天然乳品（新西蘭）控股有限公司

Natural Dairy (NZ) Holdings Limited

(HKEx Stock Code: 00462)

(Incorporated in the Cayman Islands with limited liability)

Interim Report

From 1 June 2011 to 30 November 2011

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wu Neng Kun *(Chairman)*
Mr. Luo Ji *(Managing Director)*
Ms. Ng Yat Fung Miranda
Mr. Yao Hai Sheng
Mr. Zhang Han Wen Jason

Independent Non-Executive Directors

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

AUTHORISED REPRESENTATIVES

Mr. Wu Neng Kun
Mr. Yung Wai Tak Abraham

COMPANY SECRETARY

Mr. Yung Wai Tak Abraham

AUDITOR

ZHONGLEI (HK) CPA Company Limited

LEGAL ADVISER

In Hong Kong:
D.S. Cheung & Co. Solicitors

In Cayman Islands:
Conyers Dill & Pearman, Cayman

In New Zealand:
Knight Coldicutt

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

The Hongkong & Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China (Asia) Ltd

STOCK CODE

00462

COMPANY WEBSITE

www.naturaldairy.hk

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review & highlights:

For the 6 months period from 1 June 2011 to 30 November 2011, the Group's financial performances are summarized as follows;

- Revenue amounted to HK$15,326,000 (Nov 2010: HK$4,027,000). This is 3.8 times jump in sales revenue as compared with the FY2010 comparative sales, showing a smooth transition and recovery of the Group's gross turnover after the implementation of the beverage and dairy related product sales and manufacturing business.

- Loss attributable to shareholders was HK$134,257,000 (November 2010: Loss HK$56,093,000). The surge in loss was mainly due to upfront costs undertaken by (1) JiangXi GuoYuan foods and beverage factory establishment; (2) state-of-the-art PET beverage production erection; (3) PRC branding and marketing promotion; and (4) New Zealand dairy related goods import and distribution process acclimatization.

- Basic loss per share was HK¢7.37, representing a further surge of losses HK¢4.44 per share over the same period of 2010.

OPERATING REVIEW

During the interim period under review, the Company's food and beverage trading and manufacturing business contributed approximately HK$15,326,000 reflects a continuous transition of the Group's sales revenue towards New Zealand dairy foods and beverage trading and production while the electronic spare parts trading was relinquished. The Cost of sales amounted to HK$18,994,000 representing a 1.24 times ratio over the Group's gross sale versus with FY2010: 0.91 times ratio. The JiangXi GuoYuan beverage manufacturing base is at trial production phase within the reviewed period the production output is at extremely low level so is the initial selling team development, and the Cost-of-sales must reflect all such initial establishment costs, therefore the Cost-of-sales has lapsed 5.16 times from previous base of HK$3,683,000. Nevertheless, the gross sales HK$15,326,000 has improved at a lower rate of 3.8 times from past same period sales.

The loss for the period has escalated to HK$134,257,000 from past comparative period of HK$56,093,000, a significant 2.39 times jump. Such losses escalation were due to a combination of factors such as Selling and Distribution expense of HK$30,176,000, the General and Administrative expenses of HK$84,381,000 and an accounting exchange rate loss adjustment of HK$17,374,000. In contrast, the FY2010 loss for the period figure of HK$56,093,000 enjoys an accounting exchange rate gain of HK$43,921,000.

Selling and Distribution Expenses

Since August 2009 the Group has commenced its common food and beverage trading business which mainly are snacks, chili sauces, dried longan, banana chips and pecan nuts; all such sales items are margin limited. Therefore after the 02 October 2009 EGM, the Board has engaged in lucrative dairy related business and building its dairy and beverage distribution and sales network in China with premium dairy and beverage products. During the review period ended 30 Nov 2011, such branding and marketing exercise and network deploying has expenditure amounted to HK$30,176,000 including a series of brand value enhancing and product marketing campaigns to reinforce consumers' concerns on nutrition and health. Responding to the slogan theme of "*Drinking 100% New Zealand Milks*", the Group has launched a series of advertisement, specifically focusing on four aspects, namely quality raw milk supply, quality production, quality control and 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 for 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 boost in the upcoming years.

General and Administrative Expenses

As shown, the General and Administrative expenses in FY2011 stands at HK$84,381,000 (FY2010: HK$75,213,000) records a 12% increase, which is mainly contributed by expansion on employee base arisen from PRC manufacturing and marketing activities and related expense ballooned from HK$16,388,000 to HK$29,322,000. Secondly, factory production license registration and compliance charges increase, and thirdly the recorded depreciation on production fixed assets. All these significant increase are partly accounted by PRC GuoYuan Natural Dairy 國元天然乳品(江西)有限公司 production base establishment.

