Natural Dairy (NZ) Holdings Limited
天然乳品(新西蘭)控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(HKEx Stock Code: 00462)

Annual Report 2014

From 1 June 2013 to 31 May 2014

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wu Nengkun (Chairman and Managing Director)
Mr. Liu Nanguang (appointed on 1 April 2014)
Mr. Zhang Hanwen
Ms. Tan Houwen Tina (appointed on 28 August 2013)
Mr. Yao Haisheng (resigned from 1 April 2014)

Independent Non-Executive Directors

Mr. Zhang Jianhong
Mr. Wong Wang Tai (appointed on 28 August 2013)
Mr. Chen Wei (appointed on 1 April 2014)
Ms. Chan Man Kuen Laura (resigned from 1 April 2014)
Mr. Sze Cheung Hung (resigned on 28 August 2013)

BOARD COMMITTEES

	Resumption	Audit	Nomination	Remuneration
Mr. Wu Nengkun	–	–	C	–
Mr. Liu Nanguang (from 1 April 2014)	C	–	M	–
Ms. Tan Houwen Tina (from 28 August 2013)	M	–	–	–
Mr. Yao Haisheng (ceased from 1 April 2014)	–	–	M	–
Mr. Zhang Jianhong	–	M	M	M
Mr. Wong Wang Tai (from 28 August 2013)	M	C	M	M
Mr. Chen Wei (from 1 April 2014)	M	M	M	M
Ms. Chan Man Kuen Laura (ceased from 1 April 2014)	–	M	M	M
Mr. Sze Cheung Hung (ceased from 28 August 2013)	–	C	M	M

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

AUTHORISED REPRESENTATIVES

Mr. Wu Nengkun
Mr. Yung Wai Tak Abraham

COMPANY SECRETARY

Mr. Yung Wai Tak Abraham

AUDITORS

Cheng & Cheng Limited

LEGAL ADVISERS

In Hong Kong:
Y. C. Lee, Pang, Kwok & Ip Solicitors
Baker & McKenzie

In Cayman Islands:
Conyers Dill & Pearman, Cayman

In New Zealand:
Paul Sills

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Flat C, 15th floor, Lucky Plaza,
315–321, Lockhart Road,
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT IN CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

STOCK CODE

00462

COMPANY WEBSITE

http://www.naturaldairy.hk

Group Financial Summary

RESULTS

	Year ended 31 May				1 April 2009 to 31 May 2010
	2014	2013	2012	2011	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (restated)
Revenue	**64,781**	36,692	30,811	58,345	59,576
Gross profit/(loss)	**31,617**	10,085	(4,227)	9,528	2,929
Loss before tax	**(64,833)**	(103,752)	(331,295)	(154,260)	(152,364)
Income tax	**–**	–	–	–	–
Loss for the year/period	**(64,833)**	(103,752)	(331,295)	(154,260)	(152,364)

ASSETS AND LIABILITIES

	At 31 May				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (restated)
Non-current assets	**1,429,990**	1,451,046	1,442,550	535,952	407,767
Current assets	**583,411**	571,088	643,432	834,122	975,326
Current liabilities	**(232,583)**	(204,400)	(177,028)	(118,155)	(102,153)
Non-current liabilities	**(290,558)**	(267,483)	(247,284)	–	(834,932)
Equity attributable to equity shareholders of the Company	**1,490,260**	1,550,251	1,661,670	1,251,919	446,008

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Natural Dairy (NZ) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), I am pleased to present herewith the annual report of the Company and the Group for the year ended 31 May 2014.

INDUSTRY DEVELOPMENT

After the melamine-related event, consumers' awareness and requirement for food safety are increasing significantly. Thus, the market has a great demand for high-end dairy products with good quality, especially for those imported from overseas, with a growing speed of double-digit per annum, which is higher than the average growth of dairy product industry. Besides, with the continuing development of the domestic urbanization, the consumption of dairy products will be constantly boosted as a result of the enhancement of the per capita incomes of urban citizens, the changes in patterns of life and the increase in the awareness of health in the next few years. Thanks to the implementation of the two-child policy in the PRC, the demand for infant and child relevant products including clothes, toys and milk will enjoy a direct benefit. The Company is of the view that the above trend will continue such that there is a bright prospect for the industry development, not to mention the significant demand for overseas imported dairy products.

THE VSA-1 COMPLETION STATUS (NOW AND IN FORESEEABLE FUTURE)

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

According to the announcement on update of the resumption progress dated 20 August 2014, the Resumption Committee has engaged various independent professional parties to provide professional advice and to assist the Resumption Committee in performing their due diligence exercise in accordance with the Further Resumption Conditions. Based on the result of legal due diligence, on 10 February 2010, UTCL transferred the 2,000 shares in UBNZ AHL to the Company. The Sale Shares Completion was achieved. The Company then paid HK$1.00 to exercise its option right to purchase the remaining 8,000 shares in the Target Company (i.e. the Option Shares). This mechanism or process is irrevocable upon the payment of the exercise price of HK$1.00 by the Company.

The Company had started preparing for the application for the OIO approval of transfer of the farm assets since March 2010, and the application was finalized and accepted by OIO in July 2010. The transfer of Farm Assets was proceeded with by the Vendor and the Company (purchaser) in the following manner:

(i) The parties agreed to inject 4 farms for the Target Company in mid-February 2010. In respect of the 4 farms, there was no requirement of OIO approval at that time.

(ii) In March 2010, the Company started preparing for the application of OIO approval of transfer of Farm Assets.

(iii) On 21 May 2010, the Vendor and the Company completed the transactions by executing the relevant conveyancing documents and fund escrow documents regarding the transfer of the 18 farms on 24 May 2010 and UBFM paid a deposit of NZ$10 million to the Receivers of the target assets which was non- refundable. By that time, 100% of the funds totally NZ$225 million (including Vendor finance NZ$100 million from Westpac Bank) for the purchase of the 18 farms have already been put in place by the Vendor and the Company. The Inland Revenue Department of New Zealand deemed that such purchase of the 18 farms was at its unconditional completion. Accordingly, the goods & service tax of about NZ$25 million was paid and filed by both the Warrantor and the Target to the New Zealand Inland Revenue Department.

(iv) In mid July 2010, the Company made an application to OIO for the approval of: (i) the purchase of the remaining 18 farms; (ii) the purchase of the Option Shares by the Company after the Target Company owns the 22 farms. The Company has also made a retrospective application to the OIO for the approval of: (i) the purchase of the 4 farms by the Warrantor in February 2010; (ii) the subsequent purchase of the aforesaid 4 farms by the Company from the Warrantor in February 2010; and (iii) the mortgage granted by the Company to the Vendor in May 2010.

(v) At this stage, the Vendor has already fulfilled all its obligations it ought to have fulfilled under the VSA-1 and the Deed of Undertaking.

Therefore, at that moment, there was no reason to demand UTCL for return of CNs because UTCL was procuring the ownership of Farm Assets to be transferred to the Target. One of the condition precedents for completion of the 20% shares acquisition is the transfer of Farm Assets under Clause 4.2(vii) of the Agreement, which has been waived under Clause 4.3 of the Agreement. Therefore, the 20% Acquisition has been completed.

After review of the Professional Advice and several meetings, the Resumption Committee believes that the Professional Advice and the results of their due diligence Exercise had made various clarifications on the Resumption Conditions raised by the Stock Exchange.

The Resumption Committee is satisfied that, based on the information compiled in the due diligence Exercise thus far, the condition (b) in VSA-1 (as page 17 and 18 of "Circular to Shareholders" dated 8 September 2009) has already completed, with the only outstanding obligation being the delivery of the profit guarantee of NZ$35 million by the Vendor/Flying Max limited during the next 12 months. The profit generated from the Business (pursuant to the profit guarantee) in the next 12 months would enhance the Company's financial position and be in the best interest of the Shareholders. As advised by the barrister-at-law engaged by the Resumption Committee, the Company has been acting in compliance with the Agreement, and the allegations of the purported breach of Listing Rules cannot be substantiated. The requirement of convening a fresh EGM again for Shareholders to re-approve the VSA-1 would not be appropriate unless there has been substantial change in the terms of the VSA-1. Since the 2011 Supplemental Agreement aims to implement the VSA-1 under the Agreement rather than to change the terms of the VSA-1, fresh Shareholders' approval should not be necessary.

COMPANY BUSINESS

Upon the completion of the VSA-1 Acquisition, the Company will switch to a vertically integrated dairy business model. Through high processing standard of UHT milk factory in New Zealand, we secure the supply of milk and sell it to the mass market in the PRC. The direct sales of UHT milk in China and Hong Kong will help to bring new products into the consumer market and it is expected to achieve a premium price. The Company believes the uncontaminated New Zealand dairy products can have a higher profit than the Chinese local dairy products. Accordingly, The Company expects that after the successful expansion of the distribution of dairy business from New Zealand to Hong Kong and the PRC, both the revenue and profit of the Group will expand and improve.

PROGRESS OF RESUMPTION

As set out in the announcement of the Company dated 20 August 2014, the Company submitted a resumption proposal to the Stock Exchange. Under the Proposal, the Company (i) will reconstitute its Board by replacing the existing directors with new directors with strong qualifications and relevant experience; and (ii) has taken appropriate actions and implemented remedies to maintain adequate internal control procedures. In addition, at the request of the Stock Exchange, the newly appointed director has carried out the proper due diligence on the VSA-1 Acquisition and has been communicating with the Stock Exchange to resume the trading in shares as soon as possible.

