



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)

Interim Report

From 1 June 2012 to 30 November 2012



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wu Nengkun (*Chairman*)
(*Chairman of Nomination Committee*)
Mr. Luo Ji (*Managing Director*)
(*retired upon the conclusion of the AGM on*
2 November 2012)
Mr. Yao Haisheng
Mr. Zhang Hanwen

Independent Non-Executive Directors

Mr. Sze Cheung Hung (*Chairman of*
Audit Committee, member of
Remuneration Committee and
Nomination Committee)
Ms. Chan Man Kuen Laura (*Chairman of*
Remuneration Committee,
member of Audit Committee and
Nomination Committee)
Mr. Zhang Jianhong (*Member of*
Audit Committee,
Remuneration Committee and
Nomination Committee)

AUTHORISED REPRESENTATIVES

Mr. Wu Nengkun
Mr. Yung Wai Tak Abraham

COMPANY SECRETARY

Mr. Yung Wai Tak Abraham

AUDITOR

Cheng & Cheng Limited

LEGAL ADVISER

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

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 1703, 17th Floor
Top Glory Tower
262 Gloucester Road
Causeway Bay, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Royal Bank of Canada Trust
Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

STOCK CODE

00462

COMPANY WEBSITE

www.naturaldairy.hk

Management Discussion and Analysis

RESULTS REVIEW AND HIGHLIGHTS:

For the six months period from 1 June 2012 to 30 November 2012, the Group's financial performance is summarized as follows:

- The Group's revenue in the first six months of the financial year increased by 113.6% to HK\$32,738,000 (November 2011: HK\$15,326,000), reflecting by increase in sales of milk powder in dairy related products and gradual developing sales in beverage manufacturing sales.
- Loss attributable to shareholders was HK\$27,531,000 (November 2011: Loss HK\$134,257,000). The substantial decrease in loss by HK\$106 million was mainly attributable to (1) positive gross profit of HK\$11,351,000 from selling of milk powder and beverage products in Mainland China market; (2) decrease in selling and distribution expenses of HK\$27,021,000 major from PRC branding and promotion expenses; (3) decrease in general and administrative expenses of HK\$40,955,000 owing to cost controls on various expenses, decrease in headcounts and restructuring the administrative team both in Hong Kong and Mainland China; and (4) exchange gain of HK\$13,283,000 owing to appreciation of New Zealand dollars during the period.
- Basic loss per share was HK1.02 cents, representing a substantial improvement of losses HK7.37 cents per share over last period.

FINANCIAL REVIEW

During the period under review, the Group recorded a gross profit of HK\$11.4 million as compared to gross loss of HK\$3.7 million in last period. The gross profit margin was 34.7% compared with negative 23.9%. The increase in margin was resulted from a relative margin maintained by selling milk powder during the period and improving gross margin from manufacturing business. By increasing the production capacity of the beverage business and further sustaining the dairy related product business, the gross margin can maintain to a certain level.



Management Discussion and Analysis

Selling and Distribution Expenses

A drastic decrease by HK\$27 million was resulted by decrease in branding and marketing exercises during the period from last period. During last period, the Group launched a series of advertisement including television promotion and other brand building promotion. The Group was re-positioning the focus to other sales and marketing efforts to our major customers. Overall, the cost control to decrease the selling and distribution expenses was effective during the period.

General and Administrative Expenses

Material decrease by HK\$41.0 million was resulted from stringent cost control implemented during the period. It included decrease in legal and professional fee, more overseas travelling control, decrease in rental expenses from close up of retail shops in order to re-focus on trading business of dairy related products and decrease in overall headcounts in the Group.

SEGMENTAL ANALYSIS

The Group is divided into trading and manufacturing business of food & beverage and dairy related products.

Trading business includes the sales of dairy related products mainly ultra high temperate (UHT) milk and milk powder from New Zealand.

Manufacturing business includes manufacturing of BaBaoZhou and related can products and beverage products such as orange juice, water, noni-juice and other sub-contracting products.

Geographically, our major channel of sales is in Mainland China and a factory is located in Jiangxi as a production base for manufacturing sales.

MARKET & BUSINESS PROSPECT

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

Management Discussion and Analysis

During the period under review, the Group has taken various measures to restructure the sales and distribution network platform for high-margin dairy related products. The measures include restructuring sales and marketing team to strengthen our wholesaling customer networks and increased monitoring logistics of dairy-related products to ensure timely delivery to our customers.

