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

(Incorporated in the Cayman Islands with limited liability)

(HKEx Stock Code: 00462)

Interim Report

From 1 June 2013 to 30 November 2013

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wu Nengkun
(Chairman and Managing Director)
(Chairman of Nomination Committee)
Mr. Yao Haisheng
(Member of Nomination Committee)
Mr. Zhang Hanwen
Ms. Tan Houwen
(Member of Resumption Working Committee)

Independent Non-Executive Directors

Mr. Wong Wang Tai *(Chairman of Audit Committee, member of Remuneration Committee and Nomination Committee, member of Resumption Working Committee)*
Ms. Chan Man Kuen Laura *(Chairman of Remuneration Committee, member of Audit Committee and Nomination Committee)*
Mr. Zhang Jianhong *(Member of Audit Committee, Remuneration Committee and Nomination Committee)*

AUTHORISED REPRESENTATIVES

Mr. Wu Nengkun
Mr. Yung Wai Tak Abraham

COMPANY SECRETARY

Mr. Yung Wai Tak Abraham

AUDITOR

Cheng & Cheng Limited

LEGAL ADVISER

In Hong Kong:
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
262 Gloucester Road
Causeway Bay, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

STOCK CODE

00462

COMPANY WEBSITE

www.naturaldairy.hk

Management Discussion and Analysis

RESULTS REVIEW AND HIGHLIGHTS:

For the six months period from 1 June 2013 to 30 November 2013, the Group's financial performances are summarized as follows:

- the Group turnover for the first six months of this financial year was HK$17.4 million, representing a contraction of approximately 46.9% compared with corresponding period in 2012. Such sale revenue has trimmed significantly because the Company has suspended on drawing down UHT milk and infant formula pursuant to MU Agreement during the sale network transition phase in 2013.

- Loss attributable to shareholders was HK$36.9 million (including depreciation of HK$12.6 million) during the period under review. The loss was approximately the same as the last corresponding period, when the 2012 loss was adjusted to HK$37.7 million after excluded the non-recurring income of HK$10.2 million derived from the reversal of specific accounts payable.

- Basic loss per share was HK1.36 cents, representing an increase of 33.3% compared to the last corresponding period.

FINANCIAL REVIEW

During the period under review, the Group's gross profit recorded HK$11.4 million and the gross profit margin achieved 65.8%, benefited from a PRC subsidiary receiving a sub-contracting order during the period under review. Compared with other dairy related products sales in prior 2012 period, this sub-contracting order yielded a higher gross profit margin, thus resulting in significant improvement of overall gross profit margin.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 42.7% to HK$1.8 million as compared to the last corresponding period. The decrease was mainly attributable to the decrease in advertising and promotion expenses of UHT milk in PRC.

General and Administrative Expenses

During the six months ended 30 November 2013, general and administrative expenses were HK$30.0 million, representing a decrease of 30.9% compared to the corresponding period in 2012. The decrease was mainly attributable to the effective implementation of stringent cost control measures during the period under review.

SEGMENTAL ANALYSIS

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

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

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

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

MARKET & BUSINESS PROSPECT

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

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

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

MAJOR DEVELOPMENT

VSA-1 Backgrounds

2013 is a year of consolidation on the VSA-1 acquisition after the Overseas Investment Office ("OIO") declination on 22 December 2010 on 22 dairy properties injection. Pursuant to specific legal advice and contractual remedy clause 8, after negotiation of both parties and application of waiver, the Vendor will continue to achieve this acquisition objective of New Zealand dairy products supply and direct-sale in China with an undertaking of the NZ$35 million profit guarantee, without any cash or additional consideration.

As at 21 May 2010, the Company and the Vendor have all the monies in place for contemplated all Target dairy properties purchase from mortgagee receiver to inject into the Target Group, pending only on such OIO approval for conveyance registrations of these "sensitive land" transactions.

On 27 September 2010, the New Zealand government has announced several changes made to Overseas Investment Acts ("OIA") 2005 *to address concerns about large scale overseas ownership of farmland (forming vertically integrated primary production companies)*. Such new directive demands OIO to impose additional new factors approving sizeable farmlands acquisition by foreigners. If "*22 freehold farmlands interest*" is included, the VSA-1 Acquisition will constitute a "*vertically integrated Dairy Business*", solely owned and operated by foreigners.

Having considered the approved mandate, the Company has never proposed any partnership with any quasi-government entity in New Zealand. The contemplated 22 farmlands Target assets injection shall comply with jurisdictions of New Zealand. With the application on remedy clause 8 and waiver clauses 4.3 & 4.5 on 22 freehold farmlands interest, the whole VSA-1 do not necessarily comply with jurisdiction of New Zealand OIO as the acquisition is executed outside New Zealand.

Renegotiation with the Vendor on Remedy Clause 8, Specific Legal advice after OIO Declinations

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 authorizes to renegotiate with the Vendor on how to proceed with the VSA-1 acquisition Agreement to comply with OIA 2005 and to achieve the Dairy Business objection sought after by the investors.

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

As at 30 November 2013 and as per Company announcement (page 45, 46) made on 10 September 2013, the UBNZ AHL and its Target Group with subsidiaries incorporated in China (or BVI) has owned or will set-up:

(i) A direct-sale network over 5,000 sale points with proven sale revenue.

(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) Trademark registration of New Cow "*紐牛*", the dairy brand in China, Hong Kong and New Zealand and *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 UBAH and LCC *(LCC Consultancy & Investment Limited)* in relation to the milk supply of 28,000 cattles for two years.

(v) Two Independent Contractor Agreements in relation to 3 years "right of use" of the New Zealand milk powder (to be entered into) and UHT Factory, from New Zealand Dairy Processing Limited 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.

VSA-1 Final Completion Condition

Upon the completion of the final 80% Option Shares, a NZ$35 million net profit guarantee for a period of 12 months shall be delivered by the Target Group on direct-sale of New Zealand made dairy related products in China. If any such promissory shortfall incur, a 14 times penalty on the consideration paid will be refunded from the Vendor. Secondly, a valuation report of the whole Target Group including Target Company, UBNZ AHL with subsidiaries incorporated in China (or BVI) shall meet a valuation benchmark of not less than NZ$300 million. If any under-valuation amounts incur, the Company will adjust downward on a dollar-to-dollar basis and such adjustment would apply to these escrowed CN A & B issuance or its converted shares.