APPRECIATION

Finally, I will extend my gratitude to the shareholders, customers and business partners who have been supporting the Group's innovation. Their support and commitment are the driving force for the Group to move forward and continue to develop.

Wu Nengkun
Chairman

Hong Kong, 23 September 2014

Management Discussion and Analysis

FINANCIAL AND OPERATING HIGHLIGHTS

Nowadays, the Chinese dairy market is still one of the rapidly expanding markets for the premium quality products in the world, especially the demand for imported dairy products. The Group is continuing focus on high-end import dairy and organic food products portfolio together with enriching its domestic food and beverage trading activities throughout the year.

For the twelve months ended 31 May 2014, the Group's financial performances are summarised as follows:

- Gross revenue amounted to HK$64.8 million as compared with HK$36.7 million in 2013. Revenue were mainly generated from foods, beverage, and health care products and imported milk and dairy related trading products. Sharply increase in revenue was attributable to better selling health care product in China, and continued selling food and beverage products during the year. Gross profit of HK$6.4 million was resulted mainly from selling health care product during the year with a better gross profit margin of 48.8%.

- Net loss attributable to shareholders of the Company was HK$64.8 million, a decrease of HK$39.0 million from HK$103.8 million in 2013; decrease was mainly due to decrease in HK$14.0 million of general and administrative expenses and HK$4.4 million decrease in selling and distribution expenses, and decrease in finance cost of HK$4.0 million.

- Basic loss per share amounted to HK$2.39 cents resulted by decrease in net loss attributable to shareholders of the Company during the year (2013: HK$3.83 cents).

FINANCIAL REVIEW

During the year, the Group recorded a gross profit of HK$31.6 million as compared with a gross profit of HK$10.1 million in 2013. The overall gross profit margin for the year was 48.8% (2013: 27.5%), primarily resulted by improvement in gross profit margin of health care products and beverage business. Although there was improvement in gross profit margin during the year, the production capacity in our PRC production base was still under our normal capacity. Again, by increasing our production capacity, the Company's gross profit will be further improved.

Administrative and General Expense

In 2014, the administrative and general expenses substantially decreased to HK$60.6 million versus HK$74.6 million in 2013 decreased by HK$14.0 million. Substantial decrease was mainly attributable to stringent cost control implemented and change of business model during the year which included decrease in salary expense of HK$8.0 million relating to changing from retail outlet model to wholesale model, decrease in rental expense of HK$7.5 million from closing retail outlets in 2013, decrease in write off of property, plant and equipment in PRC and HK of HK$10.0 million (2013: HK$18.2 million).

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

Selling and Distribution Expense

Selling and distribution expenses amounted to HK$0.8 million, as compared to HK$5.2 million last year. The tremendous decrease was mainly attributable to the decrease in promotion campaign in newspaper printing of UHT milk of HK$2.0 million from last year in PRC for branding our dairy products and decrease in advertising expense of HK$0.2 million.

Net Loss Attributable to Shareholders of the Company

The Group's loss for the year was HK$64.8 million (2013: HK$103.8 million). The net loss attributable to shareholders of the Company was mainly due to stringent cost controls implemented during the year and decrease in extensive advertising and promotion campaign this year from repositioning selling and distribution strategies this year, the Group's profit level is improving.

CAPITAL STRUCTURE

The total equity of the Group was approximately HK$1,490.3 million as at 31 May 2014 (2013: HK$1,550.3 million) decrease was revealed by the net loss attributable to shareholders of the Company by HK$64.8 million. The debt-to-equity ratio (total loans over total equity) of the Group was 0.21 times (2013: 0.19 times) and the finance cost was approximately HK$35.5 million (2013: HK$39.5 million) representing mainly effective interest expense of HK$28.9 million (2013: HK$25.4 million) arising from CN A and CN B and other interest expense of HK$6.5 million (2013: HK$13.9 million).

As at 31 May 2014, the Group had current assets of approximately HK$583.4 million (2013: HK$571.1 million) and total assets (net of current liabilities) of approximately HK$1,780.8 million (2013: HK$1,817.7 million). The Group's current ratio as at 31 May 2014 was 2.5 times (2013: 2.8 times), decreasing due to usage of cash flows in developing new dairy product selling business model during the year. The Group had current liabilities of approximately HK$232.6 million (2013: HK$204.4 million).

As at 31 May 2014, the Group had a net asset value of approximately HK$1,490.3 million (2013: HK$1,550.3 million), comprising non-current assets of approximately HK$1,430.0 million (2013: 1,451.0 million), net current assets of approximately HK$350.8 million (2013: 366.7 million) and non-current liabilities of about HK$290.6 million (2013: HK$267.5 million).

The Group had interest-bearing loan of HK$77.1 million as at 31 May 2014 (2013: HK$87.9 million). The Group's total liabilities divided by total assets as at 31 May 2014 was 0.26 times (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 31 May 2014, the Group had cash and cash equivalents and pledged deposits of approximately HK$1.8 million (2013: HK$7.4 million).

PLEDGE OF ASSETS

As at 31 May 2014, no operating lease of office premise located in New Zealand was secured by a bank deposit of the Group (2013: HK$1.1 million).

As at 31 May 2014, HK$6.3 million motor vehicles (2013: HK$6.3 million) located in Hong Kong has been pledged against bank loan and other borrowings and no property located in New Zealand (2013: HK$3.3 million) has been pledged against other borrowing in New Zealand.

FOREIGN EXCHANGE EXPOSURE

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

As such, management is aware of the potential foreign currency risk that may arise 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 minimise the Group's exposure whenever necessary.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Group are set out in Note 37.

CAPITAL COMMITMENTS

The Group's capital commitments amounted to approximately HK$80.1 million as at 31 May 2014 (2013: HK$81.6 million), which represented the committed payment of construction of factory in Jiangxi.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 May 2014, the Group had a total headcount of approximately 211 employees (2013: 143 employees). The remuneration of employee was in line with the market trend and commensurable to the level of pay in the industry. Remuneration of the Group's employees includes basic salaries, bonuses and long-term incentive.

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Options Scheme") on 30 March 2005 and a share option scheme (the "Share Option Scheme") on 20 May 2005, for the purposes of providing incentives and rewards to eligible participants who have contributed to the success of our operations.

MAJOR DEVELOPMENT

VSA-1: Acquisition of UBNZ AHL issued share capital and its dairy business

The VSA-1 was to broaden the Company's income stream and diversify the risk of reliance on a single industry, and the direct sale of UHT Milk in China and Hong Kong will open a new outlet of the products into a vast market wherein the products can command a price premium. Further, according to the Circular dated 8 September 2009 despatched to Shareholders, there is enormous strategic growth potential inherits by the VSA-1 to direct sale of UHT Milk into Hong Kong and China.

We believed that the profit generated from the non-polluted New Zealand dairy products could gain a higher premium price than the local dairy products made in China.

Entered into the VSA-1 was to expand the Group's business into the distribution of dairy products from New Zealand into Hong Kong and China, thereby increasing the profitability of the Group and diversifying its income stream.

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

On 10 February 2010, UTCL transferred the 2,000 shares of UBNZ AHL (20% shares) to the Company. Then the Company paid HK$1.00 to exercise its option right to purchase the remaining 8,000 shares (80% shares). Thereafter, parties proceeded to the sale and purchase of the remaining 8,000 shares. This mechanism or process is irrevocable upon the payment of HK$1.00 by the Company. According to the Company's announcement on 1 June 2010, the transaction of the 2,000 shares of UBNZ AHL (20% shares) had been duly completed.

Directors' Biography

EXECUTIVE DIRECTORS

Mr. Wu Nengkun ("Mr. Wu"), aged 31, chairman and managing director, executive director of the Company and chairman of the nomination committee, graduated from Fujian Normal University with Bachelor Degree in Laws. In 2004, Mr. Wu worked as vice-president at an investment company in Shanghai and was responsible for dealing with and advising on all legal and corporate affairs. In 2008, Mr. Wu acted as legal representative and deputy general manager in a real estate development company in Fujian. Mr. Wu possesses professional knowledge and experience in dealing with and advising on all legal and corporate affairs relating to the Mainland China. He is currently the director of a wholly-owned subsidiary (Guoyuan Natural Dairy (Jiangxi) Company Limited).

Mr. Liu Nanguang ("Mr. Liu"), aged 51, was appointed as executive director, chairman of the resumption working committee and member of the nomination committee with effect from 1 April, 2014. Mr. Liu is a post-graduated from Nanjing University. Mr. Liu was chairman of Shanghai Futong Group Limited and held senior positions in various companies. Mr. Liu has ample experience in commercial and corporate management.

Mr. Zhang Hanwen ("Mr. Zhang"), aged 30, has management experience in operating fast food chain store in United Kingdom. He received his master degree in management from Lancaster University in the United Kingdom and his bachelor degree in management from University of Southampton in the United Kingdom.

Ms. Tan Houwen Tina ("Ms. Tan"), aged 46, was appointed as executive director, member of the resumption working committee. She was graduated at Massey University, New Zealand with a Business diploma, and Bachelor of Art at Central University for Nationalities, Beijing, China. She also studied Corporate Management at University of International Business and Economics Beijing, China. She has more than 20 years experience in media and commercial area. Ms. Tan also active in public and community services. She is a member of NZ Chinese Brighter Future Education trust.

