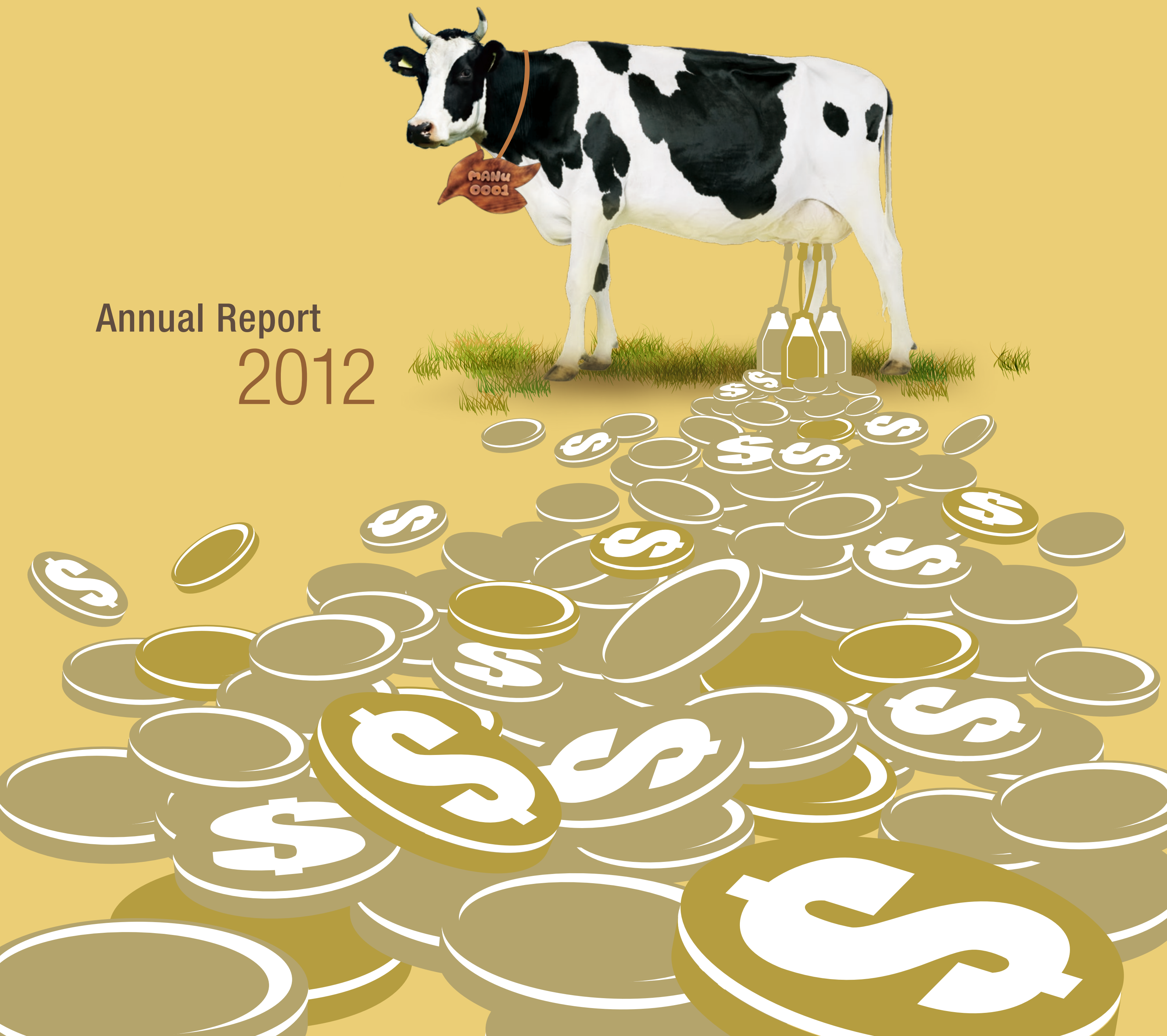
Natural Dairy (NZ) Holdings Limited
天然乳品(新西蘭)控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(HKEx Stock Code: 00462)



Annual Report 2012

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wu Nengkun *(Chairman)*
Mr. Luo Ji *(Managing Director)*
Mr. Yao Haisheng
Mr. Zhang Hanwen
Ms. Ng Yat Fung Miranda (resigned on 1 December 2011)

Independent Non-Executive Directors

Mr. Sze Cheung Hung
Ms. Chan Man Kuen Laura
Mr. Zhang Jianhong (appointed on 19 January 2012)
Mr. Stephen Bryden Kerr (resigned on 1 December 2011)

BOARD COMMITTEES

	Audit Committee	Nomination Committee	Remuneration Committee
Mr. Wu Nengkun	–	C	–
Mr. Yao Haisheng	–	M	–
Ms. Chan Man Kuen Laura	M	M	C
Mr. Sze Cheung Hung	C	M	M
Mr. Zhang Jianhong	M	M	M

C: Chairman of the Committee
M: Member of the Committee

AUTHORISED REPRESENTATIVES

Mr. Wu Nengkun
Mr. Yung Wai Tak Abraham

COMPANY SECRETARY

Mr. Yung Wai Tak Abraham

AUDITORS

Cheng & Cheng Limited (appointed on 1 August 2012)
Zhonglei (HK) CPA Company Limited (resigned on 31 July 2012)

LEGAL ADVISERS

In Hong Kong:
Patrick Mak & Tse
D.S.Cheung & Co., Solicitors
Hon & Co

In Cayman Islands:
Conyers Dill & Pearman, Cayman

In New Zealand:
Knight Coldicutt
Paul Sills

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		1 April 2009 to	**Year ended 31 March**	
	2012	2011	31 May 2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(restated)	(restated)	
Revenue	**30,811**	58,345	59,576	63,007	89,064
Gross (loss)/profit	**(4,227)**	9,528	2,929	13,189	18,495
Loss before income tax	**(331,295)**	(154,260)	(152,364)	(127,260)	(44,643)
Income tax (expenses)/credit	**–**	–	–	(352)	78
Loss for the year/period	**(331,295)**	(154,260)	(152,364)	(127,612)	(44,565)

ASSETS AND LIABILITIES

	At 31 May			**At 31 March**	
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(restated)	(restated)	
Non-current assets	**1,442,550**	535,952	407,767	8,365	49,046
Current assets	**643,432**	834,122	975,326	26,136	169,841
Current liabilities	**(177,028)**	(118,155)	(102,153)	(30,215)	(93,440)
Non-current liabilities	**(247,284)**	–	(834,932)	(473)	(121)
Equity attributable to equity shareholders of the Company	**1,661,670**	1,251,919	446,008	3,813	125,326

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 supports to the Company and its subsidiaries (the "Group").

As the chairman of the Group, I hereby present the Company's year 2012 annual report, which sets out important events and a fair review on the business development of the Group. It includes the progress made by the Company after New Zealand Overseas Investment Office ("OIO") declined the Company's application of acquiring the 80% share capital of UBNZ Assets Holdings Limited ("UBNZ AHL") as the entity purchasing the 16 dairy farms contemporaneously, how does the Company modify such business model accordingly and Company's existing business and trading its operations performance. It also highlighted the strategies adopted by the Company to reposition its dairy related business for the years ahead and all other foregoing business prospects.

VERY SUBSTANTIAL ACQUISITION

On 8 September 2009, the Company issued a Circular to all shareholders and investors for the Very Substantial Acquisition ("VSA-1"). An Extraordinary General Meeting ("EGM") was subsequently held on 2 October 2009, whereby shareholders had voted and approved this VSA-1, which defined in the Circular page 1 states *"The Acquisition of Sale Shares, the Sale Debts, The Option Shares and Outstanding Debt by the Company or one of the its subsidiaries from the Vendor"*. For sale shares consideration, the Company will pay NZ$100 million minus HK$1.00. For option shares consideration, the Company will pay NZ$400 million. Both consideration would be paid in the order of *"firstly by net proceeds from the bank borrowings obtained or fund raising activities completed by the Company on or before the sale shares completion date; and any amount not satisfied immediately shall be satisfied by issue of Convertible Note A and B to the vendor on the terms and subject to the convertible notes conditions"*. Target company, UBNZ AHL, shall therefore own assets of market value NZ$300 million contemporaneously on or before the completion date. Upon sale shares completion, UBNZ AHL shall immediately begins its business of cattle and dairy cattle breeding in New Zealand and production, sale and distribution of livestock and milksolids, to be carried out by the target group on or before sale shares completion including the ownership of the properties, fixed assets, and the Fonterra shares and exporting dairy products to China such as UHT milk. After option shares completion, vendor and warrantor shall deliver a guarantee of audited business profit after tax (which excluding finance costs and any livestock fair value changes) not less than NZ$35 million within 12 months period.

This VSA-1 progress and development is explained in details under "Major Development" in the following Management Discussion and Analysis section.

THE GROUP UNIQUE MARKET POSITION

The Group recognized its unique position of being listed on the world top efficient capital market, Hong Kong Stock Exchange ("HKSE"), while focusing on the most growth-promising consumer market, China. The Group markets one of the desirable consumer goods – imported dairy products, which is a kind of goods that still enjoys price premium in China.

At presence, the global economy is shadowed by the ever-going European debts crisis and at the same time North America is in patchy recovery, China is still one of the few shining stars, although the growth momentum has also affected by and dwindled significantly in recent months of the year in 2012. However, as long as China economy is continuing burgeon, the demand for imported dairy products will remain enormously popular.

Since the widespread of poisoning issues by some Chinese major dairy brandings (such as *SanLu Melamine, and Mengniu recent poisoning incidents etc*), the consumers are still nervous about the local-made dairy products and therefore seek for imported dairy products and are willing to pay higher premium price. The Chinese government has enforced new foods safety codes (中國衛生部2010年4月發佈的食品安全國家新標準) with some special provision on infant formula and UHT milk, which further underpins imported dairy products quality to the consumers.

In view of this market situation, the board of directors and management of the Company are confident that with such enormous growth potential and price premium opportunity to sell and distribute its own dairy related products in China will bring the achievable profitability for the group and its shareholders.

Upon the completion of the VSA-1 Sale Shares stage in February 2010, the Group owns 20% issued share capital of UBNZ AHL which also owns four dairy farms and its business to produce premium fresh milk. Through this acquisition, the Group can ensure premium dairy products upstream supply from New Zealand and subsequently markets them through by the Manager throughout its distribution network and continues with its concept stores network in China.

CONSOLIDATING THE DAIRY BUSINESS

On 3 January 2012 the Company announced the termination of the proposed VSA-2 acquisition, after long drag of two years, there was no monetary exchanges or benefits (for instance convertible notes or shares) have been granted to the vendor of VSA-2, except for the mentioned one-dollar annual lease fees for the usage of "e-SWEET" brands.

Pursuant to the modified VSA-1, a registered (with Chinese authority) trade mark "紐牛" will be used for all the dairy products in China, the rights of use such brand has also granted by the Manager to the Company for the next ten years. The commencement of use of "紐牛" brand starts from 1 June 2012.

In 2010 and 2011, five state distributors of the Company had begun to establish the Concept Stores in China. It is also the Company's strategic plan to develop self-owned retail outlets network to market its own branded dairy related, food and beverage products nationwide, as well as accumulating significant strategic asset value of the Company.

However, due to continuous suspension of trading of the Company shares and distorted CCTV advertisement and other marketing promotion Champaign, affecting the Company to maintain the existing plan of developing the concept stores in China, the directors have written off approximately HK$25 million leasehold improvement.

Up to May 2012, the Group has received approximately 18 million units of UHT milk 250ml packages and 245,000 infant formula canes which were imported from New Zealand under the Manufacturing Agreement dated 9 June 2010.

Chairman's Statement

STRATEGIC REPOSITIONING OF DAIRY BUSINESS STRUCTURE

Considering the Company's shares trading halt and the initial capital expenditure of the retail shops in China, the Company directors have reviewed the existing plan and business model. Since then, the Company has modified the business model and appointed the Company Manager's with revised two distinctive retailing models, (1) *stand-alone specialty shops* model (2) *store-in-shops* model.

