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 2013

From 1 June 2012 to 31 May 2013

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wu Nengkun *(Chairman and Managing Director from 2 November 2012)*
Mr. Yao Haisheng
Mr. Zhang Hanwen
Ms. Tan Houwen (appointed on 28 August 2013)
Mr. Luo Ji *(Managing Director)* (retired on 2 November 2012)

Independent Non-Executive Directors

Ms. Chan Man Kuen Laura
Mr. Zhang Jianhong
Mr. Wong Wang Tai (appointed on 28 August 2013)
Mr. Sze Cheung Hung (resigned on 28 August 2013)

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. Zhang Jianhong	M	M	M
Ms. Tan Houwen (effective from 28 August 2013)	–	–	–
Mr. Wong Wang Tai (effective from 28 August 2013)	C	M	M
Mr. Sze Cheung Hung (ceased on 28 August 2013)	C	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

LEGAL ADVISERS

In Hong Kong:
Y. C. Lee, Pang, Kwok & Ip Solicitors
Ho Tse Wai, Philip Li & Partner

In Cayman Islands:
Conyers Dill & Pearman, Cayman

In New Zealand:
Haigh Lyon Lawyers Auckland

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,
No. 262 Gloucester Road,
Causeway Bay, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT 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) Limited

STOCK CODE

00462

COMPANY WEBSITE

http://www.naturaldairy.hk

Group Financial Summary

RESULTS

	Year ended 31 May			1 April 2009 to 31 May 2010	Year ended 31 March 2009
	2013	2012	2011		
	HK$'000	HK$'000	HK$'000	HK$'000 (restated)	HK$'000 (restated)
Revenue	**36,692**	30,811	58,345	59,576	63,007
Gross profit/(loss)	**10,085**	(4,227)	9,528	2,929	13,189
Loss before tax	**(103,752)**	(331,295)	(154,260)	(152,364)	(127,260)
Income tax	**–**	–	–	–	(352)
Loss for the year/period	**(103,752)**	(331,295)	(154,260)	(152,364)	(127,612)

ASSETS AND LIABILITIES

	At 31 May				At 31 March
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000 (restated)	HK$'000 (restated)
Non-current assets	**1,451,046**	1,442,550	535,952	407,767	8,365
Current assets	**571,088**	643,432	834,122	975,326	26,136
Current liabilities	**(204,400)**	(177,028)	(118,155)	(102,153)	(30,215)
Non-current liabilities	**(267,483)**	(247,284)	–	(834,932)	(473)
Equity attributable to equity shareholders of the Company	**1,550,251**	1,661,670	1,251,919	446,008	3,813

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of Natural Dairy (NZ) Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**"), I am pleased to present herewith the annual report of the Company and the Group for the year ended 31 May 2013.

We understand that Rome was not built in a day, any business or enterprise does take some time and efforts to create and continue maintaining its operation to become a successful business empire.

Our group has experienced significant difficulties since the company's shares suspended from September 2010. During the period, our main focuses are: 1. Dairy business trading, UHT milk, infant formula import from New Zealand; 2. VSA-1 acquisition completion progress and status; and 3. Strategic repositioning of the dairy business.

THE GROUP UNIQUE MARKET POSITION

Since 2009 the Group has positioned itself on unique edge of industry peers by capitalising from the world top capital market, The Stock Exchange of Hong Kong ("**HKEx**"), promoting the premium New Zealand made dairy products to the most desirable consumer market in China.

NEW REGULATION OF CHINA GIVES THE IMPORT DAIRY PRODUCTS PRICE ADVANTAGE

Since the widespread China local dairy products saga (for example SanLu Melamine poisoning scandal) in recent years, most consumers bought imported Western dairy products and were willing to pay premium price in exchange for foods safty. The China government has enforced stringent foods safty code (New Food Safety National Standards issued by the Ministry of Health of the PRC in April 2010) with some special provision on infant formula and UHT milk thereto. Since 1 May 2013, all imported dairy products especially infant formula must comply with "Dairy Import and Export Inspection and Quarantine Supervision and Management Measures". The western milk formula is required to undergo "five inspections", including document verification, on-site inspection, label check, sample inspection and laboratory test. Of which, the western milk formula that is imported for the first time is required to provide the product testing report. Take the infant formula (one month to six months age) for instance, the items listed in the test report should reach 50. After checking the contents of the 50 items, the sampling of the formula should also be checked. The random check is based on the risk assessment determined by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC. Hence, imported Western dairy products will continue to enjoy high recognition amongst the China consumers. As published by South China Morning Post on 13 July 2013 and referred to Bloomberg News and Mintel data, showed price jumps of between 25% to more than 40% on some foreign dairy products brands in China since 2008, versus annual food inflation averaged about 7.8% in China from 2008 to 2012.

Once the shares trading of the company resumed, the Company will be able to raise further capital promoting and expanding the Dairy trading business in China.

MARKET PROSPECTS AND BUSINESS TRADING

Since early 2013, the global economy still shadowed by European debts crisis, and Northen America is still at its pathy recovery stage; although the external environment clouds created some uncertainty in China, the growth of it's economy still continues despite the dwindle in year 2013. In particular, imported dairy products still remain enormous high demand and popularity.

In view of the above, the Board and management are of their opinion that there are enormous growth potential of the dairy products, and premium market prices could also achieve profits as expected. Hence, the Company is confident of the group's on-going business prospects.

Due to continuous suspended trading of the Company shares, and discontinued national-wide CCTV advertisement, that directly impacted to the "concept stores" operation, distribution net work sales. In 2013, the Company has to cease the operation of its subsidiaries of "Guo Rui Food (Shanghai) Ltd", and "Guoyuan Dairy (Xiamen) Import and Export Company Limited". Hence, the Company decided to adopt the VSA-1 profit guarantee by the Warrantor to deliver 5,000 direct-sale selling outlets network which achieved an annual profit of NZ$35 million. In doing so the Group can recover the initial establishment loss of these "concept store" in China.

VSA-1 ACQUISITION

On 8 September 2009, the Company has issued Circular to all shareholders and investors to be approved on an EGM on 2 October 2009, whereby shareholders have voted and approved this acquisition, which as defined in the Circular page 45-46: "*The reason for entering into this acquisition………is to direct-sale of Ultra-Heat Treated (UHT) milk in China and Hong Kong so to open outlets selling these products in China and Hong Kong*". For this acquisition, the Company will pay cash consideration on or convertible Note A and Note B as consideration of NZ$500 million in exchange for a Target company's business and the assets at market value of NZ$300 million, which is to be owned by the Target Company, UBNZ Assets Holdings Limited ("UBNZ AHL") on or before the Long Stop Date ("LSD"). UBNZ AHL shall operate dairy business exported UHT milk and direct-sale dairy related products in China with established direct-sale points. Upon final completion, such dairy business shall deliver a profit guarantee of NZ$35 million for 12 months period after tax (which excluding finance costs and any livestock fair value changes).

PROSPECTS ON VSA-1 ACQUISITION MOVING FORWARDS

This contractual details on VSA-1 acquisition and development are illustrated under "Major Development section" in the following Management Discussion and Analysis. After marathon negotiations with the Vendor and extensive legal consultations, in November 2011, the Company has discretionarily waived the condition precedent(g) the "properties" conponent under the 2011 Supplemental Agreement, and has continued with the VSA-1 accordingly. For details, please refer to the Company's announcement on 9 September 2013. The option shares acquisition of VSA-1 will be completed as: (I) The condition precedent (g) will be completed excluding the "properties" ownership interest and the 28,398 cattle ownership, which to be replaced by milk supply from such cattle size; (II) The consideration made to UBNZ AHL will be approximately NZ$100 million less HK$1; (III) The balance consideration will be made to Flying Max Ltd as per NZDT instruction; (IV) All consideration will be made by way of issuing convertible Notes CNA & CNB; (V) Target group will also deliver to the Company with the 5,000 direct-sale outlets network, and other distribution contracts in China, as its China operation. The VSA-1 acquisition is not necessarily subject to OIA 2005, as major part of Acquisition were consent if execution was in China or Hong Kong outside New Zealand jurisdictions.

As per legal advice dated 8 December 2011, without additional costs increase, the lawyer has advised the modification of 2011 Supplemental Agreement were in the context to uphold the VSA-1 acquisition objective, and would still fall within the shareholders approval on 2 October 2009 EGM. As per page 19, 26 and 27 of the Circular has clearly stated that the Company was entitled at its absolute discretion at any time to waive and has positioned itself on condition precedent (g).

STRATEGIC REPOSITIONING FOR THE DAIRY BUSINESS

Transformation through this acquisition, the Group shall gain premium dairy products supply from New Zealand selling through 5,000 direct selling outlets in China, under the proprietary brand e-SWEET and "紐牛". Under the Management Agreement of VSA-1, a registered brand "紐牛" in China has been arranged by Flying Max Limited for ten years.

The Company directors have observed Belle Int' and Li Ning (listed on HKEX) two distinctive retailing models, the stand-alone specialty shops model versus the shop-in-shops (selling points) models, within competitive landscape of China. The appointment of Flying Max as the manager introduces "*Shop-in-Shop*" (*selling points*) within thousands of pharmaceutical or convenience shops/outlets, dairy related products and health products for ideal selling through these outlets. And such appointment is rewarded on the Company's "success" basis of the materialization of the NZ$35 million Profit Guarantee to the Group.

As at the date of this report, aggregate of 18.8 million units of UHT milk packs and 245,000 cans of infant formula has been supplied to the Company subsidiary, Guoyuan Natural Dairy (Jiangxi) Company Limited ("Jiangxi Guo Yuan") in China according to the Manufacturing Agreement.

This MU Agreement is still continuing to export UHT milk to China with the Sanitary Certificate issued by Shenzhen Entry-Exit Inspection and Quarantine of the PRC. Hence, the outstanding 21.1 million packs of UHT milk and 405,254 cans of infant formula are to be supplied by the Warrantor or its assignee, upon the Company issues the purchase orders.

The Company's dairy products and trading are based on the Manufacturing Agreement entered between the Company and UBNZ Funds Management Ltd in June 2010 with "Customs Department" and "Quality Assurance Board" of China during year 2011–2013. Thus, all future import of dairy products may be able to enjoy "Fast Service" because of existing track records. All of its products mentioned above have passed the "Quality Assurance Board" of China inspection.

