Natural Dairy (NZ) Holdings Limited
天然乳品（新西蘭）控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 462)

Interim Report

From 1 June 2010 to 30 November 2010

Brand ambassador :
Gaile Lai, an international model

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wu Neng Kun *(Chairman)*
Mr. Luo Ji
Ms. Ng Yat Fung Miranda
Mr. Yao Hai Sheng
Mr. Zhang Han Wen Jason
Mr. Graham Chin
(resigned on 8 December 2010)
Mr. Yan Feng
(resigned on 8 December 2010)

Independent Non-Executive Directors

Mr. Stephen Bryden Kerr
(Chairman of Audit Committee and member of Remuneration Committee)
Mr. Sze Cheung Hung
(Member of Audit Committee and Remuneration Committee)
Ms. Chan Man Kuen Laura
(Chairman of Remuneration Committee and member of Audit Committee)

AUTHORISED REPRESENTATIVES

Mr. Wu Neng Kun
Mr. Yung Wai Tak Abraham
(appointed on 1 March 2011)
Ms. Ng Yat Fung Miranda
(resigned on 1 March 2011)

COMPANY SECRETARY

Mr. Yung Wai Tak Abraham
(appointed on 1 March 2011)
Ms. Ng Yat Fung Miranda
(resigned on 1 March 2011)

AUDITOR

ZHONGLEI (HK) CPA Company Limited
(appointed on 17 March 2011)
Morison Heng Certified Public Accountants
(resigned on 16 March 2011)

LEGAL ADVISER

In Hong Kong:
Troutman Sanders
Wilkinson & Grist

In Cayman Islands:
Conyers Dill & Pearman, Cayman

In New Zealand:
Knight Coldicutt

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O.Box 2681 GT
George Town, Grand Cayman
British West Indies
The Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 6701-2, 67/F,
Central Plaza,
18 Harbour Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town, Grand Cayman
The Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East,
Wanchai, Hong Kong

PRINCIPAL BANKERS

The Hongkong & Shanghai Banking Corporation Limited

STOCK CODE

462

COMPANY WEBSITE

www.naturaldairy.hk

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the six months ended 30 November 2010, the Group's financial performances are summarized as follows:

- Revenue amounted to HK$4.03 million (six months ended 30 September 2009: HK$2.31 million), representing a surge of 100% as compared with the six months ended 30 September 2009. The sharp increase was mainly attributable to the introduction of our new food and beverage trading business.

- Loss attributable to owners of the Company was HK$60.19 million (six months ended 30 September 2009: loss of HK$17.25 million), a sharp increase as compared to the six months ended 30 September 2009. This is due to the costs associated with VSA-1 acquisition and establishment cost for the PRC sale, distribution and marketing network for food, beverage and dairy related products.

- Basic and diluted loss per share amounted to HK$4.44 cents, which showed worsen as compared to the six months ended 30 September 2009 of HK$3.86 cents.

OPERATIONAL REVIEW

The Group commenced its food and beverage trading business in August 2009 and the products mainly comprised of beverage drinks and snack foods such as dried longan, banana chips and various nuts. During the period under review, the food and beverage trading business contributed HK$4.03 million to the Group's total turnover. Gross profit margin increase from 2.9% comparable last year to 8.54% this period, a respectful result despite keen competition within common food and beverage trading business in the absence of high margin dairy products, Also this modest improvement demonstrates the Board has made timely decision to transits from a sunset electronic spare parts trading to ever-growing china consumer food trading industry with dairy related products in focus. At 9 June 2010, the Group with representation of its Jiangxi subsidiary has entered a manufacturing agreement with UBNZ Funds Management Limited for purchasing of 150 million packages of Ultra Heat Treatment (UHT) milk of 250 ml each with the rights to further expand the orders. The Group's ultimate objective is to utilize its current distribution network to sell dairy related products to achieve a high gross margin on the revenue stream.

As announced in September 2009 for the liquidation of Linfair Engineering (HK) Company Limited and Linfair Capital Limited, the liquidation resolution has been passed and now the liquidation implement process is near to completion by the date of this report.

During the period under review, the Group is in the progress of recovering the illegal transferred rights and to preserve the mining rights. Despite the fact that the mining business has no direct connection with the Group's core food trading business, it allows the Group to strengthen the income base and to diversify its businesses in the long term. The two mines are located in Chengde County, Hebei Province, China with estimated iron resources of 200,798,000 tonnes and a life span of 100 years for the main open pit mine. The recoverable resources are 36,110,337 tonnes with an average recovery rate of 85%. We have two magnetic separations with a processing capacity of 3000t/day and 800t/day respectively. The annual production capacity of raw iron ore is approximately 474,500 tonnes.

During the period, administrative and general expenses amounted to HK$30.334 million (six months ended 30 September 2009: HK$21.215 million), representing 7.53 times of the Group's revenue (six months ended 30 September 2009: 9.19 times). The moderate increment in expenses during the period under review were included of considerable loss to: i) the expenses incurred for the voluntarily liquidation procedure of Linfair Capital & Linfair Engineering, ii) significant impairment loss to reflect the Chengde SanJin equity illegal transfer, iii) the erection of factory and various beverage drinks production lines in Jiangxi, iv) the preliminary establishment of PRC distribution and sale people and physical networks, v) the legal and professional consultation fee in New Zealand and Overseas Investment Office consent application costs and vi) various legal and professional consultation service fee in Hong Kong for compliance and resumption of trading.

Selling and distribution expenses amounted to HK$8.679 million, as compared to nil for the six months ended 30 September 2009. The increase was mainly attributable to the initial setup cost of the distribution and sales network of the food and beverage trading business. Further, on 10 February 2010, the Group established Guoyuan Natural Dairy Products (Jiangxi) Company Limited with a registered share capital of HK$150 million to further affirm the Group's commitment on the business of snack foods, beverage drinks, Noni juice, rice wines and dairy related products in China.

MARKET PROSPECTS

As compared to the enormous global demand for dairy products, the consumption of dairy products per capita in China is less than 30 kg, representing only one-fourth of the average consumption in developed countries which is 100 kg according to BOABC 2008 China Diary Report survey. With the urbanization in the PRC and the growth towards a medium-sized developed economy, the demands for nutritious dairy products have enormous growth room for improvement. In 2009, the sales of dairy products in China exceeded RMB200 billion and recorded a compound annual growth rate of over 30% in the past four years. According to the UHT Tetra Pak Dairy Index, the compound annual growth of liquid dairy products was 13.4% from 2005 to 2008, and the total consumption was approximately 2.7 billion litres in 2008.

After unveiling the scandal of milk powder tainted with melamine in China in 2008, consumers with higher disposable income have become more willing to pay a higher price to purchase imported dairy products. As such, a few leading foreign infant formula brands have announced several upward retail price revisions of 10%-20% in China in the year 2010.

In light of the above market situation, the Company management believes that dairy products manufactured from New Zealand are embodied with renowned premium quality and stringent safety images, along with the Company unique vertical chain in production, distribute and sales process, will present the Group with an incomparable niche on supreme products quality and good price versus value in the PRC market place.

OUTLOOK

The management viewed the three inter-related VSAs made by the Group during the period as a strategic development. By carrying out VSA-1 and VSA-2, the Group can establish a reinforce production base and sales platform for the Group's dairy business.

Despite the termination of the VSA-3 Agreement, the Company is determined to continue to pursue dairy products related business opportunities, including but not limited to investing in dairy farms and processing plants for dairy products in New Zealand, and/or entering into supply agreements with dairy product processing plants directly or indirectly through local agents so as to secure supply of dairy products from New Zealand.

The Company may also continue the renegotiation and restructuring of any acquisitions or cooperation plans with the existing vendor of VSA-1 which has extend the Option shares sale Long Stop Date to 30 September 2011, all to the extent in compliance with the Listing Rules.

The management will keep utilizing its experience and current foundation to actively identify the development module in the best interests of the shareholders. In the long term, the management is confident that the introduction of quality New Zealand dairy products into China will bring a promising investment value for our shareholders.

On 09 June 2010, JiangXi GuoYuan (Natural Dairy) Limited (GYJX ND) the indirect 100 percent subsidiary of Natural Dairy (New Zealand) Holdings Limited has signed the Manufacturing agreement with UBNZ Funds Management Limited (the "UBFM") to purchase and supply 150 million UHT milk products (250 ml per pack). The purchase price is NZ$0.70/per pack. It was announced on 09 June 2010, 11 July 2010 respectively in details on the commercial reason and rational towards such orders.

On 15 July 2010, an further 300 million packs of favoured UHT milk 250 ml orders was requested by GYJX ND to add to the existing agreement. Further more an infant formula/Colostrum added (900 gram) milk powder of totaling 20,000,000 cans order was also requested by GYJX ND to UBFM. The supplemental was signed between GYJX ND and UBFM on 20th July 2010 as the 1st supplemental agreement. The additional 300 millions favoured UHT Milk products are: blueberry, strawberry, chocolate flavoured milk, and colostrum milk, sleep well milk.

On 13 October 2010 the 2nd Supplemental agreement was signed between both parties. The commencement date has been postponed from 09 June 2010 to 01 October 2010 and one-year expiry date is extended to 30 September 2011.