The board is confident with the above plans. There are many good role model businesses on the market which had achieved their retailing target. For example, Belle Int' (01880) is Nike and Adidas wholesaler in PRC which stands over 30% of its gross revenue. In 2007, during the Belle Int Pre-IPO disclosure it owned 3,828 specialty retail shops and until June 2011 Belle now owned and operate 11,022 specialty retail shops outrights. In contrast, similar sport retailer Li Ning (02331) have 8,225 sale shops but mostly are *independent franchisee owned*, the Company self-owned shops accounts only for 760 shops. As shown, Belle exhibits a market price per earnings ratio ("PE") of 21.80 over Li Ning readings of PE 13.66 on the year 2011. It seems that owning outright retail shops will grant the Company absolute controls over the service, sale and accounting controls, which is the initial decision made by the directors.

But further examining on Belle Int' self-owned shops retails network has revealed that over 85% of so-called "sale shops" are indeed "*sale counter or sale tents*" established within different famous shopping malls or emporium on the local cities. Most importantly, this study undermines a *cost-effective concept* that deploying sale points within exclusive locality shopping malls, emporium or shopping plaza will enhance the brands market recognition and products acclimatization, therefore selling the product effectively.

The directors have witnessed and reviewed our stand-alone specialty shops network of its sustainability, especially, surviving at the initial establishment stage of a new brand among such competitive environment.

The appointment of Flying Max Limited as a manager enables the Group to deploy similar *"Store-in-Shops or sale tent concept"* within thousands of pharmaceutical shops or other types of outlets which are set up, penetrated or dealt with by its key leader – Mr. Zhao whom had gained over 40 years of his life building the 999 Group's pharmaceutical empire. So, our dairy related products and health products are idealistic selling through these outlets. According to the Management and Trademark Agreement, the Manager's duties are to undertake "selling dairy and health products, food and beverage in PRC operated and to be operated by the Group in China" under the brand "紐牛" or such brands may be introduced by the Manager during the period of its agreement and other beverages manufactured by Group's Jiangxi advanced factory.

Furthermore, the reward of such appointment is on "success" basis upon the Manager delivers approximately HK$209 million net profit during the coming financial year (other terms and conditions are specified in Manager Agreement) for deployments on the proposed business plan.

In the upcoming years, the Group is aiming to import 450 million packs (250 ml) of high quality UHT milk and 2,500,000 infant formula from our strategic processors in New Zealand. Further, additional ranges of dairy products mix such as blueberry, strawberry and chocolate UHT milk and innovation products likes colostrum, sleep well milk or milk powder will also be introduced by the Manager throughout its network in China.

DEVELOPING THE NONI BEVERAGE PRODUCTS TO ENHANCE OUR ADVANTAGES

In June 2010, the Group wholly-owned subsidiary, Guoyuan Natural Dairy Products (Jiangxi) Company Limited, which has erected a 120,000 square meter area of a factory equipped with most advanced, fully-automated PET production and processing facilities, with the intension to produce highly recognized healthy products – Noni Juice (which originated from Pan Pacific Islands) and other dairy related products, fragmented rice wine, organic food and beverage fruit juices and other beverages. The management considers that the introduction of Noni juice and other products, together with its dairy business in China, can create a beneficial synergy to increase the Group revenue and profitability.

CONCLUSION

Building on the Company's modified business model, the management has formulated the attainable development strategies and business goals for the coming years, with an ultimate aim to become a leading dairy market player in China.

ACKNOWLEDGEMENT

Finally, I would like to express my heartfelt gratitude again to our shareholders, customers and business partners for all your support to the Group's reform. I am also grateful to all our employees for their dedication and hard work, which is the strong and driving forces for the Group and its ongoing business development.

Wu Neng Kun
Chairman

Hong Kong, 31 August 2012

Management Discussion and Analysis

FINANCIAL AND OPERATING HIGHLIGHTS

As the current Chinese dairy market is rapidly expanding for the premium quality products, especially the demand for imported dairy products. The Group is strategizing to be specialized on high-end import dairy and organic food products portfolio together with enriching its domestic food and beverage trading activities throughout the year.

For the twelve months ended 31 May 2012, the Group's financial performances are summarized as follows:

- Gross revenue amounted to HK$30.8 million as compared with HK$58.3 million in 2011. Revenue were mainly generated from foods & beverage, rice wine trading and imported milk and dairy related products trading. Decrease in revenue was attributable to unsatisfactory market response during our first year of trading of milk and milk powder and initial development stage of beverage business during the year.

- Net loss attributable to shareholders of the Company was HK$331.3 million, an increase of HK$177.1 million from HK$154.2 million in 2011; increase was mainly due to increase in HK$143.9 million of general and administrative expenses and HK$10.0 million increase in selling and distribution expenses.

- Basic loss per share amounted to HK$14.80 cents resulted by increase in net loss attributable to shareholders of the Company during the year (2011: HK$9.81 cents).

FINANCIAL REVIEW

During the year, the Group recorded a gross loss of HK$4.2 million as compared with a gross profit of HK$9.5 million in 2011. The overall gross loss margin for the year decreased to negative 13.7% (2011: positive 16.3%), primarily resulted by decrease in gross profit margin of dairy products and negative gross profit of beverage business from trial run manufacturing starting from September 2011. By increasing production capacity for beverage products, the gross profit will be improved.

Administrative and General Expense

In 2012, the administrative and general expenses increased to HK$215.6 million versus HK$71.7 million in 2011 increased by HK$143.9 million. Increase was attributable to provision of trade receivables of a customer of HK$30.5 million, written off of retail shop renovation of HK$29.7 million due to re-focus of the selling and distribution strategies during the year, unrealized exchange loss of HK$12.2 million compared with HK$86.7 million exchange gain in 2011 due to depreciation of New Zealand dollars from HK$6.3614 per NZ$ to HK$5.8857 per NZ$.

As the Group's business operations are at the development stage, the administrative and general expenses are expected to decrease to a reasonable level.

Selling and Distribution Expense

Selling and distribution expenses amounted to HK$96.0 million, as compared to HK$85.9 million last year. The increase was mainly attributable to the promotion campaign of UHT milk of HK$54.3 million during the year in PRC for branding our dairy products during the year.

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 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.

Net Loss Attributable to Shareholders of the Company

The Group's loss for the year was HK$331.3 million (2011: HK$154.2 million), The net loss attributable to shareholders of the Company was mainly due to development stage of Jiangxi factory for beverage business and relatively lower sales of dairy products during the year. With repositioning selling and distribution strategies in the coming year, the Group's profit level would be improving.

CAPITAL STRUCTURE

The total equity of the Group was approximately HK$1,661.7 million as at 31 May 2012 (2011: HK$1,251.9 million) decrease was revealed by the net loss attributable to shareholders of the Company by HK$331.3 million. The debt-to-equity ratio (total loans over total equity) of the Group was 0.22 times (2011: 0.09 times) and the finance cost was approximately HK$23.6 million (2011: HK$27.9 million) representing mainly effective interest expense of HK$13.5 million arising from newly issued CN A and CN B and other interest expense of 10.0 million.

As at 31 May 2012, the Group had current assets of approximately HK$643.4 million (2011: HK$834.1 million) and total assets (net of current liabilities) of approximately HK$1,909.0 million (2011: HK$1,251.9 million). The Group's current ratio as at 31 May 2012 was 3.6 times (2011: 7.1 times), decreasing due to extensive usage of cash flows during proliferating stage of factory in Jiangxi. The Group had current liabilities of approximately HK$177.0 million (2011: HK$118.2 million).

As at 31 May 2012, the Group had a net asset value of approximately HK$1,661.7 million (2011: HK$1,251.9 million), comprising non-current assets of approximately HK$1,442.6 million (2011: HK$536.0 million), net current assets of approximately HK$466.4 million (2011: HK$716.0 million) and non-current liabilities of about HK$247.3 million (2011: Nil).

The Group had interest-bearing loan of HK$63.3 million as at 31 May 2012 (2011: Nil). The Group's total liabilities divided by total assets as at 31 May 2012 was 0.20 times (2011: 0.09 times).

LIQUIDITY AND FINANCIAL RESOURCES

The Group finances its operations through a combination of shareholders equity and internally generated cash flows. As at 31 May 2012, the Group had cash and cash equivalents and pledged deposits of approximately HK$2.5 million (2011: HK$124.6 million).

For the year ended 31 May 2012, the Group's net cash inflow from capital fund raising activities and bank loans amounted to HK$63.1 million (31 May 2011: HK$101.0 million). Funds in escrow and trust account was nil (2011: HK$69,000) as at 31 May 2012. By repositioning the selling and marketing strategies onwards, the liquidity and financial resources are going to improve.

PLEDGE OF ASSETS

As at 31 May 2012, the operating lease of office premise located in New Zealand was secured by a bank deposit of the Group of approximately HK$1.0 million (2011: HK$1.1 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 39 to the consolidated financial statements.

Litigation with Citywin Pacific Limited, 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 obliged to supply to the court by the plaintiff to sustain such claims pursuance.

CAPITAL COMMITMENTS

1) Various contractual arrangements with distribution sale target of HK$231.4 million 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 36 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 further issue the remaining 386,219,029 CN-A conversion shares and 150,000,000 CN-B conversion shares to Flying Max Limited, whereas 240,000,000 CN-B conversion shares to issue to Earn Cheers Limited (all are appointed managers in different China region); serving as consideration in exchange to settle the remaining VSA-1 acquisition; no cash is intended for the acquisition.

The Group's capital commitments amounted to approximately HK$78.2 million as at 31 May 2012 (2011: HK$80.0 million), which represented the committed payment of construction of factory in Jiangxi. Details are set out in note 36(a) to the consolidated financial statements.

Details of the other capital commitments of the Group are set out in note 36(a) to the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 May 2012, the Group had a staff force of approximately 336 employees (2011: 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 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.

MAJOR DEVELOPMENT

The business review of the Company detailed the important events and fair view of Company's operations and its performance of the year 2012, particularly on how the Company made progress to VSA-1 after New Zealand Overseas Investment Office ("OIO") declined the application of the Company to acquire Option shares capital of UBNZ Assets Holdings Limited ("UBNZ AHL") which was acquiring 16 Crafar dairy farms simultaneously. Lastly, it highlights on the strategies by the Company to reposition of its dairy related business for the year ended 31 May 2012 and the foregoing development prospects.

VSA-1 Acquisition

On 8 September 2009, the Company has issued an Circular to investors to held an EGM at 2 October 2009, whereby shareholders have voted and approved to acquire an assembled dairy farming business within New Zealand ("NZ") for sale and export of dairy related products to China, such as UHT milks. This VSA-1 acquisition is a cash consideration of NZ$500m with balance by substitution of designated Convertible debts CN A & B, to acquire assets of market value NZ$300m including 22 farmlands interest, 28,398 dairy Cattles, fix production chattels of NZ$5m, goodwill (being waived), contract benefits and works-in-progress stocks (being waived), to be owned by the Target Company UBNZ AHL and shall deliver a 12 months business profit guarantee of NZ$35 million; all being described in same meanings and definition in accordance with the Circular.

On 10 February 2010, the Sale Shares was completed. And the Company has become 20% shareholder of UBNZ AHL (the "Sale Shares completion") by issuing the designated convertible notes B ('CN B') as substitution for cash settlement to UBNZ Trustee Limited (the "Vendor"). Up to the date of this report, there are 4 dairy properties out of 22 dairy properties being owned by the UBNZ AHL whereby it involved cattle and dairy cattle breeding in New Zealand and production, sale and distribution of livestock and milksolids and contract to export dairy related products from New Zealand. The consideration of the above transaction was made by issuing Company's convertible note B for aggregate amount of HK$552,155,998 which were subsequently converted into 276,077,999 ordinary shares. The fair value of the CN B was appraised by Hong Kong registered valuer LCH at HK$367,198,000. The sale shares completion date was on 10 February 2010.

On 21 December 2009, the Company has issued convertible notes A ("CN A") for aggregate amount of HK$276,078,000 which were subsequently converted into 110,431,200 ordinary shares of the Company as deposit to acquire Option Shares of UBNZ AHL on 13 August 2010 and 1 September 2010 respectively. Upon signing of the 2011 Supplemental agreement between the Company and NZ Dairy Trustee Limited ("NZDT") (the vendor of VSA-1), the parties have agreed to escrow the converted 110,431,200 ordinary shares which appointed by the Company. The written instruction has also given to its share registrar, Computershare Hong Kong Investor Services Limited to prevent the transfer of the shares without the consent given by the Company.