For our beverage manufacturing base in Jiangxi, the Company continues to produce our major products and improves our production processes to provide high quality beverage products. In addition, the Company is also continuing to research for other potential products for the future development with an aim to becoming a leading beverage Company in Mainland China.

MAJOR DEVELOPMENT

Resumption of Trading

Since 7 September 2010, as requested by the Company, trading in shares of the Company on the Stock Exchange has been suspended until certain conditions addressed by the Stock Exchange to be satisfied.

The Company has issued an announcement to address the conditions for resumption of trading in the shares of the Company on 28 December 2012. In this announcement, it addressed the matters related to (i) the Very Substantial Acquisition 1 (“VSA-1”); (ii) the placing of and subscription for convertible notes announced by the Company on 4 December 2009, and (iii) informing the market of all material information that is necessary to appraise the position of the Group up to 1 November 2011. It also listed out a summary of events for the VSA-1 up to 1 November 2011.

Furthermore, the Company has announced another announcement on 3 January 2013 regarding the resumption condition 1 for the option shares acquisition made by the Company on or after 1 November 2011 until the date of 1 January 2013 and further announcement on 22 January 2013 on addressing queries and concerns of the Stock Exchange about resumption conditions.

The Company continues the discussion with the Stock Exchange with assistance of professionals on the resumption of trading of the shares of the Company. For any update to our shareholders and the market, the Company will promptly announce in our website and HKEx news.



Management Discussion and Analysis

CAPITAL STRUCTURE

The total equity of the Group was approximately HK\$1,626.2 million as at 30 November 2012 (31 May 2012: HK\$1,661.7 million), decrease was revealed by the net loss attributable to shareholders of the Company by HK\$27.5 million. The debt-to-equity ratio (total loans over total equity) of the Group was 0.17 times (31 May 2012: 0.15 times) and the finance cost was approximately HK\$18.8 million (2011: HK\$2.3 million) representing mainly effective interest expense of HK\$11.9 million arising from newly issued CN A and CN B (which is accounting imputed interest of the liability component of convertible notes) and other interest expense of HK\$6.8 million.

As at 30 November 2012, the Group had current assets of approximately HK\$631 million (31 May 2012: HK\$643.4 million) and total assets (net of current liabilities) of approximately HK\$1,883.0 million (31 May 2012: HK\$1,909.0 million). The Group's current ratio as at 30 November 2012 was 3.4 times (31 May 2012: 3.6 times), slight decreasing due to continual usage of cash flows during proliferating stage of factory in Jiangxi and restructuring of business during the period. The Group had current liabilities of approximately HK\$187.6 million (31 May 2012: HK\$177.0 million).

As at 30 November 2012, the Group had a net asset value of approximately HK\$1,626.2 million (31 May 2012: HK\$1,661.7 million), comprising non-current assets of approximately HK\$1,439.7 million (31 May 2012: HK\$1,442.6 million), net current assets of approximately HK\$443.3 million (31 May 2012: HK\$466.4 million) and non-current liabilities of about HK\$256.8 million (31 May 2012: HK\$247.3 million).

The Group had interest-bearing loan of HK\$84.4 million as at 30 November 2012 (31 May 2012: HK\$63.3 million). The Group's total liabilities divided by total assets as at 30 November 2012 was 0.21 times (31 May 2012: 0.20 times).

LIQUIDITY AND FINANCIAL RESOURCES

The Group finances its operations through a combination of shareholders equity and internally generated cash flows. As at 30 November 2012, the Group had cash and cash equivalents and pledged deposits of approximately HK\$1.6 million (31 May 2012: HK\$2.5 million).

For the period ended 30 November 2012, the Group's net cash inflow from capital fund raising activities and bank loans amounted to HK\$19.6 million (31 May 2012: HK\$63.1 million). By repositioning the selling and marketing strategies onwards, the liquidity and financial resources are going to improve.

Management Discussion and Analysis

PLEDGE OF ASSETS

As at 30 November 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 (31 May 2012: HK\$1.0 million).

MORTGAGES AND CHARGES

As at 30 November 2012, similarly, the Group did not have any outstanding mortgage loan (30 November 2011: nil). As at 30 November 2012, term deposits of approximately HK\$1,069,000 of the Group were pledged to secure the general banking facilities granted (31 May 2012: HK\$986,000).

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.

CAPITAL COMMITMENTS

Details of the capital commitments of the Group are set out in note 20(a) to the condensed consolidated financial statements.

CONTINGENT LIABILITIES

Other than those disclosed in note 21 to the interim financial statements, the Group had no material contingent liabilities as at 30 November 2012.