Mr. Yao Haisheng ("Mr. Yao"), aged 45, member of the nomination committee, has extensive experience in sales and marketing. Prior to joining the Company, Mr. Yao had worked as Marketing consultant and sales manager in various multinational companies, including Caltex in the People's Republic of China. He received his Certificate from the Shanghai Jiao Hua Technical College (上海焦化廠技術專科學校). Mr. Yao resigned from the Company from 1 April 2014.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Jianhong ("Mr. Zhang"), aged 68, has years of management experience at various PRC enterprises. He is currently the President of China Western Development Promotion Association. He is a member of the audit committee, nomination committee and remuneration committee.

Mr. Wong Wang Tai ("Mr. Wong"), aged 50, was appointed as an independent non-executive director, Chairman of the audit committee, member of the resumption working committee and nomination committee. Mr. Wong has been a qualified accountant since 1994. He graduated at Hong Kong Baptist University and City University of Hong Kong with a Bachelor of Business Administration and Bachelor of Law degrees respectively. He is a member of Hong Kong Institute of Certified Public Accountants and fellowship member of The Association of Chartered Certified Accountants. He has more than 20 years of experience in auditing, finance and accounting fields.

Mr. Chen Wei ("Mr. Chen"),aged 46, was appointed as an independent non-executive director. Member of the resumption working committee, audit committee, nomination committee and remuneration committee with effect from 1 April, 2014. Mr. Chen has been a practicing lawyer in PRC since 2000. He is a senior partner of Trend Associates Shanghai. He graduated at East China University of Political Science and Law with a Bachelor of Law.

Mr. Sze Cheung Hung ("Mr. Sze"), aged 49, was an independent non-executive director and chairman of the audit committee and a member of the nomination committee and remuneration committee of the Company, has over 14 years of experience in banking industry. Mr. Sze is a consultant of Huafeng Group Holdings Limited (stock code: 00364). Mr. Sze holds a bachelor degree in business administration. Mr. Sze resigned on 28 August 2013 as independent non-executive director and ceased to act as chairman of the audit committee, member of the nomination committee and remuneration committee with effective on 28 August 2013.

Ms. Chan Man Kuen Laura ("Ms. Chan"), aged 41, an independent non-executive director, a member of the audit committee and nomination committee and the chairman of the remuneration committee of the Company, holds a bachelor degree in law. Ms. Chan has over 14 years of experience in corporate administration. There are no service contract entered into between the Company and Ms. Chan. Ms. Chan has been appointed for a specified term but is subject to retirement and rotation pursuant to the bylaws of the Company. Ms. Chan resigned from the Company from 1 April 2014.

Directors' Report

The Board of the Company (the "Board") is pleased to present their annual report together with the audited financial statements of the Group for the year ended 31 May 2014.

PRINCIPAL ACTIVITIES

As at 31 May 2014, the Company acts as an investment holding company. The principal activities of its subsidiaries as at 31 May 2014 are set out in note 38 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 28.

The directors do not recommend the payment of a final dividend for the year ended 31 May 2014 (2013: Nil).

SHARE CAPITAL

Details of the movements in the issued share capital of the Company during the year are set out in note 28 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in consolidated statement of changes in equity.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate revenue attributable to the Group's largest customer and the five largest customers taken together accounted for approximately 29.4% and 74.3% of the aggregate of Group's total revenue for the year.

During the year, the aggregate purchases attributable to the Group's one supplier is 6.1% aggregate of Group's total purchases for the year.

DIRECTORS

The directors who held office of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Wu Nengkun *(Chairman and Managing Director)*
Mr. Liu Nanguang (appointed on 1 April 2014)
Mr. Zhang Hanwen
Ms. Tan Houwen Tina (appointed on 28 August 2013)
Mr. Yao Haisheng (resigned from 1 April 2014)

Independent Non-executive Directors:

Mr. Zhang Jianhong
Mr. Wong Wang Tai (appointed on 28 August 2013)
Mr. Chen Wei (appointed on 1 April 2014)
Ms. Chan Man Kuen Laura (resigned from 1 April 2014)
Mr. Sze Cheung Hung (resigned on 28 August 2013)

BIOGRAPHICAL DETAILS OF THE DIRECTORS

The biographical details of the directors are set out on page 11 of this annual report.

DIRECTORS' SERVICE CONTRACTS AND ROTATION

In accordance with the provisions of the Company's articles of association, Liu Nanguang, Tan Houwen Tina, Wong Wang Tai and Chen Wei, will retire from the Board at the forthcoming annual general meeting and being eligible, will offer for re-election.

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

Other than disclosed above, none of the directors has entered or has proposed to enter into any service contract with the Company or any of its subsidiaries which is not expiring or determinable by the employing company within one year without payment of compensation other than statutory compensation.

DIRECTORS' EMOLUMENTS

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

ANNUAL CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company had received confirmation from each of the independent non-executive directors of their independence pursuant to rule 3.13 of the rules governing the listing of securities on the Stock Exchange (the "Listing Rules") and the Board considered all independent non-executive directors are independent.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 31 May 2014, the number of outstanding option shares granted by the Company under the Pre-IPO Share Options Scheme has been lapsed. Share Option Scheme to the directors to subscribe for shares of the Company, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code is set out in the section headed "Share Option" of this report below and set out in note 29 to the consolidated financial statements.

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 May 2014, the interests and short positions of each director and chief executive in the shares and underlying shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO were as follows:

	Number of shares					
Name of director	Personal interests	Family interest	Corporate interests	Number of underlying shares held under equity derivatives	Total	Percentage of aggregate interest to total number of shares in issue %
Wu Nengkun *(Note)*	700,000	30,000,000	–	–	30,700,000	1.133%

Note:

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

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31 May 2014, 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%
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. is 100% owned by Ms. Wang May Yan on behalf of the Trustee of UBNZ Trust, of which deemed owned 11.94% of the issued shares of the Company. Per the Company Announcement dated 2 February 2011, the trustee of UBNZ Trust was changed from UBNZ Trustee Ltd. to NZ Dairy Trustee Ltd.

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

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

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

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

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

Save as disclosed above, as at 31 May 2014, the Company had not been notified of any interests and underlying shares of the Company which had been recorded in the register required to be kept under section 336 of the SFO.

PUBLIC FLOAT

Based on the information that is publicly available to the Company, up to the date of this report and within the knowledge of the Directors, there was sufficiency of public float of the Company's securities as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive right under the Company's Bye-Laws or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SHARE OPTION

(a) Pre-IPO Share Option Scheme

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

As at 31 May 2014, none of any options granted was outstanding and the scheme was lapsed.

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

(b) Other Share Option Scheme

Purpose

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

Participants

Eligible participants include:

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

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

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

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

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

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

(3) the nominal value of the share.

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

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

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

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

(c) Movements of the Other Share Option Scheme
No share option was granted or exercised during the year. As at 31 May 2014, none of options granted was outstanding.

CONNECTED TRANSACTION

The on-going MU Agreement ("MU Agreement") with continuous connected transaction (CCT) concern such execution will be in accordance to the Company dated 20 June 2011 announcement prescribed compliance framework.

Information on other connected transaction is set out in note 36 to the consolidated financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules, during the period under review. Having made specific enquiry of all directors, the directors have complied with the required standard set out in the Model Code.

SUSPENSION OF TRADING OF SECURITIES

At the request of the Company, trading in the shares (stock code: 00462) of the Company was suspended with effect on 7 September 2010 pending the release of announcement in respect of certain price-sensitive information. The Company will continue to work closely with the Stock Exchange on an announcement with respect to matters which led to the Company's suspension of trading of its securities and will apply to Stock Exchange for the resumption of trading of its shares as soon as practicable.

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on page 19 to 25 of this Annual Report.

EVENT AFTER THE END OF THE REPORTING PERIOD

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

AUDITORS

The consolidated financial statements for the year were audited by Cheng & Cheng Limited who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Wu Nengkun
Chairman

23 September 2014

Corporate Governance Report

The Board is committed to maintaining a high standards of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, maintain high standards of accountability and protect interests of shareholders and other stakeholders.

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

(A) CORPORATE GOVERNANCE PRACTICE

The Company has adopted the code provisions set out in Corporate Governance Code and Corporate Governance Report (the "Code") as stated in Appendix 14 to the Rules of Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

During the year ended 31 May 2014, the Company has complied with the Code except the following:

(1) Pursuant to code provision A.2.1, the roles of chairman and chief executive of an issuer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Following the retirement of the then managing director Mr. Luo Ji on 2 November 2012, the chairman Mr. Wu Nengkun as resumed the responsibilities of the managing director at the same time. Having considered the current business operation and situation of the Company, the Board is of the view that Mr. Wu acting as both the chairman and managing director of the Company is acceptable and in the best interest of the Company. The Board will review this situation periodically.

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

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

(B) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules of the Stock Exchange. The Company had made specific enquiry of all Directors that they have complied with the required standard set out in the Model Code throughout the year ended 31 May 2014.

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

(C) BOARD OF DIRECTORS

Responsibility of the Board

The Board is responsible to ensure that there is a competent executive management which is able to run the Company in a sound and efficient manner. The Board is also responsible for establishing the Company's business strategies and plans from time to time to ensure that the operations of the Company are conducted effectively.

The Board is responsible for preparation of the financial statements. In preparing the financial statements, the generally accepted accounting principles in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, reasonable and prudent judgements and estimates have been made.

The Board with the help of external consultant also conducts appropriate internal control procedures and reviews risk management strategies and policies of the Company to ensure that the Company runs its business in compliance with all legal and regulatory requirements with prudence and integrity.

Mr. Wu Nengkun is the Chairman of the Board and the Managing Director. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively. The chairman is responsible for the Group's business development and management.