The Year 2011/12 nation-wide Specialty Shops Program abandoned

Within two and half years from mid-2011 into 2013, relying on confidence votes and committed deposit made by five provincial wholesalers, the Company directors have deployed, renovated and operated approximately 58 specialty shops network within major cities of China. At early Year 2010, the Company has controls over the service, sale and accounting of retail shops. This is the initial decision made by the directors.

With continuous suspension trading of the Company shares, a nation-wide CCTV advertisement, Sichuan Chinese Wine Gala show, products ambassador and series of promotion TV shows, all have come to a sudden halts. Consequently, these five provincial wholesalers have abandoned the Company products totally due to unsatisfactory nation-wide advertisement and promotion efforts on halts.

Furthermore, the specialty shops network plan encounters cash shortage arising from rentals, renovations and initial operational expenditures prior to sale revenue to breakeven. Without choice, the directors have abandoned and written-off at least HK$41.2 million specialty shops lease-improvements, and property, plant and equipment on 國元乳品(廈門)進出口有限公司 and 國睿食品(上海)有限公司 as at report periods ended 31 May 2012 and 31 May 2013 respectively. Similarly, sale of UHT milks has scaled back significantly. Alike any abandoned program, the Company still has to deal with related legal implications arising from these distributors. No more nation-wide specialty shops was written-off during the period.

China Dairy Markets Regulatory Opportunities (UHT milks & Infant Formula)

China Food and Drug Administration has unveiled the rules governing the supervision on infant formula manufacturers. The rules specified on safety management system, voluntary research and development capability, examination on raw materials and product tracking. China Business News reported that the 2013 version of China infant formula production license examination rules has been officially released recently. The rules require strict supervision of the material for the production of infant formula milk powder. The newly established enterprises, which use base powder as material, will not be granted production licenses if they carry out off-site production by dry-and-wet composite technology.

China Food and Drug Administration has issued a notice of a trial scheme on selling infant formula in pharmacy. It specifies that each local regulator should implement relevant regulations and procedures on corporations which voluntarily participate in the program.

Beijing Times reported that Food Safety Commission of the State Council would impose measures to secure food safety on or about the Chinese New Year holiday and the annual meetings of the central government would be held. In addition, the Commission will step up its management on the milk powder, meat and edible oil industries, as well as an establishment of a comprehensive information system on food safety.

Second-child Policy will favor dairy companies

The sixth Standing Committee Conference of the Twelfth National People's Congress has held recently and representatives will discuss the draft resolution regarding the improvement of the family planning policy. With the increasing pressure from the acceleration of aging problem, the single-child policy will relax by allowing couples, where one parent comes from a single-child family, to be eligible for a second child.

An International Swiss investment bank recently has issued a research report that the Third Plenary Session decided to allow parents to give birth to a second child if one of the parents is only-child. Such policy will strongly favor infant formula, dairy products, diapers, snacks, baby strollers and personal care products suppliers and retailers in China. The analyst believes listed companies such dairy products are well positioned for the theme, in particular premium products supplier such as New Zealand dairy products.

Quality Milk Will Continue in Demands in China within Foreseeable future

National Business Daily reported that Food Safety Commission of the State Council had recently organized a seminar for 8 major dairy product makers and food safety representatives from seven provinces. The Commission stated that it could strictly punish corporates which manipulate the market of raw milk. The news report cited an industry insider that the meeting was held with the aim of resolving the tightened raw milk supply in recent six months, which had led to 10% rise in fresh milk price in various cities.

Recently, Securities Daily cited that without considering the second child policy the recent market demand for infant formula was 46 million tons, while supply was 41.7 million tons, making a supply gap of at least 4.3 million tons. In addition, the volume of imported infant formula will exceed 800,000 tons this year.

Some Mainland investment bank analysts have research that there was large amount of imported milk powder to satisfy these strong demands. Due to the Fonterra incident, milk products from New Zealand have been temporarily banned leading to the current shortage of infant formula in the country. Besides, the adverse weather and outbreak of foot-and-mouth disease had further reduced production of infant formula. Nevertheless, they project the short supply of milk powder will be relieved in 2014, but the problem will not be solved completely.

Kyodo News recently reported that a giant Japanese dairy producer is also bullish on dairy market outlooks in China. The group has begun to establish production plants in the Mainland to produce refrigerated milk, aiming to expand sales with its competitive edge in management.

Relying on China dairy market demands, the Company directors then have the continuous confidence to pursue the UHT milks, infant formula, flavor milks and dairy related products direct-sale business in China via the VSA-1 acquisition and the standalone MU Agreement goods supply contract.

As at the date of this report and per MU Agreement, the outstanding 21.1 million packs of 250 ml UHT milk and 405,000 cans of infant formula, worth the value of HK$144.6 million are still pending on the Company's purchase order for further delivery and export. Also, pursuant to the MU Agreement on later orders, the whole contract deposit sum HK$129.4 million or equivalent to 30 million packets of 250ml UHT milk are still pending on the Company's purchase order for further delivery and export.

The directors have temporarily suspended further delivery in large quantities of UHT milk and infant formula due to halts on advertisement expenditure and the failure delivery on nation-wide specialty shop program. Second, the Company takes time of the establishment of direct-retail channel or sales network since premium dairy products have limited product lifespan.

Re-Consolidating the Company Direct-Sale Network

Now in considering the nation-wide specialty shops initial capital expenditures constraints, alternatively the Company directors have observed (HKEX listed) companies performance that engaged in *shop-in-shops, selling tents, selling counters in emporium, pharmacy outlets, supermarket, shopping plaza (collectively so-called Sale points mode)*, within current competitive retailing landscape.

The directors have concluded that it is a *cost-effective concept* deploying sale points within exclusive shopping mall, emporium, shopping plaza, pharmacy outlets and supermarket, with New Zealand, This concept enhance the dairy products market recognition and products acclimatization so that the Company could sell the products effectively. Dairy related products and health products are idealistic selling within the consumers patronizing these premises.

According to the Vendor's confirmation, they also focus on "selling dairy and health products, food and beverage in China" on brand "紐牛" and other brands. On completion, a Direct-Sale network of 5,000 Sale Points will have proven revenue generating majority part of the NZ$35 million net profit guarantee, as per the VSA-1 acquisition, without any cost or expenditure incurred to Natural Dairy on such establishment.

Future Plan And Prospects

The Company is researching with various parties innovation in products such as colostrum, good night milks and infant formula. As the Company now operate a modern and advanced P.E.T. factory base in JiangXi with capacity to produce many kinds of beverage, light foods and dairy products drinks except infant formula.