Management Discussion and Analysis

TREASURY AND FUNDING POLICIES

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

EMPLOYEES

As at 30 November 2012, the Group employed a work force of approximately 208 staff members (31 May 2012: 336). The remuneration of employees was in line with the market trend and commensurable to the level of pay in the industry. Remuneration of the Group's employees includes basic salaries, bonuses, and long term incentive (such as Pre-IPO Share Options and Share Option Scheme). Total staff cost incurred for the six months ended 30 November 2012 was approximately HK\$9,393,000 (30 Nov 2011: HK\$30,388,000).

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 November 2012 (30 Nov 2011: Nil).



Unaudited Condensed Consolidated Interim Results

The Board of Directors (the "Board") of Natural Dairy (NZ) Holdings Limited (the "Company") is pleased to announce the unaudited financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 November 2012 as follows. These condensed interim financial statements were not audited but have been reviewed by the Audit Committee.

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 November 2012

		Unaudited	
		For the six months ended	30 November
		2012	30 November
	<i>Note</i>	HK\$'000	2011
			HK\$'000
Revenue	4	32,738	15,326
Cost of sales		(21,387)	(18,994)
Gross profit/(loss)		11,351	(3,668)
Other income	5	13,219	4,372
Other gains and losses	6	13,255	(18,124)
Selling and distribution expenses		(3,155)	(30,176)
General and administrative expenses		(43,426)	(84,381)
Finance costs	7	(18,775)	(2,280)
Loss before taxation		(27,531)	(134,257)
Income tax	8	–	–
Loss for the period	9	(27,531)	(134,257)
Other comprehensive (expense)/income for the period			
Exchange differences arising on translation of foreign operations		(9,940)	6,643
Total comprehensive expenses for the period attributable to owners of the Company		(37,471)	(127,614)
Dividends	10	–	–
Loss per share	11		
Basic (cents per share)		(1.02)	(7.37)
Diluted (cents per share)		N/A	N/A

Condensed Consolidated Statement of Financial Position (Unaudited)

As at 30 November 2012

		30 November 2012 (Unaudited) HK\$'000	31 May 2012 (Audited) HK\$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		149,083	151,960
Available-for-sale investment	12	367,198	367,198
Intangible assets		1,019	1,019
Prepayment	13	922,373	922,373
		1,439,673	1,442,550
Current assets			
Inventories		9,805	41,087
Trade receivables	14	54,595	22,400
Other receivables, deposits and prepayments	13	564,887	577,445
Pledged bank deposits		1,069	986
Bank balances and cash		576	1,514
		630,932	643,432
Current liabilities			
Trade payables	15	9,623	18,636
Other payables and accrued charges	16	90,878	94,912
Bank loans and other borrowings	17	82,379	60,835
Amount due to related companies		4,729	2,645
		187,609	177,028
Net current assets		443,323	466,404
Total assets less current liabilities		1,882,996	1,908,954

Condensed Consolidated Statement of Financial Position (Unaudited)
As at 30 November 2012

		30 November 2012 (Unaudited) HK\$'000	31 May 2012 (Audited) HK\$'000
	<i>Note</i>		
Capital and reserves			
Share capital	19	270,878	270,878
Reserves		1,355,288	1,390,792
		<hr/>	<hr/>
Total equity		1,626,166	1,661,670
		<hr/>	<hr/>
Non-current liabilities			
Bank loans and other borrowings	17	2,054	2,467
Deferred taxation		63,519	65,486
Convertible notes	18	191,257	179,331
		<hr/>	<hr/>
		256,830	247,284
		<hr/>	<hr/>
		1,882,996	1,908,954
		<hr/> <hr/>	<hr/> <hr/>



Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 November 2012

	Share capital	Share premium	Merger reserve (Note a)	Convertible notes equity reserve	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 June 2011	188,256	1,613,785	(14,990)	6,327	(6,625)	(534,834)	1,251,919
Loss for the period	-	-	-	-	-	(134,257)	(134,257)
Other comprehensive income for the period	-	-	-	-	6,643	-	6,643
Total comprehensive expenses for the period	-	-	-	-	6,643	(134,257)	(127,614)
At 30 November 2011	188,256	1,613,785	(14,990)	6,327	18	(669,091)	1,124,305
At 1 June 2012	270,878	2,048,688	(14,990)	224,206	(983)	(866,129)	1,661,670
Loss for the period	-	-	-	-	-	(27,531)	(27,531)
Other comprehensive expenses for the period	-	-	-	-	(9,940)	-	(9,940)
Total comprehensive expenses for the period	-	-	-	-	(9,940)	(27,531)	(37,471)
Recovery of deferred taxation from convertible notes equity	-	-	-	1,967	-	-	1,967
At 30 November 2012	270,878	2,048,688	(14,990)	226,173	(10,923)	(893,660)	1,626,166

