a) the bye-laws of the Company;

(b) the memorandum of association and articles of association of the COFCO Dairy Investments;

(c) the annual reports of the Company for the last two financial years ended December 31, 2011 and December 31, 2012 respectively, and the interim report of the Company for the six months ended June 30, 2013;

(d) the Subscription Agreement;

(e) the Share Restructuring and Subscription Agreement;

(f) this circular;

(g) the letter from the Board, the text of which is set out on pages 9 to 28 of this circular;

(h) the letter from the Independent Board Committee, the text of which is set out on pages 29 to 30 of this circular;

(i) the letter from Somerley, the text of which is set out on pages 31 to 57 of this circular;

(j) the written consent from Somerley as referred to in the paragraph headed "Expert" in this appendix; and

(k) the material contracts as referred to in the paragraph headed "Material Contracts" in this appendix.

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 (the "**EGM**") of China Mengniu Dairy Company Limited (the "**Company**") will be held at the Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong at 10 a.m. on Thursday, March 20, 2014 for the purposes of considering and, if thought fit, passing with or without modifications, the following resolution which will be proposed as an ordinary resolution of the Company:

ORDINARY RESOLUTION

1. "**THAT**:

(a) the Whitewash Waiver (as defined in the circular of the Company dated March 5, 2014 (the "**Circular**")) granted or to be granted by the Executive (as defined in the Circular) to the Concert Group (as defined in the Circular) be and is hereby approved, confirmed and ratified, and any one director of the Company be and is hereby authorized to do all such things and take all such action and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) as he/she may consider to be necessary or desirable to implement any of the matters relating to or incidental to the Whitewash Waiver (as defined in the Circular);

(b) the Subscription Agreement (as defined in the Circular) and the Specific Mandate (as defined in the Circular) be and are hereby approved, confirmed and ratified, and any one director of the Company be and is hereby authorized to do all such things and take all such action and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) as he/she may consider to be necessary or desirable to implement any of the matters relating to or incidental to the Subscription Agreement (as defined in the Circular) and the Specific Mandate (as defined in the Circular), and further to approve any changes and amendments thereto as he/she may consider necessary, desirable or appropriate; and

* *For identification purposes only*

(c) any one director of the Company be and is hereby authorized to do all such acts and things and execute such documents (including the affixation of the common seal of the Company where execution under seal is required) and take all steps which, in his/her opinion deemed necessary, desirable or expedient to implement and/or effect the transactions contemplated under the Whitewash Waiver (as defined in the Circular), the Subscription Agreement (as defined in the Circular) and the Specific Mandate (as defined in the Circular) for and on behalf of the Company."

By Order of the Board
China Mengniu Dairy Company Limited
Sun Yiping
Chief Executive Officer and Executive Director

Hong Kong, March 5, 2014

Notes:

1. A member of the Company entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or if he/she is the holder of two or more shares, more than one proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his/her behalf. A proxy need not be a member of the Company but must be present in person at the extraordinary general meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. 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 be present at the meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding. Seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of the Company in respect of the relevant joint holding.

3. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.

4. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the EGM or any adjournment thereof, should he/she so wish.

5. As required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the above resolution will be decided by way of poll.

6. The form of proxy for use at the EGM is enclosed herewith.