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

(HKEx Stock Code: 00462)

(Incorporated in the Cayman Islands with limited liability)

Annual Report

2011

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wu Nengkun *(Chairman)*

Mr. Luo Ji *(Managing Director)*

Ms. Ng Yat Fung Miranda

Mr. Yao Haisheng

Mr. Zhang Hanwen

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 Nengkun

Mr. Yung Wai Tak Abraham

COMPANY SECRETARY

Mr. Yung Wai Tak Abraham

AUDITOR

ZHONGLEI (HK) CPA Company Limited

LEGAL ADVISER

In Hong Kong:

D.S.Cheung & Co., Solicitors

Wilkinson & Grist

In Cayman Islands:

Conyers Dill & Pearman, Cayman

In New Zealand:

Knight Coldicutt

CORPORATE INFORMATION

REGISTERED OFFICE

Century Yard, Cricket Square,
Hutchins Drive,
P.O. Box 2681 GT,
George Town, Grand Cayman,
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
Industrial and Commercial Bank of China (Asia) Limited

STOCK CODE

00462

COMPANY WEBSITE

http://www.naturaldairy.hk

GROUP FINANCIAL SUMMARY

RESULTS

	Year ended 31 May 2011 HK$'000	1 April 2009 to 31 May 2010 HK$'000 (restated)	Year ended 31 March 2009 HK$'000 (restated)	2008 HK$'000	2007 HK$'000
Turnover	**58,345**	59,576	63,007	89,064	297,802
Gross profit	**9,528**	2,929	13,189	18,495	31,972
Loss before income tax	**(154,260)**	(152,364)	(127,260)	(44,643)	(82,829)
Income tax (expenses) credit	**–**	–	(352)	78	(381)
Loss for the year	**(154,260)**	(152,364)	(127,612)	(44,565)	(83,210)

ASSETS AND LIABILITIES

	At 31 May 2011 HK$'000	2010 HK$'000 (restated)	At 31 March 2009 HK$'000 (restated)	2008 HK$'000	2007 HK$'000
Non-current assets	**535,952**	407,767	8,365	49,046	19,558
Current assets	**834,122**	975,326	26,136	169,841	141,287
Current Liabilities	**(118,155)**	(102,153)	(30,215)	(93,440)	(117,180)
Non-Current Liabilities	**–**	(834,932)	(473)	(121)	(230)
Equity attributable to equity shareholders of the Company	**1,251,919**	446,008	3,813	125,326	43,435

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of Natural Dairy (NZ) Holdings Limited (the "Company"), I would like to express my sincere gratitude to all the shareholders and investors for their support to the Company and its subsidiaries (the "Group"). As the chairman of the Group, I hereby present the Company 2011 annual report, which sets out the performance of the Company's operations and highlights the progress and strategies of the Company in respect of the repositioning of its dairy related products business for the year ended 31 May 2011 and foregoing development prospects.

STRATEGIC REPOSITIONING FOR THE DAIRY RELATED PRODUCTS BUSINESS

The global economy is in patchy recovery and the external environment is clouded with many uncertainties, the management has not relaxed its efforts but managed to make encouraging progress in anchoring the new dairy business for the future sustainable developments.

The Group discontinued its electronic, audio business in the Year 2009 and shifted the entire focus to the production and sales of dairy products, organic natural drinks making a key milestone in the Company's business prospects. Now, the Group has established an integrated dairy business chain comprising breeding dairy cattle, producing and processing dairy related products and selling under its proprietary brand and distribute through its own specialty stores network and provincial distributors.

During the period under review, nearly all the Groups turnover was derived from food beverage trading whereby only a single month dairy products sale was included, therefore the gross sale remains at previous trough of approximately HK$59 million. However, the Group's gross profit has leaps 2.25 times to HK$9.5 million and total equity grew significantly from HK$3.8 million (Year 2009) to HK$446.0 million (Year 2010) and HK$1251.9 million for current Year 2011.

OUR UNIQUE EDGE AND MARKET POSITIONING

The Group enjoys a unique edge over its industry peers by capitalizing itself from the world top capital market, Hong Kong Stock Exchange and sale in the most promising consumer market, China with one of the most desirable goods - premium dairy products.

As the economy of China is burgeoning in recent years, the demand for quality dairy products in the Chinese market is enormous and still growing rapidly. The news about widespread sub-standard local dairy products (such as SanLu Melamine poisoning event) uncovered in recent years serve as a strong push for consumers to seek quality imported dairy products and willingness to pay higher premium price in exchange for the food safety. In view of this, the management is of the opinion that there will be enormous growth potential for the dairy business and is confident about its on-going prospects in China.

CHAIRMAN'S STATEMENT

Upon the completion of the very substantial acquisition-1 on the Sale Shares stage in February 2010, the Group acquired 20% issued share capital of the Target Company, UBNZ Assets Holdings Limited holds and manages four dairy properties and all other production chattels, but not limited to, all such essential items to produce premium fresh milks. Transform through this acquisition, the Group controls premium dairy products supply from New Zealand selling through its self-owned specialty store network and provincial distributors in China under its proprietary brand.

CONSOLIDATING THE DAIRY BUSINESS STRUCTURE AND BUSINESS GOALS

Building on the Company's vertically-consolidated business structure, the management has formulated the aggressive development strategies and business goals for the coming year, with an ultimate aim to become a leading dairy market player in China.

It is set to possess 450 million packs (250 ml) of quality UHT fresh milk and 2,500,000 cans of infant formula milk powder from our strategic processor in New Zealand within the current and up-coming years. Further, in order to make better use of its specialty store sale network, additional kinds of dairy products mix such as blueberry, strawberry and chocolate UHT milks and innovation products likes colostrum, good night milks and infant formula for baby are expected on launchment.

SEIZING THE CHINA DAIRY MARKET OPPORTUNITY

The SanLu melamine in 2008 and numerous poison contaminated milk powder news reports have seriously devastated the China consumers' confidence on the quality of local dairy products, hence boosting enthusiastic demand for western imported dairy products with high hygiene standard and safety. Dairy products of New Zealand are widely recognized for their prestigious naturalness, purity and stringent hygiene standards which are exempted from inspection in EU countries.

Armed with deluxe dairy products source from New Zealand selling with proprietary brand through specialty store sale network in China, the management believes that the Group's products are niche in the market competitive on quality and pricing with stores opening over 24 provinces in China in the forms of partnership, direct investment or third party (provincial distributor) invested shops in the coming years ahead.

Also, the Company has secured sale arrangement with Sino-China Petroleum Group to sell and distribute our dairy products within their confectionary stores network.

STRIVE TO BECOME A LEADING DAIRY BRAND IN CHINA

According to www.redbaby.com.cn the largest online shop of baby products in China, there is a direct relationship between the pricing of baby dairy products and various factors including origin of milk, production scale and brand awareness, and thus large foreign brands are the most competitive in product pricing. By selling world premium dairy products from New Zealand in the rapidly-growing Chinese dairy market, the Group has paved the way for its future business development with tremendous potential for growth.

CHAIRMAN'S STATEMENT

DEVELOPING THE NONI BEVERAGE PRODUCTS TO ENHANCE OUR ADVANTAGES

In June 2010, the Group wholly-owned subsidiary, Guoyuan Native Dairy Products (Jiangxi) Company Limited, which has erected a 120,000m^2 factory equipped with most advance PET fully-automated production and processing facilities intends to develop more high margin dairy related products, fragmented rice wine, organic fruit juices beverage, South-Pacific specialty Noni juice drinks, whereby in natural Noni demonstrates healing and health-care qualities. The management considers that the introduction of Noni juice and fragmented rice wine, together with its dairy business in China, can create a beneficial synergy on each unit margin returns and a diversified products income.

COMMITMENT

The management is committed to create greater value for the shareholders investments by capturing greater market shares in the lucrative Chinese market through the above underlying business model and strategy to become the leading imported dairy brand in China and a pioneer in the Chinese organic fruit beverage market.

ACKNOWLEDGEMENT

Finally, I would like to express my heartfelt thanks again to our shareholders, customers and business partners for their support to the Group's reform and restructuring. I am also grateful to all the staff for their dedication and hard work, which are strong driving forces for the Group's development.

Wu Nengkun
Chairman

Hong Kong, 31 August 2011

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL AND OPERATING HIGHLIGHTS

- Revenue of the Group for the year ended 31 May 2011 was approximately HK$58.3 million, representing a decrease of HK$1.2 million (or 2%) over the period ended 31 May 2010. This is because the revenue were mainly generated from food and beverage, rice wine trading and about one month imported milk and dairy related products trading.

- Loss attribute to equity shareholders of the Company for the year ended 31 May 2011 was approximately HK$154.3 million, representing an increase approximately HK$1.9 million (or 1.2%) over the period ended 31 May 2010. Over half of the loss being HK$85.9 million was selling expenses compared with HK$28 million for the period ended 31 May 2010.

- Basic loss per share for the year ended 31 May 2011 was approximately HK9.81 cents, representing a decrease of HK19.42 cents (or 66.4%) over that of the period ended 31 May 2010.

- Equity attributable to equity shareholders increase to HK$1,251.9 million, an increase of HK$805.9 million over the period ended 31 May 2010.

FINANCIAL REVIEW

Gross Profit

During the year, the Group recorded a gross profit of HK$9.528 million, representing a quantum surge of 225% as compared with HK$2.929 million in 2010. The overall gross profit margin for the year increased to 16.3% (2010: 4.9%), primarily contributed by margin base transition of which the increased portion derived from high profit dairy related products.

As announced in September 2009 for the discontinuation of the business of Linfair Engineering (HK), the Group has commenced the liquidation procedure of Linfair and the process is in its final stage into conclusion. The Group commenced its food and beverage trading business in August 2009 and the products mainly comprised of snacks, chili sauces, dried longan, banana chips and pecan nuts, which are margin competitive. This one of the reason the Board engage in lucrative dairy related business and enhance the existing sales and distribution network in China on its own dairy brand.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative And General Expense

In 2011, as the sales of the Group has resumed to dairy related products focus, the administrative and general expenses amounted to HK$71.677 million versus HK$119.089 million in 2010, representing 1.23 times of the Group's revenue (2010: 2 times). The good savings in administrative and general expenses during the period under review mainly due to: (i) the legal, financial advisors and all related expenses incurred for the VSA-1 and VSA-3 have dwindled; (ii) more stringent control on external professional advisors engagement and costs saving in both Hong Kong and New Zealand. Engaged external professionals to assist with internal control and guidance, the current management team are more hand-on and hardworking which carrying out the internal analysis and consultation works; all so doing to avoid inefficient external consultation fees and costs; (iii) legal and professional fee to apply for Sale Shares, Option Shares sale and VSA-3 Overseas Investment Office in New Zealand has reduced down to minimum; (iv) the expensive legal fee for the resume of shares trading has achieved the same; (v) the establishment of the JiangXi production base and Noni juice, rice wine production lines were completed;

Therefore as the Group's business operations resume to be effective than previous year, the administrative and general expenses have been managed to a reasonable level.

Selling And Distribution Expense

Selling and distribution expenses amounted to HK$85.868 million, as compared to HK$2.775 million last year. The increase was mainly attributable to the initial setup cost of the distribution and promotion of dairy related products, sales network for the dairy products, food and beverage trading business in China.

The Group implemented various specified marketing campaigns to launch different products of the Group throughout the year with activities which include, but not limited to, 23 March 2011 Sichuan Chinese Wine Gala show, China, New Zealand, South Pacific Islands Dairy & Organic Food Business Forum in Shanghai on 30 July 2011. The Group has strengthened its advertising and marketing efforts to enhance customer loyalty to Natural Dairy brands. The Group has signed with CCTV-1 for the Year 2011 annual advertisement contract value to RMB140 million to promote and market its branded dairy products across China. Hence, the selling and distribution expenses to the Group's Sale revenue surges to 1.47 times than 0.05 times in 2010.

Profit From Operating Activities And Net Profit Attributable to Shareholders Of The Company

The Group's LBITDA for the year was HK$118.671 million (2010: 112.295 million), whilst the net loss attributable to shareholders of the Company was HK$154.260 million (2010: net loss of HK$152.364 million). The LBITDA and Net Loss attributable to shareholders of the Company successfully managed a turnaround, mainly due to the return to normal operations during the year. With more high margin dairy products sale, the Group's profit level would have reverted to a promising profit margin.

Segment Analysis

Details of the segment analysis of the Group are set out in Note 8 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

The total equity of the Group was approximately HK$1,251.9 million as at 31 May 2011 (31 May 2010: HK$446 million) on courtesy of those Convertible Notes investors vote their confidence to the company business by surrendering their debt interest into ordinary shares. The debt-to-equity ratio (total loans over total equity) of the Group was 0.09 times (31 May 2010: 2.10 times) and the finance cost was approximately HK$27.9 million (31 May 2010: HK$41.3 million). The interest cost burden by those convertible debt instruments have significant reduced by one third, representing approximately 47.76% of the Group's revenue (2010: 69.31%). Most important this enormous financing cost has almost come to an end as most of these debt instruments have now converted into ordinary shares.

As at 31 May 2011, the Group had current assets of approximately HK$834 million (31 May 2010: HK$975 million) and total assets (net of current liabilities) of approximately HK$1,251.9 million (31 May 2010: HK$1,280.9 million). The Group's current ratio as at 31 May 2011 was 7 times (31 May 2010: 9.5 times), showing a healthy Position and a very strong solvency. The Group had current liabilities of approximately HK$118 million (31 May 2010: HK$102 million).

As at 31 May 2011, the Group had a net asset value of approximately HK$1,251.9 million (31 May 2010: HK$446 million), comprising non-current assets of approximately HK$536 million (31 May 2010: HK$407.8 million), net current assets of approximately HK$716 million (31 May 2010: HK$873.2 million) and non-current liabilities of about HK$nil (31 May 2010: HK$834.9 million).

The Group had no interest-bearing loan as at 31 May 2011 (31 May 2010: nil). The Group's total liabilities divided by total assets as at 31 May 2011 was 0.09 times (31 May 2010: 0.68 times).

As shown in this report, there was a significant improvement of the Group's balance sheet stability and solvency test results, which was attributable to the conversion of most of convertible notes in August and September 2010.

The conversion exercise of these Convertible debts have underpinned the Group's balance sheet stability and solvency consideration broaden the shareholder and capital base of the Group, which cornerstone the Group's for future successful fund raising activity.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group finances its operations through a combination of shareholders equity and internally generated cash flows. As at 31 May 2011, the Group had cash and cash equivalents and pledged deposits of approximately HK$125 million (31 May 2010: HK$45 million).

For the year ended 31 May 2011, the Group's net cash inflow from capital fund raising activities amounted to HK$101 million (31 May 2010: HK$553.6 million). Net cash balances (cash and bank balances net of total bank loans) was HK$123.5 million (31 May 2010: HK$43.7 million) as at 31 May 2011, and Funds in escrow and trust account was HK$69,000 (31 May 2010: HK$351.2 million) as at 31 May 2011; indicating that the Group had a very strong cash reserve, robust financial position and health cash flow.

PLEDGE OF ASSETS

As at 31 May 2011, the operating lease of office premise located in New Zealand was secured by a bank deposit of the Group of approximately HK$1.1 million (31 May 2010: HK$0.9 million).

FOREIGN EXCHANGE EXPOSURE

The Group's principal production facilities are located in the PRC whilst most of its sales are denominated in Renminbi. Most of the purchases of raw materials are denominated in Renminbi and New Zealand Dollars. Furthermore, most of the Group's monetary assets and liabilities are denominated in Renminbi, New Zealand Dollars, United States Dollars and Hong Kong Dollars.

As such, management is aware of the potential foreign currency risk that may arise for the fluctuation of exchange rates between Renminbi, New Zealand Dollars, United States Dollars and Hong Kong Dollars.

Although the foreign exchange risk is not considered to be significant, management will continue to evaluate the Group's foreign currency exposure and take actions as appropriate to minimize the Group's exposure whenever necessary.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Group are set out in note 38 and 42 to the consolidated financial statements.

Litigation with Citywin, the amount on claim is considered to be highly disputable, of which HK$69 million is used for setting off the respective balances due, and the remaining is non-payable on non-performance according to the sale contract. Most important, the plaintiff claims has on suspension for over 2 years without further actions or reliable documentation supplied to the court by the plaintiff.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS

1) Various contractual arrangements with distribution sale target of HK$231.4m with 17 regional retailers and sale arrangement with Sino-China Petroleum Group are addition to our previously announced five provincial Distributors and approximately 44 Concept stores on renovation owned by the Company.

2) Pursuant to HKEX conditional Listing Approval dated 04 December 2009 for the Company to issue seven years zero-coupon CN-B in aggregate of 683,643,750 new shares of the company at exercise price HK$2.00 each and ten years zero-coupon CN-A in aggregate of 412,585,000 new shares of the company at exercise price HK$2.50, all for the designated purpose as payment instrument to complete the VSA-1 acquisition.

   Pursuant to the valuation report dated 26 August 2011 issued by LCH, independent qualified professional valuer, the fair value of CN-A and CN-B were HK$332,078,011 and HK$338,194,751 accordingly, therefore their total fair value was HK$670,272,762 as at 22 May 2009.

   As per the above Note 30 disclosure the partial sum 276,077,999 shares of CN-B has been issued to the Vendor as consideration in exchange to complete the 20% Sale Shares acquisition of the VSA-1. And the concern issuance 110,431,200 shares of CN-A has been issued and converted into ordinary shares as "deposit" substitution for the remaining Option Shares sale of the VSA-1 acquisition. Non cash or any banks borrowing proceed are used to complete the acquisition.