Natural Dairy JiangXi factory will strive to be enlisted in the batch of dairy companies chosen as members of the "National team of Dairy supplier" by the Food Safety Commission of the State Council of China reported by 21st Century Business Herald.

The Company believes upon Option shares completion, a market valuation of the Target Group will make available together with a sale proven Direct-sale points network, there will be more comprehensive information in relation to the Acquisition of Target Group. The directors believe a clear path to the profitability of the Target Group being demonstrated and, further announcement will be made in accordance to HKEx Listing Rules.

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 become a dairy enterprise that deliver products of the best quality and bring happiness to consumers in China.

Resumption of Trading

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

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

Furthermore, the Company has announced another announcement on 3 January 2013 regarding the resumption condition 1 for the option shares acquisition made by the Company on or after 1 November 2012 until the date of 1 January 2013 and further announcement on 22 January 2013 on addressing queries and concerns of the Stock Exchange about resumption conditions.

On 6 September 2013, the Company has set up an Independent Resumption Working Committee. On 17 September 2013, the Resumption Committee met the Stock Exchange to further discuss on the Resumption. The Resumption Committee has prepared a resumption proposal and submitted to the Stock Exchange on 7 October 2013 and subsequent submissions from 6 November 2013 to 9 January 2014. The Company will update the shareholders and the market in respect of the Company's Resumption in due course.

CAPITAL STRUCTURE

The total equity of the Group was approximately HK$1,513.0 million as at 30 November 2013 (31 May 2013: HK$1,550.3 million), decrease was revealed by the net loss attributable to shareholders of the Company by HK$36.9 million. The debt-to-equity ratio (total loans over total equity) of the Group was 0.20 times (31 May 2013: 0.19 times) and the finance cost was approximately HK$19.8 million (six months ended 30 November 2012: HK$18.8 million) representing mainly effective interest expense of HK$13.5 million arising from CN A and CN B (which is accounting imputed interest of the liability component of convertible notes) and other interest expense of HK$6.3 million.

As at 30 November 2013, the Group had current assets of approximately HK$567.7 million (31 May 2013: HK$571.1 million) and total assets (net of current liabilities) of approximately HK$1,791.3 million (31 May 2013: HK$1,817.7 million). The Group's current ratio as at 30 November 2013 was 2.6 times (31 May 2013: 2.8 times), slight decreasing due to continual usage of cash flows during proliferating stage of factory in Jiangxi and restructuring of business during the period. The Group had current liabilities of approximately HK$216.4 million (31 May 2013: HK$204.4 million).

As at 30 November 2013, the Group had a net asset value of approximately HK$1,513.0 million (31 May 2013: HK$1,550.3 million), comprising non-current assets of approximately HK$1,440.0 million (31 May 2013: HK$1,451.0 million), net current assets of approximately HK$351.3 million (31 May 2013: HK$366.7 million) and non-current liabilities of about HK$278.3 million (31 May 2013: HK$267.5 million).

The Group had bank loans and other borrowings of HK$79.0 million as at 30 November 2013 (31 May 2013: HK$87.9 million). The Group's total liabilities divided by total assets as at 30 November 2013 was 0.25 times (31 May 2013: 0.23 times).

LIQUIDITY AND FINANCIAL RESOURCES

The Group finances its operations through a combination of shareholders equity and internally generated cash flows. As at 30 November 2013, the Group had cash and cash equivalents and pledged deposits of approximately HK$1.5 million (31 May 2013: HK$7.4 million).

For the six months ended 30 November 2013, the Group's net cash outflow from capital fund raising activities of bank loans and other borrowings amounted to HK$10.0 million (six months ended 30 November 2012: inflow of HK$12.9 million). By repositioning the selling and marketing strategies onwards, the liquidity and financial resources are going to improve.

PLEDGE OF ASSETS

As at 30 November 2013, motor vehicles with carry value of HK$3.1 million located in Hong Kong have been pledged against bank loan and other borrowings.

As at 31 May 2013, motor vehicles with carrying value of HK$5.9 million located in Hong Kong and New Zealand have been pledged against bank loans and other borrowings and a property located in New Zealand of HK$3.3 million has been pledged against other borrowing in New Zealand. Both motor vehicle and property located in New Zealand were disposed during the period ended 30 November 2013.

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.

FOREIGN EXCHANGE EXPOSURE

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

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

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

CAPITAL COMMITMENTS

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

CONTINGENT LIABILITIES

Other than those disclosed in note 21 to the condensed consolidated financial statements, the Group had no material contingent liabilities as at 30 November 2013.

TREASURY AND FUNDING POLICIES

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

EMPLOYEES

As at 30 November 2013, the Group employed a work force of approximately 130 staff members (31 May 2013: 143). The remuneration of employees was in line with the market trend and commensurable to the level of pay in the industry. Remuneration of the Group's employees includes basic salaries, bonuses, and long term incentive (such as Pre-IPO Share Options and Share Option Scheme). Total staff cost incurred for the six months ended 30 November 2013 was approximately HK$5.9 million (six months ended 30 November 2012: HK$9.4 million).

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 November 2013 (six months ended 30 November 2012: Nil).

Unaudited Condensed Consolidated Interim Results

The Board of Directors ("Directors") of Natural Dairy (NZ) Holdings Limited (the "Company") is pleased to announce the unaudited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 November 2013, together with the comparative figures for the corresponding period in 2012 as follows. These condensed interim financial statements were not audited but have been reviewed by the Audit Committee.

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 November 2013

	Note	**Unaudited For the six months ended 30 November 2013 HK$'000**	30 November 2012 HK$'000
Revenue	*4*	**17,382**	32,738
Cost of sales		**(5,939)**	(21,387)
Gross profit		**11,443**	11,351
Other income	*5*	**1,468**	13,219
Other gains and losses	*6*	**1,779**	13,255
Selling and distribution expenses		**(1,808)**	(3,155)
General and administrative expenses		**(29,996)**	(43,426)
Finance costs	*7*	**(19,793)**	(18,775)
Loss before taxation		**(36,907)**	(27,531)
Income tax	*8*	**–**	–
Loss for the period	*9*	**(36,907)**	(27,531)
Other comprehensive expenses for the period			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(2,565)**	(9,940)
Total comprehensive expenses for the period attributable to owners of the Company		**(39,472)**	(37,471)
Dividends	*10*	**–**	–
Loss per share	*11*		
Basic		**(1.36) HK cents**	(1.02) HK cents
Diluted		**N/A**	N/A

The notes on pages 20 to 51 form part of this interim financial report.