On 01 August 2010, the Company has signed an intention letter expressed interests to extend from one-year to further 3 more years subject to Company's shareholders approval. With the intention of increase 30 percent order volume of the current order, 2nd extended year to supply 50 percent more order volume than the previous year, and 3rd extended year the increasement would be the same rate. A complete revised MU agreement extension is still pending to be finalized, then subject to an Extraordinary General Meeting to be held and voted by Company's shareholders.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

For the period ended 30 November 2010, the Group's net cash inflow from capital fund raising activities amounted to HK$101,000,000 (31 May 2010: HK$553,645,000). Net cash balances (cash and bank balances net of total bank loans) was HK$13,372,000 (31 May 2010: HK$43,663,000), and Funds in escrow and trust account was HK$379,118,000 (31 May 2010: HK$351,175,000); indicating that the Group has achieved some fund raising exercise to replenish its cash reserve. However due to the prolong shares trading in suspension, the net cash position has slightly weaken on dwindling fund raising.

As at 30 November 2010, the Group reported net current assets of HK$911,250,000 (31 May 2010: HK$808,474,000) and total assets (net of current liabilities) of HK$1,523,047,000 (31 March 2009: HK$1,401,163,000). The Group's current ratio as at 30 November 2010 was 5.0 times (31 May 2010:4.47 times), showing a slight improvement on the current asset over (current liabilities) financial position and maintains a very strong quick ratio or very minimal short-term debts insolvency.

Furthermore, HK$100 million of current liabilities to Citywin was a conservative provision for the consideration of the convertible bonds payable for the mines PRC subsidiaries acquisition to a third party. Such amount is considered to be highly recoverable, of which HK$69 million is used for setting off the respective balances due, and the remaining is disputed and non-payable on non-performance according to the conditional sale contract. The claim made by the plaintiff was presented with the last submission to the Hong Kong court on 25 September 2009, and since then has no further orders from the court.

The Group had no bank interest-bearing loans as at 30 November 2010 (31 May 2010: nil). The Group's debt-to-asset ratio (total liabilities divided by total assets) as at 30 November 2010 was 0.16 times (compares to the onerous 31 May 2010: 0.69 times), a dramatic falls over 4 times. The Company indebtness has significantly eliminated is because those Convertible notes debtholders unanimously surrender their entitlements to these debt instruments repayments and exercise its conversion rights into ordinary shares of the Company. On consequence the total equity of the Group becomes approximately HK$1,479.31 million as at 30 November 2010 (31 May 2010: approximately HK$508.25 million). Similarly the debt-to-equity ratio (total debt over total equity) as at 30 November 2010 of the Group has plummeted to 0.030 times (31 May 2010: 1.89 times).

This long-term debt (CN C, CN D and Optional Bonds) swap to equity movements has saviors the Company from any long-term debts woes, and transformed the Company to a decent debt-equity capital structure so as to pursue the dairy business opportunity. The capital improvements is more clearly demonstrated by the Capitalization ratio (long-term debt over long-term debt plus total equity) as at 30 November 2010 was 0.029 (31 May 2010: 0.64), showing a 95.5% ratio improvement. Last, being exhibited the Group has Convertible note amortized liability cost recorded as HK$43.74 million at 30 November 2010 (31 March 2009: HK$961.34 million).

As shown in this report, in conclusion, after the successful fund raising activity in late December 2009 and the later equity conversion exercise by these debtholders, the Group's balance sheet stability and solvency have been upheld so to embrace the Company on-going business operation, development and expansion.

DISCONTINUED OPERATIONS

During the period under review, the Group put its two subsidiaries, Linfair Capital Limited and Linfair Engineering, into voluntary liquidation. The liquidation was approved by shareholders in a special general meeting of the Company and creditors' meeting held on 15 September 2009. The liquidation is still in progress as at the report date, with Linfair Capital being wound up and the downstream Linfair Engineering (Macau) Company Limited proposed to be wind up on 21 December 2010. Immediately after completion of all these liquidation process, the Group has successfully ceased the engineering business which was operation loss-making and debt-burden without any rewarding outlooks.

MORTGAGES AND CHARGE

As at 30 November 2010, similarly, the Group did not have any outstanding mortgage loan (31 May 2010: nil). As at 30 November 2010, time deposits of approximately HK$0.974 million of the Group were pledged to secure the general banking facilities granted.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGEDS

The Company had foreign currency sales and purchases which exposed the Group to foreign currency risk, mainly for the possible exchange fluctuation. The Group currently does not have a foreign currency hedging policy as the Board considers that the currency risk exposure is immaterial. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

CAPITAL COMMITMENTS

Details of the capital commitments of the Group are set out in note 25 to the condensed consolidated financial statements.

CONTINGENT LIABILITIES

The Group has no any material contingent liabilities as at 30 November 2010 and 31 May 2010.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 29 to the condensed consolidated financial statements.

TREASURE POLICIES AND CAPITAL STRUCTURE

The Group adopts a prudent approach with respect to treasury and funding policies, with a focus on risk management and transactions that are directly related to the underlying food and beverage, dairy products trading business of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 November 2010, the Group employed a work force of approximately 251 staff. The remuneration of employees was in line with the market trend and commensurable to the level of pay in the industry. Remuneration of the Group's employees includes basic salaries, bonuses, and long term incentive (such as Pre-IPO Share Options and Share Option Scheme).

INTERIM DIVIDEND

The Board of Directors, in view of the Company dairy business is currently transiting from incubation to trading, does not recommend the payment of an interim dividend for the six months ended 30 November 2010 (31 May 2010 –nil-).

INDEPENDENT PRACTITIONER REVIEW REPORT

TO THE BOARD OF DIRECTORS OF
NATURAL DAIRY (NZ) HOLDINGS LIMITED
天然乳品(新西蘭)控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have reviewed the condensed consolidated statement of financial position of Natural Dairy (NZ) Holdings Limited (the ”Company”) and its subsidiaries (collectively referred to as the “Group”) as of 30 November 2010 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review. This report is made solely to you, as a body, in accordance with agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

Except as explained in the following basis for qualified conclusion paragraph, we conducted our review in accordance with Hong Kong Standard on Review Engagements 2400,“Engagements to Review Financial Statements” issued by the Hong Kong Institute of Certified Public Accountants. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit, and, accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

Management has informed us that the preceding auditor issued a disclaimer of opinion to the consolidated financial statement of the Group for the 14 months ended 31 May 2010 (“2010 Disclaimer Opinion”). Details of the qualification were disclosed in 2010 annual report dated 29 October 2010 (“2010 Annual Report”).

The auditor's opinion on the consolidated financial statement of the Group for the 14 months ended 31 May 2010, which formed the basis for the corresponding figures presented in the current period's condensed consolidated financial statements, was qualified by the preceding auditor because of the possible effect of the limitations on the scope of the audit. Therefore the comparative amounts show in the condensed interim financial information may not be comparable with the amount for the current period.

In addition, the directors of the Company, having considered the legal advice from the Company's PRC legal counsel, made retrospective restatements ("Restatements") in relation to the Group's acquisition of Chengde City Sanjin Mining Company Limited ("Chengde Sanjin"), Chengde City Shenlong Mining Company Limited and Qingdao Yongxinhui Mining Company Limited ("Qingdao Yongxihui") (collectively the "Mining Group") which was completed in 14 June 2008. As a result of Restatements, the correspondence figures for the six months ended 30 September 2009 were restated. The unauthorized fraudulent 100% shareholdings transfer in Chengde Sanjin is now handling by the PRC legal advisor of the Company. In order to ensure the Group could maintain an effective control over the Chengde Sanjin, the Group has filed a writ to 青島市工商行政管理局 (the "青島管理局") in relation of removal of the authorized representative of Qingdao Yongxihui, Mr. Li Chang, on 12 July 2010. The writ has been accepted by 青島管理局 on 13 July 2010. In addition, the PRC legal advisor is now preparing to lodge a writ to Chengde City Intermediary Court so as to preserve the mining exploration rights in Chengde Sanjin and irritancy the fraudulent 100% shareholding transfer in Chengde Sanjin.

In the absence of proper books and records and the related supporting documents maintained by the Mining Group, and the information regarding the restatement of results of discontinued operation, we were unable to carry out review procedures to obtain sufficient reliable evidence to ascertain the accuracy and completeness of the financial information of Mining Group and accordingly, we are unable to satisfy ourselves as to whether the restated figures were fairly stated in the condensed consolidated statement of comprehensive income and free from material misstatement for the six months ended 30 September 2009.

We have reviewed that any adjustments found to be necessary in respect of the above matters would have a significant and consequential effect on the Group's condensed consolidated statement of financial position at the beginning of the period, results and cash flows of the current period and net assets at 30 November 2010.

Latest Information in Relation to the 2010 Disclaimer of Opinion

The following paragraphs are extracted from the 2010 Disclaimer Opinion of the Group's 2010 Annual Report. Except for the following matters, we are not aware of any other updates in relation to the 2010 Disclaimer Opinion up to the date of this interim report.

Scope limitation on the recoverability of available-for-sale investment

Included in the consolidated statement of financial position as at 31 May 2010 was available-for-sale investment with carrying amount of HK$552,120,000 (or equivalent to NZ$100,000,000) in relation to the acquisition of 20% of the issued share capital of UBNZ Assets Holdings Limited ("UBNZ AHL"). As detailed in note 19 to the consolidated financial statements, 4 out of total 22 dairy properties have been settled by UBNZ AHL at the date of our report. The completion of acquisition by UBNZ AHL on the remaining dairy properties was subject to certain conditions, including the obtainment of consent from the New Zealand Overseas Investment Office. In the absence of reliable financial information relating to the UBNZ AHL, we were unable to carry out other satisfactory audit procedures to ascertain the fair value of the available-for-sale investment and the impairment loss, if any. Accordingly, we were unable to satisfy ourselves as to whether the carrying amount of available-for-sale investment stated in the consolidated statement of financial position was free from material misstatement as at 31 May 2010.