   As per the Circular dated 8 September 2009, prescribed consideration payment methods, the Company intends to use the remaining CN-B issuance in 407,565,751 and CN-A issuance 302,153,800 as consideration in exchange to settle the remaining 80% Option Shares sale of the VSA-1; no cash is intended for the acquisition.

Details of the other capital commitments of the Group are set out in note 39(a) to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 31 May 2011, the Group had a staff force of approximately 517 employees. The remuneration of employee 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. The total staff costs incurred for the year ended 31 May 2011 was approximately HK$42,574,000 (31 May 2010: HK$20,118,000).

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Options") on 30 March 2005 and a share option scheme (the "Share Option Scheme") on 20 May 2005, for the purposes of providing incentives and rewards to eligible participants who have contributed to the success of our operations. Details of the share option scheme are set out in the directors' report and note 32 to consolidated financial statements.

OPERATION REVIEW

Market Prospects

The China dairy industry experienced a full recovery and growth in 2010. The China dairy product industry continue to implement stringent quality control procedures in concert with national laws and regulations and strived to ensure the safety of dairy products in long run. As a result, consumer confidence was retrieved and enhanced while consumer sentiment towards dairy products rapidly resumed. With aim to achieve the GDP growth target of 8% in medium terms, the Chinese Government implemented policies to stimulate domestic consumption, and successfully spurred a more prosperous consumer goods sector, thus contributing to further expansion of the China dairy market. China has now become the world's largest consumer market of dairy products, providing an unprecedented opportunity for China dairy product enterprise. Despite recent anti-inflation monetary measures adopted by the Chinese Government to cool down the over-heating economy, the China domestic consumer market still over-shine others lukewarm western markets.

Since the recent July Shanghai inception, the Group aims to become a prime representative of the China Dairy industry. The Company has been committed to providing high-end quality and functional products and has implemented target marketing campaigns, spearhead the drive towards top Chinese dairy company.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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. With the urbanization in the PRC and the growth towards a medium-sized developed economy, the demand for nutritious dairy products will have a spacious room for improvement. In 2010, the sales of dairy products in China exceeded RMB250 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 upward price revision of 10%-20% in China early this year.

In light of the above market situation, the management believes that dairy products from New Zealand, which are renowned for its product safety and quality, along with our introduction of vertical value chain in production and sales, will provide the Group with an incomparable competitive edge in the market.

By virtue of a stable, pure and reliable raw milk supply, the Group with strategic alliance with the New Zealand UBNZ group, despite a single month dairy sale, has recorded a respectful results on the year revenue. The dairy expertise and marketing insights of its highly committed management team, the Group's market position was further consolidated. The Group's dairy products aim to rank on the top roster on revenue and sale price quartile on the statistics of China Industrial Information Issuing Centre under the National Bureau Of Statistics of China. The Group will not compete on sale volume alike many local China dairy enterprises, instead we position ourselves as an exclusive premium brand dairy retailer.

The year saw key shareholders join forces with the Group, adding momentum for future business development. In February 2010, the Group succeeded in gaining capital injection from Xiamen tycoon KeXiPing, renown as one of the tycoons in Xiamen, and SingHuato equity investment Limited, an investment arm of Fujian richest man a no.11 place on China Riches list. These transaction not only enhances the Group's shareholding structure, also allows greater strategic thinking inputs, but also enables the Group to accelerate the integration of supply chains (New Zealand), internationalize food safety monitoring systems and strategically utilize global resources, delivering a significant boost to the Group's presence in domestic and Southeast Asia markets in future.

MANAGEMENT DISCUSSION AND ANALYSIS

Products

During the year under the review, the Group continued to focus on the development of various premium dairy products including the signing of the Manufacturing Agreement (the "MU Agreement") with the UBNZ Funds Management Limited. A series of deluxe products incorporating exclusive attributes with high quality and high enjoyment have been developed, but not limited to, such as pure UHT milk, UHT sleep-well milk, Colostrum milk, UHT Strawberry milk, UHT Blueberry milk and UHT Chocolate milk. These series have undergone integration of daily nutrients, vitamins and new taste, were added to cater for the taste preference of the PRC consumers to enhance market penetration. The "*Sleep-well*" series developed by the Group to aid digestion and intestinal absorption, low-lactose was the signature functional milk. The debut of these UHT products would expect to ratify post-launch sales performance in upcoming periods.

Also, the high-margin infant formula series such as Colostrum, 6-12 months, 12-24 months and 24 months above are developed. The Group's efforts is devoted to lead the imported exclusive dairy products trend and fill the market gap. These deluxe products aim to meet the vitality needs of infants in their earliest stage of growth. The Group's marketing activities are to ride on the recent aroused PRC consumers' awareness of dairy quality and safety advantage on the children health concern by the PRC parents. The Group's target to develop a *Chinese Nourishment* series guided by the concept of "*Good Nourishment. Good Growth*" relies on the purity, unpolluted New Zealand raw fresh milks, which blends the nutrition and taste set to become a new standard recognizable by PRC consumer on their conventional meals table. These deluxe infant formula products were to provide the PRC babies with the optimal nutrition ration for healthy growth of mental and sight organs as well as physical development, and has also fulfilled the parents expectation of synchronous development in both intelligence and emotion.

The international model Ms. Gaile Lai was invited to be the brand ambassador of the Company's dairy products and meet the preferences of the target consumer group to pursue elegance and promotion activities.

Quality Control

The Group was established on adhering to strict quality control standards, and is committed to establishing and maintaining a long term and comprehensive manufacturing control system from the strategic supplier, UBNZ Funds Management Limited, so as to fulfill its commitment of assuring stringent control and accountability in every stage of production for every pack of milk and thereby not only delivering good taste but also ensuring the utmost safety for its products. The supplier have obtained certifications from five key safety regimes: Ministry of Agriculture & Forestry registered Dairy Exporter (Official Identification:3044825), New Zealand Food Safety Authority Risk Management Programme (Identifier: NZDPL2/01), and on advise the supplier will apply for ISO9001 (quality management system) certification. Earning these New Zealand and international certifications underline the guarantee quality of the Group's dairy products. Also consumer can go online to the Company's website to explore the operating procedures in work area online so to understand Natural Dairy's Modern production base.

MANAGEMENT DISCUSSION AND ANALYSIS

The establishment of the Group's JiangXi state-of-the-art PET production base is in response to various provisions in China's 11th Five-Year plan. The Group strived to collaborate with UBNZ R&D team with technology yet to be developed within China for deluxe dairy products. The group's initiatives have laid a solid foundation for innovative product development demonstrating Natural Dairy's philosophy of enhancing the quality of life through science and technology.

Branding And Marketing

During the year, the Group's dairy products are introduced under a registered brand "*eSweet*", and implemented a series of brand value enhancing and product marketing campaigns to reinforce consumers' concerns on nutrition and health. Responding to the slogan theme of "**Let all China people enjoy 100% New Zealand Deluxe Milks**", the Group has launched a series of advertisements, specifically focusing on four aspects, namely quality raw milk supply, quality production, quality control, quality research and development. The CCTV, Phoenix TV and other provincial advertisement series showed the efforts made by the Group to provide premium dairy products to consumers, thereby enhancing the reputation of Natural Dairy and the "*eSweet*" brand. Through the different dimensions and various aspects of its brand marketing activities, Natural Dairy's brand value will greatly be boosted in the upcoming year.

Joint Ventures And Alliances

Apart from the strategic alliance with UBNZ group in New Zealand, the Group has also established partnership with leading enterprises within a variety of industries such as PingAn group and Sinopec. The synergies have been demonstrated the expanded distribution channels and enriched distribution methodology. Currently, the Group intends to co-operate with a variety of sectors including banks, hotels, theatres, fastfood chains, airlines and railways. Most notably, the Group has entered into a collaboration agreement with PingAn Insurance, achieving the enviable position as the Natural Dairy products are exclusively insured on quality within its designated lifespan.

Farming on a Fonterra certified farmland leveraging on such advantages of technology and resource provided to farmers by Fonterra, the breeding skills and regular release of epidemic prevention schemes to dairy farmers, making joint efforts for a better and healthy development of the industry.

The recent China, New Zealand, South Pacific Islands Dairy & Organic Food Business Forum, the Company took early steps in advancing environmental protection to pursue a sustainable business growth to achieve green GDP, but strived to reduce damages to the environment by cows droppings, fermented urine and methane fluids. The New Zealand environment regulations are very stringent on the organic fertilizer usage and irrigating the ranches, all so to offer a sustainable harmonious eco-dairy cycle.

MANAGEMENT DISCUSSION AND ANALYSIS

LATEST STATUS OF ACQUISITIONS

VSA-1: Acquisition of UBNZ AHL issued share capital and its dairy business

As announced on 22 May 2009, the Group intended to acquire the Target Company, UBNZ Assets Holdings Limited ("UBNZ AHL") and its dairy business to produce quality UHT milks and other dairy products in New Zealand. The UBNZ AHL shall possess and farming 28,398 cows on proposed dairying properties up to approximately 8,674 hectares (approximately 130,110 mu). These farms are Fonterra certified. The proposed farms are mainly located in the middle highland area in the central of North Island of New Zealand. The region is well-known for its clean grassland and born for dairy farming business. UBNZ AHL shall exhibit a valuation of NZ$300m or more and deliver a promissory profit return of NZ$35m in the next 12-month period after completion.

On 10 February 2010, the Group has completed the stage of Sale Shares acquisition which holds UBNZ AHL 20% equity stake, since then, the Company is officially set foot on the New Zealand dairy production arena.

As the time the acquisition was signed, and after the 20% share sale completion, the Group was still constraint of cash, and managed to issue the zero coupon rate Convertible Notes designated at high premium exercise price to exchange of acquire 100% equity stake of the Target Company, UBNZ AHL.

The issuance CN-A and CN-B are supposed to be used for the completion of the VSA-1 acquisition had been assessed by the registered independent valuer LCH (Asia-Pacific) Surveyors Limited, as at the date of the VSA-1 Agreement signed 22 May 2009, the trench of CN-A instruments "fair value" is determined as HK$332,078,011 and the trench of CN-B instruments "fair value" being HK$338,194,751; pursuing on the last seven trading days share price.

As said, the Consideration of the VSA-1 was satisfied by the issuing of the CN-A, CN-B and no cash proceeds, the "fair value" used in exchange completing the VSA-1 acquisition on the Target Company was HK$670,272,762.

After New Zealand OIO declined the Group's application to acquire the UBNZ AHL which was in relation to the farms purchase by UBNZ AHL last December. The Group then discussed with the vendor and extended the Long Stop Date to 30 September 2011. Recently, the Company and the Vendor agree to continue with the acquisition of the remaining 80% of share capital of the UBNZ AHL before the Long Stop Date. The acquisition will be completed on the basis that the Target company will continue to deliver the assets at the promised value prior to the completion. The Company will announce further development in the regard.

MANAGEMENT DISCUSSION AND ANALYSIS

VSA-2: Acquisition of the production lines and the license of "eSweet", "綠得" and other trademarks

As announced on 10 December 2009, the Group intended to acquire the production lines and the license of "eSweet", "綠得" and other trademarks of Global Food Holdings Limited ("Global Food"). Global Food, a beverage and sweet rice congee manufacturer, owns "eSweet", "綠得" and other trademarks with 20 years of history and its sweet rice congee products enjoys nationwide popularity. The acquisition will enable the Group to introduce a sales platform for its dairy and non-dairy beverage products and strengthen the vertical business consolidation, in particular the commencement of nationwide branding.

As announced on 31 May 2010, the Group has applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rules 14.48, 14.38A and 14A.69 of the Listing Rules in order to further extend the dispatch date of the relevant circular. In view of the fact that the Group needs more time to finalize the relevant circular, the Group announced on 30 June 2011 that the dispatch of the circular is further delayed to on or before 31 December 2011.

VSA-3: Acquisition of additional farming capacity with more cattle and milk powder production plants

As announced on 23 March 2010, the Group intended to access additional farm lands, livestock and milk powder production plants in New Zealand for the purpose of conducting dairy business in New Zealand.

The Group considers the aforesaid acquisition as a very substantial acquisition and, therefore, made a request for the suspension of trading in its shares to the Stock Exchange in respect of such acquisition on 12 February 2010. However, pursuant to the letter dated 7 May 2010 from the Listing Division of the Stock Exchange to the Company, the Listing Committee ruled that the VSA-3 would constitute a reverse takeover under Rule 16.06(6) of the Listing Rules and the VSA-3 would be treated as if it were a new listing application under Rule 14.54 of the Listing Rules. The Company disagreed and therefore requested for a review of the Listing Committee's decision by the Listing (Review) Committee pursuant to Rule 2B.06(2) of the Listing Rules (the "Review"). Subsequently, a hearing by the Listing (Review) Committee was scheduled to be held on 31 August 2010 after various extensions of the hearing dates. However, after considering the pros and cons of continuing the hearing vs. early resumption of trading of the Company's shares while renegotiating the terms of VSA-3 to facilitate the approval by the Stock Exchange, the Company believed that it would be in the best interests of the Company and its shareholders to terminate the VSA-3 Agreement at this stage so as to permit early resumption of trading in the shares while retaining the right to renegotiate and restructure the proposed VSA-3 transaction with the vendor to facilitate the approval by the Stock Exchange. Accordingly, the Company has also decided to terminate the application for VSA-3 and withdrawn its request for the Review.

MANAGEMENT DISCUSSION AND ANALYSIS

ChengDe Sanjin Equity Transfer

As per the 26 July 2010 Company announcement, based on the PRC legal opinions, the Company has considered the Chengde Sanjin Equity Transfer to be unauthorized, invalid, fraudulent and unlawful. The Company appointed PRC solicitors to act on behalf of the plaintiff, Beijing Jinlunduo Resources Limited (the sole legal shareholder of Qingdao Yongxinhui Mining Company Limited ("Qingdao Yongxinhui"), and Qingdao Yongxinhui is the sole legal shareholder of Chengde Sanjin); has successfully lodged an accepted application to the Hebei provincial High Court (the "High Court") on 03 May 2011. The defendants are: 劉劍平, 上海邁卡爾得工貿有限公司, 孫毅, 席作祥, 楊西銘, 左利華, 李昌, 靳玉琦. The above mentioned writ applied to the High Court to grant the reverse of all the transfer of shares contracts in relation to Chengde Sanjin executed by the above mentioned defendants to be invalid and unlawful, it further demanded the eight defendants to return the transferred equities and all associated assets back to the plaintiff, or to compensate the plaintiff RMB109,179,474.58 monetary damages.

Retrospective Restatement of the PRC Mining group

During the review period, the PRC Mining group owning the Tengfei and Gangzicun Donggou Magnetite mines has been restated from the Group consolidated financial statement. On the fact that now the ownership shareholding hierarchy of the PRC mining subsidiaries have been distorted and in absence of an imminent court judgment to ascertain the final ownership of PRC mining subsidiary Chengde Sanjin and the corresponding mining exploration rights.

The Board has decided 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 ChengDe SanJin, it is inappropriate to consolidate ChengDe SanJin and hence, the PRC Mining group has been restated. In so doing, a more accurate and complete consolidated financial statement of the Group in 2011 could be presented to investors.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

In 2009, the resilience of China's dairy industry validated the effectiveness of policies aimed at the revival of the industry adopted by the Chinese government and verified the achievements attained by dairy enterprises within China. The statutory regulation initiatives such as the "Dairy Product Industrial Policies and "Regulations for Standardization Management on Raw Milk Collection Centres" promulgated by the central government during the year encompass a wide spectrum of industry procedures, including raw milk supply, technical equipment, quality and safety, as well as consumption and transportation.

These actions had further strengthened industry regulation while promoted integration of the industry, and therefore provided a useful framework for the sound development of China dairy industry. And all these pose a market gap for Natural Dairy premium imported dairy products to flourish.

The management viewed the three business related VSAs made by the Group during the period as a strategic development. By carrying out VSA-1 and VSA-2, so that the Group can establish a premium milk production base on our purpose designed Concept Stores and distribution network for the Group's dairy business while VSA-3 will enable the Group to achieve better economies of scale and enhance its operation synergies as a whole.

Despite the termination of the VSA-3 Agreement, the Company will continue to pursue business opportunities in the dairy sector, including but not limited to investing in dairy farming with high quality cattle and sourcing specific dairy products in New Zealand and/or entering into supply agreements with dairy product processing plants directly or indirectly through local agents or processors so as to secure supply of premium tailored-made dairy products. The Company may also continue the renegotiation and restructuring of any acquisitions or cooperation plans with UBNZ group to the extent in compliance with the Listing Rules on connected party transaction.

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 deluxe New Zealand dairy products into China will enhance our retail Concept Stores network investment value. Further, the JiangXi production base supplement with organic foods and beverages to the Concept Stores network so to underpin the revenue sustainability and broaden the products base.

DIRECTORS' BIOGRAPHY

EXECUTIVE DIRECTORS

Mr. Wu Nengkun ("Mr. Wu"), aged 28, the chairman and executive director of the Company, graduated from Fujian Normal University with Bachelor Degree in Laws. In 2004, Mr. Wu worked as vice-president at an investment company in Shanghai and was responsible for dealing with and advising on all legal and corporate affairs. In 2008, Mr. Wu acted as legal representative and deputy general manager in a real estate development company in Fujian. Mr. Wu possesses professional knowledge and experience in dealing with and advising on all legal and corporate affairs relating to the Mainland China. He is currently the director of a wholly-owned subsidiary (Guoyuan Native Dairy Products (Jiangxi) Company Limited).

