

China Milk Products Group Limited (In Official Liquidation) (“Company”)
(Incorporated in Cayman Islands)

Termination of the Settlement Arrangement

The Company refers to the following announcements issued by the Company:

1. an announcement dated 23 April 2012 in relation to the proposed full and final Settlement Arrangement between the holders of the US\$150,000,000 Zero Coupon Convertible Bonds due 2012 (“Bonds”) whereas the proposed Settlement Arrangement involves payment of the settlement amount totalling US\$53 million (“Settlement Amount”) to settle and compromise the outstanding Bonds; and
2. an announcement dated 25 April 2013 in relation to the appointment of Joint Official Liquidators pursuant to the Order made by the Grand Court of the Cayman Island on 9 April 2013 (“Liquidators”).

Capitalised terms defined in the above announcements have the same meaning in this announcement. Unless otherwise indicated, when I refer to the Liquidators, I am also referring to the Provisional Liquidators.

The announcement dated 23 April 2012 set out that the Liquidators had entered into the Settlement Arrangement with Mr Liu Hailong (“Mr Liu”), the director and Chief Executive Officer of the Company, and others on 4 January 2012 pursuant to which, inter alia, Mr Liu would pay US\$53 million to settle and compromise the outstanding Bonds.

On 7 June 2013, the Liquidators terminated the Settlement Arrangement (“Termination”) for the following reasons:

1. Mr Liu had defaulted on his payment obligations pursuant to the terms of the Settlement Arrangement; and
2. Mr Liu had failed to remedy the defaults.

Pursuant to the terms of the Settlement Arrangement, Mr Liu was required to pay the US\$53 million in the following manner:

1. US\$17,490,000 by 1 March 2012 (“First Instalment”);
2. US\$17,490,000 by 1 April 2012; and
3. US\$18,020,000 by 1 May 2012.

Prior to the deadline of 1 March 2012, Mr Liu informed the Liquidators that he did not have sufficient funds to pay the First Instalment. Mr Liu emphasised his intention to complete the Settlement Arrangement and that he had been trying to obtain funding from a PRC bank to pay the Settlement Amount.

In Mr Liu's words, "*as a gesture of goodwill and confirmation of my intention to complete the Settlement Arrangements*", on 14 March 2012, Mr Liu paid US\$2 million to the Liquidators in respect of the Settlement Amount. Between 14 March 2012 and 31 May 2012, Mr Liu had alleged that he would pay a further US\$2 – US\$5 million. However, these payments did not eventuate.

The Liquidators continued to pursue Mr Liu for the payment of the outstanding Settlement Amount. On 1 June and 29 June 2012, Mr Liu paid a further US\$1.1 million to the Liquidators in respect of the Settlement Amount. At that time, Mr Liu informed the Liquidators that he had entered into a letter of intention with a state owned enterprise in Shangdong Province, PRC ("Purchaser") in respect of a sale of a shopping centre in Daqing ("Shopping Centre") owned by Daqing Qinglong Property Development Company Limited (慶龍房產開發有限公司) ("Qinglong Property") for RMB630 million (approximately US\$96 million). Qinglong Property is owned by Mr Liu, Mr Liu Shuqing (Mr Liu's father) and Ms Li Jingqin (Mr Liu's mother). Mr Liu confirmed that he would use the proceeds from the sale to pay the outstanding Settlement Amount. In September 2012, Qinglong Property entered into a sale and purchase agreement with the Purchaser in respect of the sale of the Shopping Centre.

On 3 October 2012, Mr Liu paid a further US\$200,000 to the Liquidators in respect of the Settlement Amount. Since then, Mr Liu has not made any further payments despite the Liquidators' repeated demands. The Liquidators were also advised by Mr Liu that the sale had been delayed but that Mr Liu was confident that he would be able to make a substantial payment to the Liquidators in the short term.

On 29 January 2013, Mr Liu proposed, inter alia, the following to the Liquidators to remedy the various default ("Proposal"):

1. a payment of US\$100,000 by 31 January 2013;
2. to provide security over a land owned by the Company which is worth at least US\$35 million ("Land"). Mr Liu agreed that he would provide the Liquidators to undertake a valuation; and
3. after 1 March 2013, payment of US\$50,000 every 14 days until the Settlement Amount is paid in full.

Mr Liu paid US\$100,000 to the Liquidators on 6 February 2013. Following consultation with the Liquidation Committee of the Company, the Liquidators agreed to the Proposal and withheld the Termination.

Since then, Mr Liu has made a series of excuses to delay the signing of a formal agreement in respect of the Proposal ("Letter Agreement") and the provision of the information necessary for a valuation of the Land. The Liquidators' further work indicates that the estimated value of the Land is far below US\$35 million. Further, Mr Liu did not pay the instalments described above.

On 16 March 2013, the Liquidators again met with Mr Liu. At the meeting, Mr Liu agreed, inter alia, that he would:

1. sign the Letter Agreement:
2. make available other real estate owned by Qinglong Property as security in respect of the Letter Agreement – which is worth at least US\$35 million; and
3. pay US\$100,000 to the Liquidators in respect of the outstanding payments for March 2013 in accordance with the terms of the Letter Agreement.

The Letter Agreement was signed by Mr Liu on 26 March 2013 and on 2 April 2013, Mr Liu paid US\$100,000 to the Liquidators. However, he then made a further series of excuses to delay the provision of the information necessary for the valuation and prevent the Liquidators to go to Daqing to undertake the steps necessary for the registration of the security.

On 20 May 2013, Mr Liu paid US\$50,000 to the Liquidators pursuant to the terms of the Letter Agreement. At that time, he was US\$100,000 in arrears pursuant to the Letter Agreement;

On 23 May 2013, Mr Liu told the Liquidators, inter alia, that:

1. the progress of the sale of the Shopping Centre continued to be slow;
2. he could not pledge any security in favour of the Liquidators as all of his other real estate assets were pledged to banks;
3. he had liquidity problems which will likely only be resolved upon the completion of the sale of the Shopping Centre. He asked the Liquidators to reduce the US\$100,000 monthly payment pursuant to the Letter Agreement to US\$50,000 from June to August 2013.

The Liquidators advised Mr Liu that this was unacceptable and absent a prompt solution, the Liquidators would terminate the Settlement Arrangement.

On 7 June 2013, the Liquidators terminated the Settlement Arrangement (with the approval of the Liquidation Committee of the Company).

Following the Termination, the Liquidators forfeited US\$3.55 million paid by Mr Liu as described above pursuant to the terms of the Settlement Arrangement and will pursue all actions necessary to fulfil their statutory obligation including taking control of the assets of the Company and investigating the affairs of the Company.

Appropriate announcements will be made as and when there are further developments.

Cosimo Borrelli
Joint Official Liquidator
25 June 2013