Each executive director is delegated individual authority and responsibility to oversee and monitor the operations of a specific business unit, and to implement the strategies and policies set out by the Board. The independent non-executive directors provide independent opinion and share their knowledge and experiences with the other members of the Board, resumption working committee, audit committee, remuneration committee and nomination committee.

Compositions

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent opinion.

The directors who held office during the year and up to the date of this report were:

Mr. Wu Nengkun
Mr. Liu Nanguang (from 1 April 2014)
Mr. Zhang Hanwen
Ms. Tan Houwen Tina (from 28 August 2013)
Mr. Yao Haisheng (ceased from 1 April 2014)
Mr. Zhang Jianhong
Mr. Wong Wang Tai (from 28 August 2013)
Mr. Chen Wei (from 1 April 2014)
Ms. Chan Man Kuen Laura (ceased from 1 April 2014)
Mr. Sze Cheung Hung (ceased from 29 August 2013)

Corporate Governance Functions

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

Number of meetings held and attendance

The Board meets at times as and when required to review financial and internal control, risk management, company strategy and operating performance of the group. During the accounting year ended 31 May 2014, a total number of 15 Board meetings were held.

The individual attendance records of each director, on a named basis, at the meetings of the Board during the accounting year ended 31 May 2014 were set out below:

Name of director	Attendance/Number of Meeting
Wu Neng Kun (chairman)	14/15
Liu Nanguang (appointed on 1 April 2014)	4/4
Zhang Hanwen	14/15
Tan Houwen Tina (appointed on 28 August 2013)	9/10
Yao Hai Sheng (resigned from 1 April 2014)	10/11
Zhang Jian Hong	5/5
Wong Wang Tai (appointed from 28 August 2013)	3/3
Chen Wei (appointed on 1 April 2014)	1/1
Chan Man Kuen Laura (resigned from 1 April 2014)	2/4
Sze Cheung Hung (resigned on 28 August 2013)	0/2

Annual confirmation from independent non-executive directors

The Company had received, from each independent non-executive director, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Board considers all the independent non-executive directors are independent.

Terms of independent non-executive directors

Under the Code Provisions A.4.1, independent non-executive director should be appointed for a specific term and every Director should be subject to retirement by rotation at least once every three years.

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

Directors' Training

According to the code provision A.6.5 of the CG code, all directors should participate in continuous professional development to develop and refresh their knowledge and skill to ensure that their contribution to the board remains informed and relevant. All directors has participated in continuous professional development which include attending or participating in seminars or workshops; working in technical committee relevant to the group 's business or directors' duties and reading materials in relation to regulatory update. The directors are regularly briefed on the amendments to or updates on the Listing Rules, corporate governance practices and other regulatory matters. They all provided a record of training they received for the accounting year ended 31 May 2014.

(D) RESUMPTION WORKING COMMITTEE

The Resumption Working Committee was established with the terms of reference pursuant to a resolution passed by the Board of Directors of the Company on 6 September 2014, full authority for the purpose of (i) resumption of trading and (ii) evaluation and decide the future courses for the dealing of VSA-1. The then current directors shall not be member of the Committee. The Committee consists of newly-appointed executive director Ms. Tan Houwen Tina and Mr. Wong Wan Tai. Later newly appointed director namely Mr. Liu Nanguang and Mr. Chen Wei join on 1 April 2014 upon their appointment as director of the Company.

The Resumption Working Committee should perform the following duties:

1. (i) Fully concentrate on the resumption of trading work; and

   (ii) evaluate and decide the future courses for the dealing of the VSA-1.

2. The Committee is responsible for dealing directly with the Hong Kong Stock Exchange, financial advisers as well as with other professional consultants, seeking the resumption of trading in short period and dealing of the VSA-1.

3. The Committee shall not involve or attend to the daily operation of company before resumption.

4. Current Directors of the Company undertake not to involve or influence any further action or direction taken by the Committee in carry out their responsibilities and duties.

5. The Committee shall after consider legal, other professional advices, outside and the situation of the Company, acting in good faith, then decide the best course of actions in regards to resumption of trading and VSA-1.

6. The Board of Directors undertake that the advise and actions decided by the Committee shall be carried out without change or amendments.

7. The Committee shall be dissolved as long as the resumption of trading is approved by the Hong Kong Stock Exchange.

The Resumption Working Committee has held seven formal meetings of which the individual attendance record of each director were set out below:

Name of director	Attendance/Number of Meeting
Mr. Liu Nanguang (appointed on 1 April 2014)	5/5
Ms. Tan Houwen Tina (appointed on 6 September 2013)	7/7
Mr. Wong Wang Tai (appointed on 6 September 2013)	7/7
Mr. Chen Wei (appointed on 1 April 2014)	5/5

Work performed included:

1. obtain legal presentation on review the process of the VSA-1 with respect to the agreement entered with UBNZ Trustee Ltd on 22 May 2009 and focuses on (i) whether the agreement was duly performed by parties; (ii) whether the approval decision made by the HKEx is valid; (iii) whether the transaction should be re-approved again by a further EGM; and (iv) the legal consequence on the Company if it rescinds the agreement;

2. engage and held numerous meeting with legal advisers, financial advisers and various independent professional parties to provide professional advice and guidance to assist the Resumption Working Committee in performing Due Diligence exercise in accordance with by the Further Resumption Conditions;

3. review the valuation reports on the business enterprise value and valuation of the intangible assets of the Target Company and its subsidiaries;

4. review and evaluation on the current business plan of the Target group and company; the Target Group's dairy business in the PRC;

5. verification of the identity and background of the counterparties of the 2011 Supplemental Agreement and Vendor's Management Agreement onto their respective relationship with the Company and its connected persons.

6. supply and review replies and submissions to HKEx in relation to the resumption of trading of the Company.

7. meeting with HKEx to discuss the resumption of trading of the Company.

(E) AUDIT COMMITTEE

The audit committee has been established. It currently consists of three independent non-executive directors namely Mr. Wong Wang Tai as Chairman, Mr. Zhang Jianhong and Mr. Chen Wei as members.

The audit committee meets at least twice a year to review the group's financial reporting process and internal control system. During the accounting year ended 31 May 2014, a total number of two meetings were held. The attendance records of the audit committee, on a named basis, are set out below:

Individual attendance record of each member were set put below:

Name of director	Attendance/Number of Meeting
Wong Wang Tai (chairman from 28 August 2013)	2/2
Zhang Jian Hong	2/2
Chen Wei (appointed from 1 April 2014)	1/1
Chan Man Kuen Laura (resigned from 1 April 2014)	0/1
Sze Cheung Hung (resigned on 28 August 2013)	0/0

The Company has adopted written terms of reference for the audit committee, which clearly defined the roles, authority and function of the audit committee.

The main responsibilities for the audit committee are:

1. To review the accounting principles and practices adopted by the Group;

2. To review the financial reporting process and internal control system of the Group; and

3. To review the independence and objectivity of the external auditors, the scope of audit services and related audit fees payable to the external auditors.

Work undertaken by the audit committee included:

1. reviewing the financial statements for the year ended 31 May 2014 and for the six months ended 30 November 2013;

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

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

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

5. reviewing internal control and risk management system; and

6. approve the internal control and management policy manual.

(F) NOMINATION COMMITTEE

The Board has established a nomination committee with effect from 30 March 2012. The nomination committee is chaired by Mr. Wu Nengkun, Mr Liu Nanguang, Mr. Zhang Jianhong, Mr. Wong Wang Tai and Mr. Chen Wei as members. The majority of the members of the nomination committee are independent non-executive Directors.

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

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

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

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

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

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

Three meetings had been held for the accounting year ended 31 May 2014. Work undertaken included the recommendation of executive directors and independent non-executive directors for the Board to consider appointment.

Individual attendance record of each member were set put below:

Name of director	Attendance/Number of Meeting
Wu Neng Kun (chairman)	3/3
Yao Hai Sheng (resigned from 1 April 2014)	3/3
Chan Man Kuen Laura (resigned from 1 April 2014)	2/3
Zhang Jian Hong	3/3
Wong Wang Tai (appointed from 28 August 2013)	2/2
Liu Nanguang (appointed on 1 April 2014)	0/0
Chen Wei (appointed on 1 April 2014)	0/0

(G) REMUNERATION COMMITTEE

The remuneration committee has been established. It currently consists of three independent non-executive directors of the Company namely, Mr. Zhang Jianhong, Mr. Wong Wang Tai and Mr. Chen Wei as members.

The Company had adopted written terms of reference for the remuneration committee, which clearly defined the role, authority and function of the remuneration committee.

The responsibilities of the remuneration committee are:

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

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

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

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

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

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

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

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

The remuneration committee meets at least once a year to determine the remuneration policy for the directors and senior management. During the year ended 31 May 2014, one meeting was held to determine the remuneration policy for the directors and/or senior management.

Individual attendance record of each member were set put below:

Name of director	Attendance/Number of Meeting
Wong Wang Tai (chairman from 28 August 2013)	1/1
Zhang Jian Hong	1/1
Chen Wei (appointed from 1 April 2014)	1/1
Chan Man Kuen Laura (resigned from 1 April 2014)	0/0

Work undertaken by the Remuneration Committee for the accounting year ended 31 May 2014 included:

1. reviewing the remuneration policy;

2. reviewing the remuneration of the executive directors and the independent non-executive directors of the board by taking into consideration factors such as salaries paid by comparable companies, time commitment, responsibility, market conditions elsewhere in the Group and desirability of performance-based remuneration.