Mr. Luo Ji ("Mr. Luo"), aged 47, has over 20 years of experience of working in the government of the People's Republic of China and has assumed various senior management positions. Mr. Luo studied management and graduated from Nan Jing Politian University in the People's Republic of China.

Ms. Ng Yat Fung Miranda ("Ms. Ng"), the executive director and Chief Financial Officer of the Company, aged 44, graduated from the University of Manchester with Master's Degree in Business Administration and is a fellow member of the Hong Kong Institute of Certified Public Accountants. She is CPA Practising in Hong Kong. Ms. Ng has over 20 years of auditing and financial management experience. Ms. Ng left one of the big four audit firms in Hong Kong as an audit manager in 1998 because she was invited as a Financial Controller with a listed company. She has worked in Shanghai, USA and Canada as a Chief Financial Officer for more than 5 years. Prior to joining the Company, she acted as a Chief Financial Officer in a USA listed company for 3 years.

Mr. Yao Haisheng ("Mr. Yao"), aged 42, has extensive experience in sales and marketing. Prior to joining the Company, Mr. Yao had worked as Marketing consultant and sales manager in various multinational companies, including Caltex in the People's Republic of China. He received his Certificate from the Shanghai Jiao Hua Technical College（上海焦化廠技術專科學校）.

Mr. Zhang Hanwen ("Mr. Zhang"), aged 27, has management experience in operating fast food chain store in United Kingdom. He received his master degree in management from Lancaster University in the United Kingdom and his bachelor degree in management from University of Southampton in the United Kingdom.

DIRECTORS' BIOGRAPHY

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Stephen Bryden Kerr ("Mr. Kerr"), aged 58, an independent non-executive director and a member of audit and remuneration committees of the Company, graduated from the Strathclyde University with a bachelor degree in accounting and economics in 1974. Mr. Kerr has been a C.A. member of the Institute of Chartered Accountants of Scotland since 1977. Mr. Kerr has extensive experience in the field of accounting and finance. Mr. Kerr worked as an assistant manager in Price Waterhouse Coopers from 1977 to 1980, as a manager in Enserch Corporation, which is a U.S. Oil & Gas Co., from 1981 to 1987 and as research manager in Morgan Grenfell (Asia) Limited from 1987 to 1990. Mr. Kerr was the group finance and commercial director of the Aquarius Group from 1990 to 2003. Mr. Kerr has been a director of AFL Limited, which is engaged in the freight and transportation business since 2004. There are no service contract entered into between the Company and Mr. Kerr. Mr. Kerr has been appointed for a specific term but is subject to retirement and re-election of the next annual meeting of the Company (thereafter retirement by rotation) pursuant to the by-laws of the Company.

Mr. Sze Cheung Hung ("Mr. Sze"), aged 46, an independent non-executive director and a member of the audit and remuneration committee of the Company, has over 12 years of experience in banking industry. Mr. Sze is a consultant of Huafeng Group Holdings Limited (stock code: 00364). Mr. Sze holds a bachelor degree in business administration. There are no service contract entered into between the Company and Mr. Sze. Mr. Sze has been appointed for a specified term but is subject to retirement and re-election at the next annual meeting of the Company (thereafter retirement by rotation) pursuant to the bylaws of the Company.

Ms. Chan Man Kuen Laura ("Ms. Chan"), aged 38, an independent non-executive director and a member of the audit and the chairman of the remuneration committee of the Company, holds a bachelor degree in law. Ms. Chan has over 11 years of experience in corporate administration. There are no service contract entered into between the Company and Ms. Chan. Ms. Chan has been appointed for a specified term but is subject to retirement and re-election at the next annual meeting of the Company (thereafter retirement by rotation) pursuant to the bylaws of the Company.

DIRECTORS' REPORT

The Board of the Company is pleased to present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 May 2011.

PRINCIPAL ACTIVITIES

As at 31 May 2011, the Company acts as an investment holding company. The principal activities of its subsidiaries as at 31 May 2011 are set out in note 44 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the period are set out in the consolidated statement of comprehensive income on page 40 to 41.

The directors do not recommend the payment of a final dividend for the year ended 31 May 2011 (31 May 2010: nil).

SHARE CAPITAL

Details of the movements in the issued share capital of the Company during the year are set out in note 31 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in consolidated statement of changes in equity.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the period are set out in note 20 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's largest customer and the five largest customers taken together accounted for approximately 42.8% and 83.7% of the aggregate of Group's total turnover for the year.

During the year, the aggregate purchases attributable to the Group's one supplier is 51% aggregate of Group's total purchases for the year.

DIRECTORS' REPORT

DIRECTORS

The directors who held office of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Wu Nengkun (appointed on 11 August 2010 and re-designated to chairman on 27 September 2010)

Mr. Luo Ji (appointed on 4 January 2010)

Ms. Ng Yat Fung Miranda (appointed on 11 August 2010)

Mr. Yao Haisheng (appointed on 24 September 2010)

Mr. Zhang Hanwen (appointed on 24 September 2010)

Mr. Graham Chin (appointed on 14 September 2009 and retired on 8 December 2010)

Mr. Yan Feng (appointed on 4 January 2010 and retired on 8 December 2010)

Mr. Yip Kean Mun (appointed as joint chairman and re-designated as chairman on 25 January 2010 and resigned on 24 September 2010)

Mr. Ng Chun Ming (appointed on 4 January 2010 and resigned on 24 September 2010)

Independent Non-executive Directors:

Mr. Stephen Bryden Kerr

Mr. Sze Cheung Hung

Ms. Chan Man Kuen Laura

BIOGRAPHICAL DETAILS OF THE DIRECTORS

The biographical details of the current directors are set out on page 21 to 22 of this annual report.

DIRECTORS' SERVICE CONTRACTS AND ROTATION

Mr. Stephen Byden Kerr, Mr. Sze Cheung Hung and Ms. Chan Man Kuen Laura have entered into directors' service contract with the Company for a term of one year commencing from 1 January 2011, and shall be continued thereafter subject to rotation.

In accordance with the provisions of the Company's articles of association, Mr. Wu Nengkun, Mr. Luo Ji, Ms. Ng Yat Fung Miranda, Mr. Yao Haisheng, Mr. Zhang Hanwen will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Other than disclosed above, none of the directors has entered or has proposed to enter into any service contract with the company or any of its subsidiaries which is not expiring or determinable by the employing company within one year without payment of compensation other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS' EMOLUMENTS

Details of directors' emoluments on a named basis are set out in note 18 to the consolidated financial statements.

ANNUAL CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The company had received confirmation from each of the independent non-executive directors of their independence pursuant to rule 3.13 of the rules governing the listing of securities on the Stock Exchange (the "Listing Rules") and the Board considered all independent non-executive directors are independent.

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 businesses which competed or was likely to compete, either directly or indirectly, with the businesses of the Group.

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 at any time during the period.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 31 May 2011, the number of outstanding option shares granted by the Company under the Pre-IPO Share Options has been lapsed 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 and set out in Note 32 to the financial statement.

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' REPORT

DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31 May 2011, 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:

	Number of shares					
Name of director	Personal interests	Family interest	Corporate interests	Number of underlying shares held under equity derivatives	Total	Percentage of aggregate interest to total number of shares in issue %(*)
Wu Nengkun (Note 1)	700,000	30,000,000	–	–	30,700,000	1.631%
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 Nengkun ("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 30,700,000 shares of the Company.

Save as disclosed above, as at 31 May 2011, 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' REPORT

SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 May 2011, the interest of those persons (other than the directors of the Company) 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%
Xiamen Hengxing Group Co. Ltd. (Note 2)	Beneficial	250,000,000	50,000,000	15.94%
Sky Upright Enterprises Limited (Note 3)	Beneficial	72,000,000		3.82%
Zhan King (Note 3)	Personal interest	113,140,000		6.01％
Du Lisa (Note 3)	Personal interest	79,860,000		4.19%
High Excellent Limited (Note 4)	Beneficial	171,000,000		9.08%
Liu Zhen Dong (Note 5)	Personal Interest	104,404,000		5.54%
陳湘玲(Note 5)	Personal Interest	2,668,000		0.14%
Hong Kong Sincere Investment Ltd (Note 6)	Beneficial	100,000,000		5.31%

Notes:

1 UBNZ Trustee Ltd. and Super Worth International Ltd. are 100% owned by Ms. Wang May Yan on behalf of other unrelated party. She is deemed to be interested in UBNZ Trustee Ltd. and Super Worth International Ltd., of which deemed owned 7.27% of the issued shares of the Company.

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. Ke Xiping and Liu Haiying jointly owned 15.94% of the issued shares of the Company.

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. Zhan 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. Zhan King and Lisa Du jointly owned 14.08% of the issued shares of the Company.

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. Hu Haiwen owned 9.08% of the issued shares of the Company.

DIRECTORS' REPORT

5. Mr. Liu Zhen Dong is personally owned 104,404,000 shares in the Company and his spouse 陳湘玲 is personally 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. Liu Zhen Dong and 陳湘玲 jointly owned 5.69% of the issued shares of 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. Chen Fashu owned 5.31% of the issued shares of the Company.

* The percentage has been adjusted based on the total number of shares of the Company in issue as at 31 May 2011 (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 31 May 2011, 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.

PUBLIC FLOAT

Based on the information that is publicly available to the Company from the Listing Date and up to the date of this report and within the knowledge of the directors, there was sufficiency of public float of the Company's securities as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive right under the Company's Bye-Laws or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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 31 May 2011, 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.

DIRECTORS' REPORT

(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.

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.

DIRECTORS' REPORT

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 year. As at 31 May 2011, none of options granted was outstanding.

CONNECTED TRANSACTION

The on-going MU Agreement with continuous connected transaction (CCT) concern such execution will be in accordance to the Company dated 20 June 2011 announcement prescribed compliance framework.

Information on other connected transaction is set out in Note 41 of "Notes to Consolidated Financial Statements".

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

DIRECTORS' REPORT

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules, during the period under review. Having made specific enquiry of all directors, the directors have complied with the required standard set out in the Model Code.

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on page 32 to 37 of this Annual Report.

EVENT AFTER THE END OF THE REPORTING PERIOD

The Company has secured various contractual arrangements with distribution sale target of HK$231.4m with 17 regional retailers on New Zealand UHT milk packs, e-Sweet diary related products, infant formula milk powder, to spread into PRC 17 local supermarket chains.

Details of the other significant post balance sheet events are set out in note 45 to the consolidated financial statements.

AUDITOR

Morison Heng Certified Public Accountants, who acted as auditor for last year resigned as auditor of the Company on 16 March 2011. ZHONGLEI (HK) CPA Company Limited were appointed on 17 March 2011 to fill the casual vacancy.

The consolidated financial statements for the year were audited by ZHONGLEI (HK) CPA Company Limited who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Wu Nengkun
Chairman

31 August 2011

CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining high standards of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, maintin high standards of accountability and protect interests of shareholders and other stakeholders.

The Company has plans to improve the compliance with corporate governance practices, the key features include (a) the engagement of an independent third party, Zenith Risk Management Advisory Limited, to review and give recommendations on internal control system and corporate governance; (b) the appointment of a full time Company Secretary and experienced staffs to monitor the executive director training, daily aspects of the Company's corporate governance and regulatory compliance, (c) the appointment of additional experienced staffs to review investment decisions, prepare announcements and circulars, to assist in preparing contracts, and to compile with the Listing Rules, Codes of Takeovers and Mergers and Share Repurchases, and (d) the engagement of regular lawyers and financial advisors.

(A) CODE OF BEST PRACTICE AND CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code of Corporate Governance Practices (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"), which has been revised and the amendments became effective on 1 January 2009. As far as the Code is concerned, the Company complies with all aspects of the Code:

(B) MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules of the Stock Exchange. The Company had made specific enquiry of all directors regarding any non-compliance with the Model code during the year, and they all confirmed that they had fully complied with the required standard set out in the Model Code.

In addition, the Company had adopted provisions of the Model Code as written guidelines for relevant employees (as defined in provision A.5.4 of Appendix 14 to the Listing Rules) in respect of their dealings in the securities of the Company. Such relevant employees shall abide by the provisions of the Model Code.

In consideration of the new amendments to the Model Code (the "Amendments"), which became effective on the 1st quarter of 2009, the Board has revised its Model Code corresponding to the Amendments.

CORPORATE GOVERNANCE REPORT

(C) BOARD OF DIRECTORS

Responsibility of the Board

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 also responsible for establishing the Company's business strategies and plans from time to time to ensure that the operations of the Company are conducted effectively.

The Board is responsible for preparation of the financial statements. In preparing the financial statements, the generally accepted accounting principles in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, reasonable and prudent judgments and estimates have been made.

The Board with the help of external consultant also conducts appropriate internal control procedures and reviews risk management strategies and policies of the Company to ensure that the Company runs its business in compliance with all legal and regulatory requirements with prudence and integrity.

Mr. Wu Nengkun is the Chairman of the Board and the Executive Director. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively. The chairman is responsible for the Group's business development and management.

Each executive director is delegated individual authority and responsibility to oversee and monitor the operations of a specific business unit, and to implement the strategies and policies set out by the Board. The independent non-executive directors provide independent opinion and share their knowledge and experiences with the other members of the Board, audit committee and remuneration committee.

Compositions

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent opinion.

The directors who held office up to the date of this report were:

Executive Directors:

Mr. Wu Nengkun
Mr. Luo Ji
Ms. Ng Yat Fung Miranda
Mr. Yao Haisheng
Mr. Zhang Hanwen

Independent Non-executive Directors:

Mr. Stephen Bryden Kerr
Mr. Sze Cheung Hung
Ms. Chan Man Kuen Laura

CORPORATE GOVERNANCE REPORT

Number of meetings held and attendance

The Board normally has four scheduled meetings a year and meets at other times as and when required to review financial and internal control, risk management, company strategy and operating performance of the group. During the period ended 31 May 2011, a total number of 58 Board meetings, 3 audit committee meetings and 1 remuneration committee meeting were held.

The individual attendance records of each director, on a named basis, at the meetings of the Board, audit committee and remuneration committee during the period ended 31 May 2011 were set out below:

	Attendance/Number of Meetings entitled to attend		
Name of Directors	Board	Audit Committee	Remuneration Committee
Mr. Wu Nengkun	46/51	–	–
Mr. Luo Ji	49/58	–	–
Ms. Ng Yat Fung Miranda	38/51	–	–
Mr. Yao Haisheng	31/38	–	–
Mr. Zhang Hanwen	31/38	–	–
Mr. Sze Cheung Hung	26/34	3/3	1/1
Ms. Chan Man Kuen Laura	26/34	3/3	1/1
Mr. Stephen Bryden Kerr	14/34	3/3	1/1
Mr. Graham Chin	14/39	–	–
Mr. Yan Feng	15/39	–	–
Mr. Yip Kean Mun	7/8	–	–
Mr. Ng Chun Ming	4/8	–	–

Annual confirmation from independent non-executive directors

The Company had received, from each independent non-executive director, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Board considers all the independent non-executive directors are independent.

Terms of independent non-executive directors

Under the Code Provisions A.4.1, independent non-executive director should be appointed for a specific term and every Director should be subject to retirement by rotation at least once every three years and being eligible, offer themselves re-election at the forthcoming annual general meeting.

The existing three independent directors of the Company each was appointed for a term of three years commencing from 10 June 2006 and 14 March 2009 respectively. There are specific terms for the appointment of the other two appointed directors.

CORPORATE GOVERNANCE REPORT

(D) REMUNERATION COMMITTEE

The remuneration committee has been established. It currently consists of three independent non-executive directors of the Company namely, Mr. Stephen Bryden Kerr, Mr. Sze Cheung Hung and Ms. Chan Man Kuen Laura.

The responsibilities of our remuneration committee are:

1. To make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management;

2. To have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management;

3. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

4. To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office;

5. To review and approve compensation arrangements relating to dismissal or removal of directors; and

6. To ensure that no director or any his associate is involved in deciding his own remuneration.

The Company had adopted written terms of reference for the remuneration committee, which clearly defined the role, authority and function of the remuneration committee.

The remuneration committee meets at least once a year to determine the remuneration policy for the directors and senior management. During the year ended 31 May 2011, a total number of 1 meeting was held to determine the remuneration policy for the directors and/or senior management. The attendance records of the remuneration committee, on a named basis, are set out under section of "Number of Meetings Held and Attendance" on page 34 of this report.

The remuneration packages of the Board for the year ended 31 May 2011 had been reviewed by the remuneration committee and approved by the board by taking into consideration factors such as salaries paid by comparable companies, time commitment, responsibility, market conditions elsewhere in the Group and desirability of performance-based remuneration.

CORPORATE GOVERNANCE REPORT

(E) 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.

(F) AUDIT COMMITTEE

The audit committee has been established. It currently consists of three independent non-executive directors namely Mr. Stephen Bryden Kerr, Mr. Sze Cheung Hung and Ms. Chan Man Kuen Laura.

The audit committee meets at least twice a year to review and approve the group's financial reporting process and internal control system. During the year 31 May 2011, a total number of 3 meetings were held. The attendance records of the audit committee, on a named basis, are set out under section of "Number of Meetings Held and Attendance" on page 34 of this annual report.