On good efforts of the management, the Hong Kong office has achieved legal & other professional expense reductions from HK$31,046,000 to current HK$8,069,000. Such savings are originated from (i) the legal, financial advisor, accountants and auditors and all related expenses savings while VSA-1 and VSA-3 acquisition activities are being dwindled; and (ii) stringent control on external professional advisor engagement in both Hong Kong and New Zealand. Armed with professional internal control guidance, the current management team are more hardworking and hand-on to internal analysis and consultation works making external professional consultation more efficient.

Further a close examination on General and Administrative expense category (salaries staff welfare/quarters offices rents and rates, corporate entertainment, business travelling, legal and professional fees, Sunday expenses) on geographical weightings based on the Group's various regional subsidiaries and activities are accounted approximately as: PRC Shanghai (4.56%), PRC Xiamen (12.29%), PRC JiangXi factory (19.50%), PRC FuZhou (7.71%), New Zealand subsidiaries (14.48%) and Hong Kong listed entity (38.23%); whereby Hong Kong has embodied all the group's related legal and listing professional compliance costs.

SEGMENT ANALYSIS

The Group's current turnover HK$15,326,000 for period ended 30 November 2011 were generated from sale of UHT milks and infant formula powder through VSA-1 warrantor UBFM and its invested affiliated partner UBNZ Assets Holdings Limited, which is also the Target Company of VSA-1 acquisition. The unique cost savings advantage embodied by the Company's alliance with UBNZ partner in New Zealand will result in a respectful revenue driver to the Group's turnover in the next few upcoming seasons.

The New Zealand subsidiary focuses on a Chinese Newspaper publication and a exporting company to source and sell local products to South-East Asia.

Further, the JiangXi GuoYuan factory has now trial produced the formulated yellow wine ("福建老酒") which enjoys authoritative Ministry of Commerce awarded "China Time-honored Brand" (「中華老字號」). Also mandarin beverage drinks, Babaozhou snack foods are being produced and initial sale commenced.

On further diversification, the Group future turnover will consist of South Pacific speciality beverage processing and trading such as unique 100% pure NONI juice and wines, premium pacific honey and organic healthcare products. Patents on these NONI juice and healthcare products are on application and lodgements with the PRC authority. The wholly-owned subsidiary in JiangXi will process these South Pacific products and FuZhou will sell & distribute these South Pacific products in China.

The subsidiary Beijing Jinlunduo shall still own, mine and produce and sell iron ore respectively which is still on recovery process within the PRC court legal pursuance actions.

MARKET & BUSINESS PROSPECT

As mentioned in the meeting of NPC after years of contaminated milk melamine scandal, a series of regulations and measures were introduced by the Chinese government such as "Regulation on the Supervision and Administration of the Quality and Safety of Dairy Products", to safeguard quality dairy products and restore consumer's confidence. The Chinese government has announced removal on infant formula import tariff to increase premium dairy supply in PRC. This has created a huge market demand for high premium dairy products whereby New Zealand Dairy products have renowned reputation.

As noted apart from past price hikes, most of the leading infant formula brands in China: are preparing for a latest price revision of 15%-20% upwards and may continue to do so in the near future, citing the underlying surge of international wholesale milk powder (WMP) price and shortage in supply. Inspired to become a leading dairy player, the Group has emphasized on product safety and quality hence our dairy products are sourced and produced in New Zealand, well recognized for its stringent farm monitoring and competitive costs.

During the period under review, the Group's expenditure to develop and expand existing sales and distribution network platform for high-margin dairy related products and South Pacific organic niche beverage which is eyeing on China RMB260 billion healthcare product market. The Company has now become one of the committee members of China Healthcare Association, which is a quasi-government organisation regulating and supervising healthcare markets orientation and growth in China.

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, a shell company UBNZ Assets Holdings Limited ("UBNZ AHL") to assemble its dairy business producing quality milks in New Zealand. The UBNZ AHL shall possess 22 dairy properties farming with 28,398 cattle on approximately 8,674 hectares (approximately 130,110 mu) Fonterra approved farmland which are mainly located in the middle highland area in southern Auckland in the North Island of New Zealand. The valuation estimation to produce at least 5,329,064 kg milksolids per annum, so as to deliver a promissory costs-adjusted profits of NZ$35 million within a 12 months period.