The Company will continue to expand the market coverage of milk beverage and milk powder infant formula such as blueberry, strawberry and chocolate UHT milk and innovation products likes "Sleep Well" milk. Aligning with our Jiangxi modern PET production facilities factory to manufacture PET-packaged milk beverages, Peanut Milk and Oat Milk could be launched to the market as healthy breakfast food.

FAST-MOVING DAIRY INDUSTRY

Building on the Company's vertically-integrated dairy business model, originated from milk supply secured in New Zealand by processing within high-standard UHT milk factory in New Zealand, export can be secured to the vast China market. Most importantly, the Company would gain a valuable direct-retail network comprising 5,000 selling outlets and could also sell other beverage products from our Jiangxi factory.

APPRECIATION

I would like to extend my gratitude to the members of the Board, our management team and staff for their loyalty and dedication during the past years. On behalf of the Board, I wish to convey our most sincere appreciation all of our customers and suppliers and our shareholders, during the year.

Wu Nengkun
Chairman

Hong Kong, 30 August 2013

Management Discussion and Analysis

FINANCIAL AND OPERATING HIGHLIGHTS

Nowadays, the Chinese dairy market is still one of the rapidly expanding markets for the premium quality products in the world, especially the demand for imported dairy products. The Group is continuing focus 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 2013, the Group's financial performances are summarized as follows:

- Gross revenue amounted to HK$36.7 million as compared with HK$30.8 million in 2012. Revenue were mainly generated from foods and beverage products and imported milk and dairy related trading products. Slight increase in revenue was attributable to better selling milk powder in China, relaunching selling UHT milk this year and continued selling food and beverage products during the year. Gross profit of HK$10.1 million was resulted mainly from selling milk powder and UHT milk during the year with a better gross profit margin of 27.5% (2012: negative 13.7%).

- Net loss attributable to shareholders of the Company was HK$103.8 million, a decrease of HK$227.5 million from HK$331.3 million in 2012; decrease was mainly due to decrease in HK$141.0 million of general and administrative expenses and HK$90.7 million decrease in selling and distribution expenses counteracting with increase in finance cost of HK$15.9 million.

- Basic loss per share amounted to HK$3.83 cents resulted by decrease in net loss attributable to shareholders of the Company during the year (2012: HK$14.80 cents).

FINANCIAL REVIEW

During the year, the Group recorded a gross profit of HK$10.1 million as compared with a gross loss of HK$4.2 million in 2012. The overall gross profit margin for the year was 27.5% (2012: negative 13.7%), primarily resulted by improvement in gross profit margin of dairy products and beverage business. Although there was improvement in gross profit margin during the year, the production capacity in our PRC production base was still under our normal capacity. Again, by increasing our production capacity, the Group's gross profit will be further improved.

Administrative and General Expense

In 2013, the administrative and general expenses substantially decreased to HK$74.6 million versus HK$215.6 million in 2012 decreased by HK$141.0 million. Substantial decrease was mainly attributable to stringent cost control implemented and change of business model during the year which included decrease in salary expense of HK$16.6 million relating to changing from retail outlet model to wholesale model, decrease in rental expense of HK$12.2 million from closing retail outlets in 2012, decrease in provision in trade receivables of HK$30.5 million, decrease in written off of property, plant and equipment in PRC and HK of HK$18.2 million, netting off with unrealised exchange gain of HK$16.2 million (2012: Exchange loss of HK$12.2 million) arisen from appreciation of Renminbi ("RMB") exchange rate during the year.

As the Group's business operations are changing during the year, the administrative and general expenses are improved substantially during the year.

Selling and Distribution Expense

Selling and distribution expenses amounted to HK$5.2 million, as compared to HK$96.0 million last year. The tremendous decrease was mainly attributable to the decrease in promotion campaign of UHT milk of HK$53.7 million from last year in PRC for branding our dairy products and decrease in advertising expense of HK$23.9 million.

Net Loss Attributable to Shareholders of the Company

The Group's loss for the year was HK$103.8 million (2012: HK$331.3 million). The net loss attributable to shareholders of the Company was mainly due to stringent cost controls implemented during the year and decrease in extensive advertising and promotion campaign this year from repositioning selling and distribution strategies this year, the Group's profit level is improving.

CAPITAL STRUCTURE

The total equity of the Group was approximately HK$1,550.3 million as at 31 May 2013 (2012: HK$1,661.7 million) decrease was revealed by the net loss attributable to shareholders of the Company by HK$103.8 million. The debt-to-equity ratio (total loans over total equity) of the Group was 0.19 times (2012: 0.15 times) and the finance cost was approximately HK$39.5 million (2012: HK$23.6 million) representing mainly interest expense of HK$25.4 million (2012: HK$13.5 million) arising from CN A and CN B and other interest expense of HK$13.9 million (2012: HK$10.0 million).

As at 31 May 2013, the Group had current assets of approximately HK$571.1 million (2012: HK$643.4 million) and total assets (net of current liabilities) of approximately HK$1,817.7 million (2012: HK$1,909.0 million). The Group's current ratio as at 31 May 2013 was 2.8 times (2012: 3.6 times), decreasing due to usage of cash flows in developing new dairy product selling business model during the year. The Group had current liabilities of approximately HK$204.4 million (2012: HK$177.0 million).

As at 31 May 2013, the Group had a net asset value of approximately HK$1,550.3 million (2012: HK$1,661.7 million), comprising non-current assets of approximately HK$1,451.0 million (2012: HK$1,442.6 million), net current assets of approximately HK$366.7 million (2012: HK$466.4 million) and non-current liabilities of about HK$267.5 million (2012: HK$247.3 million).

The Group had interest-bearing loan of HK$87.9 million as at 31 May 2013 (2012: HK$63.3 million). The Group's total liabilities divided by total assets as at 31 May 2013 was 0.23 times (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 31 May 2013, the Group had cash and cash equivalents and pledged deposits of approximately HK$7.4 million (2012: HK$2.5 million).

For the year ended 31 May 2013, the Group's net cash inflow from capital fund raising activities and bank loans amounted to HK$16.3 million (31 May 2012: HK$63.1 million). By repositioning the selling and marketing strategies onwards and continuing stringent cost controls implemented, the liquidity and financial resources are going to further improve in the coming year.

PLEDGE OF ASSETS

As at 31 May 2013, the operating lease of office premise located in New Zealand was secured by a bank deposit of the Group of approximately HK$1.1 million (2012: HK$1.0 million).

As at 31 May 2013, motor vehicles with carrying value of HK$5.9 million (2012: HK$8.1 million) located in Hong Kong and New Zealand have been pledged against bank loan and other borrowings and a property located in New Zealand of HK$3.3 million (2012: HK$3.3 million) has been pledged against other borrowing in New Zealand.

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 from 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 minimise the Group's exposure whenever necessary.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Group are set out in note 37 to the consolidated financial statements.

CAPITAL COMMITMENTS

The Group's capital commitments amounted to approximately HK$81.6 million as at 31 May 2013 (2012: HK$78.2 million), which represented the committed payment of construction of factory in Jiangxi. Details are set out in note 34(a)(iii) to the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 May 2013, the Group had a total headcount of approximately 143 employees (2012: 336 employees). 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.

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

In the financial Year 2013, it is a year of consolidation on the VSA-1 acquisition, the Target Company and Group development undertaken by the Vendor to deliver commitment to complete this acquisition with no cash consideration.

VSA-1: Acquisition of UBNZ Assets Holdings Limited ("UBNZ AHL") issued share capital and its dairy business

As announced on 22 May 2009, the Company intended to acquire the Target Company, UBNZ AHL on its 100% issued share capital (on two stages: 20% and 80%) with condition precedent to possess Target Assets of 22,398 cattles farming on 17 farmlands owned by Crafar and 5 farmlands from other proprietors. As at 19 June 2009, together with approximately 8,674 hectares of farmlands mainly located in middle highland area in Southern Auckland on North Island of New Zealand. The region is well-known for its clean grassland born for dairy farm business. On this acquisition, the Company shall own a new vertically integrated dairy business from farmlands, dairy milking, processing into UHT milk and other dairy products and setting selling points direct-sale in China.

This VSA-1 acquisition consideration NZ$500 million, paid by CN A & B conversions shares, is subject to final adjustment on Target Group (with Target Assets) offering a market valuation of NZ$300 million and to deliver a promissory profit of NZ$35 million in a 12 months period, after Option shares completion.

Overseas Investment Acts Changes to Regulate Foreigners Buying on Dairy Farmlands

On the debut of this VSA-1 Acquisition on 24 July 2009, the New Zealand government has been publicly promoting foreign investments in New Zealand with suggestion to narrow the Overseas Investment Acts 2005 ("OIA 2005") applications. In October 2009, after publicly announced on the Company VSA-1 acquisition, the New Zealand media has uproar on large scale acquisition of dairy farmlands by Chinese propagandised further on VSA-3 acquisition intention over 200 more dairy farmlands across New Zealand, citing loss of a national heritage on a natural resource.

As at 21 May 2010, the Company and the Vendor have all the monies in place for contemplated transactions undertaken by the Vendor purchase from mortgagee receiver to inject these farmlands and cattles, target assets, into the Target Group, pending only on such OIO approval on these "sensitive land" transactions.

On 27 September 2010, the same government has announced several changes made to OIA 2005 *to address concerns around large scale overseas ownership of farmland (forming vertically integrated primary production companies)*. Such new directive demands the OIO to impose additional new factors approving large areas farmlands acquisition by foreigners. If to include "*22 freehold farmlands interest*", the VSA-1 Acquisition will form a "*Vertically Integrated Dairy Business*", solely owned by foreigners.

The then directors recognise under this VSA-1, the Company is owned by public investors, within approved shareholders mandate and has not proposed any partnership with any quasi-government entity in New Zealand. The contemplated assets conveyance under VSA-1 within New Zealand shall comply with jurisdictions of New Zealand, but not the whole VSA-1 acquisition shall solely be determined by OIO discretions, as acquisition is executed outside New Zealand.