Auditor's remuneration

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

	2014 HK$'000	2013 HK$'000
Nature of services		
Audit	**1,016**	950
Non-audit services	**–**	21
	1,016	971

(H) INTERNAL CONTROL

The Board has, through the audit committee, conducted interim and annual review of the effectiveness of the internal control system of the Group covering the financial, operational, procedural compliance and risk management functions. The internal control system is designed to provide reasonable, but not absolute, assurance of no material misstatement or loss and to manage rather than eliminate risks of failure in operational system and achievements of the Group's objectives. The Company has performed internal control review during the year.

In order to further improve the internal control, the Company has engaged Zenith Risk Management Advisory Limited at Hong Kong to perform a review of the procedures, systems and controls for the Company.

The report has identified some deficiencies and made relevant recommendations and the Company has improved the Company's internal system based on these recommendations. Furthermore, the Company has implemented an ongoing internal control improvement plan by engaging Zenith Risk Management Advisory Limited for the coming year.

An Internal Control and Management Policy Manual has been compiled and approved by the Board.

(I) COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognizes the importance of good communications with all shareholders. Extensive information on the Company's activities is provided in the annual and interim reports of the Company which are sent to shareholders of the Company regularly. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. Members of the Board and chairman of the audit committee are present to answer shareholders' questions. The Company also publishes announcement about the Company on the HKEx and the Company's website.

Independent Auditor's Report

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

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

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

We have audited the consolidated financial statements of Natural Dairy (NZ) Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 28 to 86 which comprise the consolidated statement of financial position as at 31 May 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company (the "Directors") are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 May 2014 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Cheng & Cheng Limited
Certified Public Accountants

Tong Yat Hung
Practising Certificate number P01055
Hong Kong
23 September 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 May 2014

	Note	2014 HK$'000	2013 HK$'000
Revenue	8	64,781	36,692
Cost of sales		(33,164)	(26,607)
Gross profit		31,617	10,085
Other income	9	450	5,466
Selling and distribution expenses		(779)	(5,219)
General and administrative expenses		(60,600)	(74,576)
Finance costs	10	(35,521)	(39,508)
Loss before tax	11	(64,833)	(103,752)
Income tax	12	–	–
Loss for the year attributable to owners of the Company		(64,833)	(103,752)
Other comprehensive income/(expenses)			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		69	(11,858)
Total comprehensive expenses for the year attributable to owners of the Company		(64,764)	(115,610)
Dividends	13	–	–
Loss per share	14		
Basic		(2.39) HK cents	(3.83) HK cents
Diluted		N/A	N/A

Consolidated Statement of Financial Position

At 31 May 2014

	Note	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	*16*	**139,400**	160,456
Intangible assets	*17*	**1,019**	1,019
Available-for-sale investment	*18*	**367,198**	367,198
Prepayment	*21*	**922,373**	922,373
		1,429,990	1,451,046
Current assets			
Inventories	*19*	**1,371**	11,791
Trade receivables	*20*	**44,369**	25,276
Other receivables, deposits and prepayments	*21*	**535,892**	526,630
Pledged bank deposits	*22*	**–**	1,053
Bank balances and cash		**1,779**	6,338
		583,411	571,088
Current liabilities			
Trade payables	*23*	**11,107**	9,013
Other payables and accrued charges	*24*	**138,177**	102,699
Borrowings	*25*	**76,756**	86,464
Amount due to related companies		**6,543**	6,224
		232,583	204,400
Net current assets		**350,828**	366,688
Total assets less current liabilities		**1,780,818**	1,817,734

	Note	2014 HK$'000	2013 HK$'000
Capital and reserves			
Share capital	*28*	**270,878**	270,878
Reserves		**1,219,382**	1,279,373
Total equity		**1,490,260**	1,550,251
Non-current liabilities			
Borrowings	*25*	**375**	1,455
Deferred tax liabilities	*27*	**56,522**	61,295
Convertible notes	*26*	**233,661**	204,733
		290,558	267,483
		1,780,818	1,817,734

The consolidated financial statements on pages 28 to 86 were approved and authorised for issue by the board of directors on 23 September 2014.

Wu Nengkun
Executive Director

Liu Nanguang
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 May 2014

	Share capital HK$'000	Share premium HK$'000	Merger reserve *(Note)* HK$'000	Convertible notes equity reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK'000	Total HK$'000
At 1 June 2012	270,878	2,048,688	(14,990)	224,206	(983)	(866,129)	1,661,670
Loss for the year	–	–	–	–	–	(103,752)	(103,752)
Other comprehensive expenses							
Exchange difference arising on translation of foreign operations	–	–	–	–	(11,858)	–	(11,858)
Total comprehensive expenses for the year	–	–	–	–	(11,858)	(103,752)	(115,610)
Recovery of deferred tax from convertible notes equity component *(Note 27)*	–	–	–	4,191	–	–	4,191
At 31 May 2013 and 1 June 2013	270,878	2,048,688	(14,990)	228,397	(12,841)	(969,881)	1,550,251
Loss for the year	–	–	–	–	–	(64,833)	(64,833)
Other comprehensive income							
Exchange difference arising on translation of foreign operations	–	–	–	–	69	–	69
Total comprehensive income/ (expenses) for the year	–	–	–	–	69	(64,833)	(64,764)
Recovery of deferred tax from convertible notes equity component *(Note 27)*	–	–	–	4,773	–	–	4,773
At 31 May 2014	**270,878**	**2,048,688**	**(14,990)**	**233,170**	**(12,772)**	**(1,034,714)**	**1,490,260**

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

Consolidated Statement of Cash Flows

For the year ended 31 May 2014

	2014 HK$'000	2013 HK$'000
Cash flow from operating activities		
Loss before tax	(64,833)	(103,752)
Adjustments for:		
Bank interest income	–	(40)
Depreciation of property, plant and equipment	16,578	25,977
Unrealised exchange loss/(gains)	2,878	(13,385)
Finance costs	35,521	39,508
Provision/(reversal) of impairment loss recognised for inventories	1,670	(500)
Written off of inventories	27	1,450
Impairment loss recognised for trade receivables	1,344	–
Impairment loss recognised for other receivables	2,213	–
Loss on disposal of property, plant and equipment	1,370	26
Written off of property, plant and equipment	1,482	11,498
Operating loss before working capital changes	(1,750)	(39,218)
Decrease in inventories	8,681	27,126
Increase in trade receivables	(21,221)	(3,541)
(Increase)/decrease in other receivables, deposits and prepayments	(12,261)	13,414
Increase/(decrease) in trade payables	2,287	(9,068)
Increase in other payables and accrued charges	29,863	1,175
Increase in amount due to related companies	42	3,608
Net cash generated from/(used in) operating activities	5,641	(6,504)
Investing activities		
Purchases of property, plant and equipment	(6,875)	(5,272)
Proceeds from disposal of property, plant and equipment	3,966	153
Decrease in pledged bank deposit	1,053	–
Interest received	–	40
Net cash used in investing activities	(1,856)	(5,079)

	2014 HK$'000	2013 HK$'000
Financing activities		
Proceeds from other borrowings	253	23,204
Interest paid	(83)	(5,784)
Repayment of obligations under finance leases	(1,012)	(1,133)
Repayment of other borrowings	(7,539)	–
Net cash (used in)/generated from financing activities	(8,381)	16,287
Net (decrease)/increase in cash and cash equivalents	(4,596)	4,704
Cash and cash equivalents at beginning of the year	6,338	1,514
Effect of foreign exchange rates change	37	120
Cash and cash equivalents at end of the year	1,779	6,338

1. GENERAL

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

The address of the registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, The Cayman Islands. The address of principal place of business of the Company is Flat C, 15th floor, Lucky Plaza, 315-321, Lockhart Road, Wanchai, Hong Kong.

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. The functional currency of the Company is Hong Kong Dollar ("HK$"). The functional currency of the subsidiaries are HK$, Renminbi ("RMB") and New Zealand Dollar ("NZ$"). The consolidated financial statements are presented in HK$, and all values are rounded to the nearest thousand unless otherwise indicated.

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

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

Financial support by an independent third party

An independent third party has agreed to provide financial support to the Company.

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

3. APPLICATION OF NEW AND REVISED HKFRSs

New and revised Standards and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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)	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 HKAS 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 application of the above new and revised HKFRSs in the current year has had no impact on these consolidated financial statements except for as described below.

HKFRS 10 Consolidated Financial Statements

HKFRS 10 replaces the requirements in HKAS 27, "Consolidated and Separate Financial Statements" relating to the preparation of consolidated financial statements and HK(SIC) – Int 12, "Consolidated – Special Purpose Entities". It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 June 2013.

3. APPLICATION OF NEW AND REVISED HKFRSs *(continued)*

New and revised Standards and Interpretations applied in the current year *(continued)*

HKAS 1 (Amendments) Presentation of Items of Other Comprehensive Income

The HKAS 1 Amendments introduce new terminology for the statement of comprehensive income. Under the amendments, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income". In addition, the amendments require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The Group has applied the new terminology to rename "consolidated statement of comprehensive income" as "consolidated statement of profit or loss and other comprehensive income" and made additional disclosures in the other comprehensive income section such that items of other comprehensive income may be reclassified subsequently to profit or loss is disclosed.