The Company has adopted written terms of reference for the audit committee, which clearly defined the roles, authority and function of the audit committee.

The audit committee acknowledged the new amendments to the terms of reference of the audit committee under the Listing Rules in relation to, inter alias, abolishment of the requirement of appointment of qualified accountants and the amendments to the terms of reference of the audit committee and thereafter appropriate actions have been taken by the Board and the audit committee accordingly.

The main responsibilities for the audit committee are:

1. To review the accounting principles and practices adopted by the Group;

2. To review the financial reporting process and internal control system of the Group; and

3. To review the independence and objectivity of the external auditors, the scope of audit services and related audit fees payable to the external auditors.

The audit committee has reviewed the independence and objectivity of the external auditors, the scope of audit services and related audit fees payable to the external auditors for the Board's approval. The audit committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed the auditing, internal controls and financial reporting matters including the review of the Group's audited result for the year ended 31 May 2011.

The chairman of the audit committee, Mr. Stephen Kerr, possesses relevant financial management expertise and meets the requirements of rule 3.21 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

Auditor's remuneration

During the period, the remuneration paid to the external auditors, was set out below:

	2011	2010
	HK$'000	HK$'000
Nature of services		
Audit	700	1,200
Non-audit services*	983	300
	1,683	1,500

* The non-audit services included an interim review engagement amounted to HK$500,000 by ZHONGLEI (HK) CPA Company Limited.

(G) INTERNAL CONTROL

The Board has, through the audit committee, conducted interim and annual review of the effectiveness of the internal control system of the Group covering the financial, operational, procedural compliance and risk management functions. The internal control system is designed to provide reasonable, but not absolute, assurance of no material misstatement or loss and to manage rather than eliminate risks of failure in operational system and achievements of the Group's objectives.

In order to improve the internal control, the Company has engaged Zenith Risk Management Advisory Limited at Hong Kong to perform a review of the procedures, systems and controls for the Company. Zenith completed the Internal Control Review Report for the Company on 19 July 2011. The report contains findings, recommendations and management responses in four areas: (1) Internal Control System Evaluation under Coso Framework, (2) Internal Control System Evaluation by Business Cycles, (3) Compliance with Corporate Governance Practices, and (4) Internal Control System Issues Raised by External Auditor.

The report has identified some deficiencies and made relevant recommendations and the Company has improved the Company's internal system based on these recommendations. Furthermore, the Company has implemented an ongoing internal control improvement plan by engaging Zenith Risk Management Advisory Limited for the next three years.

(H) COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognizes the importance of good communications with all shareholders. Extensive information on the Company's activities is provided in the annual and interim reports of the Company which are sent to shareholders of the Company regularly. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The chairman of the Board, the chairman of the audit committee and remuneration committee are present to answer shareholders' questions.

INDEPENDENT AUDITOR'S REPORT

中磊（香港）會計師事務所有限公司
ZHONGLEI (HK) CPA Company Limited

TO THE SHAREHOLDERS OF
NATURAL DAIRY (NZ) HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Natural Dairy (NZ) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 40 to 126, which comprise the consolidated statement of financial position as at 31 May 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BASIS FOR QUALIFIED OPINION

Scope limitation on opening balances and corresponding figures

The auditor's opinion on the consolidated financial statements of the Group for the period ended 31 May 2010, which formed the basis for the corresponding figures presented in the current year's consolidated financial statements, was qualified by the preceding auditor because of the significance of the possible effect of the limitations on the scope of the audit including (i) the recoverability of available-for-sale investment; and (ii) the recoverability of other receivables, deposits and prepayments. Details of the above mentioned qualified audit opinions were set

INDEPENDENT AUDITOR'S REPORT

out in the independent auditor's report dated 29 October 2010 issued by the preceding auditor and included in the Company's annual report for the period from 1 April 2009 to 31 May 2010. Therefore the comparative amounts show on the consolidated financial statements may not be comparable with the amount for the current year.

In addition, as depicted in Note 2b to the consolidated financial statements, during the year ended 31 March 2008, the Group entered into an acquisition agreement with Citywin Pacific Limited to acquire 100% equity interest in Qingdao Yongxinhui Mining Company Limited ("Qingdao Yongxinhui") at an aggregate consideration of HK$130,000,000 (the "Acquisition"). However, after due and careful enquiries and clarifications by the directors of the Company, it was noted that the Group had not yet obtained any financial and operating controls over Qingdao Yongxinhui and its subsidiaries (the "Mining Group"), including the representation in the board of directors of Qingdao Yongxinhui and its operating subsidiaries. Accordingly, the directors of the Company considered that the Group should not consolidate the results, assets and liabilities of the Mining Group in the annual results of the Group as at 31 March 2009, 31 May 2010 and 31 May 2011 as the Group had no controls in the Mining Group under Hong Kong Accounting Standards 27 (Revised) "Consolidated and Separate Financial Statements". The directors of the Company made retrospective restatements ("Restatements") in relation to the Group's investments in the Mining Group. As a result of Restatements, the corresponding figures for the year ended 31 March 2009 and for the period from 1 April 2009 to 31 May 2010 were restated.

Any adjustments found to be necessary in respect of the matters set out above would have a significant and consequential effect on the consolidated financial position of the Group as at 31 March 2009, 31 May 2010 and 31 May 2011, the results and cash flows for the year ended 31 March 2009, the period from 1 April 2009 to 31 May 2010 and the year ended 31 May 2011 and the related disclosures thereof in the consolidated financial statements.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion, except for any adjustments to the figures as described in the basis for qualified of opinion above might have been determined to be necessary had them been able to obtain sufficient evidence, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 May 2011 and of the Group's results and cash flows for the year ended 31 May 2011 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ZHONGLEI (HK) CPA COMPANY LIMITED
Certified Public Accountants (Practising)
Chan Chi Kei, Ronald
Practising Certificate Number: P04255
Suites 216-218, 2/F Shui On Centre,
6-8 Harbour Road, Wanchai
Hong Kong

31 August 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 May 2011

	Notes	1.6.2010 to 31.5.2011 HK$'000	1.4.2009 to 31.5.2010 HK$'000 (restated)
Continuing operations			
Revenue	8	58,345	59,576
Cost of sales		(48,817)	(56,647)
Gross profit		9,528	2,929
Other income	9	21,627	692
Selling and distribution expenses		(85,868)	(2,775)
General and administrative expenses		(71,677)	(119,089)
Written off of property, plant and equipment		–	(56)
Gain on deconsolidation of a subsidiary	10	–	2,350
Gain on liquidation of subsidiaries	11	–	4,877
Finance costs	13	(27,870)	(41,292)
Loss before taxation		(154,260)	(152,364)
Income tax	14	–	–
Loss for the year/period from continuing operations		(154,260)	(152,364)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 May 2011

	Notes	1.6.2010 to 31.5.2011 HK$'000	1.4.2009 to 31.5.2010 HK$'000 (restated)
Discontinued operations			
Loss for the year/period from discontinued operations	12	–	(4,169)
Loss for the year/period	15	(154,260)	(156,533)
Other comprehensive (expenses)/income			
Exchange difference arising on translation of foreign operations		(11,213)	255
Total comprehensive expenses for the year/period attributable to owners of the Company		(165,473)	(156,278)
Dividends	16	–	–
Loss per share	17		
From continuing and discontinued operations			
Basic		(9.81) HK cents	(29.23) HK cents
Diluted		N/A	N/A
From continuing operations			
Basic		(9.81) HK cents	(28.45) HK cents
Diluted		N/A	N/A
From discontinued operations			
Basic		N/A	(0.78) HK cents
Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 May 2011

	Notes	31.5.2011 HK$'000	31.5.2010 HK$'000 (restated)	31.3.2009 HK$'000 (restated)
Non-current assets				
Available-for-sale investment	19	367,198	367,198	–
Property, plant and equipment	20	167,735	33,451	7,606
Prepaid lease payments		–	–	759
Intangible assets	21	1,019	–	–
Deposit paid for acquisition of property, plant and equipment		–	7,118	–
		535,952	407,767	8,365
Current assets				
Inventories	22	39,408	–	502
Prepaid lease payments		–	–	20
Trade receivables	23	67,407	34,090	3,065
Other receivables, deposits and prepayments	24	602,682	545,502	10,647
Tax recoverable		–	–	515
Funds in escrow and trust accounts	25	69	351,175	–
Pledged bank deposits	26	1,066	896	1,250
Bank balances and cash	26	123,490	43,663	10,137
		834,122	975,326	26,136
Current liabilities				
Trade payables	27	1,373	26,937	18,578
Other payables and accrued charges	28	71,572	15,371	11,637
Convertible notes	30	45,210	59,845	–
		118,155	102,153	30,215
Net current assets/(liabilities)		715,967	873,173	(4,079)
Total assets less current liabilities		1,251,919	1,280,940	4,286

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 May 2011

	Notes	31.5.2011 HK$'000	31.5.2010 HK$'000 (restated)	31.3.2009 HK$'000 (restated)
Capital and reserves				
Share capital	31	**188,256**	69,805	42,133
Reserves		**1,063,663**	376,203	(38,320)
Total equity		**1,251,919**	446,008	3,813
Non-current liabilities				
Deferred taxation	29	–	–	473
Convertible notes	30	–	834,932	–
		–	834,932	473
		1,251,919	1,280,940	4,286

The consolidated financial statements on pages 40 to 126 were approved and authorised for issue by the board of directors on 31 August 2011.

Wu Nengkun
Executive Director

Yao Haisheng
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2011

	Share capital (Note 31) HK$'000	Share premium HK$'000	Merger reserve (Note a) 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 (restated)	42,133	195,275	(14,990)	4,006	–	2,953	(225,564)	3,813
Loss for the period	–	–	–	–	–	–	(156,533)	(156,533)
Other comprehensive income	–	–	–	–	–	255	–	255
Total comprehensive expenses for the period	–	–	–	–	–	255	(156,533)	(156,278)
Equity settled share-based payment	–	–	–	14,146	–	–	–	14,146
Shares issued under share option scheme (Note b)	166	913	–	–	–	–	–	1,079
Shares issued under share option scheme (Note c)	2,610	7,233	–	(2,483)	–	–	–	7,360
Shares issued under share option scheme (Note d)	2,970	35,530	–	(14,146)	–	–	–	24,354
Shares issued under warrant agreement (Note e)	8,426	19,380	–	–	–	–	–	27,806
Convertible notes equity component (Note f)	–	–	–	–	410,694	–	–	410,694
Shares issued upon conversion of convertible notes (Note g)	13,500	115,257	–	–	(17,103)	–	–	111,654
Reserve released upon lapse of share option	–	–	–	(1,523)	–	–	1,523	–
Reserve released upon liquidation of subsidiaries	–	–	–	–	–	3,771	–	3,771
Reserve released upon deconsolidation of subsidiaries	–	–	–	–	–	(2,407)	–	(2,407)
Reserve release upon disposal of a subsidiary	–	–	–	–	–	16	–	16
At 31 May 2010 and 1 June 2010 (restated)	69,805	373,588	(14,990)	–	393,591	4,588	(380,574)	446,008
Loss for the year	–	–	–	–	–	–	(154,260)	(154,260)
Other comprehensive expenses	–	–	–	–	–	(11,213)	–	(11,213)
Total comprehensive expenses for the year	–	–	–	–	–	(11,213)	(154,260)	(165,473)
Convertible notes equity component (Note h)	–	–	–	–	10,484	–	–	10,484
Share issued upon conversion of convertible notes (Note g)	118,451	1,240,197	–	–	(397,748)	–	–	960,900
At 31 May 2011	188,256	1,613,785	(14,990)	–	6,327	(6,625)	(534,834)	1,251,919

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2011

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 fourteen months ended 31 May 2010, an aggregate of 1,660,000 new shares of the Company were issued at the exercise price of HK$0.65 pursuant to the Pre-IPO share options scheme.

(c) During the fourteen months ended 31 May 2010, an aggregate of 26,100,000 new shares of the Company were issued at the exercise price of HK$0.282 pursuant to the share options scheme.

(d) During the fourteen months ended 31 May 2010, an aggregate of 29,700,000 new shares of the Company were issued at the exercise price of HK$0.82 pursuant to share options scheme.

(e) During the fourteen months ended 31 May 2010, an aggregate of 84,260,000 new shares of the Company were issued at the exercise price of HK$0.30 with subscription price of HK$0.03 pursuant to the warrants issued on 15 April 2009.

(f) During the fourteen months ended 31 May 2010, the Company had issued convertible notes A of HK$209,966,000, convertible notes B of HK$367,198,000, convertible notes C of HK$790,000,000 and convertible notes D of HK$64,400,000.

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

(h) During the year, the Company had issued optional convertible notes of HK$49,000,000 and convertible notes C of HK$52,000,000.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 May 2011

	1.6.2010 to 31.5.2011 HK$'000	1.4.2009 to 31.5.2010 HK$'000 (restated)
Cash flow from operating activities		
Loss before taxation		
Continuing operations	(154,260)	(152,364)
Discontinued operations	–	(4,169)
	(154,260)	(156,533)
Adjustments for:		
Bank interest income	(13,912)	(117)
Depreciation of property, plant and equipment	7,843	2,940
Equity-settled share-based payment	–	14,146
Finance costs	27,870	41,292
Gain on deconsolidation of subsidiaries	–	(2,350)
Gain on liquidation of subsidiaries	–	(4,877)
Impairment loss in respect of inventories	1,220	–
Impairment loss in respect of other receivables	–	85
Loss on disposal of property, plant and equipment	524	104
Loss on disposal of a subsidiary	–	72
Release of prepaid lease payments	–	6
Written off of property, plant and equipment	–	56
Written back of impairment loss in respect of trade receivables	–	(1,285)
Operating loss before working capital changes	(130,715)	(106,461)
Increase in inventories	(40,628)	–
Increase in trade receivables	(33,317)	(32,020)
Increase in other receivables, deposits and prepayments	(57,180)	(18,922)
(Decrease)/increase in trade payables	(25,574)	27,326
Increase in other payables and accrued charges	49,148	4,165
Cash used in operations	(238,266)	(125,912)
Tax paid	–	(15)
Net cash used in operating activities	(238,266)	(125,927)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 May 2011

	Notes	1.6.2010 to 31.5.2011 HK$'000	1.4.2009 to 31.5.2010 HK$'000 (restated)
Investing activities			
Decrease/(increase) in funds in escrow and trust accounts		351,106	(351,175)
Purchases of property, plant and equipment		(130,284)	(33,918)
Deposit paid for property, plant and equipment		–	(7,118)
Increase in pledged bank deposits		(170)	(896)
Proceeds from disposal of property, plant and equipment		–	220
Interest received		13,912	117
Cash outflow arising from liquidation of subsidiaries	11	–	(1,625)
Cash outflow arising from deconsolidation of a subsidiary	10	–	(57)
Cash outflow arising from disposal of a subsidiary	43	–	(12)
Cash outflow arising from acquisition of subsidiaries	34	(1,009)	–
Net cash from/(used in) investing activities		233,555	(394,464)
Financing activities			
Proceeds from issue of convertible notes		101,000	854,400
Issuing cost of convertible notes		–	(47,186)
Proceeds from issue of shares upon exercise of share options		–	32,793
Proceeds from issue of shares upon exercise of warrants		–	27,806
Advance to the vendor		–	(314,168)
Net cash from financing activities		101,000	553,645
Net increase in cash and cash equivalents		96,289	33,254
Cash and cash equivalents at beginning of the year/period		43,663	10,137
Effect of foreign exchange rate changes		(16,462)	272
Cash and cash equivalents at end of the year/period representing bank balances and cash		123,490	43,663

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

1. GENERAL

Natural Dairy (NZ) Holdings Limited (the "Company") is a 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 & beverage and dairy related products; and (ii) manufacturing and sales of beverage and dairy related products.

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

2. BASIS OF PREPARATION

(a) Change of financial year end date

On 25 March 2010, the Company announced that the financial year end date of the Company has been changed from 31 March to 31 May (the "Change"). The board of directors of the Company (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. The Change has resulted in the consolidated financial statements for year ended 31 May 2011 covering a period of 12 months while the comparative amounts for the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes for the period from 1 April 2009 to 31 May 2010 cover a 14-month period, and therefore they may not be comparable.

(b) Restatement on Group 2009 and 2010 in respect to the Mining Group

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 Qingdao Yongxinhui Mining Company Limited ("Qingdao Yongxinhui") 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 bonds with a maturity of four years from the date of issue (the "Convertible Bonds"). During the year ended 31 March 2008, cash consideration of HK$30,000,000 has been fully paid by the Group as the deposits for the Acquisition. Qingdao Yongxinhui and its subsidiaries, Chengde City Sanjin Mining Company Limited ("Chengde Sanjin") and Chengde City Shenlong Mining Company Limited ("Shenlong Mining") (collectively referred to as the "Mining Group") are engaged in production and sales of iron ore.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

2. BASIS OF PREPARATION *(continued)*

(b) Restatement on Group 2009 and 2010 in respect to the Mining Group *(continued)*

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. The directors entrusted Citywin to act in good faith for the agreed services and all necessary procedures in assisting the Group to obtain the financial and operating controls of the Mining Group, which are to be properly carried out and performed for the purpose of 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 and Citywin since then.