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

The Group on constraint of cash and risk has resorted to issue specific zero-coupon Convertible Notes A & B designated at high premium exercise price to exchange and acquire 100% equity stake of the Target Company, UBNZ AHL. The aggregate issuance are 412,584,000 CN-A Conversion shares and 683,645,000 CN-B Conversion shares, assuming no cash portion, could be used to complete the whole VSA-1 acquisition.

Being assessed by the registered independent valuer LCH (Asia-Pacific) Surveyors Limited, as at the date of the VSA-1 Agreement signed on 22 May 2009, above mentioned whole trench of CN-A "fair value" is determined as HK$332,078,011 and above mentioned whole trench of CN-B "fair value" being HK$338,194,751. As said, if the transaction is solely fully satisfied by issuing all CN-A & B (being "the Consideration") used in exchange for completing the VSA-1 acquisition on the Target Company, such "fair value" served as the Consideration in exchange is HK$670,272,762.

Pursuant to the Agreement and *Hong Kong Accounting Standard: 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 recognized 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 (UBNZ AHL) could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Since UBNZ AHL is a private company at the time of 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.

The Company on assistance of its Financial Advisor and legal practitioner is preparing an announcement setting out details of the 2011 Supplemental Agreement and the Management Agreement and Trademarks which will be published as soon as possible. Such announcement shall spell how the Company would execute the VSA-1 acquisition completion achieving its New Zealand Dairy business objective of producing 5,329,064 kg milksolids annual output so as to underpin its dairy products sales plan in China voted by the shareholders' EGM on 02 October 2009.

VSA-2 Global Food Production Lines & license "LUDE" brand

With reference to the Company's announcement dated 06 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; or (ii) HK$20,000,000 ("Licence Fee"). The Licence Fee for the first 36 months will be settled as to HK$30,000,000 by the issue and allotment of 37,500,000 shares at an issue price of HK$0.8 per share. Completion of the transaction is conditional upon fulfilment (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.

On 03 and 06 January 2012, the Company has announced such VSA-2 acquisition has placed on interim suspension and non-dispatch of circular. Also, the Company has concluded that for the past two years there were neither monetary benefits nor any forms of payments (for instance, Convertible notes or converted shares) or cash have been granted to the Vendor nor enjoyed by the Vendor on this proposed VSA-2 acquisition, except for the mentioned one-dollar lease fee per annum.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

For the period ended 30 November 2011, the Group's net cash inflow from capital fund raising activities amounted to HK$5,476,000 (30 November 2010: HK$101,000,000). Net cash balances (cash and bank balances net of total bank loans) was HK$9,088,000 (31 May 2011: HK$123,490,000); indicating that the Group has access to very limited opportunity of replenishing its cash reserve due to the prolonged shares trading in suspension, hence the net cash position was weak on dwindling fund raising activities.

As at 30 November 2011, the Group reported net current assets of HK$573,608,000 (31 May 2011: HK$715,967,000) and total assets (net of current liabilities) of HK$1,127,252,000 (31 May 2011: HK$1,251,919,000). The Group's current ratio as at 30 November 2011 was 3.96 times (31 May 2011: 7.06 times), showing deterioration on the current asset over (current liabilities) financial position offering a weaker quick ratio due to sharp depletion on Bank balance and cash, a consequence caused by long-time suspension of trading.

Furthermore, HK$100 million of current liabilities to Citywin was a conservative provision for the consideration of the convertible bonds payable for the mines acquired by PRC subsidiaries to a third party, which is not likely payable as believed by the Company since such claim was made by the plaintiff with the last submission presented to the Hong Kong court on 25 September 2009, and since then no further orders were made from the court. Therefore such amount is considered to be highly recoverable, the claim is defended with HK$69 million is used for setting off the respective balances due, and the remaining is disputed and non-payable on non-performance according to the conditional sale contract.

The Group had bank interest-bearing loans HK$4,075,000 as at 30 November 2011 (31 May 2011: nil). The Group's debt-to-asset ratio (total liabilities divided by total assets) as at 30 November 2011 was 0.15 times (compared to the onerous 31 May 2011: 0.086 times), a slight increase on the Company indebtedness reflects initial access to traditional banking facilities. In the past periods most Convertible notes debtholders unanimously surrenderd their entitlements to these debt instruments repayments and exercised its conversion rights into ordinary shares of the Company. On consequence the total equity of the Group stands at HK$1,124,310,000 as at 30 November 2011 (30 November 2010: approximately HK$1,479,310,000). Similarly the debt-to-equity ratio (total debt over total equity) as at 30 November 2011 of the Group remains around 0.174 times (30 November 2010: 0.175 times).