New and revised HKFRSs issued but not yet effective

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

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010–2012 Cycle[2]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011-2013 Cycle[2]
HKFRS 9	Financial Instruments[5]
HKFRS 9, HKFRS 7 and HKAS 39 (Amendments)	Hedge Accounting and Amendments to HKFRS 9, HKFRS 7 and HKAS 39[5]
HKFRS 10 and HKFRS 12 and HKAS 27 (Revised) (Amendments)	Investment Entities[1]
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations[3]
HKFRS 14	Regulatory Deferral Accounts[3]
HKFRS 15	Revenue from Contracts with Customers[4]
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
HKAS 16 and HKAS 41(Amendments)	Agriculture: Bearer plants[3]
HKAS 19 (Revised) (Amendments)	Defined Benefit Plans: Employee Contributions[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[1]
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets[1]
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC) – Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after 1 January 2017
5 No mandatory effective date yet determined but is available for adoption

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

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns form its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members are eliminated in full on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries

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

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

Business combinations

Acquisitions of business are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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

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

When the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 Financial Instruments: Recognition and Measurement, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following bases:

Sale of goods is recognised upon transfer of the significant risks and rewards of ownership to customer. This is usually taken at the time when the goods are delivered and the customer has accepted the goods.

Advertising and service income are recognised when the services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Other interest income is recognised on a time-proportion basis using the effective interest method.

Rental income from operating leases is described in the accounting policy below.

Sundry income is recognised whenever it is received or receivable.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purpose (other than properties under construction as described below) are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	4%
Leasehold improvement	10%–20%
Machinery and equipment	10%–20%
Office equipment	20%
Computer equipment	20%
Furniture and fixtures	20%
Motor vehicles	20%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purpose are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Freehold land is not depreciated.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

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

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

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

The Group as lessee

Operating lease payments are recognised as an expenses on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong Dollar, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies translation *(continued)*

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Borrowing costs

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

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

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

Retirement benefit costs and short-term employee benefits

(a) Retirement benefit costs

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

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in the retirement benefits schemes (the "PRC RB Schemes") operated by the respective local municipal government in provinces of the PRC that the Group's subsidiaries operate. These subsidiaries are required to contribute a certain percentage of their payroll costs to the PRC RB Schemes. Contributions under the PRC RB Schemes are charged to the statement of profit or loss and other comprehensive income as they become payable in accordance with the rule of the PRC RB Schemes.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefit costs and short-term employee benefits *(continued)*

(b) Short-term employee benefits

Employees' entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liabilities for annual leave as a result of services rendered by employees up to the end of the reporting period.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

Share-based payment transactions

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their values are appraised at the grant date and exclude the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is ultimately recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are reallocated to share capital with any excess being recorded as share premium.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

The Group's financial assets are mainly classified into loans and receivables and available-for-sale investment. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instruments, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, deposits, pledged bank deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale investments are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve until the financial asset is disposed of or determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy in respect of impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy in respect of impairment loss on financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investment, impairment losses are subsequently reversed through profit and loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Convertible notes

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

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

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in the convertible notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible notes equity reserve will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Other financial liabilities

Other financial liabilities (including trade payables, other payables and accrued charges, obligations under finance leases and other borrowings and amount due to related companies) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition *(continued)*

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

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

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

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

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or the Group's parent.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

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

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

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

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

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

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

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

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

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

Segment reporting

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

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated useful lives and impairment loss for property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. The estimation of useful lives that the Group places the property, plant and equipment into productive use reflects the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets and the fair value of each asset or group of assets less cost to sell. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated statement of profit or loss and other comprehensive income.

Impairment of available-for-sale investments

For available-for-sale investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant and/or prolonged. In making this judgement, the historical data on market volatility as well as the price of the specific investment are taken into account. The Group also takes into account other factors, such as industry and sector performance and financial information regarding the issuer/investee.

Impairment loss in respect of trade and other receivables

Impairment loss recognised in respect of trade and other receivables is made when there is objective evidence of impairment and is based on an assessment of the recoverability of trade and other receivables. When the future discounted cash flows of trade and other receivables is different from the carrying amount, such difference represents allowance for doubtful debts recognised as expense in the consolidated statement of profit or loss and other comprehensive income.

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

Impairment loss in respect of inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and identifies the slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. In addition, the Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items.

Equity-settled share-based payments

The fair value of the share options granted to the Directors, employees and consultants determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Group's share options reserve. In assessing the fair value of the share options, the generally accepted option pricing models are used to calculate the fair value of the share options. The option pricing models require the input of subjective assumptions, including the expected dividend yield and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The Group is not subject to any externally imposed capital requirements. The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Directors review the capital structure on an annual basis. As part of this review, the Directors consider the cost of capital and risks associated with each class of capital. The Group will balance its overall capital structure through payment of dividends and new share issues.

7. FINANCIAL INSTRUMENTS

(i) Categories of financial instruments

	2014 HK$'000	2013 HK$'000
Financial assets		
Loans and receivables	284,427	271,933
Available-for-sale investment	367,198	367,198
	651,625	639,131
Financial liabilities		
Amortised cost	461,060	410,588

(ii) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade receivables, other receivables, deposits, pledged bank deposits, bank balances and cash, trade payables, other payables and accrued charges, obligations under finance leases and other borrowings, amount due to related companies, and liability component of convertible notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group is exposed to foreign currency risk primarily through capital expenditures, investment, sales and purchases which give rise to receivables, payables and bank balances that are denominated in a currency other than the functional currency of the operations to which they relate. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

7. FINANCIAL INSTRUMENTS *(continued)*

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

Currency risk (continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of year are as follows:

	Assets		Liabilities	
	2014 **HK$'000**	2013 HK$'000	**2014** **HK$'000**	2013 HK$'000
NZ$	**3,271**	3,252	**–**	–
RMB	**6**	–	**–**	–
US$	**–**	1	**–**	–

The following table details the Group's sensitivity to a 10% increase and decrease in functional currency of respective group entities against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their transaction at the year end for a 10% change in foreign currency rates. The strengthening of functional currency of respective group entities against the relevant foreign currencies by 10% will give rise to the following impact on loss after tax, and vice versa:

	2014 **HK$'000**	2013 HK$'000
NZ$ Impact	**273**	272
RMB Impact	**1**	–

7. FINANCIAL INSTRUMENTS *(continued)*

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

Interest rate risk

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

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

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 May 2014 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade debt at the end of the year to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk on liquid funds is limited because the majority of the counter-parties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of liquidity risk, the Directors monitor and maintain a level of bank balances deemed adequate to finance the Group's operations, investment opportunities and expected expansion. The Group finances its working capital requirements mainly by the funds generated from operations and from fund raising activities such as issuance of convertible notes.

7. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk (continued)

The following table details the remaining contractual maturities at the end of the year of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date that Group can be required to pay.

At 31 May 2014

	Interest rate range %	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 5 years HK$'000	More than 5 years HK$'000
Trade payables	–	11,107	11,107	11,107	–	–
Other payables and accrued charges	–	138,177	138,177	138,177	–	–
Obligations under finance leases and other borrowings	0%-36%	77,131	77,131	76,756	375	–
Amount due to related companies	–	6,543	6,543	6,543	–	–
Convertible notes	14.13%	233,661	576,218	–	112,874	463,344
		466,619	809,176	232,583	113,249	463,344

At 31 May 2013

	Interest rate range %	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 5 years HK$'000	More than 5 years HK$'000
Trade payables	–	9,013	9,013	9,013	–	–
Other payables and accrued charges	–	102,699	102,699	102,699	–	–
Obligations under finance leases and other borrowings	0% - 36%	87,919	87,919	86,464	1,455	–
Amount due to related companies	–	6,224	6,224	6,224	–	–
Convertible notes	14.13%	204,733	576,218	–	–	576,218
		410,588	782,073	204,400	1,455	576,218

Fair values

Fair values of financial instruments carried at other than fair value

The fair values of financial assets and financial liabilities as at 31 May 2014 and 2013 are not materially different from their carrying amounts of financial assets and financial liabilities carried at cost or amortised cost.

8. REVENUE AND SEGMENT INFORMATION

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

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

- Trading of food & beverage, health care product and dairy related products
- Manufacturing and sales of beverage and dairy related products

Segment revenues and results

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

For the year ended 31 May 2014	Trading of food & beverage, health care product and dairy related products HK$'000	Manufacturing and sales of beverage and dairy related products HK$'000	Total HK$'000
Revenue			
External sales	30,194	34,587	64,781
Segment results	(20,029)	1,974	(18,055)
Bank interest income			–
Unallocated corporate income			450
Unallocated corporate expenses			(39,265)
Loss on disposal of property, plant and equipment			(1,370)
Finance costs			(6,593)
Loss before tax			(64,833)

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 May 2013	Trading of food & beverage, health care product and dairy related products HK$'000	Manufacturing and sales of beverage and dairy related products HK$'000	Total HK$'000
Revenue			
External sales	26,884	9,808	36,692
Segment results	(36,390)	(23,814)	(60,204)
Bank interest income			40
Unallocated corporate income			5,426
Unallocated corporate expenses			(34,882)
Loss on disposal of property, plant and equipment			(26)
Finance costs			(14,106)
Loss before tax			(103,752)

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

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

At 31 May 2014	Trading of food & beverage, health care product and dairy related products HK$'000	Manufacturing and sales of beverage and dairy related products HK$'000	Total HK$'000
ASSETS			
Segment assets	1,030,510	264,205	1,294,715
Unallocated corporate assets			718,686
Consolidated assets			2,013,401
LIABILITIES			
Segment liabilities	323,585	102,440	426,025
Unallocated corporate liabilities			97,116
Consolidated liabilities			523,141

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

At 31 May 2013	Trading of food & beverage, health care product and dairy related products HK$'000	Manufacturing and sales of beverage and dairy related products HK$'000	Total HK$'000
ASSETS			
Segment assets	1,094,086	189,336	1,283,422
Unallocated corporate assets			738,712
Consolidated assets			2,022,134
LIABILITIES			
Segment liabilities	304,730	87,798	392,528
Unallocated corporate liabilities			79,355
Consolidated liabilities			471,883

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets other than unallocated assets (mainly comprising other receivable, deposits and prepayments and bank balances and cash) are allocated to reportable segments; and
- all liabilities other than unallocated liabilities (mainly comprising other payables and accrued charges) are allocated to reportable segments.