Post OIO Declination

On 22 December 2010, upon New Zealand Oversea Investment Office ("OIO") declined the Company's application of acquire the remaining 80% option shares capital of UBNZ AHL as the entity purchasing the 16 dairy farms contemporaneously, and retrospective consent on the 4 farms acquisition. The Company has sought specific legal advice from a Hong Kong Barrister with a report dated 19 July 2011 to conclude whether there are no rescission on the sale and purchase agreement ("Agreement") dated 22 May 2009 by substantial breach on the Sale Shares completion, the Agreement conditions and no damages ramification claims thereunder. Also the Company is being advised to pursue remedy clause 8 contemplated within the Agreement that after the OIO application process is defeated, a commercial renegotiations between the vendor and the Company shall be taken in place.

Furthermore, the Company has also received legal advice from its New Zealand ("NZ") lawyer Knight Coldicutt and stated: *Overseas Investment Acts 2003 ("OIA") clause 10 – Consent and Condition regime states that Clause 10(1) (a, b) an investment owned by a overseas person in sensitive land or in significant business assets, such transaction must obtain a Consent to give effect. The OIA 2003 Part 1 of Schedule 1 spells clearly a sensitive land description, with relevant application to VSA-1, which is a dairy farming land being a "non-urban" land shall not exceed 5 hectares. And Clause 12 described the ownership constraint that a freehold title or a lease or any other interest for a term 3 years or more including rights of renewal. The Clause 13 states any overseas person control on a New Zealand Company of the value of assets, securities or consideration exceeds NZ$100 million and has 25% equity or more ownership; falls within the OIA 2003 clause 10 – Consent and Condition regime.*

After the Company undergone long commercial negotiation with the Vendor to achieve a modified business model with consultations from financial advisor Chanceton Capital Partners and legal advisor D.S. Cheung & Co., the initial drafted frame work of the modified Business model is submitted to HKEx on 14 November 2011. the board and management have proceeded and finalized such modified Business model into the 2011 Supplemental Agreement and Management & Trade Marks License Agreement, with cautious not to fall within *OIA 2003 clause 10 – Consent and Condition regime (statutory application)* but keeping the context of the entire transaction as a whole within frame of the Circular which issued on 9 September 2009.

The Company has sought second legal opinion issued on 8 December 2011 concluding that such Modified Business has not constituted substantial material changes in the context of the entire transaction as a whole, as reads in opinion analysis: "*………. Despite the freehold titles ownership of farmland is no longer available under the Modified Business, an alternative leasing arrangement of similar Fonterra farmlands can retain the same business model without any substantial changes*".

This above said is underpinned by previous aforesaid legal advice, stated that "*Indeed, it is not specified in the Agreement as to what type of interest that the Company is to acquire from UBNZ Fund Management Limited ("UBFM"). The definition of "Farm Agreement" only goes so far to say that the Company will own the "assets" purchase by UBFM under the "Farm Agreement" but does not define what sort of interest to those assets the Company will acquire". The reference to the definition of "Properties" in Schedule 2A to the Agreement also does not prescribe what sort of interest to those "Properties" the Company will acquire*".

Hence, the remaining dairy operation in NZ shall not postulate as a material deviation, in the context of the entire transaction as a whole. Despite VSA-1 transaction is a dairy business focus with significant profit guarantee. Furthermore, the proposed lands leasing arrangement under the 2011 Supplemental Agreement is compensated by non-cash payments but issuing CN A & B at conversion price of HK$2.50 and HK$2.00. In the view of the board and management of the Company, such modification are for the best interest of the Company and its Shareholders.

Further legal opinion issued by a Hong Kong law firm are of the view that the Modified Business does not require further approval of the shareholders as the Directors did act within the authority granted under the resolution passed by the shareholders at the EGM: "*hereby authorized to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Agreement or the transactions contemplated thereunder and the amendments thereto (to the extent such amendments are not material in the context of the entire transaction as a whole)*".

Pursuant to the 2011 Supplemental Agreement and Management Agreement, the dairy sale business undertaken by UBFM was waived and the manager therefore undertaking the sales and marketing of company branding products in China and HK$209 million net profit guarantee will also be undertaking by the Manager by 31 May 2013.

2011 Supplemental Agreement and Management & Trademarks License Agreement

The Company has evaluated these agreements with below basis:

2011 Supplemental executed within New Zealand

(i) No upfront cash payment.

(ii) The 20% Sale shares consideration of the above transaction remain with NZDT as vendor, being the fair value ascertain by Hong Kong registered valuer LCH at HK$367,198,000 as at date 10 February 2010, such CN B previously issued amounted to HK$552,155,998 subsequently converted into 276,077,999 ordinary shares.

(iii) Target assets will not include Properties. Instead the target asset at its market value of NZ$90 million or more but less than NZ$99.9 million including 28,000 cattle and dairy cattle, plant, machinery tools, equipment, vehicles and other chattels, contracts and its rights, to be used for the dairy farming business.

(iv) Due to the OIO's declination, the Target Company (i.e. UBNZ AHL) may sell or transfer the four dairy farms and other assets and rights (other and the assets) then held by it to third party or party nominated by the Vendor. The sale proceeds (net of relevant expenses, if any) of such disposal shall belong to the Vendor, provided that arrangement being satisfied to the Company shall be in place to secure the interests of the Company before such sale or transfer if the assets have not been transferred into UBNZ AHL.

The 2011 Supplemental Agreement stipulates that upon execution of the 2011 Supplemental Agreement, the Vendor shall deposit the shares certificates of 213,077,999 Vendor Escrow Shares in the name of the Vendor with the Company's solicitors to be held in escrow. On 08 December 2011, the Vendor has executed a deed of undertaking in favors of the Company, undertaking not to sell, mortgage, or otherwise dispose of the Vendor escrow shares without the written consent from the Company prior to the asset injection is completed all or in partially half.

Management & Trademarks License Agreement executed outside New Zealand

(v) A reward consideration defined within the Management and Trademarks License Agreement are CN A to be issued to the Manager amounted to HK$1,078,422,003 CN A and HK$1,243,344,000 CN B and procure the transfer of prior depositary shares of 110,431,200 (which was previously issued CN A of the amount HK$276,078,000) from NZDT to the Manager and or its nominee (collectively the "reward consideration"); and

(vi) Upon consent of the Company, the appointed manager Flying Max Limited ("Flying Max") undertakes to deliver the identical HK$209 million within 12 months periods (31 May 2013), but allows any shortfall difference could be fulfilled in next consecutive 12 months period, provided, the made up amounts be not less than the actual audited profits after taxation for the first financial year. (so to "exclude the normal 2nd year net profits contributing to the Profit Guarantee"); and

(vii) Any shortfall will be adjusted by 14 times;

(viii) A "success then paid" scenario. This reward consideration with all CN A & B or their converted shares will not be released, pledged or mortgage prior to Profit Guarantee HK$209 million and Management & Trademarks License Agreement completion. Also, upon such promissory profits has realized, the Company would also benefit from the well-established dairy related products distribution and retailing network throughout China.

Upon completion of VSA-1, pursuant to the VSA-1 S&P Agreement Supplemental and under the Management & Trademarks License agreement, the Company has further issued CN A amounted to HK$1,078,422,003 as part of the "reward consideration" to Flying Max as the Company's appointed manager. And further issue of HK$1,243,344,000 CN B as part of the "reward consideration" are issued to Flying Max and some consideration transferred to Earn Cheers Limited, all as appointed managers in different China regions.

On 16 December 2011, part of these CN A amounted to HK$965,547,573 has been converted into 386,219,029 ordinary shares registered under Flying Max (which are parties independent of the Company and not connected persons). On 2 January 2012, part of these CN B amounted to HK$300,000,000 are converted into 150,000,000 shares registered under Flying Max. And CN B amounted to HK$480,000,000 are converted into 240,000,000 ordinary shares are registered under Earn Cheer Limited name (which are parties independent of the Company and not connected person).

All these shares are under escrow arrangement by the Company solicitor pending for completion.

- all these shares are withheld in escrow by the Company solicitor prior to profit guarantee completion; and

- inspiring the appointed Manager as equity holders on its willingness to perform success UHT milks sale.

Prior to these issuance, the directors has valued these reward consideration CN A and B conversion shares (dated 14 and 16 December 2011) in close approximation to the Company "*Net Tangible Asset, NTA" calculate as the total assets of the Company, minus the intangible assets as goodwill, patents and trademarks, less all liabilities and the par value preferred stock*. Taking reference to 30 November 2011, the Company balance sheet shows a NTA of HK$1,126,233,000 and a total issued shares 1,882,563,000, implying to a NTA of HK$0.5982 per share. Therefore, the directors view part of the reward consideration 776,219,029 CN A & B conversion shares the worthiness is approximate to HK$464,334,000 plus additional 110,431,200 CN A depository shares (paid and value at 10 Feb 2010, as CN A) with an attached fair value of HK$209,965,882 as per LCH's valuation dated 17 August 2011.

On request by the Company independent directors, the remaining reward consideration being, HK$112,874,430 CN A and HK$463,344,000 CN B issued to Flying Max with fair values totalling HK$458,039,000 respectively, all have not converted into shares and are on escrow by the Company served for retained deduction for the penalty mechanism easy cancellation.

In addition, the Company directors have adopted a market observation and comparison analysis to evaluate ("Market Benchmarking"), justify and conclude such reward consideration fairness. It includes collecting, compiling and comparing reliable HKEx observed price per earning ("PE") ratio performance (2009, 2010 & 2011) on dairy related companies, food and beverage companies with brands marketing focus on PRC market and listed supermarket retail chain within PRC. Study and analysis on HKEx companies performance about self-owned versus franchisee retail networks mode within PRC during recent 2010 & 2011 years are done to determine the appropriate PE ratio applicable to this appointed retail specialist manager, Flying Max Limited.

Therefore, alternatively if a market observed PE of 14 times is adopted and applied to the profit guarantee sum HK$209 million (or equivalent to NZ$35 million) which yields a nominal payouts approximate to aggregate face value of the reward consideration CN A and B and deposit CN A.

The Company's strategic decision is to develop self-owned retail shops or retail points network with a practical model within today's China competitive landscape, hence has employed retail specialist, Flying Max to ensure its success.

Strategic Repositioning For The Dairy Related Products Business

The global economy is shadowed by the ever-going European debts crisis and North America is in patchy recovery, with external environment is veiled with so many uncertainties, China is still one of the few shining stars, nevertheless the growth momentum have dwindled significantly in recent months entering year 2012.

Despite slowing down of China economy, 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 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.

Now, the Group has newly establishing an integrated dairy business chain comprising breeding dairy cattle, producing and processing dairy products and selling under its proprietary brand and have tried to retail by its own specialty stores network and state distributors. In addition, 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.

Upon the completion of the VSA-1 Sale Shares in February 2010 the Group has access to premium raw fresh milk, which could be processed by UBNZ AHL factory into sterilized UHT milk exporting to China, selling through its self-owned specialty store network and state distributors in China under its proprietary brand.

The Dairy Business on review

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.

Our strategic processor UBNZ Group's dairy factory in New Zealand has already produced approximately 18 million packs (250 ml) of quality UHT fresh milk and near to 250,000 infant formula cans within the current financial year.

Under the announced Manufacturing Agreement, a 40 millions UHT milk units order have been fully paid-up and a NZ$21 million deposit paid-up for the Manufacturing Agreement. For or the upcoming years, the Company could receive further 22.4 million 250ml UHT units and a final 30.0 million UHT milk units on the ending of the Manufacturing Agreement, with additional over 405,000 infant formula canes to be delivered. Furthermore, 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 could be added.

Resonance on Foods Safety Awareness In China

Dairy products of New Zealand are widely recognized for their prestigious naturalness, purity and stringent hygiene standards which are exempted from inspection in European countries.

The SanLu melamine in 2008 and numerous poison contaminated milk powder news reports have seriously devastated the China consumer confidence on the quality of local dairy products, hence boosting the demand for and price of imported dairy products with high standard and safety.

Armed with premium 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 to be distributed and sale in the forms of alliance by store-in-shops model or self-operated shops or through exclusive wholesaler selling points or shops in the coming years.

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. 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 the pioneer in the Chinese organic fruit beverage market.