The Group has appointed LCH (Asia-Pacific) Surveyors Limited ("LCH"), independent qualified professional valuers not connected with the Group, to determine the fair value of UBNZ AHL as at 30 November 2010. According to the LCH report dated 28 March 2011, the fair value of UBNZ AHL was approximately HK$3,236,671,300 (or equivalent to NZ$557,000,000) as at 30 November 2010.

Scope limitation on the recoverability of other receivables, deposits and prepayments

Included in the consolidated statement of financial position as at 31 May 2010 was other receivables, deposits and prepayments with carrying amount of HK$590,246,000 (or equivalent to NZ$109,357,000) being amount due from UBNZ Trustee Limited (the "Vendor"). As detailed in note 25 to the consolidated financial statements, the amount of HK$590,246,000 (or equivalent to NZ$109,357,000) comprised of HK$276,078,000 (or equivalent to NZ$50,000,000) being deposit payment to Vendor in acquisition of remaining 80% of the issued share capital of UBNZ AHL through the issuance of convertible note "A", which has been fully converted into ordinary shares subsequent to the period ended 31 May 2010. We were unable to ascertain the recoverability of this deposit payment in the event of default in the acquisition.

The remaining balance of HK$314,168,000 (or equivalent to NZ$59,357,000), which was raising through the proceeds from the issuance of convertible note "C", was used in providing financial assistance to the Vendor in assisting the dairy properties acquisition by UBNZ AHL. In respect of this, UBNZ Funds Management Limited, as the warrantor, has irrevocably assigned its beneficiary ownership of the amount of HK$314,168,000 (or equivalent to NZ$59,357,000) held in its own escrow account (but limited to HK$264,643,000 (or equivalent to NZ$50,000,000) in the event of default in the acquisition) to the Group as a form of repayment of above mentioned "financial assistance". Accordingly, we were unable to obtain sufficient reliable evidence to ascertain the recoverability of the financial assistance for the part of the above shortfall, amounting to HK$49,525,000 (or equivalent to NZ$9,357,000) in the event of default in the acquisition.

In view of above, we were unable to satisfy ourselves as to whether the carrying amount of other receivables, deposits and prepayments was fairly stated in the consolidated statement of financial position and free from material misstatement as at 31 May 2010.

On 22 May 2009, the Company has entered into an agreement with the Vendor and UBNZ Funds Management Limited (the "Warrantor") in relation to i) the sale and purchase of 20% of the issued share capital of UBNZ AHL; and ii) the option to purchase 80% of the issued share capital of UBNZ AHL ("Agreement").

Pursuant to the Clause 4.6 and 4.6 (i) of the Agreement, the Company shall have the right to terminate the Agreement and if the deposit of NZ$50,000,000 ("Deposit") has paid, the Vendor shall return the amount represented by the Deposit or procure return of convertible note "A" issued by the Company to cover the Deposit for cancellation; or ii) return part of the amount represented by the Deposit and procure return of such part of the said convertible note "A" to cover the remainder of the Deposit.

On 21 December 2009, the Company has issued Hong Kong dollar denominated zero coupon convertible notes "A" with an aggregate principal amount of HK$276,078,000 (or equivalent to NZ$50,000,000) to Vendor as a Deposit ("Issued CN A"). These said issued CN A has been fully converted into 110,431,000 ordinary shares of the Company on 13 August 2010 and 1 September 2010. Though the Issued CN A has been converted, the Company has frozen the transfer of the said 110,431,000 shares to any third party by placing an instruction to its share registrar, Computershare Hong Kong Investor Services Limited so to pursuant the above agreement recovery execution if needed.

In respect to the above mentioned "financial assistance" approximately HK$314 millions to the Vendor, on 19 January 2011, an amount of approximately HK$160 millions has been transferred from the Warrantor escrow account to the Company as a form of repayment. On 23 March 2011, upon confirmation by the Company's New Zealand solicitor Knight Coldicult, the sum of approximately HK$145 millions has been refunded from the New Zealand Tax Department, and is now repaid back into the Company New Zealand solicitor trust account awaiting to be remitted back to the Company Hong Kong account. On 29 March 2011, the Board intended and agreed to use the remaining repayment balance as final part of the consideration for the 40 millions UHT packs purchase order from the Warrantor.

Qualified Conclusion

Based on our review, except for the adjustments and disclosures to the interim financial information that we might have become aware of had it not been for the situation described above and the 2010 Annual Report, nothing has come to our attention that causes us to believe that the interim financial information is not presented fairly, in all material respects, in accordance with Hong Kong Financial Reporting Standards.

ZHONGLEI (HK) CPA COMPANY LIMITED
Certified Public Accountants (Practising)
Chan Chi Kei Ronald
Practising Certificate Number: P04255

Hong Kong
31 March 2011

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

The Board of Directors (the "Board") of Natural Dairy (NZ) Holdings Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30 November 2010 as follows. These condensed interim financial information were not audited but have been reviewed by the Audit Committee and the external practitioner of the Company.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30 November 2010

		For the six months ended	
		30 November	30 September
		2010	2009
	Notes	**HK$'000**	HK$'000
			(restated)
Continuing operations			
Revenue	*4*	**4,027**	2,308
Cost of sales		**(3,683)**	(2,241)
Gross profit		**344**	67
Other income	*5*	**9,655**	787
Selling and distribution expenses		**(8,679)**	–
General and administrative expenses		**(30,334)**	(21,215)
Loss from operations		**(29,014)**	(20,361)
Net gain on deconsolidation of subsidiaries	*6*	**–**	2,283
Net gain on liquidation of subsidiaries	*7*	**–**	4,877
Finance costs	*8*	**(27,138)**	–
Loss before tax		**(56,152)**	(13,201)
Income tax	*9*	**–**	–
Loss for the period from continuing operations	*10*	**(56,152)**	(13,201)
Discontinued operations			
Loss for the period from discontinued operations	*11*	**–**	(4,135)
Loss for the period		**(56,152)**	(17,336)
Other comprehensive (loss) income for the period			
Exchange differences arising on translation of foreign operations		**(4,040)**	86
Total comprehensive loss for the period attributable to owners of the Company		**(60,192)**	(17,250)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) *(Continued)*

For the six months ended 30 November 2010

	Notes	For the six months ended	
		30 November 2010 HK$'000	30 September 2009 HK$'000 (restated)
Loss per share	*13*		
From continuing and discontinued operations			
Basic (cents per share)		**(4.44)**	(3.86)
From continuing operations			
Basic (cents per share)		**(4.44)**	(2.94)
Diluted (cents per share)		**N/A**	N/A
From discontinued operations			
Basic (cents per share)		**N/A**	(0.92)
Diluted (cents per share)		**N/A**	N/A

The notes on pages 19 to 46 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

At 30 November 2010

	Notes	At 30 November 2010 HK$'000	At 31 May 2010 (Audited) HK$'000
Non-current assets			
Available-for-sale investment	*14*	**552,120**	552,120
Property, plant and equipment	*15*	**45,745**	33,451
Deposit paid for acquisition of property, plant and equipment		**13,932**	7,118
		611,797	592,689
Current assets			
Inventories		**2,642**	–
Trade receivables	*16*	**5,729**	34,342
Other receivables, deposits and prepayments	*17*	**739,730**	611,221
Funds in escrow and trust accounts	*18*	**379,118**	351,175
Pledged bank deposits	*24*	**974**	896
Bank balances and cash		**13,372**	43,663
		1,141,565	1,041,297
Current liabilities			
Trade payables	*19*	**17,311**	43,899
Other payables and accrued charges	*20*	**110,798**	18,341
Tax payable		**2,206**	2,157
Payable to acquisition of subsidiaries	*21*	**100,000**	100,000
Convertible notes	*22*	**–**	68,426
		230,315	232,823
Net current assets		**911,250**	808,474
		1,523,047	1,401,163
Capital and reserves			
Share capital	*23*	**188,256**	69,805
Reserves		**1,291,054**	438,443
Total equity		**1,479,310**	508,248
Non-current liabilities			
Convertible notes	*22*	**43,737**	892,915
		1,523,047	1,401,163

Approved and authorized for issue by the board of directors on 31 March 2011.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 November 2010

	Share capital HK$'000 *(Note 23)*	Share premium HK$'000	Merger reserve HK$'000 *(Note a)*	Mining exploration rights revaluation reserve HK$'000	Share options reserve HK$'000	Convertible notes equity reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2009	42,133	195,275	(14,990)	–	4,006	–	3,021	(320,714)	(91,269)
Loss for the period	–	–	–	–	–	–	–	(17,336)	(17,336)
Other comprehensive loss for the period	–	–	–	–	–	–	86	–	86
Total comprehensive loss for the period	–	–	–	–	–	–	86	(17,336)	(17,250)
Reserves released upon liquidation of subsidiaries	–	–	–	–	–	–	3,771	–	3,771
Reserves released upon deconsolidation of subsidiaries	–	–	–	–	–	–	(2,341)	–	(2,341)
Share issued under share options scheme *(Note b)*	2,100	5,820	–	–	(1,999)	–	–	–	5,921
Share issued under warrant agreement *(Note c)*	2,676	5,352	–	–	–	–	–	–	8,028
At 30 September 2009	46,909	206,447	(14,990)	–	2,007	–	4,537	(338,050)	(93,140)
At 1 June 2010	69,805	373,588	(14,990)	7,698	–	589,346	5,236	(522,435)	508,248
Loss for the period	–	–	–	–	–	–	–	(56,152)	(56,152)
Other comprehensive loss for the period	–	–	–	–	–	–	(4,040)	–	(4,040)
Total comprehensive loss for the period	–	–	–	–	–	–	(4,040)	(56,152)	(60,192)
Convertible notes equity component *(Note d)*	–	–	–	–	–	10,484	–	–	10,484
Share issued upon conversion of convertible notes *(Note e & 23)*	118,451	1,495,822	–	–	–	(593,503)	–	–	1,020,770
At 30 November 2010	188,256	1,869,410	(14,990)	7,698	–	6,327	1,196	(578,587)	1,479,310

Notes:

(a) The merger reserve of the Group represented the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital of the subsidiaries acquired pursuant to the group re-organisation in May 2005.