This long-term debt (CN A, B, C, Option Bonds and CN D) swap to equity movements has saved the Company from any long-term debts woes, and transformed the Company to a decent debt-equity capital structure so as to pursue the dairy business opportunity. The capital improvements are more clearly demonstrated by the Capitalization ratio (long-term debt over long-term debt plus total equity) as at 30 November 2011 was a decent 0.038, implies the Company is adequately capitalized against debts bearing in future.

As shown in this report, in conclusion, after the successful fund raising activity in late December 2009 and the later equity conversion exercised by these debtholders during late August and early September 2010, the Group's balance sheet stability and solvency have been upheld so to embrace the Company's on-going business operation, development and expansion.

MORTGAGES AND CHARGE

As at 30 November 2011, similarly, the Group did not have any outstanding mortgage loan (30 Nov 2010: nil). As at 30 November 2011, term deposits of approximately HK$1,234,000 of the Group were pledged to secure the general banking facilities granted.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGEDS

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

CAPITAL COMMITMENTS

Details of the capital commitments of the Group are set out in note 26 to the condensed consolidated financial statements.

DISCONTINUED OPERATIONS

During the period under review, the Group's two subsidiaries, Linfair Capital Limited and Linfair Engineering, were put into voluntary liquidation. The loss incurred and recorded was HK$3,940,000.

The liquidation was approved by shareholders in a special general meeting of the Company and creditors' meeting held on 15 September 2009. The liquidation is still in progress as at the report date. Immediately after completion of the liquidation process, the Group successfully ceased the engineering business which was loss-making and debt-burden.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 November 2011 except for the fair value of the issued Convertible Bonds valued by independent valuer which has been recorded as expenses in the consolidated income statement and amortized over its vesting period.

TREASURY POLICIES AND CAPITAL STRUCTURE

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

EMPLOYEES

As at 30 November 2011, the Group employed a work force of approximately 431 staff members. The remuneration of employees was in line with the market trend and commensurable to the level of pay in the industry. Remuneration of the Group's employees includes basic salaries, bonuses, and long term incentive (such as Pre-IPO Share Options and Share Option Scheme). Total staff cost incurred for the six months ended 30 November 2011 was approximately HK$25,638,644.

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 November 2011 (30 Nov 2010: Nil).

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

The Board of Directors (the "Board") of Natural Dairy (NZ) Holdings Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30 November 2011 as follows. These condensed interim financial statements were not audited but have been reviewed by the Audit Committee.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30 November 2011

		For the six months ended	
		30 November 2011	30 November 2010
	Notes	**HK$'000**	HK$'000 (restated)
Revenue	*4*	**15,326**	4,027
Cost of sales		**(18,994)**	(3,683)
Gross (loss)/profit		**(3,668)**	344
Other income	*5*	**4,372**	13,789
Other gains and losses	*6*	**(18,124)**	43,448
Selling and distribution expenses		**(30,176)**	(12,813)
General and administrative expenses		**(84,381)**	(75,213)
Finance costs	*7*	**(2,280)**	(25,648)
Loss before taxation		**(134,257)**	(56,093)
Income tax	*8*	**–**	–
Loss for the period	*9*	**(134,257)**	(56,093)
Other comprehensive income/(expenses) for the period			
Exchange differences arising on translation of foreign operations		**6,643**	(1,889)
Total comprehensive expenses for the period attributable to owners of the Company		**(127,614)**	(57,982)
Dividends	*10*	**–**	–
Loss per share	*11*		
Basic (cents per share)		**(7.37)**	(4.44)
Diluted (cents per share)		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