Note:

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

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 30 November 2012

	For the six months ended	
	30 November 2012 HK\$'000	30 November 2011 HK\$'000
Cash used in operations	(10,877)	(102,191)
Income tax paid	–	–
Net cash used in operating activities	(10,877)	(102,191)
Net cash used in investing activities	(4,465)	(23,841)
Net cash from financing activities	12,886	5,476
Net decrease in cash and cash equivalents	(2,456)	(120,556)
Cash and cash equivalents at 1 June	1,514	123,490
Effect of foreign exchange rates changes	1,518	6,154
Cash and cash equivalents at 30 November	576	9,088



Notes to the Condensed Consolidated Financial Statements

1. GENERAL INFORMATION

Natural Dairy (NZ) Holdings Limited (the “Company”) is a company with limited liability incorporated in the Cayman Islands under the Companies Law of the Cayman Islands on 8 October 2002. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 10 June 2005. As requested by the Company, trading in shares of the Company on the Stock Exchange 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, The Cayman Islands. The address of principal place of business of the Company is Suite 1703, Top Glory Tower, 262 Gloucester Road, Causeway Bay, 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.

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

2. BASIS OF PREPARATION

Statement of compliance

The condensed interim financial information are prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The condensed consolidated financial statements do not include all the information and disclosures required for an annual financial statement, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 May 2012 as contained in the Company’s Annual Report 2012 (the “Annual Report 2012”).

Notes to the Condensed Consolidated Financial Statements

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 May 2012, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by HKICPA which are effective for the Group's financial period beginning on 1 June 2012.

HKFRS 7 (Amendments)

Disclosures – Transfers of Financial Assets

HKAS 12 (Amendments)

Deferred Tax: Recovery of Underlying Assets

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



Notes to the Condensed Consolidated Financial Statements

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

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

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

³ Effective for annual periods beginning on or after 1 January 2014.

⁴ Effective for annual periods beginning on or after 1 January 2015.

The directors of the Company anticipate that the application of these new and revised Standards, Interpretations and Amendment will have no material impact on the condensed consolidated financial statements of the Group as at 30 November 2012.



Notes to the Condensed Consolidated Financial Statements

4. REVENUE AND SEGMENT INFORMATION

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

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

The Jiangxi GuoYuan production base Guoyuan Natural Dairy Products (Jiangxi) Company Limited ("Jiangxi Natural Dairy"), a wholly-owned subsidiary of the Company in the PRC, has erected a modern beverage and dairy related products manufacture base equipped with advanced PET production lines.



Notes to the Condensed Consolidated Financial Statements

4. REVENUE AND SEGMENT INFORMATION (Continued)**Segment revenue and results**

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

For the six months ended 30.11.2012	Trading of food & beverage and dairy related products (Unaudited) HK\$'000	Manufacturing and sales of beverage and dairy related products (Unaudited) HK\$'000	Unallocated (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Revenue				
External sales	25,514	7,224	–	32,738
Segment results	4,984	(8,402)	–	(3,418)
Bank interest income				20
Unallocated corporate income				2,929
Unallocated corporate expenses				(8,287)
Finance costs				(18,775)
Loss before taxation				(27,531)
Income tax				–
Loss for the period				(27,531)
Property, plant and equipment additions	96	4,418	121	4,635
Depreciation of property, plant and equipment	669	7,282	3,188	11,139
Loss on disposal of property, plant and equipment	–	–	28	28

Notes to the Condensed Consolidated Financial Statements

4. REVENUE AND SEGMENT INFORMATION (Continued)**Segment revenue and results (Continued)**

For the six months ended 30.11.2011	Trading of food & beverage and dairy related products (Unaudited) HK\$'000	Manufacturing and sales of beverage and dairy related products (Unaudited) HK\$'000	Unallocated (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Revenue				
External sales	1,478	13,848	-	15,326
Segment results	(65,068)	(36,546)	-	(101,614)
Bank interest income				102
Unallocated corporate income				2,953
Unallocated corporate expenses				(33,418)
Finance costs				(2,280)
Loss before taxation				(134,257)
Income tax				-
Loss for the period				(134,257)
Property, plant and equipment additions	5,620	20,595	782	26,997
Depreciation of property, plant and equipment	987	1,465	3,391	5,843
Loss on disposal of property, plant and equipment	-	-	750	750