(b) During the six months ended 30 September 2009, an aggregate of 21,000,000 new shares of the Company were issued at the exercise price of HK$0.282 pursuant to the share options scheme.

(c) During the six months ended 30 September 2009, an aggregate of 26,760,000 new shares of the Company were issued at the exercise price of HK$0.3 pursuant to the warrant agreement.

(d) On 11 June 2010 and 19 July 2010, the Company had issued optional convertible notes of HK$49,000,000 and convertible notes C of HK$52,000,000 respectively.

(e) Amount transferred from convertible notes equity reserve upon conversion of convertible notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six months ended 30 November 2010

	For the six months ended	
	30 November 2010 HK$'000	30 September 2009 HK$'000 (restated)
Cash used in operations	**(88,471)**	(2,563)
Income tax paid	**–**	–
Net cash used in operating activities	**(88,471)**	(2,563)
Net cash used in investing activities	**(39,424)**	(1,702)
Net cash from financing activities	**101,000**	6,391
Net (decrease) increase in cash and cash equivalents	**(26,895)**	2,126
Cash and cash equivalents at 1 June/1 April	**43,663**	10,137
Effect of foreign exchange rates changes	**(3,396)**	(23)
Cash and cash equivalents at 30 November/30 September	**13,372**	12,240

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Natural Dairy (NZ) Holdings Limited (the "Company") is an exempted company with limited liability incorporated in the Cayman Islands under the Companies Law of the Cayman Islands on 8 October 2002. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 June 2005. As requested by the Company, trading in shares of the Company on the Stock Exchange was suspended since 7 September 2010 pending the release of an announcement which is price sensitive in nature.

The address of the registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O.Box 2681 GT, George Town, Grand Cayman, British West Indies, The Cayman Islands. The address of principal place of business of the Company is Suite 6701-2, 67/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the (i) trading of foods and beverage, dairy related products; (ii) manufacturing and sales of beverage, dairy related products; and (iii) mining and sales of iron ore.

The functional currency of the Company is Hong Kong Dollars ("HK$"). The functional currencies of the subsidiaries are HK$, Renminbi ("RMB") and New Zealand Dollars ("NZ$") respectively. The condensed consolidated financial statements are presented in HK$, unless otherwise stated.

2. BASIS OF PREPARATION

(a) Statement of compliance

The condensed interim financial information are prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated financial statements do not include all the information and disclosures required for an annual financial statement, and should be read in conjunction with the consolidated financial statements of the Group for the period ended 31 May 2010 as contained in the Company's Annual Report 2010 (the "Annual Report 2010").

2. BASIS OF PREPARATION *(Continued)*

(b) Change of accounting period

On 25 March 2010, the Company announced that it has changed its financial year end date from 31 March to 31 May. The Board believes that the change will facilitate the Company in preparing and updating its financial statements for the preparation of consolidated financial statements and enable the Company to rationalize its internal resources and facilitate better planning and operational processes of the Company. Accordingly, the current interim report covers the six months from 1 June 2010 to 30 November 2010, whereas the previous interim period represented the six months from 1 April 2009 to 30 September 2009. Therefore, the comparative figures may not be comparable.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

The accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 May 2010, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by HKICPA which are effective for the Group's financial period beginning on 1 June 2010.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment)	Classification of Rights Issues
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK-Interpretation ("Int") 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 June 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 June 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosures-Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[2]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

[1] *Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.*

[2] *Effective for annual periods beginning on or after 1 February 2010.*

[3] *Effective for annual periods beginning on or after 1 July 2010.*

[4] *Effective for annual periods beginning on or after 1 January 2011.*

[5] *Effective for annual periods beginning on or after 1 July 2011.*

[6] *Effective for annual periods beginning on or after 1 January 2012.*

[7] *Effective for annual periods beginning on or after 1 January 2013.*

HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

HKAS 24 Related Party Disclosures

HKAS 24 Related Party Disclosures (as revised in 2009) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the condensed interim financial information.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold by the Group to outside customers, net of discount and sales related taxes.

The Group's operation segments, based on information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance.

Specially, the Group's reportable segments under HKFRS 8 are as follows:

(a) Trading of foods and beverage, dairy related products.

(b) Mining and sales of iron ore.

(c) Manufacturing and sales of beverage, dairy related products.

An operation regarding engineering business was discontinued during the six months ended 30 September 2009. For the six months ended 30 November 2010, there are one new reportable segments regarding manufacturing and sales of beverage, dairy related products.

(a) Segment revenue and results

For the six months ended 30 November 2010	Trading of foods and beverage, dairy related products HK$'000	Mining and sales of iron ores HK$'000	Manufacturing and sales of beverage, dairy related products HK$'000	Total HK$'000
Revenue from external customers	4,027	–	–	4,027
Segment results	(26,899)	–	(7,694)	(34,593)
Interest income				11,630
Finance costs				(27,138)
Unallocated corporate expenses				(6,051)
Loss before tax				(56,152)
Income tax				–
Loss for the period				(56,152)

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) Segment revenue and results *(Continued)*

For the six months ended 30 September 2009 (Restated)	Continuing operations			Discontinued operations	
	Trading of foods and beverage, dairy related products HK$'000	Mining and sales of iron ores HK$'000	Sub-total HK$'000	Engineering business HK$'000	Total HK$'000
Revenue from external customers	2,308	–	2,308	996	3,304
Segment results	(2,167)	–	(2,167)	(4,135)	(6,302)
Interest income			12	–	12
Net gain on deconsolidation of subsidiaries			2,283	–	2,283
Net gain on liquidation of subsidiaries			4,877	–	4,877
Unallocated corporate income			192	–	192
Unallocated corporate expenses			(18,398)	–	(18,398)
Loss before tax			(13,201)	(4,135)	(17,336)
Income tax			–	–	–
Loss for the period			(13,201)	(4,135)	(17,336)

5. OTHER INCOME

	For the six months ended	
	30 November 2010 HK$'000	30 September 2009 HK$'000 (restated)
Interest income	**11,630**	12
Other operating (loss)/income	**(1,975)**	775
	9,655	787

6. DECONSOLIDATION OF SUBSIDIARIES

In the interim financial statements ended 30 September 2009, the directors considered that as the Group was unable to exercise its rights either to control the assets and operations or to exercise control over the financial and operating policy decision of Changsha Sanjin Kuangye Touzi Zixum Company Limited ("Changsha Sanjin").

Assets (liabilities) of the deconsolidated subsidiaries:

	For the six months ended 30 September 2009 HK$'000 (restated)
Net assets deconsolidated – Bank balances and cash	58
Release of exchange reserve	(2,341)
Net gain on deconsolidation of subsidiaries	(2,283)

7. LIQUIDATION OF SUBSIDIARIES

As detailed in the Company's announcements dated 31 August 2009, 3 September 2009 and 16 September 2009 respectively, the Group processed a creditors' voluntary liquidation of Linfair Capital Limited and Linfair Engineering (H.K.) Co., Ltd ("Proposed Liquidation"). With reference to the Company's announcement dated 16 September 2009, the shareholders' meeting and the creditors' meeting in respect of the Proposed Liquidation has been held on 15 September 2009 and the resolution has been passed to wind up both Linfair Capital Limited ("Linfair Capital") and Linfair Engineering (H.K.) Co., Limited ("Linfair Engineering"). Subsequently, the resolution regarding winding up Linfair Engineering (Macau) Company Limited has been passed in the Linfair Capital Limited's creditor voluntary liquidation meeting held on 21 December 2010. These voluntary liquidated subsidiaries have their values impaired are recorded as follows:

	At 15.9.2009 HK$'000
Assets (liabilities) of the liquidated subsidiaries	
Aggregate assets	
Property, plant and equipment	4,747
Prepaid lease payments	773
Inventories	502
Trade and bills receivables	2,280
Other receivables, deposits and prepayments	8,109
Tax recoverable	515
Pledged bank deposits	1,250
Bank balances and cash	1,625
	19,801
Aggregate liabilities	
Trade and bill payables	18,967
Other payables and accrued charges	9,009
Deferred tax liabilities	473
	28,449
Net liabilities	(8,648)
Release of exchange reserve	3,771
Net gain on liquidation of subsidiaries	(4,877)

8. FINANCE COSTS

	For the six months ended	
	30 November 2010 HK$'000	30 September 2009 HK$'000 (restated)
Effective interest expenses on convertible notes	**27,138**	–

9. INCOME TAX

No Hong Kong Profits Tax has been provided in the interim financial statements as there was no assessable profit for the period (2009: Nil).

No profits taxes have been provided for the subsidiaries operating outside Hong Kong as these subsidiaries have not generated any assessable profits in their respective jurisdictions.

The provision for the PRC income tax was calculated at 25% of the estimated assessable profits in accordance with the relevant income tax rules and regulations of the PRC.

No deferred tax asset has been recognised due to the unpredictability of future profit streams. Pursuant to the relevant laws and regulations in the PRC, the unused tax losses incurred by the PRC subsidiaries will be expired in 2011. Other tax losses may be carried forward indefinitely.

10. LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS

	For the six months ended	
	30 November 2010 HK$'000	30 September 2009 HK$'000 (restated)
Loss for the period from continuing operations has been arrived at after charging/(crediting):		
Auditor's remuneration	**892**	2,841
Depreciation of property, plant and equipment	**2,860**	6,012
Exchange (gain)/loss, net	**(45,352)**	274
Loss on disposal of property, plant and equipment	**473**	–
Minimum lease payments paid under operating leases in respect of office premises during the period	**4,049**	108
Staff costs (including directors emoluments)		
– Salaries and other benefits	**15,298**	1,017
– Staff quarters	**1,171**	–
– Retirement benefits contribution	**174**	51

11. DISCONTINUED OPERATIONS

A special resolution of Linfair Capital and Linfair Engineering to voluntary winding up Linfair Capital and Linfair Engineering were duly passed by their shareholders at the extraordinary general meeting held on 15 September 2009. On the same date, the creditors of Linfair Capital and Linfair Engineering duly passed a resolution to wind up Linfair Capital and Linfair Engineering. Both Linfair Capital and Linfair Engineering are limited liability companies incorporated in Hong Kong. Before the liquidation, Linfair Engineering is principally engaged in provision of engineering systems contracting services and sales of related parts.

	For the six months ended 30 September 2009 HK$'000 (restated)
Revenue from:	
– Provision of engineering systems contracting services	15
– Sale of consumables and spare parts	981
	996
Cost of contract works	(40)
Cost of sales	(566)
Gross profit	390
Other income	1,300
Selling and distribution expenses	(67)
General and administrative expenses	(5,758)
Loss before tax	(4,135)
Income tax	–
Loss for the period from discontinued operations	(4,135)

12. DIVIDEND

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 November 2010 (six months ended 30 September 2009: Nil).

13. LOSS PER SHARE

From continuing and discontinued operations

The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

	For the six months ended	
	30 November 2010 HK$'000	30 September 2009 HK$'000 (restated)
Loss		
Loss for the period attributable to owners of the Company	**(56,152)**	(17,336)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,264,394,640**	448,398,481

From continuing operations

The calculation of the basic loss per share from continuing operations attributable to the owners of the Company is based on the following data:

Loss figures are calculated as follows:

	For the six months ended	
	30 November 2010 HK$'000	30 September 2009 HK$'000 (restated)
Loss for the period attributable to owners of the Company	**(56,152)**	(17,336)
Less: loss for the period from discontinued operations	**–**	(4,135)
Loss for the purpose of basic loss per share from continuing operations	**(56,152)**	(13,201)

The denominators used are the same as those detailed above for basic loss per share.

13. LOSS PER SHARE *(Continued)*

From discontinued operations

Basic earnings per share for the discontinued operations for the six months ended 30 November 2010 is nil (2009: HK$0.92), based on the loss for the period ended 30 November 2010 from the discontinued operations of nil (2009: HK$4,135,000) and the denominators detailed above for basic loss per share.

The diluted earnings per share are not applicable. The computation of diluted loss per share does not assume the exercise of the potential ordinary shares since their exercise would result in a decrease in loss per share from continuing and discontinued operations.

14. AVAILABLE-FOR-SALE INVESTMENT

	At 30 November 2010 HK$'000	At 31 May 2010 HK$'000
Unlisted securities:		
Equity securities	**552,120**	552,120

An extract of Annual Report 2010 for Acquisition of UBNZ Assets Holdings Limited ("UBNZ AHL") issued share capital and its dairy properties and business ("VSA-1") is as follows:

"As announced on 22 May 2009, the Group intended to acquire UBNZ AHL, including its dairy properties and dairy cattle in New Zealand. The 22 dairy properties have an aggregate area of approximately 8,674 hectares (approximately 130,110 mu) and are mainly located in the middle highland area in southern Auckland in the North Island of New Zealand. The region is well-known for its clean grassland suitable for dairy farm business."

During the fourteen months ended 31 May 2010, the Group acquired 20% of the ordinary share of UBNZ AHL by issuing the designated convertible notes B ("CN B") as substitution for cash settlement to UBNZ Trustee Limited (the "Vendor"). Up to the date of this report, there are 4 dairy properties out of 22 dairy properties being owned by the Target Company, UBNZ AHL whereby it involved in holding and management of the production, sale and distribution of livestock, milk fat solids and dairy related products in New Zealand. In the opinion of the directors of the Company, the Group has no significant influence over UBNZ AHL as the other 80% of the ordinary share capital is controlled by a related party of Vendor, who employed professional management on day-to-day operations of UBNZ AHL.

14. AVAILABLE-FOR-SALE INVESTMENT *(Continued)*

Despite the 22 December 2010 Overseas Investment Office declination, the Group still keen to acquire the remaining 80% of the ordinary share of UBNZ AHL as it will reinforce the Company's principal business of selling New Zealand dairy products by possess the raw milk supply with certainty and price overwhelmingly. Therefore, as announced on 31 December 2010 the Group has extended the Long Stop Date of the VSA-1 agreement with the Vendor to 30 September 2011, so as to arbitrate on all opportunity hope to complete the remaining VSA-1 transaction.

Details of the investment as at 30 November 2010 are as follows:

Name of Company	Place of incorporation	Proportion of nominal value of issued capital held by the Group	Principal activities
UBNZ Assets Holdings Limited ("UBNZ AHL")	New Zealand	20%	Holding and management of the production, sale and distribution of livestock, milk fat solids and dairy related products in New Zealand

The above investment was stated at cost at the end of the reporting period, being HK$552,120,000 (or equivalent to NZ$100,000,000). During the six months ended 30 November 2010, the directors of the Company carried out the impairment review on available-for-sale investment by referencing the valuation report which issued by LCH (Asia-Pacific) Surveyors Limited ("LCH"), independent qualified professional valuers not connected with the Group. According to the valuation report which issued by LCH, the fair value of available-for-sale investment was approximately HK$647,334,260 (or equivalent to NZ$111,400,000) as at 30 November 2010.

15. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 November 2010, the Group acquired property, plant and equipment amounting to approximately HK$14,416,000 (six months ended 30 September 2009: approximately HK$31,000).

16. TRADE RECEIVABLES

	At 30 November 2010 HK$'000	At 31 May 2010 HK$'000
Trade receivables, net of accumulated impairment loss	**5,729**	34,342

An aged analysis of the trade receivables net of accumulated impairment loss at the end of the reporting period is as follows:

	At 30 November 2010 HK$'000	At 31 May 2010 HK$'000
1-3 months	**–**	16,292
4-6 months	**4,027**	14,629
7-12 months	**1,702**	3,421
	5,729	34,342

The Group has a policy of allowing credit periods ranging from 3 to 12 months to its trade customers of trading business varies on different products nature, market penetration stages and locality. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

17. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At 30 November 2010 HK$'000	At 31 May 2010 HK$'000
Advance to Vendor *(Notes: i, ii, iii & iv)*	**696,181**	590,246
Prepayments	**38,558**	9,814
Utility and other deposits	**2,254**	2,603
Deposit paid	**–**	1,502
Temporary payment	**1,641**	7,056
Others	**1,096**	–
	739,730	611,221

17. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Notes:

i) Being amount advanced to Vendor, the vendor which comprised of HK$276,078,000 (equivalent to NZ$50,000,000) being deposit payment to vendor in acquisition of remaining 80% of the issued share capital of UBNZ AHL through the issuance of convertible note "A", which has been fully converted into 110,431,200 ordinary shares during the six months ended 30 November 2010.

ii) The balance of HK$314,170,000 (or equivalent to NZ$59,357,000), which was raising through the proceeds from the issuance of convertible note "C" ("CN C"), was used as a form of financial assistance to the Vendor onto the dairy properties acquisition by UBNZ AHL in February 2010, as the designated cash payment substitute convertible note "B" ("CN B") is still in escrow account. In respect of this, later in 23 August 2010 UBNZ Funds Management Limited, (the "Warrantor") has irrevocably assigned its beneficiary ownership of the amount of HK$314,170,000 (or equivalent to NZ$59,357,000) held in its own escrow account but limited to HK$264,643,000 (or equivalent to NZ$50,000,000) in the event of default in the acquisition to the Group as a form of repayment of above mentioned "financial assistance".

iii) The remaining balance of HK$105,933,000 includes, but not limited to, HK$49,000,000 and HK$52,000,000 being the proceeds from the issuance of CN C subscribed by Vendor. And later the same amounts of HK$49,000,000 and HK$52,000,000 are made to UBNZ Funds Management Limited as deposit pursuant to the Ultra Heat Treated Milk ("UHT Milk") manufacturing agreement ("Manufacturing Agreement"). The transaction had been stated in the announcement of the Company dated 9 June 2010.

iv) During the six months ended 30 November 2010, the Vendor had converted all convertible notes to shares. At 30 November 2010, the Vendor held 333,509,199 ordinary shares, it represents 17.71% of total paid up shares capital of the Company. Included in the 333,509,199 ordinary shares held by the Vendor, 190,509,195 ordinary shares is frozen in Computershare Hong Kong Investor Services Limited by the instruction of the Company.

18. FUNDS IN ESCROW AND TRUST ACCOUNTS

Funds in escrow and trust accounts are funds held by the Group's New Zealand lawyers as below:

	At 30 November 2010 HK$'000	At 31 May 2010 HK$'000
Funds in escrow accounts *(note a)*	**379,118**	345,627
Funds in trust accounts *(note b)*	**–**	5,548
	379,118	351,175

Note a: Funds in escrow accounts are applied for the purpose of acquisition of dairy properties based on the escrow arrangement.

Note b: Funds in trust accounts are funds held for the purpose of general operation and settlement of legal fees in New Zealand.