Continuation of the VSA-1 to its completion

After the OIO declination announced on 22 December 2009, before any commercial alternatives were considered, the Company has sought independent specific legal advice to rescind the Agreement and the Sale shares acquisition. As per legal advice pursuing on Remedy Clause 8 on this OIO defeat situation. The Board pursues on the EGM resolution 2 authorises to negotiate with the Vendor on how to proceed with the VSA-1 acquisition to comply with OIA 2005, achieving the Dairy Business objection sought after by the investors.

As stated in page 26 of the Circular dated 8 September 2009, relying on discretionary wavier clause exercisable by the Company on the condition precedent (g) of Target Assets fulfillment, without any cash payment but paid only on CN A & B conversion shares, in exchange for a "*no ownership farmlands*" dairy business direct retailing New Zealand made dairy products in China with valuable selling outlets network, and the promissory profits NZ$35 million that will underpin this New Business's success.

Based on above and among others, the then directors have proceeded on this VSA-1 acquisition through the 2011 Supplemental Agreement dated 8 December 2011, together with the Vendor and its appointed manager, Flying Max Limited. Due to long-term suspension of the Company shares, without monetary consideration, the Vendor and its manager have proceeded on this acquisition on a rather slow pace.

The Implementation of 2011 Supplemental Agreement – Risk on the VSA Consideration Paid

In Year 2013, the then directors have summarised the *Risk on all VSA Consideration being paid, as date of this report published, in below:*

The Company will continue to take appropriate legal steps, actions and measures to prevent any loss on this VSA consideration aggregate of 1,162,728,228 conversion shares from CN A & B, such "*recovery loss*" determination shall not diminish at any moment. If the risk emerges, the Board will reassess the necessity for valuation of consideration shares as consideration for the VSA-1 and make possible adjustments.

Accordance to the Company latest available financial report as at 31 May 2013, this 1,162,728,228 shares "*fair value*" have been determined and stated in note 21 (note a) & 26 (CN A & CN B) of this report which are the 110,431,200 CN A depositary share with fair value of HK$209,966,000 and the Sale shares consideration 276,077,999 CN B converted shares with fair value HK$367,198,000. Later, on completing the Option shares acquisition, the CN A 386,219,029 shares with fair value of HK$231,036,000 and CN B total 390,000,000 shares carrying a fair value of HK$233,298,000. Some "unconverted" CN A & B with fair value of HK$458,039,000, represents the outstanding held by the Company deem to pay the Vendor that assigned to Flying Max Limited, as part of the NZ$500 million consideration designated to issue to the Vendor, on the year end 2011.

As at the date of this report, part of the aggregate consideration 1,162,728,228 conversion shares was converted, which are 776,219,029 converted shares registered under *Flying Max Limited (and Earn Cheer Limited)*. All their original certificates are held in escrow by the Company nominated Hong Kong solicitor, subject to valuation benchmark and the materialisation of the NZ$35 million profit guarantee. The Sale shares have been completed, the paid consideration of 276,077,999 CN B conversion share, some portion 90,077,999 shares have been frozen on any transfer to third parties with Computershares registrar by the Company, without any documents binding the shares registered owner, UBNZ Trustee Limited ("UTCL"). The 110,431,200 CN A depositary shares was confirmed with Computershares for frozen on any transfer to any third party with a "Deed of Non-Transfer" signed with the shares owner, UTCL and its assignee.

The Implementation of 2011 Supplemental Agreement – Four Farms Sold

Due to the OIA 2005 changes on 29 September 2010 to protect national interest, the four farmlands were urged to be sold, the sale proceeds derived from the sale in year 2013 were agreed to be withheld with the Vendor, subject to the Vendor's reformation shall reform the Target Group with appropriate assets injection (mentioned as below) to conduct dairy business and to deliver promissory profits NZ$35 million.

The VSA-1 Completion status (now and in foreseeable future)

During the year, the Target Group with its subsidiaries in China (or BVI incorporated) has owned or will setup:

(i) Direct-sale network over 5,000 direct selling outlets being established or on process of cultivation.

(ii) Over 20 dairy products formula with dairy license for food sales within PRC and their patented design of packaging. Possession of 3 sets of 9 types of Infant Milk Powder formula in total.

(iii) Registered Trademark New Cow "紐牛", as the dairy brand in China, Hong Kong and New Zealand, the e–食惠 brand, and their "right of use" for 10 Years in New Zealand, Hong Kong and China, as stipulated in agreement with Target Group subsidiaries in China/BVI.

(iv) A milk supply contract between UBNZ AHL and *LCC Consultancy & Investment Limited* in relation to the milk supply of 28,000 cattles for two years, commencing on retail network with maturity starting from 1 June 2014.

(v) Two Independent Contractor Agreements in relation to three years "right of use" of the New Zealand milk powder (to be built) and UHT factory, from New Zealand Dairy Processing Limited ("NZDPL") whom owned a licensed factory to manufacture, process dairy products and UHT milks.

(vi) The UHT farm milk shall meet standard of protein content of 3.2 units per 100ml.

New Dairy Business Model Valuation

Retained Earnings after Tax stated in Business model of the coming one year commencing on 1 June 2014 is summarised as:

The Target Group obtains the rights to use, through an agreement with Flying Max Limited, on trademarks "New Cow, 紐牛" in China, New Zealand and Hong Kong. The Target Group obtains the rights of use of UHT milk and milk powder production and formulation from NZDPL. Business network has been established and business contracts become effective between the target group and wholesale agents and direct sales point in territories of China.

Business sales & marketing system and team are ready and to be grown in training and strategic stewardship in respond to customers' behavior and change and competitors' movement. Sales team of various executives involves a well performed leader who will direct the designated territories of China to spread business network and promote sales volume.

If the Company has resumed its trading of shares, the paid conversion shares would then represent realisable monetary worthiness. The Vendor and its manager Flying Max Limited will be more willing to complete expeditiously the establishment of 5,000 selling points network in China, maturing to sizeable direct sales volume per selling point. Therefore, mature business model shall commence on next working day of long stop date or the next financial year on 1 June 2014 whichever is earliest.

Strategic Repositioning for the Dairy Related Products Business

On suspension of the proposed VSA-2 acquisition dated 3 January 2012, that within past two years there was no any monetary benefits or any forms of payments have been granted to the VSA-2 Vendor, usage of "e–食惠" brands is in limbo and uncertain.

In past years, relying on confidence votes and committed deposits made by the five provincial wholesalers, the Company directors have deployed the nation-wide specialty shops networking plan within China. Nevertheless, it is the Company strategic decision to develop self-owned retail shops network accumulating significant strategic asset value on such nationwide shops network through the sale of dairy related products and beverage. However, due to continuous suspension trading of the Company shares national-wide CCTV advertisement has halfed with initial payment loss.

The five provincial wholesalers has abandoned the Company products totally due to unsatisfactory promotion efforts. Simultaneously these nation-wide specialty shops networking plan encounters cash shortage arising from rentals, renovation and initial operational expenditures prior to breakeven. Therefore, the directors have abandoned and wrote-off at least HK$25 million lease-improvement assets. A potential implication on cessation of specialty shops leads to legal claims on (year 2012 cease trading) Guoyuan Dairy (Xiamen) Import and Export Company Limited whom dealt with the five provincial wholesalers. Nevertheless, such legal litigation claims usually limited to the subsidiary.

Consolidating the Current Dairy Business Structure and Business Goals

In considering the Company's shares trading halt and the China retail shops initial capital expenditures constraints, the Company directors have observed other group (listed on HKEx) with two distinctive retailing models, being the *stand-alone specialty shops* model versus the *shop-in-shops* model, within China current competitive landscape.

The said company Belle Int' (01880), who is Nike and Adidas wholesaler in PRC, stands over 30% of Belle Group's 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 account for only 760 shops. As shown, Belle exhibits a market price per earnings ratio (P/E) of 21.80 over Li Ning of P/E 13.66 as at Year 2011. It seems, 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% were indeed "***sale counter or sale tents***" ***(selling points)*** established within different famous shopping mall or emporium on the local cities. More importantly, this brief study undermines a *cost-effective concept* that deploying sale points within exclusive locality shopping mall, emporium or shopping Plaza will enhance the brands market recognition and products acclimatization, therefore selling the products effectively.

In past years, the then directors have witnessed our stand-alone "concept stores" network sustainability grievance, especially, surviving within a mild retail landscape. The Vendor manager, Flying Max enables the Group to deploy similar "*Shop-in-Shops or sale tent concept*" *(selling points)* within thousands of pharmaceutical shops outlets and local convenient stores. Dairy related products and health products are idealistic selling within the consumers patronizing these premises. According to the Vendor's Management Agreement, the appointed Manager Flying Max's duties was to erect focus retail channels "selling dairy and health products, food and beverage in China" on brand "紐牛" and "e–食惠", and beverages manufactured by Group's Jiangxi state of Art P.E.T. Beverage Processing plant.

CN C, CN D and Option Bonds Proceeds used on the MU Agreement

As shown above, in year 2010 awaiting the OIO outcomes and years 2011, 2012 subject to those signed contracts, the Company already used some of the raised funds on daily expenses, legal fees and establishment of beverage networks in China (to conduct dairy and beverage retail business). Hence there will be insufficient cashflow to redeem these CN C, CN D & Option Bond at their respective redemption dates. Hence, as documented above, as acknowledged and signed by each subscribers that the invested funds could be used for both the Acquisition and the Company working capital, then as explained above and as announced on 10 June 2011, the Company has viewed the need for a shareholder meeting to rectify the usage of such raised proceeds from "*consideration for the Acquisition*" is minimal, as long as the VSA-1 Acquisition objective could be achieved.

The CN C, CN D and Option Bonds proceeds have been raised in aggregate HK$955.4 million, but after depleted by the Company year 2010, 2011 and 2012 aggregate to HK$600.433 million subject to some exchange difference, were applied towards the Manufacturing Agreement ("MU Agreement") deposit and 40 million packs UHT milks pre-payments made.