Notes to the Condensed Consolidated Financial Statements

4. 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 are detailed below:

	Revenue from external customers			
	Six months ended		Non-current assets	
	30 November 2012	30 November 2011	30 November 2012	31 May 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	–	–	13,576	13,960
PRC	32,738	15,040	1,049,619	1,051,874
New Zealand	–	286	376,478	376,716
	32,738	15,326	1,439,673	1,442,550

Information about major customers

For the six months ended 30 November 2012, revenue from a customer of the Group amounting to HK\$30,813,000 (November 2011: HK\$728,000) had accounted for 94% (November 2011: 6%) of the Group's total revenue.



Notes to the Condensed Consolidated Financial Statements

5. OTHER INCOME

	For the six months ended	
	30 November 2012 (Unaudited) HK\$'000	30 November 2011 (Unaudited) HK\$'000
Bank interest income	20	102
Advertising income	1,415	2,515
Management service income	–	522
Rental income	1,500	–
Reversal of specific accounts payable	10,284	–
Sundry income	–	1,233
	13,219	4,372

6. OTHER GAINS AND LOSSES

	For the six months ended	
	30 November 2012 (Unaudited) HK\$'000	30 November 2011 (Unaudited) HK\$'000
Exchange gain/(loss), net	13,283	(17,374)
Loss on disposal of property, plant and equipment	(28)	(750)
	13,255	(18,124)



Notes to the Condensed Consolidated Financial Statements

7. FINANCE COSTS

	For the six months ended	
	30 November 2012 (Unaudited) HK\$'000	30 November 2011 (Unaudited) HK\$'000
Interest on bank borrowings wholly repayable within five years	90	46
Other loan interest	6,759	–
Effective interest expenses on convertible notes	11,926	2,234
	18,775	2,280

8. INCOME TAX

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

No Hong Kong Profits Tax has been provided in the interim financial statements as there was no assessable profit for the period (2011: Nil).

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

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



Notes to the Condensed Consolidated Financial Statements

9. LOSS FOR THE PERIOD

	For the six months ended	
	30 November 2012 (Unaudited) HK\$'000	30 November 2011 (Unaudited) HK\$'000
Loss for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	11,139	5,843
Rental expense under operating leases	5,534	11,261
Staff costs (including directors' emoluments)		
– salaries and other benefits	9,023	25,867
– staff quarters	130	3,812
– retirement benefits contribution	240	709

10. DIVIDENDS

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 November 2012 (30 November 2011: Nil).



Notes to the Condensed Consolidated Financial Statements

11. LOSS PER SHARE

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

	For the six months ended	
	30 November 2012 (Unaudited) HK\$'000	30 November 2011 (Unaudited) HK\$'000
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	(27,531)	(134,257)
	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares for the purpose of basic loss per share	2,708,782	1,822,563

No diluted loss per share is presented for the period ended 30 November 2012 and 30 November 2011 as the exercise of the potential dilutive ordinary shares would result in reduction in loss per share.

12. AVAILABLE-FOR-SALE INVESTMENT

	30 November 2012 (Unaudited) HK\$'000	31 May 2012 (Audited) HK\$'000
Unlisted securities – Equity security	367,198	367,198

Notes to the Condensed Consolidated Financial Statements

12. AVAILABLE-FOR-SALE INVESTMENT (Continued)

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 HK\$552,120,000 and with fair value of approximately HK\$367,198,000. 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 30 November 2012 and 31 May 2012 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 (May 2011: HK\$470,655,000).

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 (May 2011: 18.00%).

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



Notes to the Condensed Consolidated Financial Statements

13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 November 2012 (Unaudited) HK\$'000	31 May 2012 (Audited) HK\$'000
Advance to related parties (<i>Note 1</i>)	214,880	215,045
Trade deposit for milk (<i>Note 2</i>)	129,361	129,361
Trade deposit (<i>Note 3</i>)	149,845	149,845
Prepayments (<i>Note 4</i>)	923,260	923,527
Utility and other deposits	525	347
Deposit paid	2,168	1,907
Payment in advance	48,241	56,564
Other receivables	19,082	23,324
	1,487,362	1,499,920
Less: Provision of impairment	(102)	(102)
	1,487,260	1,499,818
Less: Non-current portion (<i>Note 4</i>)	(922,373)	(922,373)
Current portion	564,887	577,445

Note 1: The balance included a deposit of HK\$209,966,000 ("Deposit") advanced to UBNZ Trustee Limited ("Vendor") (May 2012: 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.