Developing the Noni Beverage Products To enhance Our Advantages

In June 2010, the Group wholly-owned subsidiary, Guoyuan Natural Dairy Products (Jiangxi) Company Limited, which has erected a 120,000m^2 factory equipped with most advanced 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 demonstrating healing and health-care qualities. The management considers that the introduction of Noni juice and other products, together with its dairy business in China, can create a beneficial synergy and a diversified products income.

Directors' Biography

EXECUTIVE DIRECTORS

Mr. Wu Nengkun ("Mr. Wu"), aged 29, the chairman, executive director of the Company and chairman of the nomination committee, 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 Natural Dairy Products (Jiangxi) Company Limited).

Mr. Luo Ji ("Mr. Luo"), aged 48, managing director of the Company, 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.

Mr. Yao Haisheng ("Mr. Yao"), aged 43, member of the nomination committee, 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 28, 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.

Ms. Ng Yat Fung Miranda ("Ms. Ng"), the executive director and Chief Financial Officer of the Company, aged 45, 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. She resigned from the Group on 1 December 2011.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sze Cheung Hung ("Mr. Sze"), aged 47, an independent non-executive director and chairman of the audit committee and a member of the nomination committee and remuneration committee of the Company, has over 13 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 rotation pursuant to the bylaws of the Company.

Ms. Chan Man Kuen Laura ("Ms. Chan"), aged 39, an independent non-executive director, a member of the audit committee and nomination committee and the chairman of the remuneration committee of the Company, holds a bachelor degree in law. Ms. Chan has over 12 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 rotation pursuant to the bylaws of the Company.

Directors' Biography

Mr. Zhang Jianhong ("Mr. Zhang"), aged 66, (appointed on 19 January 2012) has years of management experience at various PRC enterprises. He is currently the President of China Western Development Promotion Association. He is a member of the audit committee, nomination committee and remuneration committee.

Mr. Stephen Bryden Kerr ("Mr. Kerr"), aged 59, an independent non-executive director and had been the chairman of audit and a member of the 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. Mr. Kerr resigned from the Group on 1 December 2011.

Directors' Report

The Board of the Company (the "Board") is pleased to present their annual report together with the audited financial statements of the Group for the year ended 31 May 2012.

PRINCIPAL ACTIVITIES

As at 31 May 2012, the Company acts as an investment holding company. The principal activities of its subsidiaries as at 31 May 2012 are set out in note 40 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 35.

The directors do not recommend the payment of a final dividend for the year ended 31 May 2012 (2011: Nil).

SHARE CAPITAL

Details of the movements in the issued share capital of the Company during the year are set out in note 29 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 year are set out in note 16 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate revenue attributable to the Group's largest customer and the five largest customers taken together accounted for approximately 37.2% and 55.4% of the aggregate of Group's total revenue for the year.

During the year, the aggregate purchases attributable to the Group's one supplier is 54.9% aggregate of Group's total purchases for the year.

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 *(Chairman)*
Mr. Luo Ji *(Managing Director)*
Mr. Yao Haisheng
Mr. Zhang Hanwen
Ms. Ng Yat Fung Miranda (resigned on 1 December 2011)

Independent Non-executive Directors:

Mr. Sze Cheung Hung
Ms. Chan Man Kuen Laura
Mr. Zhang Jianhong (appointed on 19 January 2012)
Mr. Stephen Bryden Kerr (resigned on 1 December 2011)

BIOGRAPHICAL DETAILS OF THE DIRECTORS

The biographical details of the directors are set out on page 18 to 19 of this annual report.

DIRECTORS' SERVICE CONTRACTS AND ROTATION

Mr. Sze Cheung Hung and Ms. Chan Man Kuen Laura were re-elected and have not entered into directors' service contract with the Company, and shall be continued thereafter subject to rotation.

In accordance with the provisions of the Company's articles of association, and a Board resolution, Zhang Jianhong, Luo Ji and Yao Haisheng will retire from the Board at the forthcoming annual general meeting and being eligible Zhang Jianhong and Yao Haisheng will offer for re-election, Mr. Luo Ji will retire and not to offer 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' EMOLUMENTS

Details of directors' emoluments on a named basis are set out in note 15 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 year, 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 2012, 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 30 to the consolidated financial statements.

Apart from the aforesaid, at no time during the year 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' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 May 2012, the interests and short positions of each director and chief executive in the shares and underlying shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept by the company under Section 352 of Part XV of the SFO 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)*	700,000	30,000,000	–	–	30,700,000	1.133%
Chan Man Kuen	400,000	–	–	–	400,000	0.015%

Note:

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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31 May 2012, the company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

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	323,509,199		11.94%
Super Worth International Ltd *(Note 1)*	Beneficial	7,552,000		0.28%
Xiamen Hengxing Group Co. Ltd. *(Note 2)*	Beneficial	300,000,000		11.08%
Sky Upright Enterprises Limited *(Note 3)*	Beneficial	72,000,000		2.66%
Zhan King *(Note 3)*	Personal interest	113,140,000		4.18%
Du Lisa *(Note 3)*	Personal interest	79,860,000		2.95%
High Excellent Limited *(Note 4)*	Beneficial	171,000,000		6.31%
Flying Max Limited *(Note 5)*	Beneficial	536,219,029		19.80%
Earn Cheer Ltd *(Note 6)*	Beneficial	240,000,000		8.86%

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 12.22% of the issued shares of the Company. Per the Company Announcement dated 2 February 2011, the trustee of UBNZ Trust was changed from UBNZ Trustee Ltd. to NZ Dairy Trustee Ltd.

2. Xiamen Hengxing Group Co. Ltd. is 99.34% owned by Ke Xiping and his spouse is Liu Haiying. Ke Xiping and Liu Haiying are deemed to be interested in the shares and underlying shares owned by Xiamen Hengxing Group Co. Ltd. Ke Xiping and Liu Haiying jointly owned 11.08% 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 9.78% 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 6.31% of the issued shares of the Company.

5. Flying Max Limited is 100% owned by Ms. Xu Miu Mei who is deemed to be interest in the shares held by Flying Max Ltd of which deemed owned 19.80% of the issued shares of the Company. According to the Company records, Flying Max Ltd owns certain convertible notes, of which was converted into 276,821,772 shares of the Company under certain conditions.

6. Earn Cheer Ltd is 100% owned by Mr. Zhu Fuding who is deemed to be interest in shares held by Earn Cheer Ltd of which deemed owned 8.86% of the issued shares of the Company.

7. Since the issued share capital have been increased, the percentage of the shareholdings held by the shareholders were decreased. Therefore, some of the shareholders used to have substantial interest were not included above.

* The percentage has been adjusted based on the total number of shares of the Company in issue as at 31 May 2012 (i.e. 2,708,782,228). 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 2012, 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, 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 2012, 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.

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 year. As at 31 May 2012, none of options granted was outstanding.

CONNECTED TRANSACTION

The on-going MU Agreement ("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 38 to the 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, except that Flying Max is appointed as Manager pursuance to the Management of Trademarks Licence Agreement signed with the Company dated 8 December 2012 together with the 2011 Supplemental Agreement of VSA-1.

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.

SUSPENSION OF TRADING OF SECURITIES

At the request of the Company, trading in the shares (stock code: 462) of the Company was suspended with effect on 7 September 2010 pending the release of announcement in respect of certain price-sensitive information. The Company will continue to work closely with the Stock Exchange on an announcement with respect to matters which led to the Company's suspension of trading of its securities and will apply to Stock Exchange for the resumption of trading of its shares as soon as practicable.

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on page 27 to 32 of this Annual Report.

EVENT AFTER THE END OF THE REPORTING PERIOD

Details of significant events after the end of the reporting period are provided in Note 41 to the Consolidated Financial Statements.

AUDITORS

Zhonglei (HK) CPA Company Limited, who acted as auditor for last year resigned as auditor of the Company on 31 July 2012. Cheng & Cheng Limited was appointed on 1 August 2012 to fill the casual vacancy.

The consolidated financial statements for the year were audited by Cheng & Cheng 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 2012

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, maintain high standards of accountability and protect interests of shareholders and other stakeholders.

The Company has plan to improve the compliance with corporate governance practices, the key features include the engagement of an independent third party, Zenith Risk Management Advisory Limited, to review and give recommendations on internal control system and corporate governance.

(A) CODE OF BEST PRACTICES AND CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in Corporate Governance Code and Corporate Governance Report (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 April 2012. 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.

(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, remuneration committee and nomination 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 during the year and up to the date of this report were:

Executive Directors:
Mr. Wu Nengkun
Mr. Luo Ji
Mr. Yao Haisheng
Mr. Zhang Hanwen
Ms. Ng Yat Fung Miranda (resigned on 1 December 2011)

Independent Non-executive Directors:
Mr. Sze Cheung Hung
Ms. Chan Man Kuen Laura
Mr. Zhang Jianhong (appointed on 19 January 2012)
Mr. Stephen Bryden Kerr (resigned on 1 December 2011)

Number of meetings held and attendance

The Board meets at times as and when required to review financial and internal control, risk management, company strategy and operating performance of the group. During the year ended 31 May 2012, a total number of 62 Board meetings, 2 audit committees 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 year ended 31 May 2012 were set out below:

	Attendance/Number of Meetings entitled to attend		
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Mr. Wu Nengkun	58/62	–	–
Mr. Luo Ji	57/62	–	–
Mr. Yao Haisheng	59/62	–	–
Mr. Zhang Hanwen	62/62	–	–
Mr. Sze Cheung Hung	8/12	2/2	1/1
Ms. Chan Man Kuen Laura	10/12	2/2	1/1
Mr. Zhang Jianhong	2/4	–	–
Ms. Ng Yat Fung Miranda	0/27	–	–
Mr. Stephen Bryden Kerr	2/4	1/1	1/1

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.

Independent non-executive directors were appointed for a term of three years commencing from the date of their election at the last AGM. The appointment shall terminate on the earlier of (i) three years from election at the AGM, (ii) the date on which the director ceases to be Director for any reasons pursuant to the articles of association of the Company or any other applicable laws or (iii) resign.

(D) AUDIT COMMITTEE

The audit committee has been established. It currently consists of three independent non-executive directors namely Mr. Sze Cheung Hung as Chairman, Ms. Chan Man Kuen Laura and Mr. Zhang Jianhong as members.

The audit committee meets at least twice a year to review the group's financial reporting process and internal control system. During the year 31 May 2012, a total number of 2 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 29 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 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 met two times for the year ended 31 May 2012. Work undertaken by the audit committee included:

1. reviewing the financial statements for the year ended 31 May 2012 and for the six months ended 30 November 2011;

2. reviewed the independence and objectivity of the external auditors;

3. the scope of audit services and related audit fees payable to the external auditors for the Board's approval;

4. reviewed the accounting principles and practices adopted by the group; and

5. reviewing internal control and risk management system.

(E) NOMINATION COMMITTEE

The Board has established a nomination committee with effect from 30 March 2012. The nomination committee is chaired by Mr. Wu Nengkun, Mr. Yao Haisheng, Ms Chan Man Kuen Laura, Mr. Sze Cheung Hung and Mr. Zhang Jianhong as members. The majority of the members of the nomination committee are independent non-executive Directors.

The Company has adopted written terms of reference for the nomination committee and perform the following duties:

1. review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorship;

3. assess the independence of independent non-executive directors;

4. make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive; and

5. The nomination committee should make available its terms of reference explaining its role and the authority delegated to it by the Board by including them on the Exchange's website and the Company's website.

Since the set up of the Nomination Committee on 30 March 2012, no meeting had been held for the year ended 31 May 2012.

(F) REMUNERATION COMMITTEE

The remuneration committee has been established. It currently consists of three independent non-executive directors of the Company namely, Ms. Chan Man Kuen Laura as chairperson, Mr. Sze Cheung Hung, and Zhang Jianhong as members.

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 responsibilities of the remuneration committee are:

1. to make recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal procedure for development of remuneration policy;

2. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

3. to make recommendations to the Board on the remuneration packages of individuals executive directors and senior management;

4. to make recommendations to the Board on the remuneration of non-executive directors;

5. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;

6. to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and otherwise fair and not excessive;

7. to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

8. to ensure that no director or any of his associates is involved in deciding his own remuneration.

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 2012, a 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 29 of this report.

Work undertaken by the Remuneration Committee for the year ended 31 May 2012 included:

1. reviewing the remuneration policy;

2. reviewing the remuneration of the executive directors and the independent non-executive directors of 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.