At 30 November 2011

	Notes	At 30 November 2011 HK$'000	At 31 May 2011 (Audited) HK$'000
Non-current assets			
Available-for-sale investment	*12*	**367,198**	367,198
Property, plant and equipment	*13*	**185,427**	167,735
Intangible assets	*14*	**1,019**	1,019
		553,644	535,952
Current assets			
Inventories		**92,470**	39,408
Trade receivables	*15*	**62,128**	67,407
Other receivables, deposits and prepayments	*16*	**602,274**	602,682
Funds in escrow and trust accounts		**–**	69
Pledged bank deposits	*24*	**1,234**	1,066
Bank balances and cash		**9,088**	123,490
		767,194	834,122
Current liabilities			
Trade payables	*17*	**8,241**	1,373
Other payables and accrued charges	*18*	**136,124**	71,572
Amount due to a shareholder	*19*	**1,401**	–
Bank borrowings – due within one year	*20*	**1,128**	–
Convertible notes	*21*	**46,692**	45,210
		193,586	118,155
Net current assets		**573,608**	715,967
Total assets less current liabilities		**1,127,252**	1,251,919
Capital and reserves			
Share capital	*22*	**188,256**	188,256
Reserves		**936,049**	1,063,663
Total equity		**1,124,305**	1,251,919
Non-current liability			
Bank Borrowings – due after one year	*20*	**2,947**	–
		1,127,252	1,251,919

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 November 2011

	Share capital	Share premium	Merger reserve (Note a)	Share options reserve	Convertible notes equity reserve	Exchange reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 June 2010 (restated)	69,805	373,588	(14,990)	–	393,591	4,588	(380,574)	446,008
Loss for the period	–	–	–	–	–	–	(56,093)	(56,093)
Other comprehensive expenses for the period	–	–	–	–	–	(1,889)	–	(1,889)
Total comprehensive expenses for the period	–	–	–	–	–	(1,889)	(56,093)	(57,982)
Convertible notes equity component *(Note b)*	–	–	–	–	10,484	–	–	10,484
Share issued upon conversion of convertible notes *(Note c)*	118,451	1,240,197	–	–	(397,748)	–	–	960,900
At 30 November 2010 (restated)	188,256	1,613,785	(14,990)	–	6,327	2,699	(436,667)	1,359,410
At 1 June 2011	188,256	1,613,785	(14,990)	–	6,327	(6,625)	(534,834)	1,251,919
Loss for the period	–	–	–	–	–	–	(134,257)	(134,257)
Other comprehensive income for the period	–	–	–	–	–	6,643	–	6,643
Total comprehensive expenses for the period	–	–	–	–	–	6,643	(134,257)	(127,614)
At 30 November 2011	188,256	1,613,785	(14,990)	–	6,327	18	(669,091)	1,124,305

Notes:

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

(b) During the six months ended 30 November 2010, the Company had issued optional convertible notes of HK$49,000,000 and convertible notes C of HK$52,000,000.

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six months ended 30 November 2011

	For the six months ended	
	30 November 2011 HK$'000	30 November 2010 HK$'000 (restated)
Cash used in operations	**(102,191)**	(90,582)
Income tax paid	**–**	–
Net cash used in operating activities	**(102,191)**	(90,582)
Net cash used in investing activities	**(23,841)**	(37,611)
Net cash from financing activities	**5,476**	101,000
Net decrease in cash and cash equivalents	**(120,556)**	(27,193)
Cash and cash equivalents at 1 June	**123,490**	43,663
Effect of foreign exchange rates changes	**6,154**	(3,099)
Cash and cash equivalents at 30 November	**9,088**	13,371

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION

Statement of compliance

The condensed interim financial information are prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated financial statements do not include all the information and disclosures required for an annual financial statement, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 May 2011 as contained in the Company's Annual Report 2011 (the "Annual Report 2011").

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 May 2011, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by HKICPA which are effective for the Group's financial period beginning on 1 June 2011.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[3]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

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

2 *Effective for annual periods beginning on or after 1 January 2013.*

3 *Effective for annual periods beginning on or after 1 January 2012.*

4 *Effective for annual periods beginning on or after 1 July 2012.*

5 *Effective for annual periods beginning on or after 1 January 2014.*

6 *Effective for annual periods beginning on or after 1 January 2015.*

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 condensed consolidated financial statements of the Group as at 30 November 2011.

4. 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.

Specially, 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

The JiangxiGuoYuan production base Guoyuan Natural Dairy Products (Jiangxi) Company Limited ("Jiangxi Natural Dairy"), a wholly-owned subsidiary of the Company in the PRC has invested over HK$108 million capital expenditure erected a modern beverage and dairy related products manufacture base equipped with advance PET production lines.

Within the accounting period ended 30 November 2011, the recent erected BaBaoZhou Production line is on trial production phase operate below one-fifth of its average output, the winery production is half progress on the one year wine fragmentation phase. Next the advance PET production lines only recently secured various beverage drink products manufacture permits and foods certificates for distribution and sale, no actual scale production have been commence. Therefore, the Group consolidated Cost-of-Sale is extremely high and are distorted by all such up-front Sales cost outlays while the current goods outputs are far from the production lines average outputs level.