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").



Notes to the Condensed Consolidated Financial Statements

13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

Note 1: (Continued)

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.

Note 2: The balance of NZ\$21,000,000 equivalent to HK\$129,361,000 (May 2012: HK\$129,361,000) 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 30 November 2012 and 31 May 2012, no portion of the deposit has been utilized.

Note 3: The balance of HK\$149,845,000 (May 2012: HK\$149,845,000) represented the advance payment paid by the Company to UBFM for the orders of 22.3 million packets (May 2012: 22.3 million packets) of pasteurized ultra heat treated ("UHT") milk and 405,000 cans (May 2012: 405,000 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.

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

Notes to the Condensed Consolidated Financial Statements

14. TRADE RECEIVABLES

	30 November 2012 (Unaudited) HK\$'000	31 May 2012 (Audited) HK\$'000
Trade receivables, less impairment loss recognised	54,595	22,400
An aged analysis of the trade receivables net of accumulated impairment loss at the end of the reporting period is as follows:		
Within 3 months	19,959	14,746
4–6 months	11,722	148
7–12 months	15,267	7,438
Over 1 year	7,647	68
	54,595	22,400

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.

15. TRADE PAYABLES

	30 November 2012 (Unaudited) HK\$'000	31 May 2012 (Audited) HK\$'000
Trade payables	9,623	18,636
An aged analysis of the trade payables is as follows:		
Within 3 months	16	780
4–6 months	–	2,503
7–12 months	9,397	15,148
Over 1 year	210	205
	9,623	18,636

The carrying values of trade payables approximate to fair values.

Notes to the Condensed Consolidated Financial Statements

16. OTHER PAYABLES AND ACCRUED CHARGES

	30 November 2012 (Unaudited) HK\$'000	31 May 2012 (Audited) HK\$'000
Temporary deposits	6,785	6,812
Deferred income	1,038	1,233
Accrued interest for convertible notes	16,472	16,472
Other payables and accruals	66,583	70,395
	90,878	94,912

17. BANK LOANS AND OTHER BORROWINGS

	30 November 2012 (Unaudited) HK\$'000	31 May 2012 (Audited) HK\$'000
Bank loans, secured	3,025	3,410
Other borrowings, secured	3,731	3,236
Other borrowings, unsecured	77,677	56,656
	84,433	63,302



Notes to the Condensed Consolidated Financial Statements

17. BANK LOANS AND OTHER BORROWINGS (Continued)

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

	30 November 2012 (Unaudited) HK\$'000	31 May 2012 (Audited) HK\$'000
Bank loans:		
On demand or within one year	971	943
More than one year but not exceeding two years	1,040	1,011
More than two years but not exceeding five years	1,014	1,456
	3,025	3,410
Other borrowings:		
On demand or within one year	81,408	59,892
Total bank loans and other borrowings	84,433	63,302
Less: Amount shown under current liabilities	(82,379)	(60,835)
Amount due after one year	2,054	2,467

As at 30 November 2012, bank loans and other borrowings are interest bearing at 3.5% to 36% (31 May 2012: 3.5% to 36%) per annum except for other borrowings from related companies. The bank loans and other borrowings were secured by motor vehicles.

Amongst the other borrowings, HK\$16,015,000 are borrowed from related companies (31 May 2012: HK\$1,560,000). The amounts are interest free, secured by motor vehicles and repayable on demand.



Notes to the Condensed Consolidated Financial Statements

17. BANK LOANS AND OTHER BORROWINGS (Continued)

The bank loans and other borrowings denominated in currencies other than the functional currency of the entity are as follows:

	30 November 2012 (Unaudited) HK\$'000	31 May 2012 (Audited) HK\$'000
RMB	61,034	40,985
NZ\$	8,089	917

18. 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. 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.

Notes to the Condensed Consolidated Financial Statements

18. CONVERTIBLE NOTES (Continued)**CN A (Continued)**

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.

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%.