Auditor's remuneration

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

	2012 HK$'000	2011 HK$'000
Nature of services		
Audit	**1,200**	700
Non-audit services	**438**	983
	1,638	1,683

(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 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 coming year.

(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

CHENG & CHENG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
鄭鄭會計師事務所有限公司

10/F., Allied Kajima Building,
138 Gloucester Road, Wanchai, Hong Kong

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

We have audited the consolidated financial statements of Natural Dairy (NZ) Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 35 to 102 which comprise the consolidated statement of financial position as at 31 May 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 May 2012, and a summary of significant accounting policies and other explanatory information.

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. This report is made 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.

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 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.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 May 2012 and of the Group's loss and cash flows for the year then ended 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.

Cheng & Cheng Limited
Certified Public Accountants

Li Wing Sum Steven
Practising Certificate number P03747
Hong Kong
31 August 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 May 2012

	Note	2012 HK$'000	2011 HK$'000
Revenue	8	30,811	58,345
Cost of sales		(35,038)	(48,817)
Gross (loss)/profit		(4,227)	9,528
Other income	9	8,139	21,627
Selling and distribution expenses		(95,952)	(85,868)
General and administrative expenses		(215,633)	(71,677)
Finance costs	10	(23,622)	(27,870)
Loss before taxation		(331,295)	(154,260)
Income tax	11	–	–
Loss for the year attributable to owners of the Company	12	(331,295)	(154,260)
Other comprehensive income/(expenses)			
Exchange difference arising on translation of foreign operations		5,642	(11,213)
Total comprehensive expenses for the year attributable to owners of the Company		(325,653)	(165,473)
Dividends	13	–	–
Loss per share	14		
Basic		(14.80) HK cents	(9.81) HK cents
Diluted		N/A	N/A

Consolidated Statement of Financial Position

At 31 May 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	16	151,960	167,735
Intangible assets	17	1,019	1,019
Available-for-sale investment	18	367,198	367,198
Prepayment	21	922,373	–
		1,442,550	535,952
Current assets			
Inventories	19	41,087	39,408
Trade receivables	20	22,400	67,407
Other receivables, deposits and prepayments	21	577,445	602,682
Funds in escrow and trust accounts	22	–	69
Pledged bank deposits	23	986	1,066
Bank balances and cash		1,514	123,490
		643,432	834,122
Current liabilities			
Trade payables	24	18,636	1,373
Other payables and accrued charges	25	94,912	69,576
Bank loans and other borrowings	26	60,835	–
Amount due to related companies		2,645	1,996
Convertible notes	27	–	45,210
		177,028	118,155
Net current assets		466,404	715,967
Total assets less current liabilities		1,908,954	1,251,919

Consolidated Statement of Financial Position

At 31 May 2012

	Note	**2012 HK$'000**	2011 HK$'000
Capital and reserves			
Share capital	*29*	**270,878**	188,256
Reserves		**1,390,792**	1,063,663
Total equity		**1,661,670**	1,251,919
Non-current liabilities			
Bank loans and other borrowings	*26*	**2,467**	–
Deferred taxation	*28*	**65,486**	–
Convertible notes	*27*	**179,331**	–
		247,284	–
		1,908,954	1,251,919

The consolidated financial statements on pages 35 to 102 were approved and authorised for issue by the board of directors on 31 August 2012.

Wu Nengkun
Executive Director

Yao Haisheng
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 May 2012

	Share capital *(Note 29)* HK$'000	Share premium HK$'000	Merger reserve *(Note a)* HK$'000	Convertible notes equity reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK'000	Total HK$'000
At 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 b)*	–	–	–	10,484	–	–	10,484
Shares issued upon conversion of convertible notes *(Note c)*	118,451	1,240,197	–	(397,748)	–	–	960,900
At 31 May 2011 and 1 June 2011	188,256	1,613,785	(14,990)	6,327	(6,625)	(534,834)	1,251,919
Loss for the year	–	–	–	–	–	(331,295)	(331,295)
Other comprehensive income	–	–	–	–	5,642	–	5,642
Total comprehensive income/ (expenses) for the year	–	–	–	–	5,642	(331,295)	(325,653)
Convertible notes equity component *(Note d)*	–	–	–	222,394	–	–	222,394
Recovery of deferred taxation from convertible notes equity component *(Note 28)*	–	–	–	1,812	–	–	1,812
Shares issued upon conversion of convertible notes *(Note c)*	82,622	434,903	–	(6,327)	–	–	511,198
At 31 May 2012	**270,878**	**2,048,688**	**(14,990)**	**224,206**	**(983)**	**(866,129)**	**1,661,670**

Note:

(a) The merger reserve of the Group represented the difference between the nominal value of the share 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 year ended 31 May 2011, the Company issued Optional CN of HK$49,000,000 and CN C of HK$52,000,000.

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

(d) On 14 December 2011, CN A of HK$112,874,430 and CN B of HK$463,344,000 were issued.

Consolidated Statement of Cash Flows

For the year ended 31 May 2012

	Note	2012 HK$'000	2011 HK$'000
Cash flow from operating activities			
Loss before taxation		(331,295)	(154,260)
Adjustments for:			
Bank interest income		(130)	(13,912)
Depreciation of property, plant and equipment		18,706	7,843
Finance costs		23,622	27,870
Impairment loss in respect of inventories		–	1,220
Impairment loss in respect of trade receivables		30,583	–
Loss on disposal of property, plant and equipment		2,414	524
Written off of property, plant and equipment		29,710	–
Operating loss before working capital changes		(226,390)	(130,715)
Increase in inventories		(1,679)	(40,628)
Decrease/(increase) in trade receivables		14,424	(33,317)
Decrease/(increase) in other receivables, deposits and prepayments		25,237	(57,180)
Increase/(decrease) in trade payables		17,263	(25,574)
Increase in other payables and accrued charges		14,520	49,148
Increase in amount due to related companies		649	–
Cash used in operations		(155,976)	(238,266)
Tax paid		–	–
Net cash used in operating activities		(155,976)	(238,266)
Investing activities			
Decrease in funds in escrow and trust accounts		69	351,106
Purchases of property, plant and equipment		(39,879)	(130,284)
Increase in pledged bank deposits		–	(170)
Proceeds from disposal of property, plant and equipment		6,783	–
Interest received		130	13,912
Cash outflow arising from acquisition of subsidiaries	31	–	(1,009)
Net cash (used in)/from investing activities		(32,897)	233,555

Consolidated Statement of Cash Flows

For the year ended 31 May 2012

	2012 HK$'000	2011 HK$'000
Financing activities		
Proceeds from issue of convertible notes	–	101,000
Proceeds from bank loans	4,000	–
Proceeds from other borrowings	59,892	–
Interest paid	(170)	–
Repayment of bank loans	(590)	–
Net cash from financing activities	63,132	101,000
Net (decrease)/increase in cash and cash equivalents	(125,741)	96,289
Cash and cash equivalents at beginning of the year	123,490	43,663
Effect of foreign exchange rates change	3,765	(16,462)
Cash and cash equivalents at end of the year	1,514	123,490

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

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 were 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 has been suspended since 7 September 2010 and resumption of trading of the shares is pending for certain conditions addressed by the Stock Exchange to be satisfied.

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 (i) trading of foods & beverage and dairy related products; and (ii) manufacturing and sales of beverage and dairy related products.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for certain financial instruments which are measured at fair values as explained in the accounting policies set out below. 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$"). The consolidated financial statements are presented in HK$, and all values are rounded to the nearest thousand except where otherwise indicated.

In preparing these financial statements, the directors of the Company (the "Directors") have given careful consideration to the impact of the current and anticipated future liquidity of the Group and the ability of the Group to attain positive cash flow operations in the immediate and longer term.

In order to strengthen the capital base of the Group and to improve the Group's financial position, liquidity and cash flows in the immediate foreseeable future, and otherwise to sustain the Group as a going concern, the Directors have adopted the following measure.

Financial support by an independent third party

An independent third party has agreed to provide financial support to the Company. In addition, the Company can issue 109,000,000 HK$1 convertible note C for raising fund for operational use purpose upon resumption of trading of shares of the Company in the Stock Exchange.

In the opinion of the Directors, with the financial support and the convertible notes, the Group will have sufficient working capital for its current requirements. Accordingly, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis.

3. APPLICATION OF NEW AND REVISED 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 HKFRSs and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRSs (Improvements)	Improvements to HKFRSs 2010
HKAS 24 (Amendments)	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 year has had no material effect on the amounts reported in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective:

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

1. Effective for annual periods beginning on or after 1 July 2011.
2. Effective for annual periods beginning on or after 1 January 2012.
3. Effective for annual periods beginning on or after 1 July 2012.
4. Effective for annual periods beginning on or after 1 January 2013.
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 anticipate that the application of these new and revised HKFRSs will have no material impact on the results and financial position of the Group.

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

4. SIGNIFICANT ACCOUNTING POLICIES

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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 HKFRSs.

When 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" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at 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.

The policy described above is applied to all business combination that take place on or after 1 January 2010.

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

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.

Rental income net of incentives gain to lessees is recognised on a straight-line basis over the lease term.

Sundry income is recognised whenever it is received or receivable.

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.

Interests 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.

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	10% – 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.

Intangible assets

Intangible assets other than expenditure on research activities, that are acquired by the Company are stated in the statement of financial position at cost less accumulated amortization (where the estimated useful life is finite) and impairment loss. Expenditure on internally generated goodwill and brands is recognized as an expense in the period in which it is incurred.

Intangible assets are not amortized while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives.

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies translation *(continued)*

(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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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 year. 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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. 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 2012

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

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 2012

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 assets, 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.

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.

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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.

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.

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Convertible notes (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

(iii) the entity and the Group are joint ventures of the same third party;

(iv) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

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

(vi) a person identified in (a)(i) has significant influence over the entity.

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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 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.

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.

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

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.

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 year.

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 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.

Notes to Consolidated Financial Statements

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7. FINANCIAL INSTRUMENTS

(i) Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets		
Loans and receivables	265,421	420,509
Available-for-sale investment	367,198	367,198
	632,619	787,707
Financial liabilities		
Amortised cost	358,826	118,155

(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.

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

7. FINANCIAL INSTRUMENTS *(continued)*

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

Currency risk *(continued)*

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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
New Zealand dollars	**3,252**	3,426	**–**	–
Renminbi	**–**	–	**48**	–
United States dollars	**2**	367	**–**	–

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:

	2012	2011
	HK$'000	HK$'000
NZ$ Impact	**272**	286
RMB Impact	**(4)**	–
US$ Impact	**–**	26

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

7. FINANCIAL INSTRUMENTS *(continued)*

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

Interest rate risk

The Group exposed to cash flow interest rate risk to pledge bank deposits and bank balances 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 2012 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.

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 2012

	Weighted average interest rate %	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 5 years HK$'000	More than 5 years HK$'000
Trade payables	–	18,636	18,636	18,636	–	–
Other payables and accrued charges	–	94,912	94,912	94,912	–	–
Convertible notes	14.13%	179,331	576,218	–	–	576,218
		292,879	689,766	113,548	–	576,218

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

7. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk (continued)

At 31 May 2011

	Weighted average interest rate %	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 5 years HK$'000	More than 5 years 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	–	–

Fair value

(i) Financial instruments carried at fair value

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

7. FINANCIAL INSTRUMENTS *(continued)*

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

Fair value *(continued)*

(i) Financial instruments carried at fair value (continued)

The following table presents the Group's financial instruments that are measured at fair value at 31 May 2012:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Available-for-sale financial assets *(Note 18)*				
– Equity securities	–	–	367,198	367,198
Total assets	–	–	367,198	367,198

The following table presents the Group's financial instruments that are measured at fair value at 31 May 2011:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Available-for-sale financial assets *(Note 18)*				
– Equity securities	–	–	367,198	367,198
Total assets	–	–	367,198	367,198

The fair values of financial instruments traded in active markets are based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price. These instruments are included in level 1.

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

7. FINANCIAL INSTRUMENTS *(continued)*

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

Fair value *(continued)*

(i) Financial instruments carried at fair value (continued)

The fair values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There was no changes in level 3 instruments for the year ended 31 May 2012.