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results

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

For the six months ended 30 November 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	49,988	14,961	64,949
Inter-segment revenue	(48,510)	(1,113)	(49,623)
External sales	1,478	13,848	15,326
Segment results	(65,068)	(36,546)	(101,614)
Bank interest income			102
Unallocated corporate income			2,953
Unallocated corporate expenses			(33,418)
Finance cost			(2,280)
Loss before taxation			(134,257)
Income tax			–
Loss for the period			(134,257)

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

For the six months ended 30 November 2010 (Restated)	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			
External Sales	4,027	–	4,027
Segment results	(26,907)	(7,694)	(34,601)
Bank interest income			11,630
Unallocated corporate income			1,980
Unallocated corporate expenses			(9,454)
Finance cost			(25,648)
Loss before taxation			(56,093)
Income tax			–
Loss for the period			(56,093)

5. OTHER INCOME

	For the six months ended	
	30 November 2011 HK$'000	30 November 2010 HK$'000 (restated)
Bank interest income	**102**	11,630
Advertising income	**2,515**	1,889
Management service income	**522**	–
Sundry income	**1,233**	270
	4,372	13,789

6. OTHER GAINS AND LOSSES

	For the six months ended	
	30 November 2011 HK$'000	30 November 2010 HK$'000 (restated)
Exchange (loss)/gain, net	**(17,374)**	43,921
Loss on disposal of property, plant and equipment	**(750)**	(473)
	(18,124)	43,448

7. FINANCE COSTS

	For the six months ended	
	30 November 2011 HK$'000	30 November 2010 HK$'000 (restated)
Interest on bank borrowings wholly repayable within five years	**46**	–
Effective interest expenses on convertible notes	**2,234**	25,648
	2,280	25,648

8. INCOME TAX

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for both periods.

No Hong Kong Profits Tax has been provided in the interim financial statements as there was no assessable profit for the period (2010: Nil).

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

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

9. LOSS FOR THE PERIOD

	For the six months ended 30 November 2011 HK$'000	30 November 2010 HK$'000
Loss for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	**5,843**	2,860
Rental expense under operating leases	**11,261**	4,049
Staff costs (including directors' emoluments)		
– salaries and other benefits	**25,867**	15,298
– staff quarters	**3,812**	1,171
– retirement benefits contribution	**709**	174

10. DIVIDENDS

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 November 2011 (six months ended 30 November 2010: Nil).

11. LOSS PER SHARE

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

	For the six months ended 30 November 2011 HK$'000	30 November 2010 HK$'000 (restated)
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	**(134,257)**	(56,093)
	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,822,563**	1,264,395

No diluted loss per share is presented for the period ended 30 November 2011 and 30 November 2010 as the exercises of the potential dilutive ordinary shares would result in reduction in loss per share.

12. AVAILABLE-FOR-SALE INVESTMENT

	At 30 November 2011 HK$'000	At 31 May 2011 HK$'000
Unlisted securities – Equity securities	**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 30 November 2011 and 31 May 2011 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).

13. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 November 2011, the Group acquired property, plant and equipment amounting to approximately HK$26,997,000 (six months ended 30 November 2010: approximately HK$14,416,000).

14. INTANGIBLE ASSETS

	License right
	HK$'000
COST AND CARRYING VALUES	
Acquisition of a subsidiary on 21 March 2011	1,019
At 31 May 2011 and 30 November 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 23)*.

15. TRADE RECEIVABLES

	At 30 November 2011	At 31 May 2011
	HK$'000	HK$'000
Trade receivables, net of accumulated impairment loss	**62,128**	67,407

An aged analysis of the trade receivables net of accumulated impairment loss at the end of the reporting period is as follows:		
Within 3 months	**1,346**	61,678
4 - 6 months	**120**	–
7 - 12 months	**60,662**	4,027
Over 1 year	**–**	1,702
	62,128	67,407

The Group has a policy of allowing credit period ranging from 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.

16. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At 30 November 2011 HK$'000	At 31 May 2011 HK$'000
Advance to related parties *(Note)*	**497,783**	513,906
Prepayment	**2,544**	3,930
Utility and other deposits	**3,618**	1,483
Deposit paid	**791**	3,398
Payment in advance	**86,726**	70,130
Other receivable	**10,812**	9,937
	602,274	602,784
Less: Provision of impairment	**–**	(102)
	602,274	602,682

Note: At 30 November 2011 and 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 for the year ended 31 May 2011.

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.