Notes to the Condensed Consolidated Financial Statements

18. CONVERTIBLE NOTES (Continued)**CN C**

During the period from 22 December 2009 to 23 February 2010, the Company issued Hong Kong dollar denominated 3% convertible notes C (“CN C”) with an aggregate principal amount of HK\$790,000,000. 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. Part 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\$0.10 each for every HK\$0.7 CN D at the holders’ option at any time between the issue date and the maturity date subject to the anti-dilutive adjustment and the clauses stated in the agreement. The effective interest rate of the liability component of initial recognition is 9.49% per annum. Details of which were set out in the Company’s announcement dated 4 December 2009. On 1 September 2010, all CN D were exercised and a total number of 92,000,000 shares were issued.

Optional CN

On 11 June 2010, the Company issued Hong Kong dollar denominated 3% coupon optional convertible notes (“Optional CN”) with an aggregate principal amount of HK\$49,000,000. The Optional CN has a maturity of two years from the issue date and can be converted into 1 ordinary share at HK\$0.10 each for every HK\$1 Optional CN at the holder’s option at any time between the issue date and the maturity date subject to the anti-dilutive adjustment. The effective interest rate of the liability component of initial recognition is 7.40% per annum. Details of which were set out in the Company’s announcement dated 4 December 2009. On 18 August 2010 and 1 September 2010, all Optional CN were exercised and a total number of 49,000,000 shares were issued.

Notes to the Condensed Consolidated Financial Statements

18. CONVERTIBLE NOTES (Continued)

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

	CN A	CN B	CN C	CN D	Optional CN	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 June 2011 (audited)	–	–	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 and 1 June 2012 (audited)	47,681	131,650	16,146	–	326	195,803
Interest charged	3,171	8,755	–	–	–	11,926
At 30 November 2012 (unaudited)	50,852	140,405	16,146	–	326	207,729
Analysed for reporting purposes as:						
At 30 November 2012 (unaudited)						
Interest accrued	–	–	16,146	–	326	16,472
Non-current liabilities	50,852	140,405	–	–	–	191,257
	50,852	140,405	16,146	–	326	207,729
At 31 May 2012 (audited)						
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

Notes to the Condensed Consolidated Financial Statements

19. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.10 each:		
At 31 May 2012 and at 30 November 2012	8,000,000	800,000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.10 each:		
At 31 May 2012 and at 30 November 2012	2,708,782	270,878

20. COMMITMENTS**(a) Capital commitments**

- (i) 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, the capital injection was overlooked and delayed. The application of delayed capital injection was filed to the regulatory body. The capital commitment as at 30 November 2012 is HK\$10,000,000 (31 May 2012: HK\$10,000,000).



Notes to the Condensed Consolidated Financial Statements

20. COMMITMENTS (Continued)**(a) Capital commitments (Continued)**

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

	30 November 2012 (Unaudited) HK\$'000	31 May 2012 (Audited) HK\$'000
Contracted but not provided for in respect of:		
– Acquisition of property, plant and equipment	57,256	54,233
– Leasehold improvement	24,541	23,962
	81,797	78,195

(b) Operating lease commitments*The Group as lessor*

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

	30 November 2012 (Unaudited) HK\$'000	31 May 2012 (Audited) 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.



Notes to the Condensed Consolidated Financial Statements

20. COMMITMENTS (Continued)

(b) Operating lease commitments (Continued)

The Group as lessee

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

	30 November 2012 (Unaudited) HK\$'000	31 May 2012 (Audited) HK\$'000
Within one year	8,131	17,465
In the second to fifth year inclusive	14,382	30,353
Over five years	10,842	12,366
	33,355	60,184

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 twelve years with fixed rentals.

21. CONTINGENT LIABILITIES

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 period, the Group had the following contingent liability:

	30 November 2012 (Unaudited) HK\$'000	31 May 2012 (Audited) 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.

Notes to the Condensed Consolidated Financial Statements

22. RELATED PARTY DISCLOSURES**(a) Compensation to directors and key management personnel of the Group:**

	For the six months ended	
	30 November 2012 (Unaudited) HK\$'000	30 November 2011 (Unaudited) HK\$'000
Short-term benefits	650	1,625
Retirement benefits contribution	–	6
	650	1,631

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

(b) Purchase of goods

	For the six months ended	
	30 November 2012 (Unaudited) HK\$'000	30 November 2011 (Unaudited) HK\$'000
– An entity controlled by a substantial shareholder	–	43,053

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

No amount was outstanding for the purchase of goods as at 30 November 2012 as the purchase was paid in advance.