(ii) Fair values of financial instruments carried at other than fair value

The fair values of financial assets and financial liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

8. REVENUE AND SEGMENT INFORMATION

Information reported to the Directors, 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

Segment revenues and results

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

For the year ended 31 May 2012	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	13,035	17,776	30,811
Segment results	(179,491)	(64,080)	(243,571)
Bank interest income			130
Unallocated corporate income			8,009
Unallocated corporate expenses			(69,827)
Loss on disposal of property, plant and equipment			(2,414)
Finance costs			(23,622)
Loss before taxation			(331,295)

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 May 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			
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			(19,713)
Loss on disposal of property, plant and equipment			(524)
Finance costs			(27,870)
Loss before taxation			(154,260)

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

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

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:

At 31 May 2012	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	666,595	220,499	887,094
Unallocated corporate assets			1,198,888
Consolidated assets			2,085,982
LIABILITIES			
Segment liabilities	289,248	93,566	382,814
Unallocated corporate liabilities			41,498
Consolidated liabilities			424,312

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

At 31 May 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

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 2012

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Other segment information

Amounts included in the measure of segment results or segment assets:

For the year ended 31 May 2012	**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**
Property, plant and equipment additions	**6,916**	**32,596**	**367**	**39,879**
Depreciation of property, plant and equipment	**4,451**	**8,095**	**6,160**	**18,706**
Loss on disposal of property, plant and equipment	**–**	**–**	**2,414**	**2,414**

For the year ended 31 May 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
Property, plant and equipment 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

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 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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**–**	4,027	**13,960**	29,066
PRC	**30,516**	54,318	**1,051,874**	127,629
New Zealand	**295**	–	**376,716**	379,257
	30,811	58,345	**1,442,550**	535,952

Information about major customers

For the year ended 31 May 2012, revenue from a customer of the Group amounting to HK$11,457,000 had accounted for over 10% of the Group's total revenue.

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 respectively had individually accounted for over 10% of the Group's total revenue.

9. OTHER INCOME

	2012	2011
	HK$'000	HK$'000
Bank interest income	**130**	13,912
Advertising income	**3,596**	4,038
Management service income	**–**	1,390
Rental income	**1,585**	411
Sundry income	**2,828**	1,876
	8,139	21,627

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

10. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Effective interest expenses on convertible notes	13,474	27,870
Bank interest expense	170	–
Interest on other borrowings	9,978	–
	23,622	27,870

11. INCOME TAX

Hong Kong profits tax was calculated at 16.5% on the estimated assessable profits for the year (2011: 16.5%).

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 (2011: 25%).

Taxation on overseas profits has been calculated based on the estimated assessable profits for the year at the rate of taxation prevailing in the country in which the Group operates.

No Hong Kong profits tax, PRC income tax and overseas income tax has been provided in the consolidated financial statements as there was no assessable profit for the year (2011: Nil).

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

	2012 HK$'000	2011 HK$'000
Loss before taxation:	(331,295)	(154,260)
Tax at the domestic income tax rate	(54,663)	(25,453)
Tax effect of income not taxable for tax purposes	(25)	(20,954)
Tax effect of expenses not deductible for tax purposes	33,639	34,790
Tax effect of tax losses not recognised	43,731	22,320
Effect of different tax rates of subsidiaries operating in the jurisdictions	(22,682)	(10,703)
Income tax for the year	–	–

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

12. LOSS FOR THE YEAR

	2012 **HK$'000**	2011 HK$'000
Loss for the year has been arrived at after charging/(crediting):		
Auditors' remuneration	**1,638**	1,683
Depreciation of property, plant and equipment	**18,706**	7,843
Cost of inventories recognised as an expense *(Note a)*	**34,984**	50,037
Impairment loss in respect of inventories	**–**	1,220
Impairment loss recognised for trade receivables	**30,583**	–
Exchange loss/(gain), net	**12,192**	(86,671)
Loss on disposal of property, plant and equipment	**2,414**	524
Promotion expenses *(Note b)*	**54,268**	–
Written off of property, plant and equipment	**29,710**	–
Rental expense under operating leases	**23,126**	11,484
Staff costs (including directors' emoluments – *Note 15*)		
– salaries and other benefits	**42,127**	38,777
– staff quarters	**6,325**	3,051
– retirement benefits contribution	**1,938**	746

Note a: During the year ended 31 May 2012, cost of inventories recognised as an expense included impairment loss of HK$Nil (2011: HK$1,220,000)

Note b: During the year ended 31 May 2012, the inventories used in the promotion campaign of UHT milk for branding dairy products in PRC amounted to HK$54,268,000 (2011: Nil).

13. DIVIDENDS

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

14. LOSS PER SHARE

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

	2012 **HK$'000**	2011 HK$'000
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	**(331,295)**	(154,260)
	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares for the purpose of basic loss per share	**2,239,026**	1,572,632

No diluted loss per share amounts were presented for the years ended 31 May 2012 and 31 May 2011 in respect of a dilution as the impact of exercising the convertible notes outstanding had an anti-dilutive effect on the basic loss per share.

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For the year ended 31 May 2012

15. 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 2012

	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)*	–	417	–	–	417
Ms. Ng Yat Fung Miranda *(Note 2)*	–	375	–	6	381
Mr. Luo Ji *(Note 3)*	–	266	–	–	266
Mr. Yao Haisheng *(Note 4)*	–	215	–	–	215
Mr. Zhang Hanwen *(Note 5)*	–	215	–	–	215
	–	1,488	–	6	1,494
Independent non-executive directors:					
Mr. Stephen Bryden Kerr *(Note 6)*	145	–	–	–	145
Mr. Sze Cheung Hung	257	–	–	–	257
Ms. Chan Man Kuen Laura	257	–	–	–	257
Mr. Zhang Jian Hong *(Note 7)*	30	–	–	–	30
	689	–	–	–	689
Total	689	1,488	–	6	2,183

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

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

(a) Directors' emoluments *(continued)*

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. Chan Wai Kay Katherine *(Note 8)*	–	600	–	3	603
Mr. Yip Kean Man *(Note 9)*	–	666	–	–	666
Mr. Graham Chin *(Note 10)*	–	391	–	–	391
Mr. Yan Feng *(Note 11)*	–	130	–	–	130
Mr. Ng Chun Ming *(Note 12)*	–	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

Note:

1. Mr. Wu Nengkun was appointed on 11 August 2010.
2. Ms. Ng Yat Fung Miranda was appointed on 11 August 2010 and resigned on 1 December 2011.
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.

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

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

(a) Directors' emoluments *(continued)*

Note: (continued)

6. Mr. Stephen Bryden Kerr resigned on 1 December 2011.
7. Mr. Zhang Jian Hong was appointed on 19 January 2012.
8. Ms. Chan Wai Kay Katherine resigned on 25 January 2010.
9. Mr. Yip Kean Man was appointed on 4 January 2010 and resigned on 24 September 2010.
10. Mr. Graham Chin was appointed on 14 September 2009 and retired on 8 December 2010.
11. Mr. Yan Feng was appointed on 4 January 2010 and retired on 8 December 2010.
12. Mr. Ng Chun Ming was appointed on 4 January 2010 and resigned on 24 September 2010.

None of the Directors 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 year and last year.

(b) Five highest paid employees

Of the five individuals with the highest emoluments in the Group, two (2011: two) are Directors whose emoluments are set out in Note 15(a). The emoluments of the remaining three (2011: three) highest paid individuals were as follows:

	2012 HK$'000	2011 HK$'000
Salaries and other benefits	2,608	3,448
Retirement benefits scheme	36	3
	2,644	3,451

The emoluments of the three (2011: three) highest paid employees fall in the following bands:

	Number of employees 2012	2011
Nil to HK$1,000,000	2	1
HK$1,000,000 to HK$1,500,000	1	2
Over HK$1,500,000	–	–

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 year and last year.

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16. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and building 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 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 and at 1 June 2011	3,817	108,145	10,285	4,863	3,514	3,651	8,853	35,035	178,163
Additions	–	21,300	2,470	7,963	2,362	1,808	908	3,068	39,879
Transfer in/(out)	–	(131,522)	106,430	25,092	–	–	–	–	–
Eliminated on disposals	–	–	–	–	(59)	(47)	–	(13,465)	(13,571)
Written off	–	–	(29,710)	–	–	–	–	–	(29,710)
Exchange realignment	(286)	2,077	304	181	(168)	(53)	(130)	(197)	1,728
At 31 May 2012	3,531	–	89,779	38,099	5,649	5,359	9,631	24,441	176,489
ACCUMULATED DEPRECIATION AND IMPAIRMENT									
At 1 June 2010	–	–	80	–	206	135	180	1,721	2,322
Depreciation charge	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 and at 1 June 2011	127	–	1,448	201	613	509	1,480	6,050	10,428
Depreciation charge	151	–	5,524	2,582	828	1,113	1,907	6,601	18,706
Eliminated on disposals	–	–	–	–	(4)	(3)	–	(4,367)	(4,374)
Exchange realignment	(20)	–	23	10	(53)	(31)	(60)	(100)	(231)
At 31 May 2012	258	–	6,995	2,793	1,384	1,588	3,327	8,184	24,529
CARRYING VALUES									
At 31 May 2012	3,273	–	82,784	35,306	4,265	3,771	6,304	16,257	151,960
At 31 May 2011	3,690	108,145	8,837	4,662	2,901	3,142	7,373	28,985	167,735

As at 31 May 2012, net carrying value of motor vehicles of approximately HK$2,887,000 (2011: Nil) was held as security of a bank loan.

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17. INTANGIBLE ASSETS

	2012 HK$'000	2011 HK$'000
COST AND CARRYING VALUES		
License right	1,019	1,019

The license right represents the Hong Kong – PRC motor vehicle license with indefinite useful life acquired by the Group in business combinations occurred in last year as set out in note 31 to the consolidated financial statements.

18. AVAILABLE-FOR-SALE INVESTMENT

	2012 HK$'000	2011 HK$'000
Unlisted securities – Equity security	367,198	367,198

During the year 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 the production, sale and distribution of livestock, milk fat solids and dairy related products of 4 dairy properties in New Zealand. The Directors of the Group do not believe that the Group is able to exercise significant influence over UBNZ AHL as the other 80% of the ordinary share capital is held by the other shareholder, who also manages the day-to-day operations of that Company. The Group has actual plan to acquire the remaining 80% of the ordinary share of UBNZ AHL.

Details of the investment as at 31 May 2012 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

As at 31 May 2012, management assessed the valuation based on discounted cash flows model using discount rate issued by Grant Sherman Appraisal Limited, an independent qualified professional valuer not connected with the Group, the value of the 20% equity interests in UBNZ AHL as at 31 May 2012 was HK$479,059,000 (2011: HK$470,655,000).

18. AVAILABLE-FOR-SALE INVESTMENT *(continued)*

The fair value of unlisted securities is calculated on a cash flows discounted rate of 16.42% based on discount rate with the risk premium specific to the unlisted securities (2011: 18.00%).

As at 31 May 2011, a valuation report was 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 was NZ$73,986,000 (equivalent to HK$470,655,000).

Available-for-sale financial assets are denominated in Hong Kong dollars.

19. INVENTORIES

	2012 **HK$'000**	2011 HK$'000
Raw materials	**16,798**	4,873
Work in progress	**1,208**	4,463
Finished goods	**23,081**	30,072
	41,087	39,408

During the year, the Group have not recognised any inventories impairment loss (2011: HK$1,220,000).

20. TRADE RECEIVABLES

	2012 **HK$'000**	2011 HK$'000
Trade receivables	**52,983**	67,407
Less: impairment loss recognised	**(30,583)**	–
	22,400	67,407

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.

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For the year ended 31 May 2012

20. TRADE RECEIVABLES *(continued)*

An aging analysis of trade receivables net of impairment loss recognised at the end of the year is as follows:

	2012 HK$'000	2011 HK$'000
Within 3 months	14,746	61,678
4-6 months	148	–
7-12 months	7,438	4,027
Over 1 year	68	1,702
	22,400	67,407

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

	2012 HK$'000	2011 HK$'000
Within 3 months	–	–
4-6 months	–	–
7-12 months	7,438	4,027
Over 1 year	68	1,702
	7,506	5,729

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 2012

21. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2012 HK$'000	2011 HK$'000
Advance to related parties *(Note 1)*	**215,045**	213,761
Trade deposit for milk *(Note 2)*	**129,361**	133,589
Trade deposit *(Note 3)*	**149,845**	166,556
Prepayments *(Note 4)*	**923,527**	3,930
Utility and other deposits	**347**	1,483
Deposit paid	**1,907**	3,398
Payment in advance	**56,564**	70,130
Other receivables	**23,324**	9,937
	1,499,920	602,784
Less: Provision of impairment	**(102)**	(102)
	1,499,818	602,682
Less: Non-current portion *(Note 4)*	**(922,373)**	–
Current portion	**577,445**	602,682

Note 1: The balance included a deposit of HK$209,966,000 ("Deposit") advanced to UBNZ Trustee Limited ("Vendor") (2011: HK$209,966,000) for the acquisition of the 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 during the year ended 31 May 2011. Further details are stated in Note 36(a).