According to the Company announcement dated 29 August 2010:

"As the sole legal shareholder of Qingdao Yongxinhui, Beijing Jinlunduo Resources was taking steps to restructure Qingdao Yongxinhui and its subsidiaries, including change of the legal representative of Qingdao Yongxinhui to the Company's Executive Director, Mr. Luo Ji, and thus ultimately change the legal representatives of its subsidiaries, namely, Chengde Sanjin and Shenlong Mining. However, the latest investigation conducted by PRC Legal Advisers on 26 July, 2010 revealed that Ms. Zuo (a former director and employee of the Company) and Mr. Li Chang（李昌）(the former legal representative of Qingdao Yongxinhui), had filed an application with the local State Administration for Industry and Commerce in the Shuangqiao District of the City of Chengde（承德市雙橋區工商行政管理局）(the "SAIC Chengde") in late May 2010 to transfer 90% of equity interest in Chengde Sanjin to LIU Jianping, a third party unrelated to the Company, and subsequently the names of the equity owners of Chengde Sanjin appeared on the records of the SAIC Chengde became Liu Jianping (holding 90%), and Ms. Zuo (holding 10%). Also, the Board understands that the 10% equity interest held under the name of Ms. Zuo was intended to be held in trust for the benefits of the Group and the Company will pursue its legal rights and remedies to try to recover such equity interest from Ms. Zuo."

During the year ended 31 May 2011, Beijing Jinlunduo Resources Limited (the "Plaintiff"), a subsidiary of the Company and an intermediate holding company of Chengde Sanjin, has filed a writ to HeBei Provincial High Court (the "High Court"). As stated in the writ, the Plaintiff apply i) to reverse all of the transfer of shares in Chengde Sanjin which executed by the defendants (including 劉劍平, 上海邁卡爾得工貿有限公司, 孫毅, 席作祥, 楊西銘, 左利華, 李昌 and 靳玉琦 collectively known as the "Defendants") previously; and ii) the Defendants to return the equity and all associated assets of Chengde Sanjin to the Plaintiff, or to compensate the Plaintiff of RMB109,179,474.58 as a monetary damages. That writ had been accepted by the High Court on 3 May 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

2. BASIS OF PREPARATION *(continued)*

(b) Restatement on Group 2009 and 2010 in respect to the PRC Mining Group *(continued)*

After reassessment of the facts and circumstances up to 31 May 2011 and the date on which these financial statements are approved by the directors, as the Convertible Bonds are still not yet issued, the directors consider that the conditions for completion of the Acquisition were not yet fulfilled as at 31 May 2011. In addition, after due and careful enquiries and clarifications by the directors of the Company, it was noted that the Group had not yet obtained any financial and operating controls over the Mining Group, including the representation in the board of directors of Qingdao Yongxinhui and its operating subsidiaries. Accordingly, the directors of the Company considered that the Group should not consolidate the results, assets and liabilities of the Mining Group in the annual results of the Group as at 31 March 2009, 31 May 2010 and 31 May 2011 as the Group had no controls in the Mining Group under Hong Kong Accounting Standards 27 (Revised) "Consolidated and Separate Financial Statements". The directors of the Company made retrospective restatements ("Restatements") in relation to the Group's investments in the Mining Group. As a result of Restatements, the corresponding figures for the year ended 31 March 2009 and for the period from 1 April 2009 to 31 May 2010 were restated.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and revised Standards and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

Except as described below, the adoption of the new and revised Standards, Interpretations and Amendments in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKAS 27 (Revised) – "Consolidated and separate financial statements"

HKFRS 3 (Revised), 'Business Combinations', and consequential amendments to HKAS 27, 'Consolidated and Separate Financial Statements' and HKAS 28, 'Investments in Associates', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised Standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

HKAS 27 (Revised) requires the effects of all transactions with non-controlling interest to be recorded in equity if there is no change in control and these transactions with no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The revised Standard was applied to all acquisitions during the year. For step acquisition, it requires goodwill to be determined only at the date control is obtained rather than at the previous stages. The determination of goodwill includes the previously held equity interest to be adjusted to fair value, with any gain or loss recorded in the consolidated income statement, which previously would have been included in the consideration for the business combination. Previously, only proportionate share of net assets is allowed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised Standards and Interpretations issued but not yet effective

The Group has not early applied the following new or revised Standards, Interpretations and Amendments that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 7 (Amendments)	Disclosures-Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 27 (as revised in 2011)	Separate Financial Statement[4]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[4]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] Amendments that are effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

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

[3] Effective for accounting periods beginning on or after 1 July 2011.

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

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

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

The directors of the Company anticipate that the application of these new and revised Standards, Interpretations and Amendment will have no material impact on the consolidated financial statements by reference to an analysis of the financial instrument of the Group as at 31 May 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations

Acquisitions of business are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 Financial Instruments: Recognition and Measurement, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of. Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

Sale of goods is recognised upon transfer of the significant risks and rewards of ownership to customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Commission, handling and service income are recognized when the services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Other interest income is recognised on a time-proportion basis using the effective interest method.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Investments in subsidiaries are included in the Company's statement of financial position at cost less identified impairment loss. Income from investments in subsidiaries is accounted for on the basis of dividends received and receivable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purpose (other than properties under construction as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	4%
Leasehold improvement	20%
Machinery and equipment	10% – 20%
Office equipment	20%
Computer equipment	20%
Furniture and fixtures	20%
Motor vehicles	20%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purpose are carried at cost, less any recognized impairment loss, Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Licence right

Separately acquired licences are shown at historical cost. Licences acquired in a business combination are recognised at fair value at the acquisition date. No amortisation is needed for licences with indefinite useful life.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognized as an expenses on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies translation *(continued)*

(b) Transactions and balances (continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs and short-term employee benefits

(a) Retirement benefit costs

The Group operates a defined contribution retirement benefits scheme (the Mandatory Provident Fund ("MPF") under the MPF Schemes Ordinance, for all of its employees who are eligible to participate in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in the retirement benefits schemes (the "PRC RB Schemes") operated by the respective local municipal government in provinces of the PRC that the Group's subsidiaries operate. These subsidiaries are required to contribute a certain percentage of their payroll costs to the PRC RB Schemes to fund the benefits. Contributions under the PRC RB Schemes are charged to the statement of comprehensive income as they become payable in accordance with the rule of the PRC RB Schemes.

(b) Short-term employee benefits

Employees' entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liabilities for annual leave as a result of services rendered by employees up to the end of the reporting period.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their values are appraised at the grant date and exclude the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is ultimately recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are reallocated to share capital with any excess being recorded as share premium.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

The Group's financial assets are mainly classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, deposits and prepayments, funds in escrow and trust accounts, pledged bank deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve until the financial asset is disposed of or determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy in respect of impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy in respect of impairment loss on financial assets below).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation, or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit of loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investment, impairment losses are subsequently reversed through profit and loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payment through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial liability.

Interest expense is recognised on an effective interest basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Convertible notes

Convertible notes issued by the Company that contain both the liability and conversion option components are classified separately into the respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible notes equity reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in the convertible notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible notes equity reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Other financial liabilities

Other financial liabilities including trade payables, and other payables and accrued charges are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when, and only when, the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives its significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that the individual in their dealings with the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the Directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Estimated useful lives and impairment loss for property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. The estimation of useful lives that the Group places the property, plant and equipment into productive use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each assets or group of assets and the fair value of each assets or group of assets less cost to sell. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated statement of comprehensive income.

Impairment of available-for-sale financial assets

For available-for-sale financial assets, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgment is required when determining whether a decline in fair value has been significant and/or prolonged. In making this judgment, the historical data on market volatility as well as the price of the specific investment are taken into account. The Group also takes into account other factors, such as industry and sector performance and financial information regarding the issuer/investee.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Impairment loss in respect of trade and other receivables

Impairment loss recognised in respect of trade and other receivables is made when there is objective evidence of impairment and is based on an assessment of the recoverability of trade and other receivables. Where the future discounted cash flow of trade and other receivables is different from the carrying amount, such difference represents allowance for doubtful debts recognised as expense in the consolidated statement of comprehensive income.

Impairment loss in respect of inventories

The management of the Group reviews an aging analysis at each end of the reporting period, and identifies the slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. In addition, the Group carries out an inventory review on a product-by-product basis at each end of the reporting period and makes allowance for obsolete items.

Equity-settled share-based payments

The fair value of the share options granted to the directors, employees and consultants determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Group's share options reserve. In assessing the fair value of the share options, the generally accepted option pricing models were used to calculate the fair value of the share options. The option pricing models require the input of subjective assumptions, including the expected dividend yield and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior period.

The Group is not subject to any externally imposed capital requirements. The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and risks associated with each class of capital. The Group will balance its overall capital structure through payment of dividends and new share issues.

7. FINANCIAL INSTRUMENTS

(i) Categories of financial instruments

	31.5.2011 HK$'000	31.5.2010 HK$'000 (restated)
Financial assets		
Loans and receivables	420,509	965,099
Available-for-sale investment	367,198	367,198
	787,707	1,332,297
Financial liabilities		
Amortised cost	118,155	937,085

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

7. FINANCIAL INSTRUMENTS *(continued)*

(ii) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale financial assets, trade receivables, other receivables, deposits, funds in escrow and trust accounts, pledged bank deposits, bank balances and cash, trade payables, other payables and accrued charges and liability component of convertible notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group is exposed to foreign currency risk primarily through capital expenditures, investment, bank balances, funds in trust and escrow account that are denominated in a currency other than the functional currency of the operations to which they relates. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of reporting period are as follows:

	Assets		Liabilities	
	31.5.2011 HK$'000	31.5.2010 HK$'000 (restated)	**31.5.2011 HK$'000**	31.5.2010 HK$'000 (restated)
New Zealand dollars ("NZD")	**208,905**	351,175	–	–
Renminbi ("RMB")	–	–	–	–
United States dollars ("USD")	**367**	–	–	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

7. FINANCIAL INSTRUMENTS *(continued)*

(ii) Financial risk management objectives and policies *(continued)*

Currency risk (continued)

The following table details the Group's sensitivity to a 10% increase and decrease in functional currency of respective group entities against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their transaction at the year end for a 10% change in foreign currency rates. The strengthening of functional currency of respective group entities against the relevant foreign currencies by 10% will give rise to the following impact on loss after tax, and vice versa:

	31.5.2011 HK$'000	31.5.2010 HK$'000 (restated)
NZD Impact	17,444	29,323
RMB Impact	–	–
USD Impact	26	–

Interest rate risk

The Group exposed to cash flow interest rate risk to pledge bank deposits and bank balance carried at prevailing market rate. However, such exposure is minimal to the Group as they are short term in nature.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 May 2011 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk on liquid funds is limited because the majority of the counter-parties are banks with high credit ratings assigned by international credit-rating agencies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

7. FINANCIAL INSTRUMENTS *(continued)*

(ii) Financial risk management objectives and policies *(continued)*

Liquidity risk

In the management of liquidity risk, the directors monitor and maintain a level of bank balances deemed adequate to finance the Group's operations, investment opportunities and expected expansion. The Group finances its working capital requirements mainly by the funds generated from operations and from fund raising activities such as issuance of convertible notes.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flow and the earliest date that Group can be required to pay.

At 31 May 2011

	Weighted average interest rate	Carrying amount	Total contractual undiscounted cash flows	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	–	1,373	1,373	1,373	–	–
Other payables and accrued charges	–	71,572	71,572	71,572	–	–
Convertible notes	3%	45,210	50,000	50,000	–	–
		118,155	122,945	122,945	–	–

At 31 May 2010

	Weighted average interest rate	Carrying amount	Total contractual undiscounted cash flows	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	–	26,937	26,937	26,937	–	–
Other payables and accrued charges	–	15,371	15,371	15,371	–	–
Convertible notes	3%	894,777	1,547,634	64,400	655,000	828,234
		937,085	1,589,942	106,708	655,000	828,234

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

7. FINANCIAL INSTRUMENTS *(continued)*

(ii) Financial risk management objectives and policies *(continued)*

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximated their fair values.

8. REVENUE AND SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or provided.

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

- Trading of food & beverage and dairy related products

- Manufacturing and sales of beverage and dairy related products

An operating regarding provision of engineering systems contracting services and sale of consumables and spare parts was discontinued in the prior period. The segment information reported below does not include any amounts for these discontinued operations, which are described in more detail in Note 12.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

Continuing operations

For the year ended 31.5.2011	Trading of food & beverage and dairy related products HK$'000	Manufacturing and sales of beverage and dairy related products HK$'000	Total HK$'000
Revenue			
Segment revenue	73,781	52,320	126,101
Inter-segment revenue	(24,815)	(42,941)	(67,756)
External sales	48,966	9,379	58,345
Segment results	(51,270)	(76,510)	(127,780)
Bank interest income			13,912
Unallocated corporate income			7,715
Unallocated corporate expenses			(20,237)
Finance cost			(27,870)
Loss before taxation from continuing operations			(154,260)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

Continuing operations *(continued)*

For the period ended 31.5.2010	Trading of food & beverage related products HK$'000 (restated)	Manufacturing and sales of beverage related products HK$'000 (restated)	Total HK$'000 (restated)
Revenue			
External sales	59,576	–	59,576
Segment results	(16,557)	(4,306)	(20,863)
Bank interest income			116
Gain on deconsolidation of subsidiaries			2,350
Gain on liquidation of subsidiaries			4,877
Unallocated corporate income			520
Unallocated corporate expenses			(98,072)
Finance cost			(41,292)
Loss before taxation from continuing operations			(152,364)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 4. Segment loss represents the loss from each segment without allocation of bank interest income and financial cost. This is the measure reported to the chief decision maker for the purpose of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

Continuing operations

At 31.5.2011	Trading of food & beverage and dairy related products HK$'000	Manufacturing and sales of beverage and dairy related products HK$'000	Total HK$'000
ASSETS			
Segment assets	292,649	215,879	508,528
Unallocated corporate assets			861,546
Consolidated assets			1,370,074
LIABILITIES			
Segment liabilities	32,198	18,962	51,160
Unallocated corporate liabilities			66,995
Consolidated liabilities			118,155

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

Continuing operations (continued)

At 31.5.2010	Trading of food & beverage related products HK$'000	Manufacturing and sales of beverage related products HK$'000	Total HK$'000 (restated)
ASSETS			
Segment assets	51,447	28,461	79,908
Unallocated corporate assets			1,303,185
Consolidated assets			1,383,093
LIABILITIES			
Segment liabilities	27,395	2,285	29,680
Unallocated corporate liabilities			907,405
Consolidated liabilities			937,085

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets other than unallocated assets (mainly comprising other receivable, deposits and prepayments and bank balance and cash) are allocated to reportable segments; and
- all liabilities other than unallocated liabilities (mainly comprising other payables and accrued charges, convertible notes) are allocated to reportable segments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Other segment information

Amounts included in the measure of segment profit or loss or segment assets:

Continuing operations

For the year ended 31.5.2011	Trading of food & beverage and dairy related products HK$'000	Manufacturing and sales of beverage and dairy related products HK$'000	Unallocated HK$'000	Total HK$'000
Capital additions	28,770	100,134	8,498	137,402
Depreciation of property, plant and equipment	4,083	1,439	2,321	7,843
Impairment loss in respect of inventories	–	1,220	–	1,220
Loss on disposal of property, plant and equipment	–	–	524	524

For the period ended 31.5.2010	Trading of food & beverage related products HK$'000	Manufacturing and sales of beverage related products HK$'000	Unallocated HK$'000 (restated)	Total HK$'000 (restated)
Capital additions	8,401	18,055	7,462	33,918
Depreciation of property, plant and equipment	767	102	663	1,532
Loss on disposal of property, plant and equipment	–	–	104	104

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Geographical information

The Group's operations are principally located in Hong Kong, the PRC and New Zealand.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-Current assets	
	1.6.2010 to 31.5.2011 HK$'000	1.4.2009 to 31.5.2010 HK$'000	**1.6.2010 to 31.5.2011 HK$'000**	1.4.2009 to 31.5.2010 HK$'000 (restated)
Hong Kong	**4,027**	59,576	**29,066**	8,677
PRC	**54,318**	–	**127,629**	25,087
New Zealand	**–**	–	**379,257**	374,003
	58,345	59,576	**535,952**	407,767

Information about major customers

For the year ended 31 May 2011, revenue from two customers of the Group amounting to HK$24,966,000, and HK$9,986,000 had individually accounted for over 10% of the Group's total revenue.

For the period ended 31 May 2010, revenue from two customers of the Group amounting to HK$35,287,000, and HK$19,616,000 had individually accounted for over 10% of the Group's total revenue.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

9. OTHER INCOME

	Continuing operations		Discontinued operations		Consolidated	
	1.6.2010 to 31.5.2011 HK$'000	1.4.2009 to 31.5.2010 HK$'000 (restated)	**1.6.2010 to 31.5.2011 HK$'000**	1.4.2009 to 31.5.2010 HK$'000	**1.6.2010 to 31.5.2011 HK$'000**	1.4.2009 to 31.5.2010 HK$'000 (restated)
Bank interest income	**13,912**	116	**–**	1	**13,912**	117
Advertising income	**4,038**	497	**–**	2	**4,038**	499
Management service income	**1,390**	–	**–**	196	**1,390**	196
Written back of impairment loss made in respect of trade receivables	**–**	–	**–**	1,285	**–**	1,285
Sundry income	**2,287**	79	**–**	32	**2,287**	111
	21,627	692	**–**	1,516	**21,627**	2,208

10. DECONSOLIDATION OF A SUBSIDIARY

During the period ended 31 May 2010, 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"), it is inappropriate to consolidate Changsha Sanjin and hence, it was deconsolidated.