19. TRADE PAYABLES

	At 30 November 2010 HK$'000	At 31 May 2010 HK$'000
Trade payables	**17,311**	43,899

An aged analysis of the trade payables is as follows:

1 – 3 months	**124**	15,403
4 – 6 months	**–**	9,288
7 – 12 months	**–**	2,414
Over 1 year	**17,187**	16,794
	17,311	43,899

20. OTHER PAYABLES AND ACCRUED CHARGES

As at 30 November 2010, there was approximately HK$1,739,000 being interest payable for the CN C and Optional Bonds included in other payables and accrued charges.

21. PAYABLE TO ACQUISITION OF SUBSIDIARIES

On 7 December 2007, the Group entered into a share transfer agreement with Citywin Pacific Limited ("Citywin"), an independent third party, to acquire 100% equity interest in Qingdao Yongxinhui Mining Company Limited ("Qingdao Yongxinhui") at a consideration of HK$130 million ("Acquisition"). Qingdao Yongxinhui is principally engaged in the operation of two mines namely Tengfei Magnetite and Gangzicum Donggou Magnetite which situated in Chengde County, Hebei Province, the PRC through its wholly-owned subsidiary namely Chengde Shenlong Mining Company Limited. The consideration is satisfied by cash consideration of HK$30 million and the issue of HK$100 million convertible note with the maturity of 4 years from the date of issue. Deposit of HK$30 million was paid during the year ended 31 March 2008. The Acquisition was completed on 14 June 2008 and Qingdao Yongxinhui became a wholly-owned subsidiary of the Group. Up to the date of this report, the Group has not yet issued the convertible note to settle the disputed balance of the consideration due to continuous significant non-performance with Citywin.

21. PAYABLE TO ACQUISITION OF SUBSIDIARIES *(Continued)*

Details of the fair value of identifiable assets and liabilities and purchase consideration at date of acquisition are as follow:

	Carrying amount before combination HK$'000	**Fair value adjustment** HK$'000	**Fair value** HK$'000
Net assets acquired:			
Property, plant and equipment	53,061	–	53,061
Mining exploration rights	–	130,342	130,342
Inventories	3,580	–	3,580
Other receivables, deposits and prepayments	1,750	–	1,750
Bank balances and cash	413	–	413
Trade and bills payables	(43,296)	–	(43,296)
Other payables and accrued charges	(15,570)	–	(15,570)
Tax payable	(280)	–	(280)
Net identifiable assets and liabilities	(342)	130,342	130,000
Satisfied by:			
Cash consideration			30,000
Issue of convertible note			100,000
			130,000
Net cash outflow arising on acquisition:			
Cash consideration			30,000
Less: Bank balances and cash acquired			(413)
			29,587
Consideration payable			
At 30 November 2010 and 31 May 2010			100,000

22. CONVERTIBLE NOTES

On 21 December 2009, the Company issued Hong Kong dollar denominated zero coupon convertible notes A ("CN A") with an aggregate principal amount of HK$276 million to UBNZ Trustee Limited. The CN A has a maturity of seven years from the issue date and can be converted into 1 ordinary share of the Company at HK$0.10 each for every HK$2.50 CN A at the holder's option at any time between the issue date and the maturity date subject to the anti-dilutive adjustment. The effective interest rate of the liability component of initial recognition is 11.29% per annum. Details of which were set out in the Company's announcement dated 4 June 2009. On 23 August 2010 and 1 September 2010, all of the CN A were exercised and a total number of 110,431,200 shares were issued during the six months ended 30 November 2010.

On 21 December 2009, the Company issued Hong Kong dollar denominated zero coupon convertible notes B ("CN B") with an aggregate principal amount of HK$552 million to UBNZ Trustee Limited. The CN B has a maturity of ten years from the issue date and can be converted into 1 ordinary share of the Company at HK$0.10 each for every HK$2 CN B at the holder's option at any time between the issue date and the maturity date subject to the anti-dilutive adjustment. The effective interest rate of the liability component of initial recognition is 11.02% per annum. Details of which were set out in the Company's announcement dated 4 June 2009. On 23 August 2010 and 1 September 2010, all of the CN B were exercised and a total number of 276,077,999 shares were issued during the six months ended 30 November 2010.

During the period from 22 December 2009 to 23 February 2010, the Company issued Hong Kong dollar denominated 3% CN C with an aggregate principal amount of HK$790 million. On 19 July 2010, the Company further issued CN C with aggregated amount of HK$52 million. The CN C has a maturity of two years from the issue date and can be converted into 1 ordinary share of the Company at HK$0.1 each for every HK$1 CN C at the holder's option at any time between the issue date and the anti-dilutive maturity date subject to the anti-dilutive adjustment. The effective interest rate of the liability component of initial recognition is 7.48% to 11.04% per annum. Details of which were set out in the Company's announcement dated 4 December 2009. On 23 August 2010, 1 September 2010 and 18 November 2010, most of the CN C were exercised and a total number of 657,000,000 shares were issued during the six months ended 30 November 2010. The CN C outstanding at 30 November 2010 is HK$50 million in principal amount.

22. CONVERTIBLE NOTES *(Continued)*

On 22 December 2009, the Company issued Hong Kong dollar denominated zero coupon convertible notes D ("CN D") with an aggregate principal amount of HK$64.4 million. The CN D has a maturity on 31 March 2010, but is extendable to 31 December 2010 upon requested by either issuer or subscriber. The note entitles the holder to convert into 1 ordinary share of the Company at HK$0.1 each for every HK$0.7 CN D at the holder's option at any time between the issue date and the maturity date subject to the anti-dilutive adjustment and the clauses stated in the agreement. The effective interest rate of the liability component of initial recognition is 9.49% per annum. Details of which were set out in the Company's announcement dated 4 December 2009. On 1 September 2010, all CN D were exercised and a total number of 92,000,000 shares were issued.

On 11 June 2010, the Company issued Hong Kong dollar denominated zero coupon optional convertible notes ("Optional CN") with an aggregate principal amount of HK$49 million. The Optional CN has a maturity of two years from the issue date and can be converted into 1 ordinary share of the Company at HK$0.1 each for every HK$1 Optional CN at the holder's option at any time between the issue date and the maturity date subject to the anti-dilutive adjustment. The effective interest rate of the liability component of initial recognition is 7.4% per annum. Details of which were set out in the Company's announcement dated 4 December 2009. On 18 August 2010 and 1 September 2010, all Optional CN were exercised and a total number of 49,000,000 shares were issued.

22. CONVERTIBLE NOTES *(Continued)*

The movement of the liability component of the convertible notes for the period is set out below:

	CN A HK$'000	CN B HK$'000	CN C HK$'000	CN D HK$'000	Optional CN HK$'000	Total HK$'000
Issue during the fourteen months ended 31 May 2010	130,602	194,163	646,793	57,441	–	1,028,999
Conversion into ordinary shares	–	–	(111,654)	–	–	(111,654)
Interest charged	6,544	9,497	25,551	2,404	–	43,996
At 31 May 2010	137,146	203,660	560,690	59,845	–	961,341
Issue during the current period	–	–	50,773	–	45,172	95,945
Conversion into ordinary shares	(140,870)	(208,894)	(583,754)	(59,845)	(45,585)	(1,038,948)
Interest charged	3,724	5,234	17,441	–	739	27,138
At 30 November 2010	–	–	45,150	–	326	45,476
Analysed for reporting purposes as:						
At 30 November 2010						
Current liabilities	–	–	1,413	–	326	1,739
Non-current liabilities	–	–	43,737	–	–	43,737
	–	–	45,150	–	326	45,476
At 31 May 2010						
Current liabilities	–	–	8,581	59,845	–	68,426
Non-current liabilities	137,146	203,660	552,109	–	–	892,915
	137,146	203,660	560,690	59,845	–	961,341

The liability component is measured at amortised cost. During the period, the interest expenses of approximately HK$27,138,000 is calculated by applying an effective interest rate ranging from 7.40% to 11.29% to the liability component.

23. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Authorised:		
Ordinary shares of HK$0.10 each:		
At 31 May 2010 and at 30 November 2010	4,000,000	400,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each:		
At 31 May 2010	698,054	69,805
Conversion of CN A *(Note a)*	110,431	11,043
Conversion of CN B *(Note b)*	276,078	27,608
Conversion of CN C *(Note c)*	657,000	65,700
Conversion of CN D *(Note d)*	92,000	9,200
Conversion of Optional CN *(Note e)*	49,000	4,900
At 30 November 2010	1,882,563	188,256

Note:

a) During the six months ended 30 November 2010, 110,431,200 new shares of the Company of HK$0.10 each were allotted on conversion of the CN A with principal amount of HK$276,078,000 at the conversion price of HK$2.5 as detailed in Note 22.

b) During the six months ended 30 November 2010, 276,077,999 new shares of the Company of HK$0.10 each were allotted on conversion of the CN B with principal amount of HK$552,155,999 at the conversion price of HK$2 as detailed in Note 22.

c) During the six months ended 30 November 2010, 657,000,000 new shares of the Company of HK$0.10 each were allotted on conversion of the CN C with principal amount of HK$657,000,000 at the conversion price of HK$1 as detailed in Note 22.

d) During the six months ended 30 November 2010, 92,000,000 new shares of the Company of HK$0.10 each were allotted on conversion of the CN D with principal amount of HK$64,400,000 at the conversion price of HK$0.7 as detailed in Note 22.

e) During the six months ended 30 November 2010, 49,000,000 new shares of the Company of HK$0.10 each were allotted on conversion of the Optional CN with principal amount of HK$49,000,000 at the conversion price of HK$1 as detailed in Note 22.