Condensed Consolidated Statement of Financial Position (Unaudited)

As at 30 November 2013

	Note	30 November 2013 (Unaudited) HK$'000	31 May 2013 (Audited) HK$'000
Non-current assets			
Property, plant and equipment		**149,402**	160,456
Intangible assets		**1,019**	1,019
Available-for-sale investment	*12*	**367,198**	367,198
Prepayment	*14*	**922,373**	922,373
		1,439,992	1,451,046
Current assets			
Inventories		**5,294**	11,791
Trade receivables	*13*	**27,141**	25,276
Other receivables, deposits and prepayments	*14*	**533,750**	526,630
Pledged bank deposits		**–**	1,053
Bank balances and cash		**1,531**	6,338
		567,716	571,088
Current liabilities			
Trade payables	*15*	**8,963**	9,013
Other payables and accrued charges	*16*	**123,040**	102,699
Bank loans and other borrowings	*17*	**78,125**	86,464
Amount due to related companies		**6,299**	6,224
		216,427	204,400
Net current assets		**351,289**	366,688
Total assets less current liabilities		**1,791,281**	1,817,734

Condensed Consolidated Statement of Financial Position (Unaudited)

As at 30 November 2013

	Note	30 November 2013 (Unaudited) HK$'000	31 May 2013 (Audited) HK$'000
Capital and reserves			
Share capital	*19*	**270,878**	270,878
Reserves		**1,242,137**	1,279,373
Total equity		**1,513,015**	1,550,251
Non-current liabilities			
Bank loan	*17*	**924**	1,455
Deferred tax liabilities		**59,060**	61,295
Convertible notes	*18*	**218,282**	204,733
		278,266	267,483
		1,791,281	1,817,734

The notes on pages 20 to 51 form part of this interim financial report.

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 November 2013

	Share capital	Share premium	Merger reserve *(Note a)*	Convertible notes equity reserve	Exchange reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 June 2012	270,878	2,048,688	(14,990)	224,206	(983)	(866,129)	1,661,670
Loss for the period	–	–	–	–	–	(27,531)	(27,531)
Other comprehensive expenses for the period	–	–	–	–	(9,940)	–	(9,940)
Total comprehensive expenses for the period	–	–	–	–	(9,940)	(27,531)	(37,471)
Recovery of deferred taxation from convertible notes equity	–	–	–	1,967	–	–	1,967
At 30 November 2012	270,878	2,048,688	(14,990)	226,173	(10,923)	(893,660)	1,626,166
At 1 June 2013	**270,878**	**2,048,688**	**(14,990)**	**228,397**	**(12,841)**	**(969,881)**	**1,550,251**
Loss for the period	**-**	**-**	**-**	**-**	**-**	**(36,907)**	**(36,907)**
Other comprehensive expenses for the period	**-**	**-**	**-**	**-**	**(2,565)**	**-**	**(2,565)**
Total comprehensive expenses for the period	**-**	**-**	**-**	**-**	**(2,565)**	**(36,907)**	**(39,472)**
Recovery of deferred taxation from convertible notes equity	**-**	**-**	**-**	**2,236**	**-**	**-**	**2,236**
At 30 November 2013	**270,878**	**2,048,688**	**(14,990)**	**230,633**	**(15,406)**	**(1,006,788)**	**1,513,015**

Note:

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

The notes on pages 20 to 51 form part of this interim financial report.

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 30 November 2013

	For the six months ended 30 November	
	2013	2012
	HK$'000	HK$'000
Cash generated from/(used in) operations	**6,667**	(10,877)
Income tax paid	**–**	–
Net cash generated from/(used in) operating activities	**6,667**	(10,877)
Net cash used in investing activities	**(1,474)**	(4,465)
Net cash (used in)/generated from financing activities	**(10,032)**	12,886
Net decrease in cash and cash equivalents	**(4,839)**	(2,456)
Cash and cash equivalents at 1 June	**6,338**	1,514
Effect of foreign exchange rates changes	**32**	1,518
Cash and cash equivalents at 30 November	**1,531**	576

The notes on pages 20 to 51 form part of this interim financial report.

Notes to the Condensed Consolidated Financial Statements

1. GENERAL INFORMATION

Natural Dairy (NZ) Holdings Limited (the "Company") is a company with limited liability incorporated in the Cayman Islands under the Companies Law of the Cayman Islands on 8 October 2002. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 June 2005. As requested by the Company, trading in shares of the Company on the Stock Exchange has been suspended since 7 September 2010 and resumption of trading of the shares is pending for certain conditions addressed by the Stock Exchange to be satisfied.

The address of the registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, The Cayman Islands. The address of principal place of business of the Company is Suite 1703, Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong.

The principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in (i) trading of foods & beverage and dairy related products; and (ii) manufacturing and sales of beverage and dairy related products.

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

2. BASIS OF PREPARATION

Statement of compliance

The condensed interim financial information are prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated financial statements do not include all the information and disclosures required for an annual financial statements, and should be read in conjunction with the consolidated financial statements of the Company for the year ended 31 May 2013 as contained in the Company's Annual Report 2013 (the "Annual Report 2013").

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 May 2013, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by HKICPA which are effective for the Group's financial period beginning on 1 June 2013.

HKFRS (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle
HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities – Transition Guidance
HKFRS 13	Fair Value Measurement
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 19 (Revised)	Employee Benefits
HKAS 27 (Revised)	Separate Financial Statements
HKAS 28 (Revised)	Investment in Associates and Joint Ventures
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

The adoption of the new and revised HKFRSs has had no material impact on the results and financial position for the current or prior accounting periods which have been prepared and presented.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

The Group has not early applied the following new or revised standards, amendments and interpretations that have been issued but are not yet effective.

HKFRS 9	Financial Instruments[2]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition[2]
HKFRS 10, HKFRS 12 and HKAS 27 (Revised) (Amendments)	Investment Entities[1]
HKFRS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[1]
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assetss[1]
HKAS 39 (Amendments)	Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC) – Int 21	Levies[1]

The directors of the Company are in the process of assessing the potential impact and anticipate that the application of these new and revised standards, amendments and interpretation will have no material impact on the results and financial position of the Group.

1. Effective for annual periods beginning on or after 1 January 2014.
2. Effective for annual periods beginning on or after 1 January 2015.

4. REVENUE AND SEGMENT INFORMATION

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

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

- Trading of food & beverage and dairy related products
- Manufacturing and sales of beverage and dairy related products

The accounting policies of the reportable segments are the same as the Group accounting policies. Segment results represent the result 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 resources allocation and performance assessment.