The gain on the deconsolidation is as follows:

	1.4.2009 to 31.5.2010 HK$'000
Net assets deconsolidated:	
Bank balances and cash	57
Release of exchange reserve	(2,407)
Gain on deconsolidation of a subsidiary	(2,350)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

11. LIQUIDATION OF SUBSIDIARIES

As detailed in the Company 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").

Assets/(liabilities) of the liquidated subsidiaries	At 15.9.2009 HK$'000
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 bills 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
Gain on liquidation of subsidiaries	(4,877)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

12. DISCONTINUED OPERATIONS

A special resolution of Linfair Capital and Linfair Engineering to wind 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 company incorporated in Hong Kong. Before the liquidation, Linfair Engineering is principally engaged in provision of engineering systems contracting services and sales of related parts.

	1.4.2009 to 31.5.2010 HK$'000
Revenue from:	
– provision of engineering systems contracting services	15
– sales of consumables and spare parts	981
	996
Cost of contract works	(40)
Cost of sales	(566)
Gross profit	390
Other income	1,516
Selling and distribution expenses	(67)
General and administrative expenses	(5,936)
Loss on disposal of a subsidiary (Note 43)	(72)
Loss before taxation	(4,169)
Income tax	–
Loss for the period from discontinued operations	(4,169)
Cash flow from discontinued operations	
Net cash used in operating activities	(287)
Net cash from investing activities	52
Net cash outflows	(235)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

13. FINANCE COSTS

	Continuing operations	
	1.6.2010 to 31.5.2011 HK$'000	1.4.2009 to 31.5.2010 HK$'000 (restated)
Effective interest expenses on convertible notes	**27,870**	41,292

14. INCOME TAX

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for the year/period.

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 Hong Kong profits tax and PRC income tax has been provided in the consolidated financial statements as there was no assessable profit for the year (2010: Nil).

The income tax for the year/period can be reconciled to the loss before taxation per the consolidated statement of comprehensive income as follows:

	1.6.2010 to 31.5.2011 HK$'000	1.4.2009 to 31.5.2010 HK$'000 (restated)
Loss before taxation:		
Continuing operations	**(154,260)**	(152,364)
Discontinued operations	**–**	(4,169)
	(154,260)	(156,533)
Tax at the domestic income tax rate	**(25,453)**	(25,828)
Tax effect of income not taxable for tax purposes	**(20,954)**	(781)
Tax effect of expenses not deductible for tax purposes	**34,790**	38,113
Tax effect of tax losses not recognised	**22,320**	8,840
Effect of different tax rates of subsidiaries operating in the jurisdictions	**(10,703)**	(20,344)
Income tax for the year/period	**–**	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

15. LOSS FOR THE YEAR/PERIOD

	Continuing operations		Discontinued operations		Consolidated	
	1.6.2010 to 31.5.2011 HK$'000	1.4.2009 to 31.5.2010 HK$'000 (restated)	**1.6.2010 to 31.5.2011 HK$'000**	1.4.2009 to 31.5.2010 HK$'000 (restated)	**1.6.2010 to 31.5.2011 HK$'000**	1.4.2009 to 31.5.2010 HK$'000 (restated)
Loss for the year/period has been arrived at after charging/(crediting):						
Auditors' remuneration	**1,683**	1,269	**–**	–	**1,683**	1,269
Depreciation of property, plant and equipment	**7,843**	1,532	**–**	1,408	**7,843**	2,940
Cost of inventories recognised as an expense (Note)	**50,037**	56,647	**–**	564	**50,037**	57,211
Written off of property, plant and equipment	**–**	56	**–**	–	**–**	56
Impairment loss of other receivables	**–**	85	**–**	–	**–**	85
Exchange (gain)/loss, net	**(86,671)**	27,900	**–**	2,025	**(86,671)**	29,925
Loss on disposal of property, plant and equipment	**524**	104	**–**	–	**524**	104
Rental expense under operating leases	**11,484**	3,368	**–**	36	**11,484**	3,404
Staff costs (including directors' emoluments – Note 18)						
– salaries and other benefits	**38,777**	19,666	**–**	1,722	**38,777**	21,388
– staff quarters	**3,051**	350	**–**	65	**3,051**	415
– retirement benefits contribution	**746**	102	**–**	84	**746**	186

Note: During 2011, cost of inventories recognised as an expense included impairment loss of HK$1,220,000 (2010: nil)

16. DIVIDENDS

No dividends were paid, declared or proposed during the year and the last period, nor has any dividend been proposed since the end of the year/period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

17. LOSS PER SHARE

From continuing and discontinued operations

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

	1.6.2010 to 31.5.2011 HK$'000	1.4.2009 to 31.5.2010 HK$'000 (restated)
Loss for the year/period attributable to owners of the Company for the purpose of basic loss per share	(154,260)	(156,533)

	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares for the purpose of basic loss per share	1,572,632	535,507

From continuing operations

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

	1.6.2010 to 31.5.2011 HK$'000	1.4.2009 to 31.5.2010 HK$'000 (restated)
Loss for the year/period attributable to owners of the Company	(154,260)	(156,533)
Less: Loss for the year/period from discontinued operations	–	(4,169)
	(154,260)	(152,364)

The denominators used are the same as those detailed above for basic loss per share from continuing and discontinued operations.

From discontinued operations

Basic loss per share for discontinued operations is nil (2010: 0.78 HK cents) per share, based on the loss for the year from discontinued operations of nil (2010: HK$4,169,000) and the denominators detailed above for basic loss per share.

No diluted loss per share is presented for the year/period ended 31 May 2011 and 31 May 2010 as the exercises of the potential dilutive ordinary shares would result in reduction in loss per share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 May 2011

18. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the directors were as follows:

For the year ended 31 May 2011

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Equity-settled share-based payments HK$'000	Retirement benefits contribution HK$'000	Total HK$'000
Executive directors:					
Mr. Wu Nengkun (Note 1)	–	779	–	–	779
Ms. Ng Yat Fung Miranda (Note 2)	–	1,322	–	12	1,334
Mr. Luo Ji (Note 3)	–	459	–	–	459
Mr. Yao Haisheng (Note 4)	–	192	–	–	192
Mr. Zhang Hanwen (Note 5)	–	192	–	–	192
Ms. Chen Wai Kay Katherine (Note 6)	–	600	–	3	603
Mr. Yip Kean Man (Note 7)	–	666	–	–	666
Mr. Graham Chin (Note 8)	–	391	–	–	391
Mr. Yan Feng (Note 9)	–	130	–	–	130
Mr. Ng Chun Ming (Note 10)	–	235	–	4	239
	–	4,966	–	19	4,985
Independent non-executive directors:					
Mr. Stephen Bryden Kerr	271	–	–	–	271
Mr. Sze Cheung Hung	271	–	–	–	271
Ms. Chan Man Kuen Laura	271	–	–	–	271
	813	–	–	–	813
Total	813	4,966	–	19	5,798

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

18. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

For the period ended 31 May 2010

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Equity-settled share-based payments HK$'000	Retirement benefits contribution HK$'000	Total HK$'000
Executive directors:					
Mr. Yip Kean Man (Note 7)	–	1,191	–	–	1,191
Mr. Graham Chin (Note 8)	–	803	714	–	1,517
Mr. Ng Chun Ming (Note 10)	–	553	–	5	558
Mr. Yan Feng (Note 9)	–	344	–	–	344
Mr. Luo Ji (Note 3)	–	467	–	–	467
Ms. Chan Mei Mei (Note 11)	–	257	714	3	974
Mr. Chen Keen Jack (Note 12)	–	50	1,667	–	1,717
Ms. Chan Wai Kay Katherine (Note 6)	–	2,040	–	9	2,049
Ms. Zuo Lihua (Note 13)	–	284	–	–	284
	–	5,989	3,095	17	9,101
Independent non-executive directors:					
Mr. Stephen Bryden Kerr	205	240	190	–	635
Mr. Sze Cheung Hung	205	240	190	–	635
Ms. Chan Man Kuen Laura	205	240	190	–	635
Mr. Lee Kin Leung (Note 14)	76	–	–	–	76
	691	720	570	–	1,981
Total	691	6,709	3,665	17	11,082

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

18. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

Notes:

1. Mr. Wu Nengkun was appointed on 11 August 2010.

2. Ms. Ng Yat Fung Miranda was appointed on 11 August 2010.

3. Mr. Luo Ji was appointed on 4 January 2010.

4. Mr. Yao Haisheng was appointed on 24 September 2010.

5. Mr. Zhang Hanwen was appointed on 24 September 2010.

6. Ms. Chan Wai Kay Katherine was resigned on 25 January 2010.

7. Mr. Yip Kean Man was appointed on 4 January 2010 and resigned on 24 September 2010.

8. Mr. Graham Chin was appointed on 14 September 2009 and retired on 8 December 2010.

9. Mr. Yan Feng was appointed on 4 January 2010 and retired on 8 December 2010.

10. Mr. Ng Chun Ming was appointed on 4 January 2010 and resigned on 24 September 2010.

11. Ms. Chan Mei Mei was appointed on 14 September 2009 and resigned on 4 January 2010.

12. Mr. Chen Keen Jack was appointed on 7 May 2009 and resigned on 15 September 2009.

13. Ms. Zuo Lihua was resigned on 22 September 2009.

14. Mr. Lee Kin Keung was resigned on 14 September 2009.

None of the directors of the Company waived or agreed to waive any emoluments paid by the Group. No emoluments have been paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office during the period from 1 June 2010 to 31 May 2011 and from 1 April 2009 to 31 May 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 May 2011

18. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(b) Five highest paid employees

Of the five individuals with the highest emoluments in the Group, two (2010: two) are directors of the Company whose emoluments are set out in Note 18(a). The emoluments of the remaining three (2010: three) highest paid individuals were as follows:

	1.6.2010 to 31.5.2011 HK$'000	1.4.2009 to 31.5.2010 HK$'000 (restated)
Salaries and other benefits	3,448	4,245
Equity-settled share-based payments	–	3,858
Retirement benefits scheme	3	14
	3,451	8,117

The emoluments of the three (2010: three) highest paid employees fall in the following bands.

	Number of employees	
	1.6.2010 to 31.5.2011	1.4.2009 to 31.5.2010 (restated)
Nil to HK$1,000,000	1	–
HK$1,000,000 to HK$1,500,000	2	–
Over HK$1,500,000	–	3

No emoluments have been paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the period from 1 June 2010 to 31 May 2011 and from 1 April 2009 to 31 May 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

19. AVAILABLE-FOR-SALE INVESTMENT

	31.5.2011	31.5.2010	31.3.2009
	HK$'000	HK$'000	HK$'000
		(restated)	
Unlisted securities – Equity security (Note 45a)	**367,198**	367,198	–

During the period ended 31 May 2010, the Group acquired 20% of the ordinary share of UBNZ Assets Holdings Limited ("UBNZ AHL") by convertible notes issued by the Company with initial issued principal amount of approximately HKD552,120,000 and with fair value of approximately HKD367,198,000. UBNZ AHL involved in holding and management of 4 dairy properties out of total 22 dairy properties 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 third party, who manages the day-to-day operations of UBNZ AHL.

The Group has intention and actual plan to acquire the remaining 80% of the ordinary share of UBNZ AHL. As announced on 4 June 2009, the Group intended to acquire 100% UBNZ AHL, including its dairy properties and dairy cattle interest to conduct dairy farming related business in New Zealand; having an aggregate dairy area of approximately 8,674 nectars (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.

Details of the investment as at 31 May 2011 and 31 May 2010 are as follows:

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

Pursuant to the valuation report dated 23 August 2011 issued by LCH (Asia-Pacific) Surveyors Limited ("LCH"), independent qualified professional valuer not connected with the Group, the fair value of the 20% equity interests in UBNZ AHL as at 31 May 2011 was NZ$73,986,000 (equivalent to HK$470,655,000).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

20. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and building HK$'000	Buildings HK$'000	Construction in progress HK$'000	Leasehold improvement HK$'000	Machinery and equipment HK$'000	Office equipment HK$'000	Computer equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
COST										
At 1 April 2009	–	1,520	–	–	23,475	428	1,628	1,042	4,109	32,202
Additions	–	–	13,803	3,703	–	1,339	749	2,784	11,540	33,918
Eliminated on liquidation of subsidiaries	–	(1,520)	–	–	(23,475)	(291)	(1,439)	(983)	(1,975)	(29,683)
Eliminated on disposal of a subsidiary	–	–	–	–	–	(29)	–	(4)	–	(33)
Elimination on disposals	–	–	–	–	–	–	–	–	(486)	(486)
Eliminated on written off	–	–	–	–	–	(60)	(85)	–	–	(145)
At 31 May 2010 and at 1 June 2010	–	–	13,803	3,703	–	1,387	853	2,839	13,188	35,773
Additions	3,488	–	91,378	7,058	4,745	1,808	2,644	5,678	20,603	137,402
Eliminated on disposals	–	–	–	(614)	–	–	–	–	–	(614)
Exchange realignment	329	–	2,964	138	118	319	154	336	1,244	5,602
At 31 May 2011	3,817	–	108,145	10,285	4,863	3,514	3,651	8,853	35,035	178,163
ACCUMULATED DEPRECIATION AND IMPAIRMENT										
At 1 April 2009	–	451	–	–	19,894	385	1,215	973	1,678	24,596
Provided for the period	–	20	–	80	1,388	148	118	126	1,060	2,940
Eliminated on liquidation of subsidiaries	–	(471)	–	–	(21,282)	(250)	(1,161)	(917)	(855)	(24,936)
Eliminated on disposals of a subsidiary	–	–	–	–	–	(25)	–	(2)	–	(27)
Eliminated on disposals	–	–	–	–	–	–	–	–	(162)	(162)
Eliminated on written off	–	–	–	–	–	(52)	(37)	–	–	(89)
At 31 May 2010 and at 1 June 2010	–	–	–	80	–	206	135	180	1,721	2,322
Provided for the year	116	–	–	1,445	196	360	344	1,255	4,127	7,843
Eliminated on disposals	–	–	–	(90)	–	–	–	–	–	(90)
Exchange realignment	11	–	–	13	5	47	30	45	202	353
At 31 May 2011	127	–	–	1,448	201	613	509	1,480	6,050	10,428
CARRYING VALUES										
At 31 May 2011	3,690	–	108,145	8,837	4,662	2,901	3,142	7,373	28,985	167,735
At 31 May 2010	–	–	13,803	3,623	–	1,181	718	2,659	11,467	33,451
At 31 March 2009	–	1,069	–	–	3,581	43	413	69	2,431	7,606

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

21. INTANGIBLE ASSETS

	License right HK$'000
COST AND CARRYING VALUES	
Acquisition of a subsidiary in current year	1,019
At 31 May 2011	1,019

Note: The license right represents the Hong Kong – PRC motor vehicle license with indefinite useful life acquired by the Group in business combinations (Note 34) occurred in current year.

22. INVENTORIES

	31.5.2011 HK$'000	31.5.2010 HK$'000	31.3.2009 HK$'000
Raw Material	4,873	–	–
Work in progress	4,463	–	–
Finished goods	30,072	–	–
	39,408	–	–

During 2011, the Group recognised inventories impairment loss of HK$1,220,000 (2010: nil).

23. TRADE RECEIVABLES

	31.5.2011 HK$'000	31.5.2010 HK$'000 (restated)	31.3.2009 HK$'000 (restated)
Trade receivables	67,407	34,090	52,001
Less: impairment loss recognised	–	–	(48,936)
	67,407	34,090	3,065

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

23. TRADE RECEIVABLES *(continued)*

The Group has a policy of allowing credit period ranging one to six months to its trade customers. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted. The Group does not hold any collateral over the balances.

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

	31.5.2011 HK$'000	31.5.2010 HK$'000 (restated)
Within 3 months	61,678	16,040
4-6 months	–	14,629
7-12 months	4,027	3,421
Over 1 year	1,702	–
	67,407	34,090

The aging analysis of trade receivables that are past due but are not considered impaired at the end of the reporting year/period is as follows:

	31.5.2011 HK$'000	31.5.2010 HK$'000 (restated)
Within 3 months	–	15,187
4-6 months	–	7,938
7-12 months	5,729	3,421
	5,729	26,546

The Group's neither past due nor impaired trade receivables mainly represent sales made to recognized and creditworthy customers. The credit terms of these customers are subject to credit verification procedures. No impairment is required for the past due balances based on the historical payment records and continuing subsequent settlement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

24. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	31.5.2011 HK$'000	31.5.2010 HK$'000 (restated)	31.3.2009 HK$'000 (restated)
Advance to related parties (Note)	513,906	590,246	–
Prior year adjustment (Note 45b)	–	(66,112)	–
	513,906	524,134	–
Prepayment	3,930	9,814	1,407
Utility and other deposits	1,483	2,603	2,051
Deposit paid	3,398	1,502	6,489
Payment in advance	70,130	394	700
Other receivable	9,937	7,140	–
	602,784	545,587	10,647
Less: Provision of impairment	(102)	(85)	–
	602,682	545,502	10,647

Note: At 31 May 2011

Being amount advanced to UBNZ Trustee Limited ("Vendor"), which comprised of HK$209,966,000 being deposit payment to Vendor in acquisition of remaining 80% of the issued share capital of UBNZ AHL through the issuance of CN A, which has been fully converted into 110,431,200 ordinary shares in current year.