As announced by the Company on 9 June 2010, 20 June 2010, 7 July 2010 and 2 February 2011, the Company had disclosed: (1) the Manufacturing Agreement for the UHT milk from New Zealand as a standalone supply contract not related to VSA-1 acquisition; (2) the OIO progress in relation to the 16 Farms acquisition by UBNZ AHL; (3) the prepayment of 40 million packs UHT milk, 650,000 infant formula and deposit of the MU Agreement made by the Company to UBFM of amount equivalent to HK$360.6 million on or before 30 April 2012.

As at the date of this report, there were approximately 18.8 million packs of UHT milk exported from NZ to China under the MU Agreement (which equates to HK$82.4 million), and approximately 245,000 cans (equates to HK$36.7 million) of Infant Formula were exported from New Zealand to China according to the MU Agreement. The total value of the goods were supplied to the Company's subsidiary, Guoyuan Natural Dairy (Jiangxi) Company Limited was HK$119.1 million. The outstanding 21.1 million packs of UHT milk, and 405,000 cans of Infant Formula at total value of HK$144.6 million are still pending on the Company's purchase order for further delivery and export.

The established "concept stores" were slow down and some of them closed due to the long suspension of trading leading to the discontinuance of the advertising campaign in China. The Company had to change the concept store model to direct sell model. The purchase orders made from the Company were at a much slower pace during the year 2012.

Future Plan and Prospects

Stepping into Year 2013, there is still great development potential and room for improvement for China's dairy industry, in view of the continuous urbanization and the ever-increasing spending power and health awareness of consumers. Under the China government stringent supervision, the dairy industry would maintain a healthy development along with a more concentrated industry trend. As a player in China dairy market, Natural Dairy is continuing to participate the healthy development of the industry by proactively seizing industry opportunities and leveraging its strength alike the state-of-art JiangXi beverage factory base.

Organizational restructuring in 2012/2013 has prepared Natural Dairy for its enhancement in the coming years, By adhering to principles of strategy orientation, market-driven business, transformational upgrade and shared growth. The upcoming year 2014 will continue to be a challenging year, the Group is set to possess 21.14 million packs (250 ml) of quality UHT fresh milk and 405,254 infant formula from our strategic processor/supplier UBFM in New Zealand. Further, in order to make better use of its China distribution network additional kinds of dairy products mix such as blueberry, strawberry and chocolate UHT milks and innovation products likes colostrum, good night milks and infant formula for baby are added.

The Company believes that there will be more comprehensive information in relation to the Target Group of the Acquisition which enables the HKEx to reassess the Acquisition upon the selling points network is mature. With which, the directors believe a clear path to the profitability of the Target Group can be demonstrated the progress of the Acquisition will be announced as and when appropriate accordingly to the 2011 Listing Rules and the Securities and Future Ordinance.

For the purpose of sustaining long-term growth and maximizing the shareholders' wealth, the Directors will continue to explore all potential opportunities to broaden the Group's income and development. Natural Dairy is committed to becoming a dairy enterprise that deliver products of the best quality and bring happiness to consumers in China.

Directors' Biography

EXECUTIVE DIRECTORS

Mr. Wu Nengkun ("Mr. Wu"), aged 30, the chairman and managing director, 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 (Jiangxi) Company Limited).

Mr. Yao Haisheng ("Mr. Yao"), aged 44, 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 29, 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. Tan Houwen ("Ms. Tan"), aged 45, graduated at Massey University, New Zealand with a Business diploma, and Bachelor of Art at Central University for Nationalities, Beijing, China. She also studied Corporate Management at University of International Business and Economics Beijing, China. She has more than 20 years experience in media and commercial area. Ms. Tan also active in public and community services. She is a member of NZ Chinese Brighter Future Education trust.

Mr. Luo Ji ("Mr. Luo"), aged 49, the then managing director of the Company was retired on 2 November 2012, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Chan Man Kuen Laura ("Ms. Chan"), aged 40, 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 13 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.

Mr. Zhang Jianhong ("Mr. Zhang"), aged 67, 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. Wong Wang Tai ("Mr. Wong"), aged 49, has been a qualified accountant since 1994. He graduated at Hong Kong Baptist University and City University of Hong Kong with a Bachelor of Business Administration and Bachelor of Law degrees respectively. He is a member of Hong Kong Institute of Certified Public Accountants and fellowship member of The Association of Chartered Certified Accountants. He has more than 20 years of experience in auditing, finance and accounting fields. Mr. Wong is the chairman of the audit committee, member of the nomination committee and remuneration committee.

Mr. Sze Cheung Hung ("Mr. Sze"), aged 48, who resigned on 28 August 2013, was 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. Mr. Sze resigned on 28 August 2013 as independent non-executive director and ceased to act as chairman of the audit committee, member of the nomination committee and remuneration committee with effective on 28 August 2013.

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 2013.

PRINCIPAL ACTIVITIES

As at 31 May 2013, the Company acts as an investment holding company. The principal activities of its subsidiaries as at 31 May 2013 are set out in note 38 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 2013 (2012: Nil).

SHARE CAPITAL

Details of the movements in the issued share capital of the Company during the year are set out in note 28 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 84.7% and 88.3% 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 53.2% 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 and Managing Director from 2 November 2012)*
Mr. Yao Haisheng
Mr. Zhang Hanwen
Ms. Tan Houwen (appointed on 28 August 2013)
Mr. Luo Ji *(Managing Director)* (retired on 2 November 2012)

Independent Non-executive Directors:

Ms. Chan Man Kuen Laura
Mr. Zhang Jianhong
Mr. Wong Wang Tai (appointed on 28 August 2013)
Mr. Sze Cheung Hung (resigned on 28 August 2013)

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

In accordance with the provisions of the Company's articles of association, Wu Nengkun, Zhang Hanwen, Tan Houwen and Wong Wang Tai, will retire from the Board at the forthcoming annual general meeting and being eligible, will offer for re-election.

Independent non-executive directors were not appointed for a specific term, but subject to retirement by rotation once every three years since their last election by shareholders of the Company and the retiring directors are eligible for re-election. In addition, any director appointed by the Board will hold office only until the next annual general meeting of the Company and will then be eligible for re-election. In view of these, the Board considers that such requirements are sufficient to meet the underlying objective of the code provision A.4.1. and therefore does not intend to take any remedial steps in this regard.

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 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 2013, 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 29 to the consolidated financial statements.

Apart from the aforesaid, at no time during the year was the Company or its subsidiaries, 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 2013, 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 2013, 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.

Save as disclosed above, as at 31 May 2013, 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 2013, none of any options granted was outstanding and the scheme was 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 recognise 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 to 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 2013, 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 36 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 2011 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: 00462) 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

There is no event after the end of the reporting period.

AUDITORS

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

30 August 2013

Corporate Governance Report

The Board is committed to maintaining a 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. However, the Company has performed internal control review during the year.

(A) CORPORATE GOVERNANCE PRACTICE

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").

During the year ended 31 May 2013, the Company has complied with the Code except the following:

(1) Pursuant to code provision A.2.1, the roles of chairman and chief executive of an issuer 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. Following the retirement of the then managing director Mr. Luo Ji on 2 November 2012, the chairman Mr. Wu Nengkun as resumed the responsibilities of the managing director at the same time. Having considered the current business operation and situation of the Company, the Board is of the view that Mr. Wu acting as both the chairman and managing director of the Company is acceptable and in the best interest of the Company. The Board will review this situation periodically.

(2) The non-executive directors were not appointed for a specific term, but are subject to retirement by rotation once every three years since their last election. In addition, any director appointed by the Board will hold office only until the next annual general meeting of the Company and will then be eligible for re-election.

In view of these, the Board considers that such requirements are sufficient to meet the underlying objective of the code provision A.4.1 and therefore does not intend to take any remedial steps in this regard.

(B) DIRECTORS' 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 that they have complied with the required standard set out in the Model Code throughout the year ended 31 May 2013.

In addition, the Company had adopted provisions of the Model Code as written guidelines for senior management of the Company in respect of their dealings in the securities of the Company. Such relevant employees shall abide by the provisions of the Model Code.

(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 judgements 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 Managing 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 *(Chairman and Managing Director from 2 November 2012)*
Mr. Yao Haisheng
Mr. Zhang Hanwen
Ms. Tan Houwen (appointed on 28 August 2013)
Mr. Luo Ji *(Managing Director)* (retired on 2 November 2012)

Independent Non-executive Directors:

Ms. Chan Man Kuen Laura
Mr. Zhang Jianhong
Mr. Wong Wang Tai (appointed on 28 August 2013)
Mr. Sze Cheung Hung (resigned on 28 August 2013)

Corporate Governance Functions

The Board recognizes that corporate governance should be the collective responsibilities of all directors, as such, it has adopted terms of reference for corporate governance function that are in line with the CG Code.

For the year ended 31 May 2013, directors have participated in continuous professional development activities either by attending training courses or by reading materials to develop and refresh their knowledge and skills on the roles, function and skills of a director of a listed company. The directors are regularly briefed on the amendments to or updates on the Listing Rules, corporate governance practices and other regulatory matters.

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 2013, a total number of 34 Board meetings, 2 audit committees meetings, 1 nomination committee meeting 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, nomination committee and remuneration committee during the year ended 31 May 2013 were set out below:

	Attendance/Number of Meetings entitled to attend			
Name of Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee
Mr. Wu Nengkun	33/34	–/–	1/1	–/–
Mr. Yao Haisheng	33/34	–/–	1/1	–/–
Mr. Zhang Hanwen	34/34	–/–	–/–	–/–
Ms. Chan Man Kuen Laura	3/4	2/2	1/1	1/1
Mr. Zhang Jianhong	1/4	1/2	1/1	0/1
Mr. Luo Ji	20/24	–/–	–/–	–/–
Mr. Sze Cheung Hung	4/4	2/2	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. Wong Wang Tai 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 2013, a total number of two 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 2013. Work undertaken by the audit committee included:

1. reviewing the financial statements for the year ended 31 May 2013 and for the six months ended 30 November 2012;

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. Zhang Jianhong and Mr. Wong Wang Tai 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, one meeting had been held for the year ended 31 May 2013. Work untaken included the recommendation of executive directors for the Board to consider appointment.

(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. Zhang Jianhong and Wong Wang Tai 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 2013, one 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 2013 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:

	2013 HK$'000	2012 HK$'000
Nature of services		
Audit	**950**	1,200
Non-audit services	**21**	438
	971	1,638

(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. The Company has performed internal control review during the year.