4. REVENUE AND SEGMENT INFORMATION *(continued)*

(a) Segment revenue and results

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

For the six months ended 30 November 2013	Trading of food & beverage and dairy related products (Unaudited) HK$'000	Manufacturing and sales of beverage and dairy related products (Unaudited) HK$'000	Unallocated (Unaudited) HK$'000	Total (Unaudited) HK$'000
Revenue				
External sales	3,453	13,929	–	17,382
Segment results	(2,828)	943	–	(1,885)
Bank interest income				6
Unallocated corporate income				3,583
Unallocated corporate expenses				(18,818)
Finance costs				(19,793)
Loss before taxation				(36,907)
Property, plant and equipment additions	29	6,093	695	6,817
Depreciation of property, plant and equipment	998	9,610	2,004	12,612
Written off of inventories	27	–	–	27
Loss on disposal of property, plant and equipment	907	–	254	1,161
Written off property, plant and equipment	–	–	695	695

4. REVENUE AND SEGMENT INFORMATION *(continued)*

(a) Segment revenue and results *(continued)*

For the six months ended 30 November 2012	Trading of food & beverage and dairy related products (Unaudited) HK$'000	Manufacturing and sales of beverage and dairy related products (Unaudited) HK$'000	Unallocated (Unaudited) HK$'000	Total (Unaudited) HK$'000
Revenue				
External sales	25,514	7,224	–	32,738
Segment results	4,984	(8,402)	–	(3,418)
Bank interest income				20
Unallocated corporate income				2,929
Unallocated corporate expenses				(8,287)
Finance costs				(18,775)
Loss before taxation				(27,531)
Property, plant and equipment additions	96	4,418	121	4,635
Depreciation of property, plant and equipment	669	7,282	3,188	11,139
Loss on disposal of property, plant and equipment	–	–	28	28

4. REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Geographical information

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

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

	Revenue from external customers For the six months ended		Non-current assets	
	30 November 2013 (Unaudited) HK$'000	30 November 2012 (Unaudited) HK$'000	**30 November 2013 (Unaudited) HK$'000**	31 May 2013 (Audited) HK$'000
Hong Kong	**–**	–	**7,841**	12,476
PRC	**17,382**	32,738	**1,063,077**	1,063,021
New Zealand	**–**	–	**1,876**	8,351
	17,382	32,738	**1,072,794**	1,083,848

(c) Information about major customers

For the six months ended 30 November 2013, revenue from a customer of the Group amounting to HK$11,949,000 (six months ended 30 November 2012: HK$30,813,000) had accounted for 69% (six months ended 30 November 2012: 94%) of the Group's total revenue.

5. OTHER INCOME

	For the six months ended 30 November	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Bank interest income	**6**	20
Advertising income	**1,262**	1,415
Rental income	**–**	1,500
Reversal of specific accounts payable	**–**	10,284
Sundry income	**200**	–
	1,468	13,219

6. OTHER GAINS AND LOSSES

	For the six months ended 30 November	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Exchange gain, net	**2,940**	13,283
Loss on disposal of property, plant and equipment	**(1,161)**	(28)
	1,779	13,255

7. FINANCE COSTS

	For the six months ended 30 November	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on bank borrowings wholly repayable within five years	**73**	90
Other loan interest	**6,171**	6,759
Effective interest expenses on convertible notes*	**13,549**	11,926
	19,793	18,775

* The effective interest rate of the liability component is 14.13% per annum.

8. INCOME TAX

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for the period (six months ended 30 November 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 (six months ended 30 November 2012: 25%).

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

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 profit for the period (six months ended 30 November 2012: Nil).

9. LOSS FOR THE PERIOD

	For the six months ended 30 November	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Loss for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	**12,612**	11,139
Cost of inventories recognised as an expense	**5,939**	21,387
Rental expense under operating leases	**2,218**	5,534
Written off of inventories	**27**	–
Written off property, plant and equipment	**695**	–
Staff costs (including directors' emoluments)		
– salaries and other benefits	**5,375**	9,023
– staff quarters	**91**	130
– retirement benefits contribution	**471**	240

10. DIVIDENDS

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 November 2013 (six months ended 30 November 2012: Nil).

11. LOSS PER SHARE

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

	For the six months ended 30 November	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	**(36,907)**	(27,531)
	Number of shares	Number of shares
	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	**2,708,782**	2,708,782

No diluted loss per share amounts were presented for the six months ended 30 November 2013 and 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.

12. AVAILABLE-FOR-SALE INVESTMENT

	30 November 2013 (Unaudited) HK$'000	31 May 2013 (Audited) HK$'000
Unlisted securities – Equity security	**367,198**	367,198

During the year ended 31 May 2010, the Group acquired 20% of the ordinary share of UBNZ Assets Holdings Limited ("UBNZ AHL") by convertible notes issued by the Company with initial issued principal amount of approximately HK$552,155,998 and with fair value of approximately HK$367,198,000. UBNZ AHL involved in business of dairy cattle breeding, production and sale of milk fat solids and livestock and direct-sale of ultra-heated milks, flavoured milks and infant formula and dairy related products through a direct-sale network in China. The UBNZ AHL disposed three dairy properties together with some of the cattle and chattels in New Zealand. Pursuant to "Deed of Undertaking" entered on 13 November 2009, as at 20% sale share completion, there was no requirement to inject any target assets (refer to announcement dated 13 November 2009 condition subsequent).

The Directors of the Group do not believe that the Group is able to exercise significant influence over UBNZ AHL as the other 80% of the ordinary share capital is held by the other shareholder, who also manages the day-to-day operations of that company. The Group has actual plan to acquire the remaining 80% of the ordinary share of UBNZ AHL.

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

Details of the investment as at 30 November 2013 and 31 May 2013 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%	Business of dairy cattle breeding, production and sales of milk fat solids and livestock and direct-sale of ultra-heated milks, flavoured milks and infant formula and dairy related products through a direct-sale network in China.

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 (31 May 2012: HK$479,059,000) based on discounted cash flow model. The Directors consider no impairment of this financial 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.

As at 30 November 2013, the Directors assessed the impairment amount of 20% equity interests in UBNZ AHL based on discounted cash flow model using discount rate issued by GSA and concluded that no impairment was recognised for the period.

The cash flows discounted rate of 18.48% is based on discount rate with the risk premium specific to the unlisted securities (31 May 2012: 16.42%).