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Other segment information

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

For the year ended 31 May 2014	Trading of food & beverage, health care product and dairy related products HK$'000	Manufacturing and sales of beverage and dairy related products HK$'000	Unallocated HK$'000	Total HK$'000
Property, plant and equipment additions	29	6,846	–	6,875
Depreciation of property, plant and equipment	948	12,358	3,272	16,578
Provision of impairment loss of inventories	1,520	150	–	1,670
Written off of inventories	24	–	3	27
Impairment loss recognised for trade receivables	–	–	1,344	1,344
Impairment loss recognised for other receivables	–	–	2,213	2,213
Loss on disposal of property, plant and equipment	–	–	1,370	1,370
Written off of property, plant and equipment	–	–	1,482	1,482

For the year ended 31 May 2013	Trading of food & beverage, health care product and dairy related products HK$'000	Manufacturing and sales of beverage and dairy related products HK$'000	Unallocated HK$'000	Total HK$'000
Property, plant and equipment additions	97	40,228	121	40,446
Depreciation of property, plant and equipment	2,578	19,016	4,383	25,977
Provision/(reversal) of impairment loss of inventories	963	(1,463)	–	(500)
Written off of inventories	1,450	–	–	1,450
Impairment loss recognised for trade receivables	–	–	–	–
Impairment loss recognised for other receivables	–	–	–	–
Loss on disposal of property, plant and equipment	–	–	26	26
Written off of property, plant and equipment	9,485	–	2,013	11,498

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Geographical information

The Group's operations are principally located in Hong Kong, the People's Republic of China ("PRC") and New Zealand.

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

	Revenue from external customers		Non-current assets	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**–**	–	**4,828**	12,476
PRC	**64,781**	36,686	**1,057,964**	1,063,021
New Zealand	**–**	6	**–**	8,351
	64,781	36,692	**1,062,792**	1,083,848

Information about major customers

For the year ended 31 May 2014, revenue arising from trading of food & beverage, health care product and dairy related products from three customers of the Group amounting to HK$48,544,000 contributed over 10% of the Group's total revenue.

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

9. OTHER INCOME

	2014	2013
	HK$'000	HK$'000
Bank interest income	**–**	40
Advertising income	**–**	2,586
Rental income	**–**	2,750
Sundry income	**450**	90
	450	5,466

10. FINANCE COSTS

	2014 HK$'000	2013 HK$'000
Interest expenses on convertible notes	28,928	25,402
Finance charges on obligations under finance leases	83	196
Interest on other borrowings	6,510	13,910
	35,521	39,508

11. LOSS BEFORE TAX

	2014 HK$'000	2013 HK$'000
Loss before tax has been arrived at after charging/(crediting):		
Auditors' remuneration	1,016	971
Depreciation of property, plant and equipment	15,202	24,601
Depreciation of assets held under finance leases	1,376	1,376
Cost of inventories recognised as an expense	33,164	26,607
Provision/(reversal) of impairment loss in respect of inventories	1,670	(500)
Written off of inventories	27	1,450
Impairment loss recognised for trade receivables	1,344	–
Impairment loss recognised for other receivables	2,213	–
Exchange loss/(gain), net	1,640	(16,199)
Loss on disposal of property, plant and equipment	1,370	26
Promotion expenses	346	578
Written off of property, plant and equipment	1,482	11,498
Rental expense under operating leases	3,397	10,864
Staff costs (including directors' emoluments – *Note 15*)		
– salaries and other benefits	12,417	20,148
– staff quarters	223	273
– retirement benefits contribution	823	1,241

12. INCOME TAX

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for the year (2013: 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 (2013: 25%).

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

12. INCOME TAX *(continued)*

No Hong Kong profits tax, PRC income tax or overseas income tax has been provided in the consolidated financial statements as there was no assessable profits for the year (2013: Nil).

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

	2014 HK$'000	2013 HK$'000
Loss before tax:	**(64,833)**	(103,752)
Tax at the domestic income tax rate	**(10,697)**	(17,119)
Tax effect of income not taxable for tax purposes	**(47)**	(2,771)
Tax effect of expenses not deductible for tax purposes	**11,340**	12,384
Tax effect of tax losses not recognised	**889**	13,720
Effect of different tax rates of subsidiaries operating in the jurisdictions	**(1,485)**	(6,214)
Income tax for the year	**–**	–

13. DIVIDENDS

No dividends were paid, declared or proposed during the year (2013: Nil).

14. LOSS PER SHARE

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

	2014 HK$'000	2013 HK$'000
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	**(64,833)**	(103,752)
	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares for the purpose of basic loss per share	**2,708,782**	2,708,782

No diluted loss per share amounts were presented for the years ended 31 May 2014 and 31 May 2013 in respect of a dilution as the impact of exercising the convertible notes outstanding had an anti-dilutive effect on the basic loss per share.

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

For the year ended 31 May 2014

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits contribution HK$'000	Total HK$'000
Executive directors:				
Mr. Wu Nengkun	–	1,000	–	1,000
Mr. Yao Haisheng *(Note 1)*	–	208	–	208
Mr. Zhang Hanwen	–	250	–	250
Ms. Tan Houwen Tina *(Note 2)*	–	266	–	266
Mr. Liu Nanguang *(Note 3)*	–	58	–	58
	–	1,782	–	1,782
Independent non-executive directors:				
Mr. Sze Cheung Hung *(Note 4)*	62	–	–	62
Ms. Chan Man Kuen Laura *(Note 5)*	208	–	–	208
Mr. Zhang Jianhong	250	–	–	250
Mr. Chen Wei *(Note 6)*	20	–	–	20
Mr. Wong Wang Tai *(Note 7)*	91	–	–	91
	631	–	–	631
Total	631	1,782	–	2,413

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

(a) Directors' emoluments *(continued)*

For the year ended 31 May 2013

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits contribution HK$'000	Total HK$'000
Executive directors:				
Mr. Wu Nengkun	–	1,975	–	1,975
Mr. Luo Ji *(Note 8)*	–	104	–	104
Mr. Yao Haisheng	–	250	–	250
Mr. Zhang Hanwen	–	250	–	250
	–	2,579	–	2,579
Independent non-executive directors:				
Mr. Sze Cheung Hung	257	–	–	257
Ms. Chan Man Kuen Laura	257	–	–	257
Mr. Zhang Jianhong	250	–	–	250
	764	–	–	764
Total	764	2,579	–	3,343

Notes:

1. Mr. Yao Haisheng resigned on 1 April 2014.
2. Ms. Tan Houwen Tina appointed on 28 August 2013.
3. Mr. Liu Nanguang appointed on 1 April 2014.
4. Mr. Sze Cheung Hung resigned on 28 August 2013.
5. Ms. Chan Man Kuen Laura resigned on 1 April 2014.
6. Mr. Chen Wei appointed on 1 April 2014.
7. Mr. Wong Wang Tai appointed on 28 August 2013.
8. Mr. Luo Ji retired on 2 November 2012.

None of the Directors waived or agreed to waive any emoluments paid by the Group. No emoluments have been paid by the Group to the Directors as an inducement to join or upon joining the Group, or as compensation for loss of office during the year and last year.

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

(b) Five highest paid employees

Of the five individuals with the highest emoluments in the Group, one (2013: one) Director whose emoluments are set out in Note 15(a). The emoluments of the remaining four (2013: four) highest paid individuals are as follows:

	2014 **HK$'000**	2013 HK$'000
Salaries and other benefits	**3,719**	4,307
Retirement benefits scheme	**60**	60
	3,779	4,367

The emoluments of the four (2013: four) highest paid employees fall in the following bands:

	Number of employees	
	2014	2013
Nil to HK$1,000,000	**3**	2
HK$1,000,001 to HK$1,500,000	**1**	1
Over HK$1,500,000	**–**	1

No emoluments have been paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the year and last year.