24. PLEDGED BANK DEPOSITS

At the end of the reporting period, the banking facilities of the Group were secured by the following assets:

	At 30 November 2010 HK$'000	At 31 May 2010 HK$'000
Bank deposits	**974**	896

25. COMMITMENTS

(a) Capital commitments

(i) On 22 May 2009, the Group entered into an agreement with UBNZ Trustee Limited ("Potential Vendor"), an independent third party, pursuant to which, among other things, the Group had agreed to acquire 20% of the entire issued share capital of UBNZ Assets Holdings Limited and its subsidiaries (the "VSA Target Group") and 20% of all obligations, liabilities and debts due by the VSA Target Group to the Potential Vendor. In addition, the Potential Vendor has agreed to grant to the Group a right at the consideration of HK$1 ("Share Option"), to require the Potential Vendor to sell to the Group certain option shares (representing 80% of the entire issued share capital of UBNZ Assets Holdings Limited and the outstanding debt at a consideration of NZ$400,000,000. The consideration for the 20% of the entire share capital of UBNZ AHL with NZ$100,000,000 have been satisfied by issuance of convertible notes.

Details of the acquisition are set out in the Company's announcements dated 4 June 2009, 24 June 2009, 31 July 2009, 20 August 2009, 7 September 2009, 13 November 2009, 18 February 2010 and the circular dated 8 September 2009.

Completion of the transaction is conditional upon approval of Overseas Investment Office of New Zealand. The Long Stop Date of the principal agreement has been extended to 30 September 2011.

25. COMMITMENTS *(Continued)*

(a) Capital commitments *(Continued)*

(ii) With reference to the Company's announcement dated 10 December 2009, the Company has entered into the agreement with Global Food Holdings Limited ("Global Food"), a company incorporated in Hong Kong on 16 November 2009 (the "Agreement"). Pursuant to the Agreement, (i) Global Food conditionally agreed to sell as the vendor and the Company conditionally agreed to acquire as the purchaser the production lines at a consideration of HK$26 million, which shall be settled by the allotment and issue of up to 32,500,000 shares by the Company to Global Food at an issue price of HK$0.8 per share; and (ii) Global Food conditionally agreed to grant as the licensor an exclusive license to the Company as the licensee the rights of using certain trademarks at a license fee for each 12 months of the lesser of (i) 4% of the sales turnover of dairy products and non-dairy products in the PRC conducted by the Group; and (ii) HK$20,000,000 ("Licence Fee"). The Licence Fee for the first 36 months will be settled as to HK$30,000,000 by the issue and allotment of 37,500,000 shares at an issue price of HK$0.8 per share.

Completion of the transaction is conditional upon fulfillment (or waiver) of a number of conditions including the obtaining of necessary consents and approvals from shareholders and The Stock Exchange of Hong Kong Limited.

(iii) Capital commitments contracted for but not provided in the condensed consolidated financial statements are as follows:

	At 30 November 2010 HK$'000	At 31 May 2010 HK$'000
Contracted but not provided for in respect of:		
– Acquisition of property, plant and equipment	**43,241**	18,570
– Construction in progress	**46,006**	52,581
– Services	**1,133**	–
	90,380	71,151

25. COMMITMENTS *(Continued)*

(b) Operating lease commitments

The Group as lessee

At the end of the reporting period, the Group had committed for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	At 30 November 2010 HK$'000	At 31 May 2010 HK$'000
Within one year	**8,952**	10,266
In the second to fifth year inclusive	**14,774**	18,406
Over five years	**18,390**	13,398
	42,116	42,070

Operating lease payments represent rental payable by the Group for certain of its office premises and staff quarters. Leases are negotiated for terms of one to thirteen years (31 May 2010: one to five years) with a fixed rentals.

26. CONTINGENT LIABILITIES

Litigation with Citywin

At the end of the reporting period, the Group had the following contingent liability:

	At 30 November 2010 HK$'000	At 31 May 2010 HK$'000
Performance bonus	**1,227**	1,227

On 12 June 2009, the Company announced that it received a Writ of Summons issued from the Court of First Instance of Hong Kong on 10 June 2009. Details are set out in Note 28 to this report.

27. RELATED PARTY DISCLOSURES

Compensation to directors and key management personnel of the Group:

	For the six months ended 30 November 2010 HK$'000	For the six months ended 30 September 2009 HK$'000
Directors' fee to directors' close family member	–	1,846
	–	1,846

The remuneration of directors and key executives is determined by the remuneration committee and having regard to the performance of individuals and market trends.

28. TRANSACTIONS AND PENDING LITIGATION WITH CITYWIN

During the year ended 31 March 2008, the Group entered into an acquisition agreement with Citywin Pacific Limited ("Citywin") to acquire 100% equity interest in the Qingdao Yongxinhui Mining Company Limited ("Qingdao Yongxinhui") and its subsidiaries at an aggregate consideration of HK$130,000,000 (the "Acquisition"). The consideration is to be satisfied by a cash consideration of HK$30,000,000 and issue of HK$100,000,000 convertible notes with a maturity of four years from the date of issue (the "Convertible notes").

On 7 December 2007, the Group also signed a service agreement with Citywin for provision of various services in relation to the mining business of the Group, including advice on trading and marketing of the output from the magnetite and the introduction of prospective distributors and buyers of the products after the completion of the Acquisition. On 10 June 2009, the Group received a writ of summons issued from the Court of First Instance of Hong Kong. In the writ of summons, Citywin made a claim against the Company for, among other things, the Company do forthwith apply for and obtain the approval of the Listing Committee of the Stock Exchange for listing of and permission to deal in the Conversion Shares, upon the grant of the approval, the Company do within 7 days issue in favour of Citywin the Convertible notes on the terms as provided in the sale and purchase agreement save that the same is to mature on 20 December 2012, damages, interests and costs. On 10 August 2009, the Group made defense in relation to the above writ of summons by counter claiming Citywin for certain non-performance service.

On 25 September 2009, Citywin has submitted a denied reply to the Court of First Instance of Hong Kong against the Group's defense and no further action was noted from the court since then.

29. EVENTS AFTER THE END OF THE REPORTING PERIOD

a) Pursuant to an ordinary resolution passed on 8 December 2010, the authorized share capital of the Company was increased from HK$400,000,000 to HK$800,000,000 by the creation of 4,000,000,000 additional shares of HK$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.

b) Guoyuan Dairy (Xiamen) Import and Export Company Limited which engaged in importing and selling dairy products in PRC was set up. The share capital amounting to HK$50,000,000 was issued, of which HK$20,010,000 was paid on 27 January 2011.

c) The Vendor and the Warrantor entered into the Sixth Supplemental Agreement on 31 December 2010, pursuant to which the parties mutually agree to extend the date of completion of the agreement in relation to the option to purchase 80% of the issued share capital of UBNZ AHL to 30 September 2011.

d) On 23 December 2010, the Vendor, a substantial shareholder of the Company, had transfer its 100% equity interest on UBNZ Funds to a new appointee, NZ Dairy Trustee Limited.

e) On 9 June 2010, Guoyuan Natural Dairy Products (Jiangxi) Company Limited ("Jiangxi Natural Dairy"), a wholly-owned subsidiary of the Company in the PRC, entered into a manufacturing agreement (the "Manufacturing Agreement") with UBNZ Funds Management Limited ("UBNZ Funds"), a wholly-owned subsidiary of UBNZ Trustee Limited (the "Vendor"), pursuant to which Jiangxi Natural Dairy has agreed to engage UBNZ Funds on an non-exclusive basis in respect of the manufacture of not less than 150 million packets of pasteurized Ultra Heat Treated (UHT) Milk, amounting to HK$592,200,000, to be sold by Jiangxi Natural Dairy in the PRC according to the specifications and requirements of by Jiangxi Natural Dairy. The Manufacturing Agreement has a fixed term of one year commencing from October 2010 or such later date as may be agreed by the parties.

   On 13 January 2011 upon the release of the escrow funds, through the New Zealand solicitor the Company has paid a sum of HK$131,100,000 (or equivalent to NZ$23,000,000) segregated into final deposit payment HK$15,776,812 (or equivalent to NZ$2,770,000) and partial pre-payment HK$115,221,988 (or equivalent to NZ$20,230,000), all pursuant to the Manufacturing Agreement for the initial 40 million packs of UHT milk order of total value NZ$28 million from UBNZ Funds Management Limited.

f) On 27 January 2011, a further sum HK$34,173,600 (or equivalent to NZ$6,000,000) has been paid for the NZ$28 million UHT 40 millions packs order, leaving the outstanding HK$9,912,000 (or equivalent to NZ$1,770,000). On 29 March 2011, this mentioned outstanding sum HK$9,912,000 is set-off on the prior debt arrears owned by the Vendor to the Company as final pre-payment for the said UHT 40 million packs milk order, agreed and acknowledged by both the Vendor and the Company. Therefore, the 40 millions packs UHT milk order pre-payment NZ$28 million has been fulfilled by the Company to the Vendor.

OTHER INFORMATION

REVIEW OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The audit committee has reviewed the Company's interim report. The Company's external auditor has reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 November 2010.

DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES OR DEBENTURES

As at 30 November 2010, the interests of the directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (with the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long position in the shares of the Company

Name of Director	Number of shares			Number of underlying shares held under equity derivatives	Total	Percentage of aggregate interest to total number of shares in issue %(*)
	Personal Interests	Family Interests	Corporate Interests			
Wu Neng Kun *(Note 1)*	700,000	30,000,000	–	–	30,700,000	1.631%
Graham Chin	200,000	–	–	–	200,000	0.011%
Chan Man Kuen	400,000	–	–	–	400,000	0.021%
Stephen Kerr	400,000	–	–	–	400,000	0.021%

Notes:

(1) 700,000 shares of the Company are beneficiary owned by Wu Neng Kun ("Mr. Wu"), Ms. Ruan Kang Ling, the spouse of Mr. Wu, beneficiary owns 30,000,000 shares of the Company, therefore Mr. Wu is deemed to be interested in its 30,000,000 shares of the Company.