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

13. TRADE RECEIVABLES

	30 November 2013 (Unaudited) HK$'000	31 May 2013 (Audited) HK$'000
Trade receivables	**59,076**	57,011
Less: impairment loss recognised	**(31,935)**	(31,735)
	27,141	25,276

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

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

	30 November 2013 (Unaudited) HK$'000	31 May 2013 (Audited) HK$'000
Within 3 months	**3,606**	753
4-6 months	**2,397**	354
7-12 months	**67**	11,497
Over 1 year	**21,071**	12,672
	27,141	25,276

14. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 November 2013 (Unaudited) HK$'000	31 May 2013 (Audited) HK$'000
Advance to related parties *(Note a)*	**215,077**	214,933
Trade deposit for milk *(Note b)*	**129,361**	129,361
Trade deposit *(Note c)*	**144,562**	144,562
Prepayments *(Note d)*	**923,230**	923,407
Utility and other deposits	**247**	1,603
Deposit paid	**869**	839
Payment in advance	**23,523**	12,407
Other receivables	**19,356**	21,993
	1,456,225	1,449,105
Less: Provision of impairment	**(102)**	(102)
	1,456,123	1,449,003
Less: Non-current portion *(Note d)*	**(922,373)**	(922,373)
Current portion	**533,750**	526,630

Note a: The balance includes a deposit of HK$209,966,000 ("Deposit") advanced to UBNZ Trustee Limited ("Vendor") (31 May 2013: 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. Further details are stated in Note 20(a).

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").

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

Note a: *(continued)*

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 conversion consent was granted by the Company on 1 September 2010. Since the 80% Option Sale shares has not yet completed, the Company has frozen the transfer of those shares by placing an instructions 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.

Note b: The balance of NZ$21,000,000 equivalent to HK$129,361,000 (31 May 2013: 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 one year to September 2015. As at 30 November 2013 and 31 May 2013, no portion of the deposit has been utilised.

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

Note c: The amount of HK$144,562,000 (31 May 2013: HK$144,562,000) represents the advance payment paid by the Company for the orders of 21.1 million packets (31 May 2013: 21.1 million packets) of pasteurized UHT milk and 405,000 cans (31 May 2013: 405,000 cans) of infant formula. A further extension supplementary agreement was made on 27 August 2013 to extend the agreement for two years to September 2015. The advance payments will be continuously utilised in the coming years until September 2015.

Note d: The amount represents the 80% Option Shares Acquisition Consideration and paid to the Vendor NZ Dairy Trustee ("NZDT"). Under the instructions requested from the Vendor NZDT for converting some of these CN A and CN B to nominated shareholder. Flying Max Limited whom was an appointed manager of the Vendor made under Schedule 4 arrangement of S&P Agreement dated 22 May 2009. 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 period, amortisation of management fee (assigned by the Vendor NZDT to Flying Max Limited) will be starting once the management service commences.

At the end of the period, 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.

15. TRADE PAYABLES

	30 November 2013 (Unaudited) HK$'000	31 May 2013 (Audited) HK$'000
Trade payables	**8,963**	9,013
An ageing analysis of the trade payables is as follows:		
Within 3 months	**–**	597
4–6 months	**200**	30
7–12 months	**600**	–
Over 1 year	**8,163**	8,386
	8,963	9,013

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

16. OTHER PAYABLES AND ACCRUED CHARGES

	30 November 2013 (Unaudited) HK$'000	31 May 2013 (Audited) HK$'000
Temporary deposits	**5,974**	6,544
Accrued interest for convertible notes	**16,472**	16,472
Other payables and accruals	**100,594**	79,683
	123,040	102,699

17. BANK LOANS AND OTHER BORROWINGS

	30 November 2013 (Unaudited) HK$'000	31 May 2013 (Audited) HK$'000
Bank loans, secured	**1,970**	2,467
Other borrowings, secured	**2,500**	5,282
Other borrowings, unsecured	**74,579**	80,170
	79,049	87,919

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

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

	30 November 2013 (Unaudited) HK$'000	31 May 2013 (Audited) HK$'000
Bank loans:		
On demand or within one year	**1,046**	1,012
More than one year but not exceeding two years	**924**	1,080
More than two years but not exceeding five years	**–**	375
	1,970	2,467
Other borrowings:		
On demand or within one year	**77,079**	85,452
Total bank loans and other borrowings	**79,049**	87,919
Less: Amount shown under current liabilities	**(78,125)**	(86,464)
Amount shown under non-current liabilities	**924**	1,455

As at 30 November 2013, bank loans and other borrowings were interest bearing at 3.5% to 36% (31 May 2013: 3.5% to 36%) per annum and were secured by motor vehicles with carrying value of approximately HK$3,095,000, except for other borrowings of HK$33,200,000 (31 May 2013: HK$35,828,000) which were non-interest bearing.

As at 31 May 2013, motor vehicles with carrying value of HK$5,902,000 located in Hong Kong and New Zealand have been pledged against bank loans and other borrowings and a property located in New Zealand of HK$3,349,000 has been pledged against other borrowing in New Zealand. Both motor vehicle and property located in New Zealand were disposed during the period ended 30 November 2013.

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

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

	30 November 2013 (Unaudited) HK$'000	31 May 2013 (Audited) HK$'000
RMB	**57,916**	63,538
NZ$	**5,035**	7,786

18. CONVERTIBLE NOTES

CN A

On 21 December 2009, the Company issued Hong Kong dollar denominated zero coupon convertible notes A ("CN A") with an aggregate principal amount of HK$276,078,000 and fair value of HK$209,966,000 to UBNZ Trustee Limited as deposit for acquiring remaining 80% equity interests in UBNZ AHL. The CN A has a maturity of seven years from the issue date and can be converted into 1 ordinary share of the Company at HK$0.10 each for every HK$2.50 CN A at the holder's option at any time between the issue date and the maturity date subject to the anti-dilutive adjustment. The effective interest rate of the liability component of initial recognition is 11.29% per annum. Details of which were set out in the Company's announcement dated 4 June 2009. On 23 August 2010 and 1 September 2010, all of the CN A were exercised and a total number of 110,431,200 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 "Agreements"), the Company has further issued CN A amounting to HK$1,078,422,003 as the remaining "Option Shares Consideration" under the request instructions of NZDT/Vendor to convert some of these CN A to Vendor nominated Flying Max Limited (which was independent of the Company and do not constitute as connected person), and under the instruction of NZDT-Vendor pursuant to the Agreement dated 22 May 2009.