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 has paid, the Vendor shall return the amount represented by the Deposit or procure return of CN 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 CN A to cover the remainder of the Deposit.

There is a "Deed of Undertaking" entered between the Company and the Vendor that the Vendor shall not transfer all or in part of the subject 110,431,200 ordinary shares of the Company without obtaining a written consent granted by Company's Board of Directors. The Company has frozen the transfer of those shares by placing an instruction to its share registrar, Computershare Hong Kong Investor Services Limited, so to pursuant the above Agreement recovery execution if needed.

Remaining balances including approximately HK$133,589,000 (or equivalent to NZ$21,000,000) was made to UBNZ Funds Management Limited (UBFM) as deposit pursuant to the pasteurized Ultra Heat Treated (UHT) Milk manufacturing agreement. According to the agreement, not less than 150 million packets of UHT milk at agreed purchase NZ$0.7 per packet will be ordered within one year commencing from October 2010 or such later date as may be agreed by the parties. When the UHT Milk orders placed to UBFM amounted to 120 million packets, and the consideration has been fully settled, the sum payable for the remaining 30 million packets of UHT milk to be ordered may be deducted from the said deposit paid.

An amount of remaining balance approximately HK$166,556,000 as at 31 May 2011 represented the advance payment paid by the Company for the orders of 40 million packets of UHT milk and 350,000 cans of milk powder placed during the year.

The remaining balance is the expenses paid on behalf of the related parties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

24. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(continued)*

Note: *(continued)*

At 31 May 2010

Being amount advanced to Vendor, which comprised of HK$276,078,000 being deposit payment to Vendor in acquisition of remaining 80% equity interests in of UBNZ AHL through the issuance of CN A.

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 (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".

Subsequent to the period ended 31 May 2010, an amount of approximately HK$160,000,000 has been transferred from the Warrantor escrow account to the Company on 19 January 2011 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$145,000,000 has been refunded from the New Zealand Tax Department to the Company New Zealand solicitor trust account. On 29 March 2011, the Board intended and agreed to use the remaining repayment balance as final part of the consideration for the 40,000,000 packs of Ultra Heat Treated Milk ("UHT Milk") purchase order from the Warrantor.

The movements in provision of impairment of other receivables are as follows:

	2011 HK$'000	2010 HK$'000 (restated)
At the beginning of the year/period	85	1,013
Eliminated on liquidation of subsidiaries	–	(1,013)
Impairment losses recognition	–	85
Exchange realignment	17	–
At the end of the year/period	102	85

At the end of the year/period, the Group's other receivables, deposits and prepayments were individually assessed for impairment. The individually impaired receivables are recognised based on the events or changes in circumstances indicate that the carrying amount may not be recoverable. Consequently, specific impairment loss was recognised.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

25. FUNDS IN ESCROW AND TRUST ACCOUNTS

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

	31.5.2011 HK$'000	31.5.2010 HK$'000	31.3.2009 HK$'000
Funds in escrow accounts (Note a)	–	345,627	–
Funds in trust accounts (Note b)	69	5,548	–
	69	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 proposes of general operation and settlement of legal fees in New Zealand.

26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits/bank balances comprise short-term bank deposits of approximately HK$124,556,000 (2010: HK$44,559,000) at prevailing interest rate or at fixed interest rates ranging from 0.01% to 5.2% (2010: 0.01% to 0.10%). The carrying amounts of pledged bank deposits and bank balances and cash approximate to their fair values.

At 31 May 2011 and 2010, the pledged deposits placed as securities for the operating lease of a office premise located in New Zealand.

27. TRADE PAYABLES

	31.5.2011 HK$'000	31.5.2010 HK$'000 (restated)	31.3.2009 HK$'000 (restated)
Trade payables	1,373	26,937	18,578

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

27. TRADE PAYABLES *(continued)*

The aged analysis of the trade payables is below:

	31.5.2011 HK$'000	31.5.2010 HK$'000 (restated)
Within 3 months	1,365	15,234
4-6 months	5	11,703
7-12 months	3	–
Over 1 year	–	–
	1,373	26,937

28. OTHER PAYABLES AND ACCRUED CHARGES

	31.5.2011 HK$'000	31.5.2010 HK$'000 (restated)	31.3.2009 HK$'000 (restated)
Deposit received	–	–	6,718
Temporary deposits	29,938	2,867	693
Deferred income	1,689	–	–
Accrued interest for convertible notes	15,634	8,581	–
Other payables and accruals	22,315	3,923	4,226
Amounts due to related parties	1,996	–	–
	71,572	15,371	11,637

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

29. DEFERRED TAXATION

The deferred tax liabilities recognised by the Group represent the excess of tax allowances over depreciation and movement thereon during the year/period are as follows:

	HK$'000
At 1 April 2009	473
Eliminated on liquidation of subsidiaries	(473)
At 31 May 2010 and at 31 May 2011	–

At the end of the reporting period, the Group had unused tax losses of approximately HK$140 million (2010: HK$38 million) available to offset against future profits. 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 2016. Other tax losses may be carried forward indefinitely.

30. CONVERTIBLE NOTES

CN A

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$276,078,000 and fair value of HK$209,966,000 to UBNZ Trustee Limited for as deposit acquiring remaining 80% equity interests in UBNZ AHL. 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 year.

CN B

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$552,120,000 and fair value of HK$367,198,000 to UBNZ Trustee Limited for acquiring 20% equity interests in UBNZ AHL. 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 year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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30. CONVERTIBLE NOTES *(continued)*

CN C

During the period from 22 December 2009 to 23 February 2010, the Company issued Hong Kong dollar denominated 3% convertible notes C ("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 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 year. The CN C outstanding at 31 May 2011 is HK$50 million in principal amount.

CN D

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 holders 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.

Optional CN

On 11 June 2010, the Company issued Hong Kong dollar denominated 3% 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 7.40% 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

30. CONVERTIBLE NOTES *(continued)*

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

	CN A	CN B	CN C	CN D	Optional CN	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(restated)	(restated)				(restated)
Issued during the period	130,602	138,884	646,793	57,441	–	973,720
Conversion into ordinary shares	–	–	(111,654)	–	–	(111,654)
Interest charged	6,544	6,793	25,551	2,404	–	41,292
At 31 May 2010	137,146	145,677	560,690	59,845	–	903,358
Issued during the year	–	–	75,344	–	45,172	120,516
Conversion into ordinary shares	(140,870)	(149,421)	(595,179)	(59,845)	(45,585)	(990,900)
Interest charged	3,724	3,744	19,663	–	739	27,870
At 31 May 2011	–	–	60,518	–	326	60,844
Analysed for reporting purposes as:						
At 31 May 2011						
Interest accrued	–	–	15,308	–	326	15,634
Current liabilities	–	–	45,210	–	–	45,210
Non-current liabilities	–	–	–	–	–	–
	–	–	60,518	–	326	60,844
At 31 May 2010						
Interest accrued	–	–	8,581	–	–	8,581
Current liabilities	–	–	–	59,845	–	59,845
Non-current liabilities	137,146	145,677	552,109	–	–	834,932
	137,146	145,677	560,690	59,845	–	903,358
At 31 March 2009						
Interest accrued	–	–	–	–	–	–
Current liabilities	–	–	–	–	–	–
Non-current liabilities	–	–	–	–	–	–
	–	–	–	–	–	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

31. SHARE CAPITAL

	Notes	Number of shares '000	Share capital HK$'000
Authorised:			
Ordinary shares of HK$0.10 each:			
At 1 April 2009		1,000,000	100,000
Increase during the period	(a)	3,000,000	300,000
At 31 May 2010		4,000,000	400,000
Increase during the year	(b)	4,000,000	400,000
At 31 May 2011		8,000,000	800,000
Issued and fully paid:			
Ordinary shares of HK$0.10 each:			
At 1 April 2009		421,334	42,133
Exercise of share options	(c)	57,460	5,746
Conversion of CN C	(d)	135,000	13,500
Exercise of warrants	(e)	84,260	8,426
At 31 May 2010		698,054	69,805
Conversion of CN A	(f)	110,431	11,043
Conversion of CN B	(g)	276,078	27,608
Conversion of CN C	(h)	657,000	65,700
Conversion of CN D	(i)	92,000	9,200
Conversion of Optional CN	(j)	49,000	4,900
At 31 May 2011		1,882,563	188,256

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

31. SHARE CAPITAL *(continued)*

Notes:

(a) Pursuant to an ordinary resolution passed by the shareholders of the Company on 2 October 2009, the authorised share capital of the Company was increased from HK$100,000,000 to HK$400,000,000 by the creation of 3,000,000,000 additional shares of HK$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.

(b) Pursuant to an ordinary resolution passed by the shareholders of the Company on 8 December 2010, the authorised 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.

(c) During the period ended 31 May 2010, an aggregate of 57,460,000 new shares of the Company were issued pursuant to Pre-IPO share options scheme at the exercise price of HK$0.65 per share, and other share option scheme at the exercise price of HK$0.282 per share and HK$0.82 per share.

(d) From 5 January 2010 to 25 February 2010, 135,000,000 new shares of the Company of HK$0.10 each were allotted on conversion of the CN C with principal amount of HK$135,000,000 at the conversion price of HK$1 as detailed in Note 30.

(e) From 15 June 2009 to 30 March 2010, 84,260,000 new shares of the Company of HK$0.10 each were allotted on the exercise of warrants issued.

(f) During the year ended 31 May 2011, 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 30.

(g) During the year ended 31 May 2011, 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 30.

(h) During the year ended 31 May 2011, 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 30.

(i) During the year ended 31 May 2011, 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 30.

(j) During the year ended 31 May 2011, 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 30.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

32. SHARE OPTION

Pre-IPO share option scheme

A pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") was approved and adopted by the Company on 30 March 2005.

The maximum number of shares which may be issued under the Pre-IPO Share Option Scheme shall be 15,000,000 shares. The Pre-IPO Share Option Scheme is not subject to any vesting condition precedent and the exercise period shall commence from the day following 6 months after 10 June 2005 and end on 30 March 2010 (both dates inclusive). Upon acceptance of the Pre-IPO share option, each participant shall pay HK$1 to the Company by way of consideration for the grant.

The exercise price is HK$0.65 per share and there is no restriction on the number of Pre-IPO share options granted under the Pre-IPO Share Option Scheme to any grantee.

Movement of the share options during the period ended 31 May 2010 was as follows:

For the period from 1 April 2009 to 31 May 2010

Category	Exercise period	Exercise price	At 1 April 2009	Granted	Exercised	Lapsed/ Cancelled	At 31 May 2010
Ex-employees	11.12.2005 to 30.3.2010	HK$0.65	3,666,000	–	(1,660,000)	(2,006,000)	–
Weighted average exercise price			HK$0.65	–	HK$0.65	HK$0.65	–

The Company has not granted any option during the year ended 31 May 2011 under Pre-IPO share option scheme.

Other share option scheme

Another share option scheme (the "Share Option Scheme") was approved and adopted by the Company on 20 May 2005.

Under the Share Option Scheme, the Directors may, at their description, grant to any eligible person as defined under the Share Option Scheme to take up options to subscribe for shares of the Company at a subscription price to be determined by the Directors and notified to each grantee but in any case shall not be less than the higher of (1) the closing price of the shares as stated in The Stock Exchange of Hong Kong Limited's daily quotations sheet on the date on which the Directors approve the making of the offer for the grant option (the "Date Of Grant"), which must be a trading day; (2) the average of closing price of the shares as stated in The Stock Exchange of Hong Kong Limited's daily quotations sheet for the five trading days immediately preceding the Date of Grant; or (3) the nominal value of a share. Upon acceptance of the share option, the grantee shall pay HK$1 to the Company by way of consideration for the grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 May 2011

32. SHARE OPTION *(continued)*

Other share option scheme *(continued)*

At the date of this annual report, the total number of shares in respect of which options maybe granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 33,400 shares, being 0.01% of the issued shares of the Company. Details of the Share Option Scheme are set out in the prospectus dated 27 May 2005 issued by the Company.

Movements of the share options during the period ended 31 May 2010 was as follows:

Category	Exercise period	Exercise price	At 1 April 2009	Granted	Exercised	Lapsed/ Cancelled	At 31 May 2010
Directors	23.2.2009 – 22.2.2014	HK0.282	7,000,000	–	(7,000,000)	–	–
	20.10.2009 – 19.10.2012	HK0.82	–	4,200,000	(4,200,000)	–	–
Employees	23.2.2009 – 22.2.2014	HK0.282	4,100,000	–	(4,100,000)	–	–
	20.10.2009 – 19.10.2012	HK0.82	–	25,500,000	(25,500,000)	–	–
Consultants	23.2.2009 – 22.2.2012	HK0.282	28,000,000	–	(12,000,000)	(16,000,000)	–
	23.2.2009 – 22.2.2014	HK0.282	3,000,000	–	(3,000,000)	–	–
Total			42,100,000	29,700,000	(55,800,000)	(16,000,000)	–
Weighted average exercise price			HK$0.282	HK$0.82	HK$0.568	HK$0.282	–

During the period ended 31 May 2010, share options were granted by the Company on the below grant date. The estimated fair value of the share options on the grant date is determined using the Binomial Model. The respective fair value and significant inputs to the model are as follows:

The contractual life and expectations of early exercise of the share options were used as inputs into relevant models.

Grant date	20 October 2009	22 February 2009
Fair value at measurement date	HK$14,146,000	HK$4,006,000
Share price at the grant date	HK$0.79	HK$0.275
Exercise price	HK$0.82	HK$0.282
Expected volatility	140.24%	74.7%
Expected dividends yield	Nil	Nil
Risk free rate	0.342%	0.447%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

32. SHARE OPTION *(continued)*

Other share option scheme *(continued)*

Expected volatility was determined by using the historical volatility of the Company's share price over the 250 days immediate before the grant date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The risk-free rate is based on the annual yield of Hong Kong Exchange-Fund Bills and Notes for corresponding expected life at the grant date.

The Binomial Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Company has not granted any new option under other share option scheme during the year ended 31 May 2011.

33. WARRANTS

On 15 April 2009, the Company entered into a placing agreement with Pacific Foundation Securities Limited, pursuant to which Pacific Foundation Securities Limited agreed to act as placing agent for the purposes of arranging subscribers for the subscription of 84,260,000 warrants which enable the subscribers to subscribe for up to 84,260,000 new ordinary shares at the HK$0.3 each (the "Warrants"). The subscription price of the warrants is HK$0.03 each. Details were set out in the Company's announcement dated 16 April 2009.

On 30 March 2010, all of 84,260,000 warrants were exercised and none of any warrants issued is outstanding as at 31 May 2010.

The principal terms of the Warrants are summarized below:

(i) The placees

The Warrants were offered to not less than six placees. The choice of placees for the Warrants was determined solely by the placing agent, subject to the requirement that such placees were independent institutional or private investors and the requirements of the Listing Rules.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

33. WARRANTS *(continued)*

(ii) Date of issue

15 April 2009

(iii) Number of new shares covered by the Warrants

Upon the exercise of the subscription rights attaching to the Warrants in full, a maximum of 84,260,000 new shares (with an aggregate nominal value of HK$8,426,000 of the new shares), would be issued and allotted.

(iv) Subscription period

From the date of issue of the Warrants to the expiry of the first anniversary of the issue of the Warrants.

(v) Subscription price

The subscription price per new share was HK$0.30.

(vi) Transferability

No assignment or transfer of the Warrants may be made until 6 months after the date of issue and any such assignment or transfer thereafter may only be made if it is made to person(s) who is(are) not a connected person(s) of the Company. Subject as aforesaid, the Warrants are transferable in amounts equivalent to the aggregate subscription price in respect of 4,000 shares for the time being in force (or an integral multiple thereof).

(vii) Ranking of the new shares

The new shares, when issued and allotted, will rank pari passu with the fully paid shares in issue on the date of allotment and issue of such new shares.

(viii) Call

If at any time the aggregate of the amount of exercise moneys attached to the Warrants which have not been exercised is equal to or less than 10 per cent of the aggregate amount of exercise moneys attached to all the Warrants issued, the Company may, on giving not less than three months' notice, require warrantholders either to exercise their subscription rights or to allow them to lapse. On expiry of such notice, all unexercised Warrant(s) will be automatically cancelled without compensation to the Warrant holders.

(ix) Voting

The warrant holders do not entitle to attend or vote at any general meetings of the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

34. BUSINESS COMBINATIONS

On 21 March 2011, the Group acquired 100% of the share capital of Tonison Pattern Enterprises Limited at a consideration of HK$1,009,000.

The following table summarises the consideration paid and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	Note	31.5.2011 HK$'000
As at 21 March 2011		
Cash consideration		1,009
Recognised amounts of identifiable assets acquired and liabilities assumed:		
Intangible assets – license right	21	1,019
Accrual		(10)
Total identifiable net assets		1,009
Goodwill		–

The directors of the Company considered that the acquired identifiable intangible assets of HK$1,019,000 (representing HK-PRC motor vehicles license) is approximated to its fair value as at 21 March 2011.

Tonison Pattern Enterprises Limited did not contribute any revenue or result to the Group since the date of acquisition to 31 May 2011.