Save as disclosed above, as at 30 November 2010, none of the directors had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

As at 30 November 2010, the share options granted by the Company under the Pre-IPO Share Options has been lapsed. The Share Option Scheme to the directors to subscribe for shares of the Company, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the company and the Stock Exchange pursuant to the Model Code is set out in the section headed "Share Option" of this report below.

Apart from the aforesaid, at no time during the period was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of share in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries or its holding companies was a party and in which the Directors had a material interest, whether directly or indirectly, subsisted at the end of the period or any time during the period.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the period, none of the Director of the Company had interest in any business apart from the Group's business which competed or was likely to compete, either directly or indirectly, with the business of the Group.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 November 2010, the interests of those persons (other than the directors) in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity in which shares were held	Number of shares	Number of underlying shares held under equity derivatives	Approximate percentage of total issued shares %(*)
UBNZ Trustee Limited *(Note 1)*	Beneficial	323,509,200		17.18%
Super Worth International Ltd *(Note 1)*	Beneficial	1,552,000		0.08%
Wong May Yan *(Note 1)*	Interest of controlled corporation	325,061,200		17.27%
Ke Xiping *(Note 2)*	Interest of controlled corporation	250,000,000	50,000,000	15.94%
Liu Haiying *(Note 2)*	Interest of controlled corporation	250,000,000	50,000,000	15.94%
Xiamen Hengxing Group Co. Ltd. *(Note 2)*	Beneficial	250,000,000	50,000,000	15.94%
Zhan King *(Note 3)*	Personal interest	113,140,000		
	Interest of spouse	79,860,000		
	Interest of controlled corporation	72,000,000		14.08%
Du Lisa *(Note 3)*	Personal interest	79,860,000		
	Interest of spouse	185,140,000		14.08%
Sky Upright Enterprises Limited *(note 3)*	Beneficial	72,000,000		3.82%
Hu Haiwen *(Note 4)*	Interest of controlled corporation	171,000,000		9.08%
High Excellent Limited *(Note 4)*	Beneficial	171,000,000		9.08%
Liu Zhen Dong *(Note 5)*	Beneficial	104,404,000		
	Interest of spouse	2,668,000		5.69%
陳湘玲*(Note 5)*	Beneficial	2,668,000		
	Interest of spouse	104,404,000		5.69%
Chen Fashu *(Note 6)*	Interest of controlled corporation	100,000,000		5.31%
新華都實業股份有限公司 *(Note 6)*	Interest of controlled corporation	100,000,000		5.31%
Hong Kong Sincere Investment Ltd *(Note 6)*	Beneficial	100,000,000		5.31%

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY *(Continued)*

Notes:

1 UBNZ Trustee Ltd. and Super Worth International Ltd. are 100% owned by Ms. Wong May Yan on behalf of other unrelated party. She is deemed to be interested in UBNZ Trustee Ltd. and Super Worth International Ltd.

2. Xiamen Hengxing Group Co. Ltd. is 99.34% owned by Ke Xiping and his spouse is Liu Haiying. Ke Xiping and Liu Haiying are deemed to be interested in the shares and underlying shares owned by Xiamen Hengxing Group Co. Ltd.

3. Sky Upright Enterprises Ltd is 100% owned by Zhan King who is the beneficial owner of 113,140,000 shares in the Company. His spouse (Lisa Du) is also the beneficial owner of 79,860,000 shares in the Company. Mr. Zhong King and Ms. Lisa Du both are deemed to be interested in the shares held by them and shares held by Sky Upright Enterprises Ltd.

4. High Excellent Limited is 100% owned by Mr. Hu Haiwen, who is deemed to be interest in the shares held by High Excellent Limited.

5. Mr. Liu Zhen Dong is beneficiary owned 104,404,000 shares in the Company and his spouse 陳湘玲 is beneficiary owned 2,668,000 shares in the Company. Both Mr. Liu Zhen Dong and 陳湘玲 are deemed to be interest in 107,072,000 shares in the Company.

6. Hong Kong Sincere Investment Ltd is 100% owned by新華都實業股份有限公司。新華都實業股份有限公司 is 75.87% owned by Mr. Chen Fashu. Therefore Mr. Chen Fashu is deemed to be interested in the shares held by Hong Kong Sincere Investment Ltd.

* The percentage has been adjusted based on the total number of shares of the Company in issue as at 30 November 2010 (i.e.1,882,563,199). All the interest stated above represented long positions and there were no short position interests recorded in the Register.

Save as disclosed above, as at 30 November 2010, the Company had not been notified of any interests and underlying shares of the Company which had been recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION

(a) Pre-IPO Share Option Scheme

On 30 March 2005, in recognition of the contributions made by employees of the Group towards its growth and success, an aggregate of 15,000,000 share options (the "Pre-IPO Share Options") of the Company was granted by the Company to, and accepted by the relevant employees prior to listing of the Company's share on the Stock Exchange. On 20 May 2005, a share option scheme (the "Share Option Scheme") was adopted by the shareholder's written resolution of the Company.

As at 30 November 2010, none of any options granted was outstanding and the scheme is lapsed.

The Listing Committee of Stock Exchange has granted the listing of, and permission to deal in the shares of the Company which may fall to be issued pursuant to the exercise of the options which granted and/or may be granted under the Pre-IPO Share Options and/or Share Option Scheme.

(b) Other Share Option Scheme

Purpose
To recognize and acknowledge the contributions that the grantees had made or may make to the Group.

Participants
Eligible participants include:

(1) any employee, director, supplier, customer, consultant, adviser, manager, officer or entity that provides research, development or other technological support of the Group or any entity in which the Group holds any equity interest ("Invested Entity"), including any executive director of the Group or any Invested Entity;

(2) a company wholly-owned by any employee, director, supplier, customer, consultant, adviser, manager, officer or entity that provides research, development or other technological support to the Group or any Invested Entity; or

(3) the trustee of any trust the beneficiary of which or an discretionary trust the discretionary objects of which include by any employee, director, supplier, customer, consultant, adviser, manager, officer or entity that provides research, development or other technological support to the Group or any Invested Entity.

SHARE OPTION *(Continued)*

(b) Other Share Option Scheme *(Continued)*

Exercise price
Determined by the Board and shall not be less than the higher of:

(1) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which the Board approves the making of the offer for the grant of option ("Date of grant"), which must be a trading day;

(2) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; and

(3) the nominal value of the share.

Maximum entitlement of each participant
Not exceeding 1% of the shares of the Company in issue in any 12-month period.

Period within which the securities must be taken up under the option
Subject to the discretion by the Board and, in the absence of which, from the date of acceptance to the earlier of the date on which such option lapses and 10 years from the date of offer.

Amount payable on acceptance
HK$1 payable upon acceptance of the offer.

Remaining life of the scheme
The scheme will be valid and effective for a period of 10 years commencing from 20 May 2005 (the "Adoption Date"), after which no further options will be granted but the provisions of the scheme shall remain in full force and effect in all other aspects. Options complying with the provisions of the Listing Rules which are granted during the duration of the scheme and remain unexercised immediately prior to the end of the ten-year period shall continue to be exercisable in accordance with their terms of grant, notwithstanding the expiry of the scheme.

(c) Movements of the Other Share Option Scheme

No share option was granted or exercised during the period. As at 30 November 2010, none of options granted was outstanding.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the six months ended 30 November 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed shares of the Company.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout for the six months ended 30 November 2010.

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Code of Corporate Governance Practices, as amended from time to time (the "Code"), as stated in Appendix 14 to the Rules of Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). As far as the Code is concerned, the Company complies with all aspects of the Code.

INTERNAL CONTROLS

The Board is responsible to ensure that there is a competent executive management which is able to run the Company in a sound and efficient manner. The Board is constantly reviewed the internal structure and to recruit experience and professional personnel to join the group.

In particular, the Board conducts appropriate internal control procedures and review risk management strategies and polices of the Company to ensure that the Company runs its business in compliance with all legal and regulatory requirements with prudence and Integrity.

The Board has engaged an outside consultant to carry out a review of procedures, systems and controls (including accounting and management systems) of certain subsidiaries of the Company which are used by the directors of the Company to assess the financial position and prospects of the Group. The consultant will deliver a report to the Board and summarizing the group significant weakness and other key findings that come to their attention, with their recommendations to the Company as appropriate.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference to set out its authority and duties. The Audit Committee comprises three members, all being independent non-executive directors of the Company.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee with written terms of reference to set out its authority and duties. The Remuneration Committee comprises three independent non-executive directors.

NOMINATION COMMITTEE

The Company has not established a Nomination Committee. The duties and functions of the Nomination Committee recommended in the Code are performed by the Board collectively with no director being involved in fixing his/her own terms of appointment and no independent non-executive director being involved in assessing his/her own independence.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers, as amended from time to time (the "Model Code"), set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors. On specific enquiries made, all directors have confirmed that they have complied with the required standard as set out in the Model Code, during the six months ended 30 November 2010.

Employees who are likely to be in possession of unpublished price sensitive information of the Company are also subject to compliance with guidelines on no less exacting terms than the Model Code.

APPROVAL OF INTERIM REPORT

The interim report and the unaudited condensed consolidated financial statements for the six months ended 30 November 2010 were reviewed by the audit committee, approved and authorised for issued by the Board on 31 March 2011.