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

18. CONVERTIBLE NOTES *(continued)*

CN A *(continued)*

The remaining 45,149,772 CN A amounting to HK$112,874,430 with fair value of HK$75,500,000 issued to Flying Max Limited remains unconverted and have a duration of seven years from the date of issue and can be converted into 1 ordinary share of 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 six months ended 30 November 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 were set out in the Company's announcement dated 4 June 2009. On 23 August 2010 and 1 September 2010, all of the CN B were exercised and a total number of 276,077,999 ordinary shares were issued during the year ended 31 May 2011.

On 14 December 2011, pursuant to Agreements, the Company has further issued and converted CN B amounting to HK$1,243,344,000 as remaining "80% Option Shares Consideration" to Flying Max Limited under the institution NZDT/Vendor and some were transferred to Earn Cheer Limited (which was independent of the Company and not connected persons).

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 remains unconverted and have a duration of 10 years from the date of issue and can be converted into 1 ordinary share of the Company of HK$0.10 each for every HK$2.00 CN B at the holder's option at any time between the issue date and the maturity date subject to anti-dilutive adjustment. The effective interest rate of the liability component is 14.13% per annum.

There was no movement during the six months ended 30 November 2013.

18. CONVERTIBLE NOTES *(continued)*

CN C

During the period from 22 December 2009 to 23 February 2010, the Company issued Hong Kong dollar denominated 3% convertible notes C ("CN C") with an aggregate principal amount of HK$790,000,000. On 19 July 2010, the Company further issued CN C with aggregated amount of HK$52,000,000. The CN C has a maturity of two years from the issue date and can be converted into 1 ordinary share of the Company at HK$0.10 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 are 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$0.10 each for every HK$0.7 CN D at the holders' option at any time between the issue date and the maturity date subject to the anti-dilutive adjustment and the clauses stated in the agreement. The effective interest rate of the liability component of initial recognition is 9.49% per annum. Details of which were set out in the Company's announcement dated 4 December 2009. On 1 September 2010, all CN D were exercised and a total number of 92,000,000 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$0.10 each for every HK$1 Optional CN at the holder's option at any time between the issue date and the maturity date subject to the anti-dilutive adjustment. The effective interest rate of the liability component of initial recognition is 7.40% per annum. Details of which were set out in the Company's announcement dated 4 December 2009. On 18 August 2010 and 1 September 2010, all Optional CN were exercised and a total number of 49,000,000 ordinary shares were issued.

18. CONVERTIBLE NOTES *(continued)*

The movement of the liability component of the convertible notes for the six months ended 30 November 2013 and for the year ended 31 May 2013 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 2012 (audited)	47,681	131,650	16,146	–	326	195,803
Interest charged	6,754	18,648	–	–	–	25,402
At 31 May 2013 and 1 June 2013 (audited)	**54,435**	**150,298**	**16,146**	**–**	**326**	**221,205**
Interest charged	**3,603**	**9,946**	**–**	**–**	**–**	**13,549**
At 30 November 2013 (unaudited)	**58,038**	**160,244**	**16,146**	**–**	**326**	**234,754**
Analysed for reporting purposes as:						
At 30 November 2013 (unaudited)						
Interest accrued	**–**	**–**	**16,146**	**–**	**326**	**16,472**
Non-current liabilities	**58,038**	**160,244**	**–**	**–**	**–**	**218,282**
	58,038	**160,244**	**16,146**	**–**	**326**	**234,754**
At 31 May 2013 (audited)						
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

19. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Authorised:		
Ordinary shares of HK$0.10 each:		
At 31 May 2013 and at 30 November 2013	8,000,000	800,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each:		
At 31 May 2013 and at 30 November 2013	2,708,782	270,878

20. 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/or cash, subject to the net proceeds from bank borrowing or funds raising activities to be made by the Company.

20. 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 and issuance of Convertible Note B 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, 28 December 2012, 3 January 2013, 13 August 2013 and 9 September 2013.

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 been replaced with new Trustee and transferred the 80% of the entire issued share capital of UBNZ AHL ("Option Shares") to NZ Dairy Trustee Limited (the "New Trustee") who is replacing as VSA-1 Vendor. 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 (as the case maybe).

To complete the VSA-1 acquisition in the context as a whole, pursuant to the VSA-1 Sales and Purchase Agreement Supplemental, the Company further issued CN A amounting to HK$1,078,422,003 as part of the "80% Consideration" to Flying Max Limited under the instruction of NZDT. In addition, CN B amounting to HK$1,243,344,000 as part of the "80% Consideration" were issued to Flying Max Limited and some were transferred to Earn Cheer Limited, under instructions and request by the Vendor NZDT.

20. COMMITMENTS *(continued)*

(a) Capital commitments *(continued)*

(i) *(continued)*

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 80% Option Shares 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. On 28 September 2013, a supplemental agreement was entered to extend date to 30 September 2014.

Completion of the transaction is conditional upon to all necessary consents, approvals and authorisations, including but not limited to the Overseas Investment Process Office (if applicable) 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.

20. 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 of 2011, the capital injection was overlooked and delayed. The application of delayed capital injection was filed to the regulatory body, pending approval. The capital commitment as at 30 November 2013 is HK$10 million (31 May 2013: HK$10 million).

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

	30 November 2013 (Unaudited) HK$'000	31 May 2013 (Audited) HK$'000
Contracted but not provided for in respect of:		
– Acquisition of property, plant and equipment	**57,671**	56,746
– Leasehold improvements	**25,021**	24,865
	82,692	81,611

20. COMMITMENTS *(continued)*

(b) Operating lease commitments

The Group as lessee

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

	30 November 2013 (Unaudited) HK$'000	31 May 2013 (Audited) HK$'000
Within one year	**1,171**	3,110
In the second to fifth year inclusive	**327**	6,678
Over five years	**–**	10,026
	1,498	19,814

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 two years (31 May 2013: one to twelve years) with fixed rentals. The twelve-year operating lease in New Zealand was terminated during the period ended 30 November 2013.

21. 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 nearly 4 years without further actions or reliable documentation supplied as per court actions required.

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

	30 November 2013 (Unaudited) HK$'000	31 May 2013 (Audited) HK$'000
Performance bonds	**1,227**	1,227

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 supply the required relevant documents to the court to pursue the claims sum.