On 22 May 2009, the Company entered into an agreement with Vendor and UBNZ Funds Management Limited ("UBFM") 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 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 been 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 the Directors. The Company has frozen the transfer of those shares by placing an instruction to its share registrar, Computershare Hong Kong Investor Services Limited, pursuant to the above Agreement.

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

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

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

Note 2: The balance of NZ$21,000,000 equivalent to HK$129,361,000 (2011: HK$133,589,000) represented payment made to UBFM as deposit pursuant to the UHT milk manufacturing agreement. According to the agreement, not less than 150 million packets of UHT milk at an agreed purchase price of 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 were in excess of 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. A supplementary agreement was made on 20 July 2010 to extend the agreement for a period of 3 years up to September 2014. As at 31 May 2012, no portion of the deposit has been utilized.

Note 3: The balance of HK$149,845,000 (2011: HK$166,556,000) represented the advance payment paid by the Company to UBFM for the orders of 22.3 million packets (2011: 40 million packets) of pasteurized ultra heat treated ("UHT") milk and 405,000 cans (2011: 350,000 cans) of milk powder.

Note 4: The balance represented management fee paid to Flying Max Limited, being appointed manager of the Group, paid by the consideration with CN A converted on 16 December 2011 and 2 January 2012 totally 386,219,029 shares with fair value of HK$231,036,000, CN B converted on 2 January 2012 totally 390,000,000 shares with fair value of HK$233,298,000, and unconverted CN A and CN B with fair value of HK$458,039,000. The amount is presented as non-current amount as the prepayment is to be amortized in future years according to the estimated useful lives.

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

	2012 **HK$'000**	2011 HK$'000
At the beginning of the year	**102**	85
Exchange realignment	**–**	17
At the end of the year	**102**	102

At the end of the year, 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.

22. FUNDS IN ESCROW AND TRUST ACCOUNTS

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

	2012 **HK$'000**	2011 HK$'000
Funds in trust accounts	**–**	69

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

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

23. PLEDGED BANK DEPOSITS

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

	2012 HK$'000	2011 HK$'000
Pledged bank deposits	986	1,066

Pledged bank deposits comprise short-term bank deposits of approximately HK$986,000 (2011: HK$1,066,000) at prevailing interest rate or at fixed interest rates ranging from 0.01% to 0.54% (2011: 0.01% to 5.2%). The carrying amounts of pledged bank deposits approximate to their fair values.

At 31 May 2012 and 2011, the pledged bank deposits were placed as securities for the operating lease of an office premise located in New Zealand.

24. TRADE PAYABLES

	2012 HK$'000	2011 HK$'000
Trade payables	18,636	1,373

The aging analysis of the trade payables is as follows:

	2012 HK$'000	2011 HK$'000
Within 3 months	780	1,365
4-6 months	2,503	5
7-12 months	15,148	3
Over 1 year	205	–
	18,636	1,373

The trade payables are non-interest bearing and are normally settled on credit terms of 30 to 180 days.

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25. OTHER PAYABLES AND ACCRUED CHARGES

	2012 HK$'000	2011 HK$'000
Temporary deposits	6,812	29,938
Deferred income	1,233	1,689
Accrued interest for convertible notes	16,472	15,634
Other payables and accruals	70,395	22,315
	94,912	69,576

26. BANK LOANS AND OTHER BORROWINGS

	2012 HK$'000	2011 HK$'000
Bank loans, secured	3,410	–
Other borrowings, secured	3,236	–
Other borrowings, unsecured	56,656	–
	63,302	–

The above bank loans and other borrowings are repayable as follows:

	2012 HK$'000	2011 HK$'000
Bank loans:		
On demand or within one year	943	–
More than one year but not exceeding two years	1,011	–
More than two years but not exceeding five years	1,456	–
	3,410	–
Other borrowings:		
On demand or within one year	59,892	–
Total bank loans and other borrowings	63,302	–
Less: Amount shown under current liabilities	(60,835)	–
Amount due after one year	2,467	–

26. BANK LOANS AND OTHER BORROWINGS *(continued)*

As at 31 May 2012, bank loans and other borrowings are interest bearing at 3.5% to 36% (2011: Nil) per annum. The bank loans and other borrowings were secured by motor vehicles as set out in note 16 to the consolidated financial statements.

The bank loans and other borrowings are mainly denominated in currencies other than the functional currency of the entity to which they relate.

	2012	2011
RMB	**40,985**	–
NZ$	**917**	–

27. 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 as deposit for 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 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. During last year, all of the CN A were exercised and a total number of 110,431,200 shares were issued during the year ended 31 May 2011.

On 14 December 2011, pursuant to the VSA-1 S&P Supplemental Agreement and under the Management & Trademarks License Agreement dated 8 December 2011 (the "Agreements"), the Company has further issued CN A amounting to HK$1,078,422,003 as part of the "reward consideration" to Flying Max Limited (which are parties independent of the Company and not connected persons) as appointed manager.

On 16 December 2011 and 2 January 2012, part of these CN A amounting to HK$965,547,573 has been converted into 386,219,029 ordinary shares registered under the name of Flying Max Limited. All these shares are put into on escrow arrangement with the Company's solicitor pending the fulfilment of certain terms stated in the Agreement.

The remaining 45,149,772 CN A amounting to HK$112,874,430 with fair value of HK$75,500,000 issued to Flying Max Limited remains unconverted and have a duration of seven years from the date of issue and can be converted into 1 ordinary share of 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 anti-dilutive adjustment. The effective interest rate of the liability component is 14.13% per annum.

Notes to Consolidated Financial Statements

For the year ended 31 May 2012

27. CONVERTIBLE NOTES *(continued)*

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$552,155,998 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 ended 31 May 2011.

On 14 December 2011, pursuant to Agreements, the Company has further issued CN B amounting to HK$1,243,344,000 as part of the "reward consideration" to Flying Max Limited and some transferred to Earn Cheer Limited which are parties independent of the Company and not connected person), all as appointed managers on different China regions.

On 2 January 2012, part of these CN B amounting to HK$300,000,000 are converted into 150,000,000 ordinary shares registered under the name of Flying Max Limited. In addition, CN B amounted to HK$480,000,000 are converted into 240,000,000 ordinary shares are registered under the name of Earn Cheer Limited.

The remaining 231,672,000 CN B amounting to HK$463,344,000 with fair value of HK$382,539,000 issued to Flying Max Limited remains unconverted and have a duration of 10 years from the date of issue and can be converted into 1 ordinary share of the Company of HK$0.10 each for every HK$2.00 CN B at the holder's option at any time between the issue date and the maturity date subject to anti-dilutive adjustment. The effective interest rate of the liability component is 14.13%.

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$790,000,000. On 19 July 2010, the Company further issued CN C with aggregated amount of HK$52,000,000. The CN C has a maturity of two years from the issue date and can be converted into 1 ordinary share 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 maturity date subject to the anti-dilutive adjustment. The effective interest rate of the liability component of initial recognition is 7.48% to 11.04% per annum. Details of which were set out in the Company's announcement dated 4 December 2009. During last year, most of the CN C were converted and a total number of 657,000,000 shares were issued. On 21 December 2011, CN C amounting to HK$50,000,000 were converted into 50,000,000 shares.

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$64,400,000. 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 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.

Notes to Consolidated Financial Statements

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27. CONVERTIBLE NOTES *(continued)*

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$49,000,000. The Optional CN has a maturity of two years from the issue date and can be converted into 1 ordinary share 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.

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

	CN A HK$'000	CN B HK$'000	CN C HK$'000	CN D HK$'000	Optional CN HK$'000	Total HK$'000
At 1 June 2010 (restated)	137,146	145,677	560,690	59,845	–	903,358
Issued during the year	–	–	75,344	–	45,172	120,516
Interest charged	3,724	3,744	19,663	–	739	27,870
Conversion into ordinary shares	(140,870)	(149,421)	(595,179)	(59,845)	(45,585)	(990,900)
At 31 May 2011 and 1 June 2011	–	–	60,518	–	326	60,844
Issued during the year	275,796	356,885	–	–	–	632,681
Interest charged	2,921	8,063	2,490	–	–	13,474
Conversion into ordinary shares	(231,036)	(233,298)	(46,862)	–	–	(511,196)
At 31 May 2012	**47,681**	**131,650**	**16,146**	**–**	**326**	**195,803**
Analysed for reporting purposes as:						
At 31 May 2012						
Interest accrued	–	–	16,146	–	326	16,472
Non-current liabilities	47,681	131,650	–	–	–	179,331
	47,681	**131,650**	**16,146**	**–**	**326**	**195,803**
At 31 May 2011						
Interest accrued	–	–	15,308	–	326	15,634
Current liabilities	–	–	45,210	–	–	45,210
	–	–	60,518	–	326	60,844

28. DEFERRED TAXATION

The deferred tax liabilities recognised by the Group and movement thereon during the year are as follows:

Deferred income tax liabilities

	Convertible notes HK$'000
At 1 June 2011	–
Recognised upon issuance of convertible notes	67,298
Credited to convertible notes equity reserve	(1,812)
At 31 May 2012	65,486

As at 31 May 2012, deferred income tax liabilities of HK$65,486,000 (2011: Nil) has been recognised for temporary difference between accounting base and tax base of convertible notes which arise from initial recognition of convertible notes and future reversal of imputed interest.

At the end of the year, the Group had unused tax losses of approximately HK$301 million (2011: HK$140 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.

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29. SHARE CAPITAL

	Note	Number of shares '000	Share capital HK$'000
Authorised:			
Ordinary shares of HK$0.10 each:			
At 1 June 2010		4,000,000	400,000
Increase during the year	*(a)*	4,000,000	400,000
At 31 May 2011		8,000,000	800,000
At 31 May 2012		**8,000,000**	**800,000**
Issued and fully paid:			
Ordinary shares of HK$0.10 each:			
At 1 June 2010		698,054	69,805
Conversion of CN A	*(b)*	110,431	11,043
Conversion of CN B	*(c)*	276,078	27,608
Conversion of CN C	*(d)*	657,000	65,700
Conversion of CN D	*(e)*	92,000	9,200
Conversion of Optional CN	*(f)*	49,000	4,900
At 31 May 2011 and 1 June 2011		1,882,563	188,256
Conversion of CN A	*(g)*	386,219	38,622
Conversion of CN B	*(h)*	390,000	39,000
Conversion of CN C	*(i)*	50,000	5,000
At 31 May 2012		**2,708,782**	**270,878**

Note:

(a) 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$0.1 each, ranking pari passu in all respects with the existing share capital of the Company.

(b) During the year ended 31 May 2011, 110,431,200 new shares of HK$0.1 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 27 to the consolidated financial statements.

(c) During the year ended 31 May 2011, 276,077,999 new shares of HK$0.1 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 27 to the consolidated financial statements.

(d) During the year ended 31 May 2011, 657,000,000 new shares of HK$0.1 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 27 to the consolidated financial statements.

29. SHARE CAPITAL *(continued)*

(e) During the year ended 31 May 2011, 92,000,000 new shares of HK$0.1 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 27 to the consolidated financial statements.

(f) During the year ended 31 May 2011, 49,000,000 new shares of HK$0.1 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 27 to the consolidated financial statements.

(g) On 16 December 2011, 348,981,818 new shares of HK$0.1 each were allotted on conversion of the CN A with principal amount of HK$872,454,545 at the conversion price of HK$2.5 respectively as detailed in Note 27 to the consolidated financial statements.

On 2 January 2012, 37,237,211 new shares of HK$0.1 each were allotted on conversion of CN A with principal amount of HK$93,093,028 at the conversion price of HK$2.5 as detailed in Note 27 to the consolidated financial statements.