In order to further 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.

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. The Company also publishes announcement about the Company on the HKEx and the Company's website.

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 98 which comprise the consolidated statement of financial position as at 31 May 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company (the "Directors") 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 about 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 judgement, 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 2013 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

Tong Yat Hung
Practising Certificate number P01055
Hong Kong
30 August 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 May 2013

	Note	2013 HK$'000	2012 HK$'000
Revenue	8	36,692	30,811
Cost of sales		(26,607)	(35,038)
Gross profit/(loss)		10,085	(4,227)
Other income	9	5,466	8,139
Selling and distribution expenses		(5,219)	(95,952)
General and administrative expenses		(74,576)	(215,633)
Finance costs	10	(39,508)	(23,622)
Loss before tax	11	(103,752)	(331,295)
Income tax	12	–	–
Loss for the year attributable to owners of the Company		(103,752)	(331,295)
Other comprehensive (expenses)/income			
Exchange difference arising on translation of foreign operations		(11,858)	5,642
Total comprehensive expenses for the year attributable to owners of the Company		(115,610)	(325,653)
Dividends	13	–	–
Loss per share	14		
Basic		(3.83) HK cents	(14.80) HK cents
Diluted		N/A	N/A

Consolidated Statement of Financial Position

At 31 May 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	*16*	160,456	151,960
Intangible assets	*17*	1,019	1,019
Available-for-sale investment	*18*	367,198	367,198
Prepayment	*21*	922,373	922,373
		1,451,046	1,442,550
Current assets			
Inventories	*19*	11,791	41,087
Trade receivables	*20*	25,276	22,400
Other receivables, deposits and prepayments	*21*	526,630	577,445
Pledged bank deposits	*22*	1,053	986
Bank balances and cash		6,338	1,514
		571,088	643,432
Current liabilities			
Trade payables	*23*	9,013	18,636
Other payables and accrued charges	*24*	102,699	94,912
Bank loans and other borrowings	*25*	86,464	60,835
Amount due to related companies		6,224	2,645
		204,400	177,028
Net current assets		366,688	466,404
Total assets less current liabilities		1,817,734	1,908,954

	Note	2013 HK$'000	2012 HK$'000
Capital and reserves			
Share capital	28	270,878	270,878
Reserves		1,279,373	1,390,792
Total equity		1,550,251	1,661,670
Non-current liabilities			
Bank loans and other borrowings	25	1,455	2,467
Deferred tax liabilities	27	61,295	65,486
Convertible notes	26	204,733	179,331
		267,483	247,284
		1,817,734	1,908,954

The consolidated financial statements on pages 35 to 98 were approved and authorised for issue by the board of directors on 30 August 2013.

Wu Nengkun
Executive Director

Zhang Hanwen
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 May 2013

	Share capital *(Note 28)* 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 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							
Exchange difference arising on translation of foreign operations	–	–	–	–	5,642	–	5,642
Total comprehensive income/ (expenses) for the year	–	–	–	–	5,642	(331,295)	(325,653)
Convertible notes equity component *(Note b)*	–	–	–	222,394	–	–	222,394
Recovery of deferred tax from convertible notes equity component *(Note 27)*	–	–	–	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 and 1 June 2012	270,878	2,048,688	(14,990)	224,206	(983)	(866,129)	1,661,670
Loss for the year	–	–	–	–	–	(103,752)	(103,752)
Other comprehensive expenses							
Exchange difference arising on translation of foreign operations	–	–	–	–	(11,858)	–	(11,858)
Total comprehensive expenses for the year	–	–	–	–	(11,858)	(103,752)	(115,610)
Recovery of deferred tax from convertible notes equity component *(Note 27)*	–	–	–	4,191	–	–	4,191
At 31 May 2013	**270,878**	**2,048,688**	**(14,990)**	**228,397**	**(12,841)**	**(969,881)**	**1,550,251**

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 2012, the Company issued CN A of HK$112,874,430 and CN B of HK$463,344,000.

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

Consolidated Statement of Cash Flows

For the year ended 31 May 2013

	2013 HK$'000	2012 HK$'000
Cash flow from operating activities		
Loss before tax	(103,752)	(331,295)
Adjustments for:		
Bank interest income	(40)	(130)
Depreciation of property, plant and equipment	25,977	18,706
Unrealised exchange gains	(13,385)	–
Finance costs	39,508	23,622
Reversal of impairment loss recognised for inventories	(500)	–
Written off of inventories	1,450	–
Impairment loss recognised for trade receivables	–	30,583
Loss on disposal of property, plant and equipment	26	2,414
Written off of property, plant and equipment	11,498	29,710
Operating loss before working capital changes	(39,218)	(226,390)
Decrease/(increase) in inventories	27,126	(1,679)
(Increase)/decrease in trade receivables	(3,541)	14,424
Decrease in other receivables, deposits and prepayments	13,414	25,237
(Decrease)/increase in trade payables	(9,068)	17,263
Increase in other payables and accrued charges	1,175	14,520
Increase in amount due to related companies	3,608	649
Net cash used in operating activities	(6,504)	(155,976)
Investing activities		
Decrease in funds in escrow and trust accounts	–	69
Purchases of property, plant and equipment	(5,272)	(39,879)
Proceeds from disposal of property, plant and equipment	153	6,783
Interest received	40	130
Net cash used in investing activities	(5,079)	(32,897)

	2013 HK$'000	2012 HK$'000
Financing activities		
Proceeds from bank loans	–	4,000
Proceeds from other borrowings	23,204	59,892
Interest paid	(5,784)	(170)
Repayment of bank loans	(1,133)	(590)
Net cash from financing activities	16,287	63,132
Net increase/(decrease) in cash and cash equivalents	4,704	(125,741)
Cash and cash equivalents at beginning of the year	1,514	123,490
Effect of foreign exchange rates change	120	3,765
Cash and cash equivalents at end of the year	6,338	1,514

Notes to Consolidated Financial Statements

For the year ended 31 May 2013

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, 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 food & 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. The functional currency of the Company is Hong Kong Dollar ("HK$"). The functional currency of the subsidiaries are HK$, Renminbi ("RMB") and New Zealand Dollar ("NZ$"). The consolidated financial statements are presented in HK$, and all values are rounded to the nearest thousand except when 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 the opinion of the Directors, with the financial support, 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").

HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets; and
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

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:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009–2011 Cycle[2]
HKFRS 1(Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans[2]
HKFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
HKFRS 10, HKFRS 12 and HKAS 27 (Revised) (Amendments)	Investment Entities[3]
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]
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets[3]
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting[3]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]
HK(IFRIC) – Int 21	Levies[3]

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 Group has already commenced an assessment of the impact of these new and revised HKFRSs, certain of which may be relevant to the Group's operations and may give rise to changes in accounting policies, changes in disclosures and remeasurement of certain items in the consolidated financial statements.

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 when 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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interest in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to accumulated losses as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised 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 recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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.

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), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

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 at the time when the goods are delivered and the customer has accepted the goods.

Commission, handling, advertising and service income are recognised 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 from operating leases is described in the accounting policy below.

Sundry income is recognised whenever it is received or 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 subsequent accumulated impairment losses, if any.

Depreciation is recognised 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 recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised 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 recognised in profit or loss.

Intangible assets

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

Intangible assets are not amortised 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 amortisation of intangible assets with finite lives.

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 lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised 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 recognised 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 weighted average 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the assets (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 Dollar, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when deferred in other comprehensive income 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);

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

(iv) on the disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies translation *(continued)*

(c) Group companies (continued)

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

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.

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 of items of income or expense that are taxable or deductible in other years and 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 is 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. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefit costs and short-term employee benefits

(a) Retirement benefit costs

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

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in the retirement benefits schemes (the "PRC RB Schemes") operated by the respective local municipal government in provinces of the PRC that the Group's subsidiaries operate. These subsidiaries are required to contribute a certain percentage of their payroll costs to the PRC RB Schemes. 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.

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 recognised 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 recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into loans and receivables and available-for-sale investment. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 and points 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 debt instruments, 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, 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 investments

Available-for-sale investments 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 investments 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).

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 when 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 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, the amount of impairment loss recognised is 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. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

When an available-for-sale investment is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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 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 an impairment loss is recognised 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 instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements 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 an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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 payments (including all fees and points 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Convertible notes

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

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

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in the convertible notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible notes equity reserve will be released to the accumulated losses. 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, other payables and accrued charges, bank loans and other borrowings and amount due to related companies) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition *(continued)*

On derecognition of a financial asset in its entirety, 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 and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the 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. When 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).

When 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) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent;

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

5. CRITICAL ACCOUNTING JUDGEMENTS 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 judgements, 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 asset or group of assets and the fair value of each asset 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 investments

For available-for-sale investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant and/or prolonged. In making this judgement, 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. When the future discounted cash flows 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 JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Impairment loss in respect of inventories

The management of the Group reviews an aging analysis at the end of each 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 the end of each 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 are 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.

7. FINANCIAL INSTRUMENTS

(i) Categories of financial instruments

	2013 HK$'000	2012 HK$'000
Financial assets		
Loans and receivables	271,933	265,421
Available-for-sale investment	367,198	367,198
	639,131	632,619
Financial liabilities		
Amortised cost	410,588	358,826

(ii) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade receivables, other receivables, deposits, pledged bank deposits, bank balances and cash, trade payables, other payables and accrued charges, bank loans and other borrowings, amount due to related companies, 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, sales and purchases which give rise to receivables, payables and bank balances that are denominated in a currency other than the functional currency of the operations to which they relate. 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.

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 year are as follows:

	Assets		Liabilities	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
NZ$	**3,252**	3,252	**–**	–
RMB	**–**	–	**–**	48
US$	**1**	2	**–**	–

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 represents 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:

	2013	2012
	HK$'000	HK$'000
NZ$ Impact	**272**	272
RMB Impact	**–**	(4)

7. FINANCIAL INSTRUMENTS *(continued)*

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

Interest rate risk

The Group is exposed to cash flow interest rate risk to pledged bank deposits and bank balances carried at prevailing market rate. However, such exposure is minimal to the Group.