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

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$124,106,000 (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$158,445,000 and HK$166,556,000 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 as at 30 November 2011 and 31 May 2011 respectively.

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

17. TRADE PAYABLES

	At 30 November 2011 HK$'000	At 31 May 2011 HK$'000
Trade payables	**8,241**	1,373

An aged analysis of the trade payables is as follows:

Within 3 months	**6,095**	1,365
4 – 6 months	**1,807**	5
7 – 12 months	**247**	3
Over 1 year	**92**	–
	8,241	1,373

18. OTHER PAYABLES AND ACCRUED CHARGES

	At 30 November 2011 HK$'000	At 31 May 2011 HK$'000
Temporary deposits	**30,550**	29,938
Deferred income	**1,540**	1,689
Accrued interest for convertible notes	**16,386**	15,634
Other payables and accruals	**85,221**	22,315
Amounts due to related parties	**2,427**	1,996
	136,124	71,572

19. AMOUNT DUE TO A SHAREHOLDER

The amount due is unsecured, interest-free and repayable within six months.

20. BANK BORROWINGS

	At 30 November 2011 HK$'000	At 31 May 2011 HK$'000
Bank loans – secured *(note a)*	**4,075**	–
Less: Amounts shown under current liabilities	**(1,128)**	–
	2,947	–
Carrying amount repayable *(note c)*:		
Within one year	**1,128**	–
More than one year, but not exceeding two years	**977**	–
More than two years, but not exceeding five years	**1,970**	–
	4,075	–

Notes:

(a) As at 30 November 2011, the bank loans are secured by the Group's motor vehicle with carrying value of HK$5,846,000 and pledged deposit with carrying value of RMB200,000 (or equivalent to HK$244,000).

(b) The effective interest rates of bank borrowings were as follows:

	At 30 November 2011	At 31 May 2011
Hong Kong dollar	**3.5% per annum**	–
Renminbi	**6.1% per annum**	–

20. BANK BORROWINGS *(Continued)*

Notes: (Continued)

(c) The amounts due are based on the scheduled repayment dates set out in the loan agreements.

(d) The carrying amounts of the borrowings are denominated in the following currencies:

	The Group	
	At 30 November 2011 HK$'000	At 31 May 2011 HK$'000
Hong Kong dollar	**3,855**	–
Renminbi	**220**	–
	4,075	–

21. 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 for the year ended 31 May 2011.

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 for the year ended 31 May 2011.

21. 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 for the year ended 31 May 2011. The CN C outstanding at 30 November 2011 is HK$50 million in principal amount with instructions to convert.

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.

21. CONVERTIBLE NOTES *(Continued)*

The movement of the liability component of the convertible notes for the period/year 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
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
Interest charged	–	–	2,234	–	–	2,234
At 30 November 2011	–	–	62,752	–	326	63,078
Analysed for reporting purposes as:						
At 30 November 2011						
Interest accrued	–	–	16,060	–	326	16,386
Current liabilities	–	–	46,692	–	–	46,692
Non-current liabilities	–	–	–	–	–	–
	–	–	62,752	–	326	63,078
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

22. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Authorised:		
Ordinary shares of HK$0.10 each:		
At 31 May 2011 and at 30 November 2011	8,000,000	800,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each:		
At 31 May 2011 and at 30 November 2011	1,882,563	188,256

23. 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	At 31 May 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	*14*	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.

24. PLEDGED BANK DEPOSITS

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

	At 30 November 2011 HK$'000	At 31 May 2011 HK$'000
Bank deposits	**1,234**	1,066

25. CONTINGENT LIABILITIES

Litigation with Citywin

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

	At 30 November 2011 HK$'000	At 31 May 2011 HK$'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 28.

26. COMMITMENTS

(a) Capital commitments

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

26. COMMITMENTS *(Continued)*

(a) Capital commitments *(Continued)*

(i) *(Continued)*

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

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

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

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

26. COMMITMENTS *(Continued)*

(a) Capital commitments *(Continued)*

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

	At 30 November 2011 HK$'000	At 31 May 2011 HK$'000
Contracted but not provided for in respect of:		
– Acquisition of property, plant and equipment	**38,869**	38,751
– Construction in progress	**46,168**	41,257
	85,037	80,008

(b) Operating lease commitments

The Group as lessee

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

	At 30 November 2011 HK$'000	At 31 May 2011 HK$'000
Within one year	**25,284**	20,839
In the second to fifth year inclusive	**40,911**	47,200
Over five years	**13,927**	13,544
	80,122	81,583

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.