(h) On 2 January 2012, 390,000,000 new shares of HK$0.1 each were allotted on conversion of CN B with principal amount of HK$780,000,000 at the conversion price of HK$2 as detailed in Note 27 to the consolidated financial statements.

(i) On 21 December 2011, 50,000,000 new shares of HK$0.1 each were allotted on conversion of the CN C with principal amount of HK$50,000,000 at the conversion price of HK$1.0 as detailed in Note 27 to the consolidated financial statements.

30. 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.

The Company has not granted any option during the year ended 31 May 2012 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.

30. 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 188,256,319 shares, being 10% of the total number of shares in issue. Details of the Share Option Scheme are set out in the prospectus dated 27 May 2005 issued by the Company.

The Company has not granted any new option under other share option scheme during the year ended 31 May 2012.

31. 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	2011 HK$'000
Cash consideration		1,009
Recognised amounts of identifiable assets acquired and liabilities assumed:		
Intangible assets – license right	*17*	1,019
Accrual		(10)
Total identifiable net assets		1,009
Goodwill		–

The Directors 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 2012 (2011: Nil).

Had the acquisition been completed on 1 June 2010, total group revenue for the year would remain unchanged, and loss for the year would increase by HK$3,000 (2011: 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.

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32. STATEMENT OF FINANCIAL POSITION

At 31 May 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Interests in subsidiaries		721,328	794,866
Available-for-sale investment		367,198	367,198
Property, plant and equipment		1,993	2,636
Prepayment		922,373	–
		2,012,892	1,164,700
Current assets			
Other receivables, deposits and prepayments		340,893	292,178
Amounts due from a related company		3,256	–
Funds in escrow and trust accounts		–	69
Bank balances and cash		54	503
		344,203	292,750
Current liabilities			
Other payables and accrued charges		20,739	18,531
Convertible notes		–	45,210
		20,739	63,741
Net current assets		323,464	229,009
Total assets less current liabilities		2,336,356	1,393,709
Capital and reserves			
Share capital	*29*	270,878	188,256
Reserves	*33*	1,820,661	1,205,453
Total equity		2,091,539	1,393,709
Non-current liability			
Deferred taxation		65,486	–
Convertible notes		179,331	–
		244,817	–
		2,336,356	1,393,709

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33. 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)*	Convertible notes equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 June 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 and 1 June 2011	1,613,785	43,294	6,327	(457,953)	1,205,453
Loss for the year	–	–	–	(37,574)	(37,574)
Other comprehensive income	–	–	–	–	–
Total comprehensive expenses for the year	–	–	–	(37,574)	(37,574)
Convertible notes equity component	–	–	222,394	–	222,394
Recovery of deferred taxation from convertible notes equity component	–	–	1,812	–	1,812
Shares issued upon conversion of convertible notes	434,903	–	(6,327)	–	428,576
At 31 May 2012	2,048,688	43,294	224,206	(495,527)	1,820,661

Note:

The contribution 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.

34. PLEDGE OF ASSETS

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

	2012 HK$'000	2011 HK$'000
Pledged bank deposits	986	1,066

35. TRANSACTIONS AND PENDING LITIGATION WITH CITYWIN PACIFIC LIMITED ("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 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. To sustain the claims Citywin must apply the required relevant documents to the court to pursue the claims sum.

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36. 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$100,000,000 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$400,000,000.

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.

If the transaction is fully satisfied by issuing CN, the total principal amount of the CN would be NZ$500,000,000 (or equivalent to HK$2,398,750,000). 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 4 June 2009, 24 June 2009, 31 July 2009, 20 August 2009, 7 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 (the "retired Trustee") 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 Directors believed that the Option Shares sale transaction on UBNZ AHL will likely to be performed in nearby future. Therefore, the Board of Directors have not demanded the refund of the 110,431,200 ordinary shares from the Vendor, and re-issue to New Trustee.

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36. COMMITMENTS *(continued)*

(a) Capital commitments *(continued)*

(i) *(continued)*

On 8 December 2011, the 2011 Supplemental Agreement was signed amongst the Vendor (both the "retired Trustee" and the "New Trustee") and the Company to complete the transfer of remaining 80% share capital of the Target Company UBNZ Assets Holdings Limited, in which stipulates that upon execution of the 2011 Supplemental Agreement, the Vendor shall deposit the previous part of the CN B converted 213,077,999 shares certificates, in the name of the Vendor with the Company's solicitors to be held in escrow. Simultaneously, on 8 December 2011, the Vendor (both the "retired Trustee" and the "New Trustee") has executed an irrevocable deed of undertaking in favors of the Company, undertaking not to sell, mortgage, or otherwise dispose of the Vendor escrow shares without the written consent from the Company prior to the Assets of market value not less than NZ$90 million and shall not more than NZ$99 million injection is completed all or in partially half.

To complete the VSA-1 acquisition in the context as a whole, pursuant to the VSA-1 Sales and Purchase Agreement Supplemental and under the Management & Trademarks License agreement, the Company has further issued CN A amounted to HK$1,078,422,003 as part of the "reward consideration" to Flying Max Limited as appointed manager. In addition, CN B amounted to HK$1,243,344,000 as part of the "reward consideration" are issued to Flying Max Limited and some transferred to Earn Cheers Limited, all as appointed managers in different China regions.

On 16 December 2011, part of these CN A amounted to HK$965,547,573 has been converted into 386,219,029 ordinary shares registered under Flying Max Limited. On 2 January 2012, part of these CN B amounted to HK$300,000,000 are converted into 150,000,000 shares registered under Flying Max Limited. And CN B amounted to HK$480,000,000 are converted into 240,000,000 ordinary shares are registered under Earn Cheer Limited name. All these shares are on escrow arrangement by the Company solicitor pending for completion. Those remaining CN B amounted to HK$463,344,000 and CN A amounted to HK$112,874,430 remains not convert serving as a retainer purpose and in escrow with the Company solicitor.

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.

36. COMMITMENTS *(continued)*

(a) Capital commitments *(continued)*

(ii) On 12 July 2011, Guorui (Fujian) Food Co., Ltd, a subsidiary of the Group, is a limited company incorporated in PRC, and its principal activities being wholesaling of packaged dairy related products, fruit wine, tea etc. As the Group was focusing on new promotion, selling and distribution of dairy products during the year, the capital injection was overlooked and delayed. The application of delayed capital injection was filed to the regulatory body. The capital commitment as at 31 May 2012 is HK$10,000,000.

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

	2012	2011
	HK$'000	HK$'000
Contracted but not provided for in respect of:		
– Acquisition of property, plant and equipment	**54,233**	38,751
– Construction in progress	**–**	41,257
– Leasehold improvement	**23,962**	–
	78,195	80,008

36. COMMITMENTS *(continued)*

(b) Operating lease commitments

The Group as lessor

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

	2012 HK$'000	2011 HK$'000
Within one year	1,500	–

Operating lease receipts represent rental receivable by the Group for certain of its office premises. Lease is negotiated for terms of one year with a fixed rental.

The Group as lessee

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

	2012 HK$'000	2011 HK$'000
Within one year	17,465	20,839
In the second to fifth year inclusive	30,353	47,200
Over five years	12,366	13,544
	60,184	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 fixed rentals.

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37. 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$1,938,000 (2011: HK$746,000).

38. RELATED PARTY DISCLOSURES

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

	2012 **HK$'000**	2011 HK$'000
Short-term benefits	**4,786**	5,779
Retirement benefits contribution	**42**	19
	4,828	5,798

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

(b) Purchase of goods

	2012 **HK$'000**	2011 HK$'000
– An entity controlled by a substantial shareholder	**76,703**	59,783

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38. RELATED PARTY DISCLOSURES *(continued)*

(b) Purchase of goods *(continued)*

Guo Yuan Natural Dairy (Jiangxi) Limited ("Jiangxi Natural Dairy"), a wholly-owned subsidiary of the Company in the PRC, entered into a manufacturing agreement (the "MU Agreement") with UBFM pursuant to which Jiangxi Natural Dairy has agreed to engage UBFM on an non-exclusive basis in respect of the manufacturing of pasteurized Ultra Heat Treated (UHT) Milk to be sold by Jiangxi Natural Dairy in the PRC according to the specifications and requirements of by Jiangxi Natural Dairy. Details of the MU agreement we included in the announcement dated 20 June 2011.

UBNZ Trustee Limited ("UBNZ Trustee") became a substantial shareholder of the Company with effect from 1 September 2010 following the exercise of its conversion rights over various convertible bonds and direct purchased from the open market. Accordingly, UBNZ Trustee and UBFM (being an associate of UBNZ Trustee) become connected persons of the Company pursuant to Chapter 14A of the Listing Rules.

Goods bought from UBFM are according to the terms and conditions specified in the MU agreement.

No amount was outstanding for the purchase of goods as at 31 May 2012 as the purchase was paid in advance.

(c) Provision of services

	2012 HK$'000	2011 HK$'000
– Entities controlled by a substantial shareholder	**1,718**	1,801

No amount is outstanding as at 31 May 2012. The receivables are unsecured, non-interest bearing and repayable on demand. There are no provisions held against receivables from related parties.

(d) Balances with related parties

	2012 HK$'000	2011 HK$'000
Advance to related parties	**215,045**	213,761
Amount due to related companies	**2,645**	1,996

The outstanding balances with these related parties were unsecured, interest free and repayable on demand.

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39. CONTINGENT LIABILITIES

(a) Litigation with Citywin Pacific Limited

The amount on claim is considered to be highly disputable, of which HK$69,000,000 is used for setting off the respective balances due, and the remaining is non-payable on non-performance according to the sale contract. The plaintiff claims has been on suspension for over 2 years without further actions or reliable documentation supplied to the court by the plaintiff.

At the end of the year, the Group had the following contingent liability:

	2012 **HK$'000**	2011 HK$'000
Performance bonds	**1,227**	1,227

On 10 June 2009, the Company received a Writ of Summons from the Court of First Instance of Hong Kong. Details are set out in note 35 to the consolidated financial statements.

(b) Litigation with 西安凱凰商貿有限公司

As at 10 August 2011, a contract was signed between a Mainland China customer and a wholly owned subsidiary of the Group for the supply of milk products by the subsidiary. The customer disputed about the lapse of time from the date of production to the date of delivery in respect of the products. A claim was lodged with Xi'an county court. On 9 April 2012, an order was made by the court to freeze a bank account of the subsidiary up to RMB280,000.

(c) Litigation with 上海方丹蒙雪市場營銷策劃有限公司(“蒙雪”)

On 14 May 2012, the Company received a Writ of Summons from the 上海市浦東新區人民法院 relating to a service contract dispute case. On 25 June 2012, 上海市浦東新區人民法院 concluded that the Group was liable for outstanding service fee, solicitors' fee and court expenses amounting to approximately HK$235,000. On 18 July 2012, the Group launched an appeal to the 上海市第一中級人民法院. The judgement has not been made by the court at the date of this report.

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40. PRINCIPAL SUBSIDIARIES

Particulars of the Group's principal subsidiaries as at 31 May 2012 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 Ove rseas 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	NZ$100	100%	–	Management services to subsidiaries
NZND Assets Holdings Limited	New Zealand	Ordinary shares	NZ$100	–	100%	Property holding
NZND Media Limited	New Zealand	Ordinary shares	NZ$100	–	100%	Production and sale of Chinese language newspaper

Note:

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

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.

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41. EVENT AFTER REPORTING PERIOD

On 30 June 2012, a supplemental agreement was entered into among the company, UTCL and NZDT pursuant to which the parties agreed to replace “Long Stop Date” as “First Long Stop Date”; and extend the date from 30 June 2012 to 31 December 2012 or such other date as may be agreed by the parties in writing as more time is needed in respect of the Option Shares Sale to be completed by NZDT under the 2011 Supplemental Agreement.

And on or before this First Long Stop Date, pursuant to the 2011 Supplemental Agreement, an aggregate market value not less than NZ$50 million shall be settled within the First New Completion comprising of cattle and dairy cattle, plant, machinery, production equipment, vehicles and other rights and entitlements used or to be used for the conduct of the dairy business in New Zealand, to be transferred to UBNZ AHL. The remaining Assets which are not less than NZ$49,000,000 and shall not be more than NZ$49,900,000 comprising of similar dairy cattle and production chattels shall be transferred to UBNZ AHL within the Last New Completion, to conclude the Option Shares sale acquisition.

42. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with current year’s presentation.