Had the acquisition been completed on 1 June 2010, total group revenue for the year would remain unchanged, and loss for the year would increased by HK$4,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 June 2010, nor is it intended to be a projection of future results.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

35. STATEMENT OF FINANCIAL POSITION

At 31 May 2011

	Notes	31.5.2011 HK$'000	31.5.2010 HK$'000 (restated)	31.3.2009 HK$'000
Non-current assets				
Interests in subsidiaries		**796,904**	77,838	258,511
Available-for-sale investment		**367,198**	367,198	–
Property, plant and equipment		**2,636**	–	–
		1,166,738	445,036	258,511
Current assets				
Other receivables, deposits and prepayments		**292,178**	527,737	–
Funds in escrow and trust accounts		**69**	351,175	–
Bank balances and cash		**503**	577	577
		292,750	879,489	577
Current liabilities				
Other payables and accrued charges		**18,531**	12,142	927
Convertible notes		**45,210**	59,845	–
Amounts due to subsidiaries		**2,038**	2,038	–
		65,779	74,025	927
Net current assets/(liabilities)		**226,971**	805,464	(350)
Total assets less current liabilities		**1,393,709**	1,250,500	258,161
Capital and reserves				
Share capital	31	**188,256**	69,805	42,133
Reserves	36	**1,205,453**	345,763	216,028
Total equity		**1,393,709**	415,568	258,161
Non-current liability				
Convertible notes		**–**	834,932	–
		1,393,709	1,250,500	258,161

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 May 2011

36. RESERVES

The Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

The Company

	Share premium HK$'000	Contribution surplus HK$'000 (Note)	Share options reserve HK$'000	Convertible notes equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2009	195,275	43,294	4,006	–	(26,547)	216,028
Loss for the period	–	–	–	–	(439,686)	(439,686)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive expenses for the period	–	–	–	–	(439,686)	(439,686)
Equity-settled share-based payment	–	–	14,146	–	–	14,146
Shares issued under share option scheme	43,676	–	(16,629)	–	–	27,047
Shares issued under warrant agreement	19,380	–	–	–	–	19,380
Convertible notes equity component	–	–	–	410,694	–	410,694
Shares issued upon conversion of convertible notes	115,257	–	–	(17,103)	–	98,154
Reserve released upon lapse of share option	–	–	(1,523)	–	1,523	–
At 31 May 2010	373,588	43,294	–	393,591	(464,710)	345,763
Profit for the year	–	–	–	–	6,757	6,757
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	6,757	6,757
Convertible notes equity component	–	–	–	10,484	–	10,484
Shares issued upon conversion of convertible notes	1,240,197	–	–	(397,748)	–	842,449
At 31 May 2011	1,613,785	43,294	–	6,327	(457,953)	1,205,453

Note:

The contributed surplus of the Company represents the difference between the fair value of the consolidated net assets of Excellent Overseas Limited acquired and the nominal value of the Company's shares issued in exchange therefore.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

37. PLEDGE OF ASSETS

At the end of the reporting period, the operating lease of a office premise located in New Zealand of the Group was secured by the following assets:

	31.5.2011 HK$'000	31.5.2010 HK$'000
Bank deposits	1,066	896

38. CONTINGENT LIABILITIES

Litigation with Citywin

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

	31.5.2011 HK$'000	31.5.2010 HK$'000
Performance bonds	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 42.

39. COMMITMENTS

(a) Capital commitments

(i) On 22 May 2009, the Company, UBNZ Trustee Limited (the "Vendor") and UBNZ Funds Management Limited (the "Warrantor") entered into an agreement, pursuant to which (a) the Vendor has conditionally agreed to dispose of and the Company has conditionally agreed to acquire or procure one of its subsidiaries ("Purchaser") to acquire 20% of the Target Company, UBNZ Assets Holdings Limited and the Sales Debt (refer the Company's circular dated 8 September 2009 for definition) at the consideration of the HK$ equivalent of NZ$100m minus HK$1.00 (subject to adjustments); and (b) in consideration of the sum of HK$1.00 paid by the Purchaser to the Vendor, the Vendor has agreed to grant the Purchaser the right to require the Vendor to sell to the Company or its nominee the Option Shares (representing 80% of the entire issued share capital of the UBNZ Assets Holdings Limited) and the outstanding debt, at the consideration of HK$ equivalent of NZ$400m.

The Consideration shall be satisfied by issuing of Convertible Notes ("CN") A,B and cash, subject to the net proceeds from bank borrowing or funds raising activities to be made by the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

39. COMMITMENTS *(continued)*

(a) Capital commitments *(continued)*

(i) *(continued)*

If the transaction is fully satisfied by issuing CN, the total principal amount of the CN would be NZ$500 million (or equivalent to HK$2,398.75 million). Pursuant to Hong Kong Exchanges and Clearing Limited dated 4 December 2009 Listing approval on issuance of Convertible Note A (which could be converted into 412,585,000 shares) and issuance of Convertible Note B (which could be converted into 683,643,750 shares) to be used for paid as consideration of the transaction and such fair value of convertible notes shall be ascertained.

Details of the acquisition are set out in the Company's announcements dated 04 June 2009, 24 June 2009, 31 July 2009, 20 August 2009, 07 September 2009, 13 November 2009, 18 February 2010, 22 February 2010, 1 June 2010, 29 August 2010, 30 August 2010, 1 September 2010, 26 October 2010, 29 October 2010, 31 December 2010, 02 February 2011, 03 May 2011 and 04 May 2011.

On 23 December 2010, the Vendor had transferred the 80% of the entire issued share capital of UBNZ AHL ("Option Shares") to NZ Dairy Trustee Limited (the "New Trustee"). The board of directors considered the circumstance that such transfer will not suspend the New Trustee to sell the Option Shares to the Company. With the on-going negotiation with the Vendor and the New Trustee, the board of directors believed that the Option Shares sale transaction on UBNZ AHL will likely to be perform in nearby future. Therefore, the board of directors have not demand the refund of the 110,431,200 ordinary shares from the Vendor, and re-issue to New Trustee.

Completion of the transaction is conditional upon to all necessary consents, approvals and authorisations, including but not limited to the Overseas Investment Process Office having been obtained from any other third parties and all relevant authorities in New Zealand, Hong Kong and in any other applicable jurisdiction in connection with the Agreement and other transactions contemplated thereunder.

(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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

39. COMMITMENTS *(continued)*

(a) Capital commitments *(continued)*

(ii) *(continued)*

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 consolidated financial statements are as follows:

	31.5.2011 HK$'000	31.5.2010 HK$'000
Contracted but not provided for in respect of:		
– Acquisition of property, plant and equipment	38,751	18,570
– Construction in progress	41,257	52,581
	80,008	71,151

(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:

	31.5.2011 HK$'000	31.5.2010 HK$'000
Within one year	20,839	10,266
In the second to fifth year inclusive	47,200	18,406
Over five years	13,544	13,398
	81,583	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 with a fixed rentals.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

40. RETIREMENT BENEFITS SCHEMES

The Group operates a MPF Scheme for all qualifying employees in Hong Kong under the MPF Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The Group is also required to make contributions to state pension schemes in the PRC based on a certain percentage of the monthly salaries of the employees of its PRC subsidiaries. The Group has no other obligation under the state pension schemes in the PRC other than the contribution payments.

During the year, the total amounts of retirement benefit contribution made by the Group are HK$746,000 (2010: HK$186,000).

41. RELATED PARTY DISCLOSURES

(a) Compensation to directors and key management personnel of the Group:

	1.6.2010 to 31.5.2011 HK$'000	1.4.2009 to 31.5.2010 HK$'000
Short-term benefits	5,779	7,400
Retirement benefits contribution	19	17
Equity-settled share-based payments	–	3,665
	5,798	11,082

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

41. RELATED PARTY DISCLOSURES *(continued)*

(b) Purchase of goods

	1.6.2010 to 31.5.2011 HK$'000	1.4.2009 to 31.5.2010 HK$'000
– An entity controlled by a substantial shareholder	59,783	–

Goods bought from the entity controlled by a substantial shareholder on normal commercial terms and conditions.

No amount was outstanding for the purchase of goods as at 31 May 2011 as the purchase was paid in advance.

(c) Provision of services

	1.6.2010 to 31.5.2011 HK$'000	1.4.2009 to 31.5.2010 HK$'000
– Entities controlled by a substantial shareholder	1,801	–

The amount of HK$875,000 is outstanding as at 31 May 2011. The receivables are unsecured, non-interest bearing and repayable on demand. There are no provisions held against receivables from related parties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

42. TRANSACTIONS AND PENDING LITIGATION WITH CITYWIN

On 7 December 2007, the Group has entered into an acquisition agreement with Citywin to acquire 100% equity interests in Qingdao Yongxinhui at a consideration of HK$130 million (the "Acquisition"). The consideration is to be satisfied by a cash consideration of HK$30 million and the issue of HK$100 million convertible notes with the maturity of 4 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 up to the date of this report.

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For the year ended 31 May 2011

43. DISPOSAL OF A SUBSIDIARY

During the period ended 31 May 2010, the Group entered into an agreement with the director of its Malaysia subsidiary for the disposal of 100% equity interests in Linfair Engineering (Malaysia) Sdn Bhd ("LEM"), a wholly-owned subsidiary of the Group, for an aggregate consideration of Malaysia ringgit $2. The financial cut-off date was set at 31 March 2010 ("Cut-Off Date"). A loss of approximately HK$72,000 resulted in the disposal.

The net assets of LEM at the Cut-Off Date were as follows:

	HK$'000
Aggregate assets disposed of:	
Property, plant and equipment	6
Other receivables, deposits and prepayments	41
Bank balances and cash	12
Other payables and accrued charges	(3)
Net assets disposal of	56
Release of exchange reserve	16
Loss on disposal	(72)
Total consideration	–
Net cash outflow arising on disposal:	
Bank balances and cash	(12)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

44. PRINCIPAL SUBSIDIARIES

Particulars of the Group's principal subsidiaries as at 31 May 2011 are as follows:

Name of subsidiaries	Place of incorporation/ establishment and operations	Class of shares	Issued share/ paid-up registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Direct	Indirect	
Excellent Overseas Limited	British Virgin Islands	Ordinary shares	US$1	100%	–	Investment holding
Nation Yield Limited	Hong Kong	Ordinary shares	HK$1	100%	–	Investment holding and trading of dairy related products
Guoyuan Natural Dairy Products (Jiangxi) Company Limited[i]	PRC	Registered capital	HK$300,584,100	–	100%	Manufacturing and sales of beverage, dairy related products
Guoyuan Dairy (Xiamen) Import and Export Company Limited[i]	PRC	Registered capital	HK$20,010,000	–	100%	Trading of dairy related products
Tonison Pattern Enterprises Limited	Hong Kong	Ordinary shares	HK$100,000	100%	–	Holding an approval notice for the vehicle and driver from Guangdong Public Security Bureau
Power High Limited	British Virgin Islands	Ordinary shares	US$1	100%	–	Investment holding
Nation Resources Limited	Hong Kong	Ordinary shares	HK$100	–	100%	Trading of food and beverage
Jin Lun Duo Engineering (Shenzhen) Company Limited[i]	PRC	Registered capital	HK$3,000,000	–	100%	Provision of installation and maintenance services
Beijing Jinlunduo Resources Technology Company Limited[i]	PRC	Registered capital	RMB6,000,000	–	100%	Inactive
NZ Natural Dairy Limited	New Zealand	Ordinary shares	NZ100	100%	–	Management services to subsidiaries
NZND Assets Holdings Limited	New Zealand	Ordinary shares	NZ100	–	100%	Property holding

Note:

(i) the English names are for identification purpose only.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

44. PRINCIPAL SUBSIDIARIES *(continued)*

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities subsisting at the end of the year or any time during the year.

45. PRIOR YEAR ADJUSTMENTS

a) Available-for-sale investment

During the period ended 31 May 2010, the Group acquired 20% equity interests in UBNZ AHL by issuance of CN B by the Company with an aggregate initial issued principal amount of HK$552,120,000. The details which are described in Note 19.

According to the Hong Kong Accounting Standard 39 Financial Instruments: Recognition and Measurement (HKAS 39) issued by the Hong Kong Institute of Certified Public Accountants, paragraph 43: "When a financial asset or financial liability is recognised initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability." Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 May 2011

45. PRIOR YEAR ADJUSTMENTS *(continued)*

a) Available-for-sale investment *(continued)*

As UBNZ AHL is a private company at the time of the completion of the acquisition, its fair value could not be reliably measured, the consideration for the acquisition has been used as its fair value at the initial recognition. Pursuant to the valuation report dated 10 June 2011 issued by LCH (Asia-Pacific) Surveyors Limited ("LCH"), independent qualified professional valuer not connected with the Group, the fair value of CN B in connection with the acquisition as at 10 February 2010 was approximately HK$367,198,000. As such, the financial information for the period ended 31 May 2010 has been restated. The effects of the restatement by line items are as follows:

At 31 May 2010

	HK$'000
Decrease in available-for-sale investment	(184,922)
Decrease in liability component of convertible notes	57,983
Decrease in equity component of convertible notes equity reserve	129,643
Decrease in finance costs	(2,704)

b) Other receivables

During the period ended 31 May 2010, the Group had made a deposit payment to UBNZ Trustee Limited (the "Vendor") for the acquisition of remaining 80% equity interests in of UBNZ AHL through the issuance of CN A by the Company with an aggregate initial issued principal amount of HK$276,078,000. The details which are described in Note 24.

Same as disclosed in (a) above, as UBNZ AHL's fair value could not be reliably measured, the deposit payment has been used as its fair value at the initial recognition. The deposit payment consisted with the zero coupon CN A with an aggregate initial issued principal amount of HK$276,078,000. Pursuant to the valuation report dated 25 June 2010 issued by LCH, the fair value of CN A in connection with the acquisition of remaining 80% of the issued share capital of UBNZ AHL as at 21 December 2009 was approximately HK$209,966,000. As such, the financial information of the period ended 31 May 2010 has been restated. The effects of the restatement by line items are as follows:

At 31 May 2010

	HK$'000
Decrease in other receivables, deposits and prepayments	(66,112)
Decrease in equity component of convertible notes equity reserve	66,112

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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45. PRIOR YEAR ADJUSTMENTS *(continued)*

c) Restatement on 2009 and 2010 in respect to the Mining Group

As depicted in Note 2b, the Group had not obtained any financial and operating controls in the Mining Group for the year ended 31 March 2009 and for the period from 1 April 2009 to 31 May 2010. The following demonstrates the effect of not consolidated the Mining Group on the consolidated statement of financial position:

Consolidated statement of financial position as at 31 May 2010:

	Group (as previously reported)	Prior year adjustment (a) & (b)	Group (consolidated of Mining Group)	Mining Group (c)	Adjustments	Group (without consolidated of Mining Group)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	592,689	(184,922)	407,767	(12,495)	12,495	407,767
Current assets	1,041,297	(66,112)	975,185	753	(612)	975,326
Current liabilities	(232,823)	–	(232,823)	83,611	47,059	(102,153)
Total assets less current liabilities	1,401,163	(251,034)	1,150,129	71,869	58,942	1,280,940
Share capital	69,805	–	69,805	(13,565)	13,565	69,805
Reserves	438,443	(193,051)	245,392	85,434	45,377	376,203
Total equity	508,248	(193,051)	315,197	71,869	58,942	446,008
Non-current liabilities	892,915	(57,983)	834,932	–	–	834,932
	1,401,163	(251,034)	1,150,129	71,869	58,942	1,280,940

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For the year ended 31 May 2011

45. PRIOR YEAR ADJUSTMENTS *(continued)*

c) Restatement on 2009 and 2010 in respect to the Mining Group *(continued)*

Consolidated statement of financial position as at 31 March 2009:

	Group (as previously reported)	Mining Group (c)	Adjustments	Group (without consolidated of mining group)
	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	33,403	(12,495)	(12,543)	8,365
Current assets	25,672	753	(289)	26,136
Current liabilities	(149,870)	83,611	36,044	(30,215)
Total assets less current liabilities	(90,795)	71,869	23,212	4,286
Share capital	42,133	(13,565)	13,565	42,133
Reserves	(133,401)	85,434	9,647	(38,320)
Total equity	(91,268)	71,869	23,212	3,813
Non-current liabilities	473	–	–	473
	(90,795)	71,869	23,212	4,286

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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45. PRIOR YEAR ADJUSTMENTS *(continued)*

c) Restatement on 2009 and 2010 in respect to the Mining Group *(continued)*

The effects of the restatement on the prior years consolidated statement of comprehensive income by line items are as follows:

	1.4.2009 to 31.5.2010 HK$'000	1.4.2008 to 31.3.2009 HK$'000
Decrease in turnover	–	5,470
Decrease in loss for the period/year	46,711	95,151
Decrease in other comprehensive income for the period/year	579	70
Decrease in total comprehensive expenses for the period/year attributable to owners of the Company	46,132	95,081

The effect of the restatement on the Group's reserves at 1 April 2009 are summarised below:

	1.4.2009 (Originally stated) HK$'000	1.4.2009 Adjustments HK$'000	1.4.2009 (Restated) HK$'000
Total effect on reserves	(133,401)	95,081	(38,320)

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45. PRIOR YEAR ADJUSTMENTS *(continued)*

c) Restatement on 2009 and 2010 in respect to the Mining Group *(continued)*

The effects of the restatement on the Group's basic loss per share from continuing and discontinued operations for the prior period/year:

	1.4.2009 to 31.5.2010	**1.4.2008 to 31.3.2009**
	HK cents	HK cents
Originally stated	(37.95)	(52.87)
Adjustment arising on adoption of fair value of convertible notes	0.50	–
Adjustment arising on not consolidated Mining Group	8.22	22.58
	(29.23)	(30.29)