27. RELATED PARTY DISCLOSURES

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

	For the six months ended	
	30 November 2011 HK$'000	30 November 2010 HK$'000
Short-term benefits	**1,625**	3,306
Retirement benefits contribution	**6**	15
	1,631	3,321

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

(b) Purchase of goods

	For the six months ended	
	30 November 2011 HK$'000	30 November 2010 HK$'000
– An entity controlled by a substantial shareholder	**43,053**	–

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 30 November 2011 as the purchase was paid in advance.

27. RELATED PARTY DISCLOSURES *(Continued)*

(c) Provision of services

	For the six months ended	
	30 November 2011 HK$'000	30 November 2010 HK$'000
– Entities controlled by a substantial shareholder	**739**	–

The amount of HK$1,297,000 is outstanding as at 30 November 2011. The receivables are unsecured, non-interest bearing and repayable on demand. There are no provisions held against receivables from related parties.

28. 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.

29. EVENTS AFTER THE END OF THE REPORTING PERIOD

Convertible Notes A & B

On 14 December 2011, the Company issued Convertible Notes B ("CN B") amounted to HK$1,243,344,000 and Convertible Notes A ("CN A") amounted to HK$1,078,422,003 in connection with the Management Agreement dated 8 December 2011, which is contemplated under the 2011 Supplemental Agreement dated 8 December 2011 entered into by the Company to, among other things to amend certain terms of the VSA-1 Principal Agreement. Subsequent to the above CN A and CN B issuance, CN A amounted to HK$965,547,573 and CN B amounted to HK$780,000,000 had been converted into a total of 776,219,029 new shares in the Company by the notesholders at conversion prices of HK$2.50 and HK$2.00 respectively. All the unconverted CN A amounted to HK$112,874,430 and CN B amounted to HK$463,344,000 and the converted 776,219,029 new shares are now held by the Company's solicitor in escrow in accordance with the terms of the Management Agreement.

The Company is preparing an announcement setting out details of the 2011 Supplemental Agreement and the Management Agreement which will be published soon as practicable.

Convertible Notes C

As mentioned in prior Note 21, the outstanding CN C HK$50 million in principal amount has been converted into 50,000,000 ordinary shares under respective notesholders as per their irrevocable instructions to convert.

OTHER INFORMATION

REVIEW OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The audit committee has reviewed the Company's unaudited condensed consolidated interim financial information for the six months ended 30 November 2011.

DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES OR DEBENTURES

As at 30 November 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:

Long position in the shares of the Company

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

Notes:

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

Save as disclosed above, as at 30 November 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' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

As at 30 November 2011, the share options granted by the Company under the Pre-IPO Share Options has been lapsed. The Share Option Scheme to the directors to subscribe for shares of the Company, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the company and the Stock Exchange pursuant to the Model Code is set out in the section headed "Share Option" of this report below.

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 30 November 2011, according to the list of Disclosure of Interests Notice filed by substantial shareholders according to Part XV of the Securities and Futures Ordinance for Disclosure of Interest forms published on the news 披露易 of the HKEx Hong Kong Exchanges and Clearing Limited website, the interest of those persons (other than the directors of the Company) in the shares of the Company as recorded in the register was required to be kept by the Company under Section 336 of the SFO according to the Disclosure of Interest Completed Forms received by the Company 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	300,000,000	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 17.27% 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.

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 30 November 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 30 November 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.

SHARE OPTION

(a) Pre-IPO Share Option Scheme

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

As at 30 November 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.

(b) Other Share Option Scheme

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

Participants
Eligible participants include:

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

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

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

SHARE OPTION *(Continued)*

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

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

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

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

(3) the nominal value of the share.

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

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

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

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

(c) Movements of the Other Share Option Scheme

No share option was granted or exercised during the period. As at 30 November 2011, none of options granted was outstanding.

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

During the six months ended 30 November 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed shares of the Company.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout for the six months ended 30 November 2011.

CORPORATE GOVERNANCE

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

INTERNAL CONTROLS

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

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

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers, as amended from time to time (the "Model Code"), set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors. On specific enquiries made, all directors have confirmed that they have complied with the required standard as set out in the Model Code, during the six months ended 30 November 2011.

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

APPROVAL OF INTERIM REPORT

The unaudited condensed consolidated financial statements for the six months ended 30 November 2011 were reviewed by the audit committee. The interim report and unaudited condensed consolidated financial statements were approved and authorised for issue by the Board on 29 February 2011.