21. CONTINGENT LIABILITIES *(continued)*

(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 conditional promissory service has not been rendered or appropriately provided by claimant as a registered and qualified financial advisor to assist the Company for resumption from 24 August 2012 to 29 November 2012. A defense has been filed by the Company to the court. The Company does not consider the possible effect of such legal proceeding would have any material inputs in significance onto the present business operations and its financial position.

(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 and offered a pre-trial settlement of NZ$825,000 pending to the Company's consideration.

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) As at 30 November 2013, the Company's subsidiary, Guoyuan Dairy (Xiamen) Import and Export Company Limited, ("Xiamen Subsidiary"), has received two judgments ("Judgments") from the courts in PRC, demanding Xiamen Subsidiary (i) to refund the plaintiff on distributor deposits of RMB10,000,000 and interest charges, and (ii) to pay the indemnity of RMB21.35 million for the breach of a distribution agreement. The Group has obtained the legal advice from the PRC legal advisers that the Xiamen Subsidiary could lodge appeals through the People's Procuratorate in relation to the Judgments. In light of the above, the Group is currently considering the best alternatives in handing the Judgments. Given that the potential loss in relation to the Judgments has been reflected on the impairments of the Xiamen Subsidiary and the Judgments are limited to the Xiamen Subsidiary, there is no further effects or implication to the Company in relation to the Judgments.

22. RELATED PARTY DISCLOSURES

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

	For the six months ended 30 November	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Short-term benefits	**1,845**	650
Retirement benefits contribution	**28**	–
	1,873	650

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

(b) Balances with related parties

	30 November 2013	31 May 2013
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Advance to related companies *(Note 14)*	**215,077**	214,933
Amount due to related companies	**6,299**	6,224
Other borrowings from related companies	**16,826**	18,002

As at 30 November 2013, amount due to related companies are unsecured, non-interest bearing and repayable on demand. Other borrowings from related companies are unsecured, non-interest bearing and repayable on demand.

As at 31 May 2013, amount due to related companies were unsecured, non-interest bearing and repayable on demand. Other borrowings were unsecured, non-interest bearing and repayable on demand except for HK$3,679,000 which were secured by motor vehicles. The motor vehicle was deposed during the period ended 30 November 2013.

23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Available-for-sale investment

The recoverable amount of available-for-sale investment as at 31 May 2013 was HK$395,961,000 (31 May 2012: HK$479,059,000). The valuation technique and discount rate are set out in note 12. However, the recoverable amount of investment is not booked as the investment does not have a quoted market prices in an active market and further because of the fact that the range of variable 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 valuation is taken as a reference to the impairment review process. The Company's directors referred to the valuation and concluded that no impairment loss was recognized as at 30 November 2013 (31 May 2013: None).

(b) Other financial instruments

The Group's other major financial instruments include trade receivable, other receivable, deposits, pledged bank deposits, bank balance 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. The Company's directors consider that the carrying amounts of the Group's financial assets and financial liabilities carried at cost or amortised cost are not materially different from their fair values as at 30 November 2013 and 31 May 2013.

REVIEW OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The audit committee has reviewed the Company's unaudited condensed consolidated interim financial information for the six months ended 30 November 2013.

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

As at 30 November 2013, the interests of each director and chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (with the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

LONG POSITION IN THE SHARES OF THE COMPANY

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

Notes:

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

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

Save as disclosed above, as at 30 November 2013, none of the directors had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

As at 30 November 2013, the share options granted by the Company under the Pre-IPO Share Options has been lapsed. The Share Option Scheme to the directors to subscribe for shares of the Company, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the company and the Stock Exchange pursuant to the Model Code is set out in the section headed "Share Option" of this report below.

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 30 November 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.

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

Notes: (continued)

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

3. Sky Upright Enterprises Ltd is 100% owned by Mr. Zhan King who is the beneficial owner of 113,140,000 shares in the Company. His spouse (Ms. Lisa Du) is also the beneficial owner of 79,860,000 shares in the Company. Mr. Zhan King and Ms. Lisa Du both are deemed to be interested in the shares held by them and shares held by Sky Upright Enterprises Ltd. Mr. Zhan King and Ms. Lisa Du jointly owned 9.78% of the issued shares of the Company.

4. High Excellent Limited is 100% owned by Mr. Hu Haiwen, who is deemed to be interest in the shares held by High Excellent Limited. Hu Haiwen owned 6.31% of the issued shares of the Company.

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

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

Save as disclosed above, as at 30 November 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 30 November 2013, none of any options granted was outstanding and the scheme is lapsed.

The Listing Committee of Stock Exchange has granted the listing of, and permission to deal in the shares of the Company which may fall to be issued pursuant to the exercise of the options which granted and/or may be granted under the Pre-IPO Share Options and/or Share Option Scheme.

SHARE OPTION *(continued)*

(B) OTHER SHARE OPTION SCHEME

Purpose

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

Participants

Eligible participants include:

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

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

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

Exercise price

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

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

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

(3) the nominal value of the share.

SHARE OPTION *(continued)*

(B) OTHER SHARE OPTION SCHEME *(continued)*

Maximum entitlement of each participant

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

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

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

Amount payable on acceptance

HK$1 payable upon acceptance of the offer.

Remaining life of the scheme

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

(C) MOVEMENTS OF THE OTHER SHARE OPTION SCHEME

No share option was granted or exercised during the period. As at 30 November 2013, none of options granted was outstanding.

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

During the six months ended 30 November 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed shares of the Company.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout for the six months ended 30 November 2013.

CORPORATE GOVERNANCE

The Company has met the code provisions of the Corporate Governance Code ("the Code") as set out in the appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited during the six months ended 30 November 2013 except as below:

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

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

INTERNAL CONTROLS

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

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

The Board has engaged an outside consultant to carry out a review of procedures, systems and controls (including accounting and management systems) of certain subsidiaries of the Company which are used by the directors of the Company to assess the financial position and prospects of the Group. The consultant has submitted a report to the Board. Based on their report, nothing has come to their attention to indicate that there is significant deficiency in the financial reporting system and internal control procedures to enable the Company to meet its requirements under the Listing Rules during the period.

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

The Board has established a nomination committee. 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.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers, as amended from time to time (the "Model Code"), set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors. On specific enquiries made, all directors have confirmed that they have complied with the required standard as set out in the Model Code, during the six months ended 30 November 2013.

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

APPROVAL OF INTERIM REPORT

The unaudited condensed consolidated financial statements for the six months ended 30 November 2013 were reviewed by the audit committee. The interim report and unaudited condensed consolidated financial statements were approved and authorised for issue by the Board on 28 January 2014.