The Group currently does not have interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

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 2013 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 year 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.

7. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk (continued)

The following table details the remaining contractual maturities at the end of the year 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 2013

	Interest rate range %	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	–	9,013	9,013	9,013	–	–
Other payables and accrued charges	–	102,699	102,699	102,699	–	–
Bank loans and other borrowings	0% - 36%	87,919	87,919	86,464	1,455	–
Amount due to related companies	–	6,224	6,224	6,224	–	–
Convertible notes	14.13%	204,733	576,218	–	–	576,218
		410,588	782,073	204,400	1,455	576,218

At 31 May 2012

	Interest rate range %	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	–	–
Bank loans and other borrowings	0% - 36%	63,302	63,302	60,835	2,467	–
Amount due to related companies	–	2,645	2,645	2,645	–	–
Convertible notes	14.13%	179,331	576,218	–	–	576,218
		358,826	755,713	177,028	2,467	576,218

Fair values

Fair values of financial instruments carried at other than fair value

The fair values of financial assets and financial liabilities as at 31 May 2013 and 2012 are not materially different from their carrying amounts of financial assets and financial liabilities carried at cost or amortised cost.

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 2013	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	26,884	9,808	36,692
Segment results	(10,988)	(23,814)	(34,802)
Bank interest income			40
Unallocated corporate income			5,426
Unallocated corporate expenses			(34,882)
Loss on disposal of property, plant and equipment			(26)
Finance costs			(39,508)
Loss before tax			(103,752)

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

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 tax			(331,295)

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 costs, corporate income and expenses, 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.

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 2013	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	1,094,086	189,336	1,283,422
Unallocated corporate assets			738,712
Consolidated assets			2,022,134
LIABILITIES			
Segment liabilities	304,730	87,798	392,528
Unallocated corporate liabilities			79,355
Consolidated liabilities			471,883

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

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

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 balances and cash) are allocated to reportable segments; and
- all liabilities other than unallocated liabilities (mainly comprising other payables and accrued charges) are allocated to reportable segments.

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 2013	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	97	40,228	121	40,446
Depreciation of property, plant and equipment	2,578	19,016	4,383	25,977
Provision/(reversal) of impairment loss of inventories	963	(1,463)	–	(500)
Written off of inventories	1,450	–	–	1,450
Loss on disposal of property, plant and equipment	–	–	26	26
Written off of property, plant and equipment	9,485	–	2,013	11,498

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
Written off of property plant and equipment	–	29,710	–	29,710

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	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	–	–	12,476	13,960
PRC	36,686	30,516	1,063,021	1,051,874
New Zealand	6	295	8,351	9,518
	36,692	30,811	1,083,848	1,075,352

Information about major customers

For the year ended 31 May 2013, revenue arising from trading of food & beverage and dairy related products from a customer of the Group amounting to HK$31,087,000 contributed over 10% of the Group's total revenue.

For the year ended 31 May 2012, revenue arising from manufacturing and sales of beverage and dairy related products from a customer of the Group amounting to HK$11,457,000 contributed over 10% of the Group's total revenue.

9. OTHER INCOME

	2013	2012
	HK$'000	HK$'000
Bank interest income	40	130
Advertising income	2,586	3,596
Rental income	2,750	1,585
Sundry income	90	2,828
	5,466	8,139

10. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest expenses on convertible notes	25,402	13,474
Bank interest expense	196	170
Interest on other borrowings	13,910	9,978
	39,508	23,622

11. LOSS BEFORE TAX

	2013 HK$'000	2012 HK$'000
Loss before tax has been arrived at after charging/(crediting):		
Auditors' remuneration	971	1,638
Depreciation of property, plant and equipment	25,977	18,706
Cost of inventories recognised as an expense	26,607	34,984
Reversal of impairment loss in respect of inventories	(500)	–
Written off of inventories	1,450	–
Impairment loss recognised for trade receivables	–	30,583
Exchange (gain)/loss, net	(16,199)	12,192
Loss on disposal of property, plant and equipment	26	2,414
Promotion expenses *(note)*	578	54,268
Written off of property, plant and equipment	11,498	29,710
Rental expense under operating leases	10,864	23,126
Staff costs (including directors' emoluments – *Note 15*)		
– salaries and other benefits	20,148	42,127
– staff quarters	273	6,325
– retirement benefits contribution	1,241	1,938

Note: During the year ended 31 May 2013, the inventories used in the promotion campaign of UHT milk for branding dairy products in PRC amounted to HK$578,000 (2012: HK$54,268,000).

12. INCOME TAX

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for the year (2012: 16.5%).

The provision for the PRC income tax is calculated at 25% of the estimated assessable profits in accordance with the relevant income tax rules and regulations of the PRC (2012: 25%).

Income tax on overseas profits has been calculated based on the estimated assessable profits for the year at the tax rates prevailing in the countries in which the Group operates.

12. INCOME TAX *(continued)*

No Hong Kong profits tax, PRC income tax or overseas income tax has been provided in the consolidated financial statements as there was no assessable profits for the year (2012: Nil).

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

	2013 HK$'000	2012 HK$'000
Loss before tax:	**(103,752)**	(331,295)
Tax at the domestic income tax rate	**(17,119)**	(54,663)
Tax effect of income not taxable for tax purposes	**(2,771)**	(25)
Tax effect of expenses not deductible for tax purposes	**12,384**	33,639
Tax effect of tax losses not recognised	**13,720**	43,731
Effect of different tax rates of subsidiaries operating in the jurisdictions	**(6,214)**	(22,682)
Income tax for the year	**–**	–

13. DIVIDENDS

No dividends were paid, declared or proposed during the year (2012: Nil).

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:

	2013 HK$'000	2012 HK$'000
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	**(103,752)**	(331,295)
	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**	2,239,026

No diluted loss per share amounts were presented for the years ended 31 May 2013 and 31 May 2012 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.

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the Directors are as follows:

For the year ended 31 May 2013

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits contribution HK$'000	Total HK$'000
Executive directors:				
Mr. Wu Nengkun	–	1,975	–	1,975
Mr. Luo Ji *(Note 2)*	–	104	–	104
Mr. Yao Haisheng	–	250	–	250
Mr. Zhang Hanwen	–	250	–	250
	–	2,579	–	2,579
Independent non-executive directors:				
Mr. Sze Cheung Hung	257	–	–	257
Ms. Chan Man Kuen Laura	257	–	–	257
Mr. Zhang Jianhong *(Note 4)*	250	–	–	250
	764	–	–	764
Total	764	2,579	–	3,343

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

(a) Directors' emoluments *(continued)*

For the year ended 31 May 2012

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits contribution HK$'000	Total HK$'000
Executive directors:				
Mr. Wu Nengkun	–	417	–	417
Ms. Ng Yat Fung Miranda *(Note 1)*	–	375	6	381
Mr. Luo Ji *(Note 2)*	–	266	–	266
Mr. Yao Haisheng	–	215	–	215
Mr. Zhang Hanwen	–	215	–	215
	–	1,488	6	1,494
Independent non-executive directors:				
Mr. Stephen Bryden Kerr *(Note 3)*	145	–	–	145
Mr. Sze Cheung Hung	257	–	–	257
Ms. Chan Man Kuen Laura	257	–	–	257
Mr. Zhang Jianhong *(Note 4)*	30	–	–	30
	689	–	–	689
Total	689	1,488	6	2,183

Notes:

1. Ms. Ng Yat Fung Miranda resigned on 1 December 2011.
2. Mr. Luo Ji retired on 2 November 2012.
3. Mr. Stephen Bryden Kerr resigned on 1 December 2011.
4. Mr. Zhang Jianhong was appointed on 19 January 2012.

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.

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

(b) Five highest paid employees

Of the five individuals with the highest emoluments in the Group, one (2012: two) Director whose emoluments are set out in Note 15(a). The emoluments of the remaining four (2012: three) highest paid individuals are as follows:

	2013 **HK$'000**	2012 HK$'000
Salaries and other benefits	**4,307**	2,608
Retirement benefits scheme	**60**	36
	4,367	2,644

The emoluments of the four (2012: three) highest paid employees fall in the following bands:

	Number of employees	
	2013	2012
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	1
Over HK$1,500,000	**1**	–

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.

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and building (outside Hong Kong) 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 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 (out)/in	–	(131,522)	106,430	25,092	–	–	–	–	–
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
At 1 June 2012	3,531	–	89,779	38,099	5,649	5,359	9,631	24,441	176,489
Additions	–	5,011	75	35,174	–	97	46	43	40,446
Disposals	–	–	–	–	–	(6)	(267)	–	(273)
Written off	–	–	(13,021)	(235)	(12)	(1,348)	(1,955)	(482)	(17,053)
Exchange realignment	242	104	3,035	2,160	249	147	166	730	6,833
At 31 May 2013	3,773	5,115	79,868	75,198	5,886	4,249	7,621	24,732	206,442
ACCUMULATED DEPRECIATION AND IMPAIRMENT									
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
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
At 1 June 2012	258	–	6,995	2,793	1,384	1,588	3,327	8,184	24,529
Depreciation charge	149	–	8,891	8,581	857	731	1,570	5,198	25,977
Disposals	–	–	–	–	–	(5)	(89)	–	(94)
Written off	–	–	(4,699)	(39)	(2)	(264)	(471)	(80)	(5,555)
Exchange realignment	17	–	320	282	79	47	58	326	1,129
At 31 May 2013	424	–	11,507	11,617	2,318	2,097	4,395	13,628	45,986
NET CARRYING VALUES									
At 31 May 2013	3,349	5,115	68,361	63,581	3,568	2,152	3,226	11,104	160,456
At 31 May 2012	3,273	–	82,784	35,306	4,265	3,771	6,304	16,257	151,960

As at 31 May 2013, net carrying value of motor vehicles of approximately HK$5,902,000 (2012: HK$8,116,000) and freehold land and building of approximately HK$3,349,000 (2012: HK$3,273,000) were held as security of bank loans and other borrowings.