Notes to the Condensed Consolidated Financial Statements

22. RELATED PARTY DISCLOSURES (Continued)

(c) Provision of services

	For the six months ended	
	30 November 2012 (Unaudited) HK\$'000	30 November 2011 (Unaudited) HK\$'000
- Entities controlled by a substantial shareholder	-	739

No amount was outstanding as at 30 November 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

	30 November 2012 (Unaudited) HK\$'000	31 May 2012 (Audited) HK\$'000
Advance to related companies	214,880	215,045
Amount due to related companies	4,729	2,645
Other borrowings from related companies	16,015	1,560

The outstanding balances with these related parties were unsecured, interest free and repayable on demand except for other borrowings from related companies which was disclosed in note 17.



Other Information

REVIEW OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The audit committee has reviewed the Company's unaudited condensed consolidated interim financial information for the six months ended 30 November 2012.

DIRECTORS' AND CHIEF EXECUTIVE INTEREST IN SHARES, UNDERLYING SHARES OR DEBENTURES

As at 30 November 2012, the interests of each director and chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (with the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long position in the shares of the Company

Name of Director	Number of shares			Number of underlying shares held under equity derivatives	Total	Percentage of aggregate interest to total number of shares in issue % ⁽¹⁾
	Personal Interests	Family Interests	Corporate Interests			
Wu Nengkun (Note 1)	700,000	30,000,000	-	-	30,700,000	1.13%
Chan Man Kuen	400,000	-	-	-	400,000	0.01%

Notes:

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

Other Information

DIRECTORS' AND CHIEF EXECUTIVE INTEREST IN SHARES, UNDERLYING SHARES OR DEBENTURES *(Continued)*

Save as disclosed above, as at 30 November 2012, none of the directors had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

As at 30 November 2012, the share options granted by the Company under the Pre-IPO Share Options has been lapsed. The Share Option Scheme to the directors to subscribe for shares of the Company, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the company and the Stock Exchange pursuant to the Model Code is set out in the section headed "Share Option" of this report below.

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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



Other Information

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 30 November 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 % ⁽¹⁾
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:

- 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.



Other Information

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

Notes: (Continued)

2. Xiamen Hengxing Group Co. Ltd. is 99.34% owned by Mr. Ke Xiping and his spouse is Ms. Liu Haiying. Mr. Ke Xiping and Ms. Liu Haiying are deemed to be interested in the shares and underlying shares owned by Xiamen Hengxing Group Co. Ltd. Mr. Ke Xiping and Ms. Liu Haiying jointly owned 11.08% of the issued shares of the Company.
 3. Sky Upright Enterprises Ltd is 100% owned by Mr. Zhan King who is the beneficial owner of 113,140,000 shares in the Company. His spouse (Ms. 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. Mr. Zhan King and Ms. 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 30 November 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 30 November 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.



Other Information

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 30 November 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.



Other Information

SHARE OPTION (Continued)**(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.
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Other Information

SHARE OPTION (Continued)

(b) Other Share Option Scheme (Continued)

Maximum entitlement of each participant

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

Period within which the securities must be taken up under the option

Subject to the discretion by the Board and, in the absence of which, from the date of acceptance to the earlier of the date on which such option lapses and 10 years from the date of offer.

Amount payable on acceptance

HK\$1 payable upon acceptance of the offer.

Remaining life of the scheme

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

(c) Movements of the Other Share Option Scheme

No share option was granted or exercised during the period. As at 30 November 2012, none of options granted was outstanding.

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

During the six months ended 30 November 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed shares of the Company.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout for the six months ended 30 November 2012.



Other Information

CORPORATE GOVERNANCE

The Company has met the code provisions of the Corporate Governance Code (“the Code”) as set out in the appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited during the six months ended 30 November 2012 except as below:

Pursuant to code provision A.2.1, the roles of chairman and chief executive should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. Wu Nengkun is currently the chairman and chief executive of the Company. Having considered the present situation and current business operation of the Company, the board of directors of the Company is of the view that Mr. Wu acting both the chairman and chief executive is acceptable and in the best interest of the Company. The board is identifying suitable candidates to fill the vacancy of chief executive.

INTERNAL CONTROLS

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

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

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



Other Information

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers, as amended from time to time (the "Model Code"), set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors. On specific enquiries made, all directors have confirmed that they have complied with the required standard as set out in the Model Code, during the six months ended 30 November 2012.

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

APPROVAL OF INTERIM REPORT

The unaudited condensed consolidated financial statements for the six months ended 30 November 2012 were reviewed by the audit committee. The interim report and unaudited condensed consolidated financial statements were approved and authorised for issue by the Board on 31 January 2013.