17. INTANGIBLE ASSETS

	2013 HK$'000	2012 HK$'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.

18. AVAILABLE-FOR-SALE INVESTMENT

	2013 HK$'000	2012 HK$'000
Unlisted securities – Equity security	367,198	367,198

During the year ended 31 May 2010, the Group acquired 20% of the ordinary share capital of UBNZ Assets Holdings Limited ("UBNZ AHL") by convertible notes issued by the Company with initial issued principal amount of approximately HK$552,155,998 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 capital of UBNZ AHL.

Details of the investment as at 31 May 2013 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 2013, Grant Sherman Appraisal Limited ("GSA"), an independent qualified professional valuer not connected with the Group was engaged to appraise the value of UBNZ AHL. GSA came up with a recoverable amount of the 20% equity interests in UBNZ AHL as at 31 May 2013 of HK395,961,000 (2012: HK$479,059,000) based on discounted cash flow model. The management considers no impairment of the asset. However, the recoverable amount is not booked as UBNZ AHL is a private company which does not have a quoted market price in an active market and further because of the fact that the range of various reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. The investment is therefore stated at cost. The recoverable amount from GSA is taken as a reference to the impairment review process.

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

As at 31 May 2012, management assessed the impairment amount of 20% equity interests in UBNZ AHL based on discounted cash flows model using discount rate issued by GSA and concluded that no impairment loss was recognised for the year.

The cash flows discounted rate of 18.48% is based on discount rate with the risk premium specific to the unlisted securities (2012: 16.42%).

Available-for-sale investment are denominated in Hong Kong dollars.

19. INVENTORIES

	2013 **HK$'000**	2012 HK$'000
Raw materials	**4,576**	16,798
Work in progress	**285**	1,208
Finished goods	**6,930**	23,081
	11,791	41,087

20. TRADE RECEIVABLES

	2013 **HK$'000**	2012 HK$'000
Trade receivables	**57,011**	52,983
Less: impairment loss recognised	**(31,735)**	(30,583)
	25,276	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.

20. TRADE RECEIVABLES *(continued)*

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

	2013 HK$'000	2012 HK$'000
Within 3 months	753	14,746
4-6 months	354	148
7-12 months	11,497	7,438
Over 1 year	12,672	68
	25,276	22,400

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

	2013 HK$'000	2012 HK$'000
Within 3 months	–	–
4-6 months	–	–
7-12 months	11,497	7,438
Over 1 year	12,672	68
	24,169	7,506

The Group's neither past due nor impaired trade receivables mainly represent sales made to recognised 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.

21. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2013 HK$'000	2012 HK$'000
Advance to related parties *(Note a)*	214,933	215,045
Trade deposit for milk *(Note b)*	129,361	129,361
Trade deposit *(Note c)*	144,562	149,845
Prepayments *(Note d)*	923,407	923,527
Utility and other deposits	1,603	347
Deposit paid	839	1,907
Payment in advance	12,407	56,564
Other receivables	21,993	23,324
	1,449,105	1,499,920
Less: Provision for impairment	(102)	(102)
	1,449,003	1,499,818
Less: Non-current portion *(Note d)*	(922,373)	(922,373)
Current portion	526,630	577,445

Note a: The balance includes a deposit of HK$209,966,000 ("Deposit") advanced to UBNZ Trustee Limited ("Vendor") (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 were 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 the Vendor and UBNZ Funds Management Limited (the "Warrantor") in relation to i) the sale and purchase of 20% of the issued share capital of UBNZ AHL; and ii) the option to purchase 80% of the issued share capital of UBNZ AHL ("Agreement").

Pursuant to Clause 4.6 and 4.6 (i) of the Agreement, the Company shall have the right to i) 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 represents expenses paid on behalf of the related parties.

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

Note b: The balance of NZ$21,000,000 equivalent to HK$129,361,000 (2012: HK$129,361,000) represents payment made to UBNZ Funds Management Limited ("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 are 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. A further extension supplementary agreement was made on 27 August 2013 to extend the agreement for 1 year to September 2015. As at 31 May 2013 and 2012, no portion of the deposit has been utilised.

Note c: The amount of HK$144,562,000 (2012: HK$149,845,000) represents the advance payment paid by the Company for the orders of 21.1 million packets (2012: 22.3 million packets) of pasteurized UHT milk and 405,000 cans (2012: 405,000 cans) of milk powder. A further extension supplementary agreement was made on 27 August 2013 to extend the agreement for 1 year to September 2015. The deposits will be continuously utilised in the coming years until September 2015.

Note d: The amount represents 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 ordinary shares with fair value of HK$231,036,000, CN B converted on 2 January 2012 totally 390,000,000 ordinary 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 amortised in future years according to the estimated useful lives. Since the 2011 supplemental agreement and management and trademark license agreement have not started during the year, amortisation of management fee will be starting once the management service commences.

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

22. PLEDGED BANK DEPOSITS

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

	2013 **HK$'000**	2012 HK$'000
Pledged bank deposits	**1,053**	986

At 31 May 2013 and 2012, the pledged bank deposits were placed as securities for the operating lease of an office premise located in New Zealand.

23. TRADE PAYABLES

	2013 HK$'000	2012 HK$'000
Trade payables	9,013	18,636

The aging analysis of the trade payables is as follows:

	2013 HK$'000	2012 HK$'000
Within 3 months	597	780
4-6 months	30	2,503
7-12 months	–	15,148
Over 1 year	8,386	205
	9,013	18,636

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

24. OTHER PAYABLES AND ACCRUED CHARGES

	2013 HK$'000	2012 HK$'000
Temporary deposits	6,544	6,812
Deferred income	–	1,233
Accrued interest for convertible notes	16,472	16,472
Other payables and accruals	79,683	70,395
	102,699	94,912

25. BANK LOANS AND OTHER BORROWINGS

	2013 HK$'000	2012 HK$'000
Bank loans, secured	2,467	3,410
Other borrowings, secured	5,282	3,236
Other borrowings, unsecured	80,170	56,656
	87,919	63,302

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

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

	2013 **HK$'000**	2012 HK$'000
Bank loans:		
On demand or within one year	**1,012**	943
More than one year but not exceeding two years	**1,080**	1,011
More than two years but not exceeding five years	**375**	1,456
	2,467	3,410
Other borrowings:		
On demand or within one year	**85,452**	59,892
Total bank loans and other borrowings	**87,919**	63,302
Less: Amount shown under current liabilities	**(86,464)**	(60,835)
Amount shown under non-current liabilities	**1,455**	2,467

As at 31 May 2013, bank loans and other borrowings were interest bearing at 3.5% to 36% (2012: 3.5% to 36%) per annum and were secured by motor vehicles and freehold land and building as set out in Note 16 to the consolidated financial statements, except for other borrowings of HK$35,828,000 (2012: HK$7,176,000) which were non-interest bearing.

The bank loans and other borrowings are mainly denominated in currencies other than the presentation currency of the Group.

	2013 **HK$'000**	2012 HK$'000
RMB	**63,538**	40,985
NZ$	**7,786**	917

26. 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 of the Company at HK$0.10 each for every HK$2.50 CN A at the holder's option at any time between the issue date and the maturity date subject to the anti-dilutive adjustment. The effective interest rate of the liability component of initial recognition is 11.29% per annum. Details of which are set out in the Company's announcement dated 4 June 2009. On 23 August 2010 and 1 September 2010, all of the CN A were exercised and a total number of 110,431,200 ordinary 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 "Agreement"), the Company further issued CN A amounting to HK$1,078,422,003 as part of the "reward consideration" to Flying Max Limited (which was independent of the Company and not connected person) as appointed manager.

On 16 December 2011 and 2 January 2012, part of these CN A amounting to HK$965,547,573 was converted into 386,219,029 ordinary shares registered under the name of Flying Max Limited. All these shares have been 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 remain unconverted and have a duration of seven years from the date of issue and can be converted into 1 ordinary share of the Company at HK$0.10 each for every HK$2.50 CN A at the holder's option at any time between the issue date and the maturity date subject to anti-dilutive adjustment. The effective interest rate of the liability component is 14.13% per annum.

There was no movement during the year ended 31 May 2013.

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$2.00 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 are 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 ordinary shares were issued during the year ended 31 May 2011.

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

26. CONVERTIBLE NOTES *(continued)*

CN B *(continued)*

On 2 January 2012, part of these CN B amounting to HK$300,000,000 was converted into 150,000,000 ordinary shares registered under the name of Flying Max Limited. In addition, CN B amounting to HK$480,000,000 were converted into 240,000,000 ordinary shares 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 remain unconverted and have a duration of 10 years from the date of issue and can be converted into 1 ordinary share of the Company at 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 per annum.

There was no movement during the year ended 31 May 2013.

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 of the Company at HK$0.1 each for every HK$1 CN C at the holder's option at any time between the issue date and the 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 are set out in the Company's announcement dated 4 December 2009. Most of the CN C were converted and a total number of 657,000,000 ordinary shares were issued. On 21 December 2011, CN C amounting to HK$50,000,000 were converted into 50,000,000 ordinary 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 of the Company at HK$0.1 each for every HK$0.7 CN D at the holders' option at any time between the issue date and the maturity date subject to the anti-dilutive adjustment and the clauses stated in the agreement. The effective interest rate of the liability component of initial recognition is 9.49% per annum. Details of which are 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 ordinary 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 of the Company at HK$0.1 each for every HK$1 Optional CN at the holder's option at any time between the issue date and the maturity date subject to the anti-dilutive adjustment. The effective interest rate of the liability component of initial recognition is 7.40% per annum. Details of which are 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 ordinary shares were issued.

26. CONVERTIBLE NOTES *(continued)*

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 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 and 1 June 2012	47,681	131,650	16,146	–	326	195,803
Interest charged	6,754	18,648	–	–	–	25,402
At 31 May 2013	**54,435**	**150,298**	**16,146**	**–**	**326**	**221,205**
Analysed for reporting purposes as:						
At 31 May 2013						
Interest accrued	–	–	16,146	–	326	16,472
Non-current liabilities	54,435	150,298	–	–	–	204,733
	54,435	**150,298**	**16,146**	**–**	**326**	**221,205**
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

27. DEFERRED TAX LIABILITIES

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

Deferred 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 and 1 June 2012	65,486
Credited to convertible notes equity reserve	(4,191)
At 31 May 2013	61,295

As at 31 May 2013, the Group had unused tax losses of approximately HK$271 million (2012: HK$301 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.

28. SHARE CAPITAL

	Note	Number of shares '000	Share capital HK$'000
Authorised:			
Ordinary shares of HK$0.10 each:			
At 31 May 2012		8,000,000	800,000
At 31 May 2013		**8,000,000**	**800,000**
Issued and fully paid:			
Ordinary shares of HK$0.10 each:			
At 31 May 2011 and 1June 2011		1,882,563	188,256
Conversion of CN A	*(a)*	386,219	38,622
Conversion of CN B	*(b)*	390,000	39,000
Conversion of CN C	*(c)*	50,000	5,000
At 31 May 2012		2,708,782	270,878
At 31 May 2013		**2,708,782**	**270,878**

Note:

(a) 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 as detailed in Note 26 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 26 to the consolidated financial statements.

(b) 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 26 to the consolidated financial statements.

(c) 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 26 to the consolidated financial statements.

29. 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 ordinary 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.

At 31 May 2013 and 31 May 2012, none of the options granted was outstanding under Pre-IPO Share Option Scheme and the scheme was lapsed.

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 discretion, 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.

At the date of this annual report, the total number of shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 188,256,319 ordinary shares, being 10% of the total number of ordinary shares in issue at the date of approval of the refreshment of the scheme mandate limit. 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 2013.

30. STATEMENT OF FINANCIAL POSITION

At 31 May 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Interests in subsidiaries		232,322	721,328
Available-for-sale investment		367,198	367,198
Property, plant and equipment		1,350	1,993
Prepayment		922,373	922,373
		1,523,243	2,012,892
Current assets			
Other receivables, deposits and prepayments		340,459	340,893
Amount due from a related company		3,252	3,256
Bank balances and cash		3	54
		343,714	344,203
Current liabilities			
Other payables and accrued charges		26,226	20,739
Net current assets		317,488	323,464
Total assets less current liabilities		1,840,731	2,336,356
Capital and reserves			
Share capital	28	270,878	270,878
Reserves	31	1,303,825	1,820,661
Total equity		1,574,703	2,091,539
Non-current liabilities			
Deferred tax liabilities		61,295	65,486
Convertible notes		204,733	179,331
		266,028	244,817
		1,840,731	2,336,356

31. 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 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 tax 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 and 1 June 2012	2,048,688	43,294	224,206	(495,527)	1,820,661
Loss for the year	–	–	–	(521,027)	(521,027)
Other comprehensive income	–	–	–	–	–
Total comprehensive expenses for the year	–	–	–	(521,027)	(521,027)
Recovery of deferred tax from convertible notes equity component	–	–	4,191	–	4,191
At 31 May 2013	2,048,688	43,294	228,397	(1,016,554)	1,303,825

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.

32. NON-CASH TRANSACTIONS DISCLOSURE

The investing transactions that do not require the use of cash or cash equivalents are excluded from the consolidated statement of cash flows, and the details are as follows:

	2013 **HK$'000**	2012 HK$'000
Purchases of property, plant and equipment	**35,174**	–

33. TRANSACTIONS AND PENDING LITIGATION WITH CITYWIN PACIFIC LIMITED ("CITYWIN")

On 7 December 2007, the Group 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 was 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 was 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 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.

34. 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 had conditionally agreed to dispose of and the Company had conditionally agreed to acquire or procure one of its subsidiaries ("Purchaser") to acquire 20% of the Target Company, UBNZ AHL 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$1.00 paid by the Purchaser to the Vendor, the Vendor had agreed to grant the Purchaser the right to require the Vendor to sell to the Company or its nominee the Option Shares (representing 80% of the entire issued share capital of the UBNZ AHL) and the outstanding debt, at the consideration of HK$ equivalent of NZ$400,000,000.

The consideration should 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.

34. COMMITMENTS *(continued)*

(a) Capital commitments *(continued)*

(i) *(continued)*

If the transaction was 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 ordinary 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, fair value of convertible notes should 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, 2 February 2011, 3 May 2011, 4 May 2011, 10 June 2011, 30 September 2011, 9 October 2011, 3 July 2012 and 28 December 2012.

On 10 February 2010, the acquisition of 20% of Target Company was completed and satisfied by the issuance of CN B. On 23 December 2010, the Vendor had transferred the 80% of the entire issued share capital of UBNZ AHL ("Option Shares") to NZ Dairy Trustee Limited (the "New Trustee"). The Directors considered the circumstance that such transfer would 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 would likely be performed in nearby future. Therefore, the Directors did not demand the refund of the 110,431,200 ordinary shares from the Vendor, and re-issue to New Trustee.

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 further issued CN A amounting to HK$1,078,422,003 as part of the "reward consideration" to Flying Max Limited as appointed manager. In addition, CN B amounting to HK$1,243,344,000 as part of the "reward consideration" were issued to Flying Max Limited and some were transferred to Earn Cheers Limited, all as appointed managers in different China regions.

On 16 December 2011, part of these CN A amounting to HK$965,547,573 was converted into 386,219,029 ordinary shares registered under the name of Flying Max Limited. On 2 January 2012, part of these CN B amounting to HK$300,000,000 was converted into 150,000,000 ordinary shares registered under the name of Flying Max Limited. And CN B amounting to HK$480,000,000 were converted into 240,000,000 ordinary shares registered under the name of Earn Cheer Limited. All these shares have been put into on escrow arrangement by the Company's solicitor pending for completion. Those remaining CN B amounting to HK$463,344,000 and CN A amounting to HK$112,874,430 remain unconverted serving as a retainer purpose and in escrow with the Company's solicitor.

On 28 December 2012, a supplemental agreement was entered to extend the date to 30 September 2013 in respect of completion of the acquisition.

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.

34. COMMITMENTS *(continued)*

(a) Capital commitments *(continued)*

(ii) On 12 July 2011, Guorui (Fujian) Food Co., Ltd, a subsidiary of the Group, was incorporated in PRC, the 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 2013 and 31 May 2012 was HK$10 million.

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

	2013 **HK$'000**	2012 HK$'000
Contracted but not provided for in respect of:		
– Acquisition of property, plant and equipment	**56,746**	54,233
– Leasehold improvement	**24,865**	23,962
	81,611	78,195

(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:

	2013 **HK$'000**	2012 HK$'000
Within one year	**–**	1,500

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

34. COMMITMENTS *(continued)*

(b) Operating lease commitments *(continued)*

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:

	2013 **HK$'000**	2012 HK$'000
Within one year	**3,110**	17,465
In the second to fifth year inclusive	**6,678**	30,353
Over five years	**10,026**	12,366
	19,814	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.

35. 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 amounted to HK$1,241,000 (2012: HK$1,938,000).

36. RELATED PARTY DISCLOSURES

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

	2013 **HK$'000**	2012 HK$'000
Short-term benefits	**7,650**	4,786
Retirement benefits contribution	**60**	42
	7,710	4,828

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.

36. RELATED PARTY DISCLOSURES *(continued)*

(b) Purchase of goods

	2013 HK$'000	2012 HK$'000
– Entities controlled by a substantial shareholder	5,282	76,703

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

UBNZ Trustee Limited ("UBNZ Trustee") became a substantial shareholder of the Company with effective 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 2013 (31 May 2012: Nil) as the purchase was paid in advance.

(c) Provision of services

	2013 HK$'000	2012 HK$'000
– Entities controlled by a substantial shareholder	2,750	1,718

No amount is outstanding as at 31 May 2013. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

(d) Balances with related parties

	2013 HK$'000	2012 HK$'000
Advance to related parties *(Note 21)*	214,933	215,045
Amount due to related companies	6,224	2,645
Other borrowings	18,002	1,560

Amount due to related companies are unsecured, non-interest bearing and repayable on demand. Other borrowings are unsecured, non-interest bearing and repayable on demand except for HK$3,679,000 (2012: HK$1,560,000) which are secured by motor vehicles.

37. 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:

	2013 **HK$'000**	2012 HK$'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 33.

(b) On 22 July 2013, a financial advisor Amasse Capital Limited initiated a writ of summons for HK$9,000,000 consultancy fees to be claimed from Natural Dairy (NZ) Holdings Limited. The Company has considered such claim as highly disputable for reason that promissory service has not been rendered or appropriately provided by claimant as a financial advisor to assist the Company for resumption from 24 August 2012 to 29 November 2012. A defense will be filed by the Company on upcoming due time September 2013 to the court.

(c) On 27 July 2012, a New Zealand company lodged a statutory demand on the Company's New Zealand subsidiary NZ Natural Dairy Limited ("NZND") claiming NZ$1,943,000 plus interest, pursuant to a noni-juice supply contract. The plaintiff has withdrawn the statutory demand on 26 April 2013 for such monies.

Later this claimant has gone into receivership, a judgement proceeding was successfully lodged by the receiver with a court judgement made based on NZND absence. An opposite defense will be lodged shortly against such absentee judgement made onto NZND. The Company considers such claim to be unsustainable as the Directors have not signed this supply contract and sizeable quantity of noni-juice were shipped without certainty of payment before leaving New Zealand, self-breach of payment clause by the claimant, noni-juice were deserted on China ports.

(d) On 19 March 2013, an appeal decision was imposed by the Fujian State High Court of China on the Company subsidiary Guoyuan Dairy (Xiamen) Import and Export Company Limited demanding the subsidiary to refund the plaintiff on distributor deposit of RMB10,000,000 and interest charges, but the court did not support other remedy monies collectively. The Company considers this potential claims to be limited to the subsidiary.

38. PRINCIPAL SUBSIDIARIES

Particulars of the Group's principal subsidiaries as at 31 May 2013 are as follows:

Name of subsidiaries	Place of incorporation/ establishment and operations	Class of shares	Issued share/ paid-up registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Direct	Indirect	
Excellent Overseas Limited	British Virgin Islands	Ordinary shares	US$1	100%	–	Investment holding
Nation Yield Limited	Hong Kong	Ordinary shares	HK$1	100%	–	Investment holding and trading of dairy related products
Guoyuan Natural Dairy (Jiangxi) Company Limited(i)	PRC	Registered capital	HK$310,584,100	–	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.

39. COMPARATIVE FIGURES

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