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and building (outside Hong Kong) HK$'000	Construction in progress HK$'000	Leasehold improvement HK$'000	Machinery and equipment HK$'000	Office equipment HK$'000	Computer equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
COST									
At 1 June 2012	3,531	–	89,779	38,099	5,649	5,359	9,631	24,441	176,489
Additions	–	5,011	75	35,174	–	97	46	43	40,446
Disposals	–	–	–	–	–	(6)	(267)	–	(273)
Written off	–	–	(13,021)	(235)	(12)	(1,348)	(1,955)	(482)	(17,053)
Exchange realignment	242	104	3,035	2,160	249	147	166	730	6,833
At 31 May 2013	3,773	5,115	79,868	75,198	5,886	4,249	7,621	24,732	206,442
At 1 June 2013	3,773	5,115	79,868	75,198	5,886	4,249	7,621	24,732	206,442
Additions	–	6,405	–	329	–	102	–	39	6,875
Disposals	(3,833)	–	–	–	–	–	–	(6,790)	(10,623)
Written off	–	–	–	–	(2,460)	(1,135)	(2,132)	–	(5,727)
Exchange realignment	60	(198)	(1,439)	(1,362)	(8)	(11)	33	(83)	(3,008)
At 31 May 2014	–	11,322	78,429	74,165	3,418	3,205	5,522	17,898	193,959
ACCUMULATED DEPRECIATION AND IMPAIRMENT									
At 1 June 2012	258	–	6,995	2,793	1,384	1,588	3,327	8,184	24,529
Depreciation charge	149	–	8,891	8,581	857	731	1,570	5,198	25,977
Disposals	–	–	–	–	–	(5)	(89)	–	(94)
Written off	–	–	(4,699)	(39)	(2)	(264)	(471)	(80)	(5,555)
Exchange realignment	17	–	320	282	79	47	58	326	1,129
At 31 May 2013	424	–	11,507	11,617	2,318	2,097	4,395	13,628	45,986
At 1 June 2013	424	–	11,507	11,617	2,318	2,097	4,395	13,628	45,986
Depreciation charge	–	–	3,994	5,814	767	1,068	1,321	3,614	16,578
Disposals	(159)	–	–	–	–	–	–	(5,128)	(5,287)
Written off	–	–	–	–	(2,150)	(1,075)	(1,020)	–	(4,245)
Exchange realignment	(265)	–	(190)	(305)	1,132	555	(251)	851	1,527
At 31 May 2014	–	–	15,311	17,126	2,067	2,645	4,445	12,965	54,559
NET CARRYING VALUES									
At 31 May 2014	–	11,322	63,118	57,039	1,351	560	1,077	4,933	139,400
At 31 May 2013	3,349	5,115	68,361	63,581	3,568	2,152	3,226	11,104	160,456

As at 31 May 2014, net carrying value of motor vehicles of approximately HK$2,407,000 (2013: HK$3,783,000) was held under finance lease.

17. INTANGIBLE ASSETS

	2014 HK$'000	2013 HK$'000
COST AND CARRYING VALUES		
License right	1,019	1,019

The license right represents the Hong Kong – PRC motor vehicle license with indefinite useful life.

18. AVAILABLE-FOR-SALE INVESTMENT

	2014 HK$'000	2013 HK$'000
Unlisted securities – Equity security	367,198	367,198

The amount represents the carrying value of the 20% equity interest of UBNZ Assets Holding Limited ("UBNZ AHL") which was acquired by the Group on 10 February 2010. The Directors believe that they do not have significant influence over the UBNZ AHL operation because the 80% is held by the other shareholder who manages day-to-day business of that company. The Group is currently acquiring the 80% interest of UBNZ AHL.

Details of the investment as at 31 May 2014 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%	Manufacturing and distribution of dairy related products in New Zealand and the PRC

The recoverable amount of unlisted securities estimated by management are based on cash flows discounted using a rate of 20.00% based on discount rate with the risk premium specific to the unlisted securities (2013: 18.48%).

The management considers no impairment of the asset. However, the recoverable amount is not booked as UBNZ AHL is a private company which does not have a quoted market price in an active market and further because of the fact that the range of various reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. The investment is therefore stated at cost being the fair value of the consideration of convertible notes issued of approximate HK$367,198,000. The recoverable amount is taken as a reference to the impairment review process.

19. INVENTORIES

	2014 HK$'000	2013 HK$'000
Raw materials	1,371	4,576
Work in progress	–	285
Finished goods	–	6,930
	1,371	11,791

20. TRADE RECEIVABLES

	2014 HK$'000	2013 HK$'000
Trade receivables	76,876	57,011
Less: impairment loss recognised	(32,507)	(31,735)
	44,369	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 aging analysis of trade receivables net of impairment loss recognised at the end of the year is as follows:

	2014 HK$'000	2013 HK$'000
Within 3 months	18,884	753
4–6 months	–	354
7–12 months	8,042	11,497
Over 1 year	17,443	12,672
	44,369	25,276

20. TRADE RECEIVABLES *(continued)*

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

	2014 HK$'000	2013 HK$'000
Within 3 months	–	–
4–6 months	–	–
7–12 months	8,042	11,497
Over 1 year	17,443	12,672
	25,485	24,169

The Group's neither past due nor impaired trade receivables mainly represent sales made to recognised and creditworthy customers. The credit terms of these customers are subject to credit verification procedures. No impairment is required for the past due balances based on the historical payment records and continuing subsequent settlement.

21. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2014 HK$'000	2013 HK$'000
Advance to related parties *(Note a)*	215,249	214,933
Trade deposit for milk *(Note b)*	129,361	129,361
Trade deposit *(Note c)*	144,562	144,562
Prepayments *(Note d)*	922,680	923,407
Utility and other deposits	901	1,603
Deposit paid	837	839
Payment in advance	23,383	12,407
Other receivables	23,607	21,993
	1,460,580	1,449,105
Less: Provision for impairment	(2,315)	(102)
	1,458,265	1,449,003
Less: Non-current portion *(Note d)*	(922,373)	(922,373)
Current portion	535,892	526,630

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

Note a: The balance includes mainly a deposit of HK$209,966,000 ("Deposit") advanced to UBNZ Trustee Limited ("Vendor") (2013: HK$209,966,000) for the acquisition of the remaining 80% of the issued share capital of UBNZ AHL through the issuance of Convertible Note A, which were fully converted into 110,431,200 ordinary shares.

On 22 May 2009, the Company entered into an agreement with the Vendor and UBNZ Funds Management Limited (the "Warrantor") in relation to i) the sale and purchase of 20% of the issued share capital of UBNZ AHL; and ii) the option to purchase 80% of the issued share capital of UBNZ AHL ("Agreement").

Pursuant to Clause 4.6 and 4.6 (i) of the Agreement, the Company shall have the right to i) terminate the Agreement and if the Deposit has been paid, the Vendor shall return the amount represented by the Deposit or procure return of CN A issued by the Company to cover the Deposit for cancellation; or ii) return part of the amount represented by the Deposit and procure return of such part of the said CN A to cover the remainder of the Deposit.

There is a "Deed of Undertaking" entered between the Company and the Vendor that the Vendor shall not transfer all or in part of the subject 110,431,200 ordinary shares of the Company without obtaining a written consent granted by the Directors. The Company has frozen the transfer of those shares by placing an instruction to its share registrar, Computershare Hong Kong Investor Services Limited, pursuant to the above Agreement.

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

Note b: The balance of NZ$21,000,000 equivalent to HK$129,361,000 (2013: HK$129,361,000) represents payment made to UBNZ Funds Management Limited as a trade deposit pursuant to a UHT milk manufacturing agreement originally commenced from October 2010 and subsequently extended to year ending 30 September 2016. According to the agreement, the Group is able to utilise such deposit upon their orders in excess of 120 million packets. As at 31 May 2014 and 2013, no deposit has been utilised.

Note c: The balance of HK$144,562,000 (2013: HK$144,562,000) represents the remaining balance of advance payment made to UBNZ Funds Management Limited by the Company in the year of 2011 for the orders of 21.1 million packets (2013: 21.1 million packets) of pasteurised Ultra Heat Treated ("UHT") milk and 405,000 cans (2013: 405,000 cans) of milk powder. The Group will utilise such deposit on or before 30 September 2016.

Note d: This amount represents management fee paid to a manager for the performance of its obligation of NZ$35 million profit guarantee. Further details are set out in Note 26.

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

22. PLEDGED BANK DEPOSITS

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

	2014 **HK$'000**	2013 HK$'000
Pledged bank deposits	**–**	1,053

At 31 May 2014, no pledged bank deposits were placed as securities for the operating lease of an office premise located in New Zealand (2013: HK$1,053,000).

23. TRADE PAYABLES

	2014 **HK$'000**	2013 HK$'000
Trade payables	**11,107**	9,013

The aging analysis of the trade payables is as follows:

	2014 **HK$'000**	2013 HK$'000
Within 3 months	**2,320**	597
4-6 months	**29**	30
7-12 months	**451**	–
Over 1 year	**8,307**	8,386
	11,107	9,013

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

24. OTHER PAYABLES AND ACCRUED CHARGES

	2014 **HK$'000**	2013 HK$'000
Temporary deposits	**5,559**	6,544
Accrued interest for convertible notes	**16,472**	16,472
Other payables and accruals	**116,146**	79,683
	138,177	102,699

25. BORROWINGS

	2014 HK$'000	2013 HK$'000
Obligations under finance leases	1,455	2,467
Other borrowings, secured	2,580	5,282
Other borrowings, unsecured	73,096	80,170
	77,131	87,919
Less: Amount shown under current liabilities	(76,756)	(86,464)
Amount shown under non-current liabilities	375	1,455

The above obligation under finance leases are repayable as follows:

	Minimum lease payment		Present value of minimum lease payment	
	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000
Obligations under finance leases:				
On demand or within one year	1,140	1,140	1,080	1,012
More than one year but not exceeding two years	380	1,140	375	1,080
More than two years but not exceeding five years	–	380	–	375
	1,520	2,660	1,455	2,467
Less: Future finance change	(65)	(193)		
	1,455	2,467		

As at 31 May 2014, the borrowings were interest bearing at 3.5% to 36% (2013: 3.5% to 36%) per annum and were secured by motor vehicles as set out in Note 16 to the consolidated financial statements, except for other borrowings of HK$35,828,000 (2013: HK$35,828,000) which were non-interest bearing.

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

	2014 HK$'000	2013 HK$'000
RMB	56,353	63,538
NZ$	5,195	7,786

26. CONVERTIBLE NOTES

CN A

On 21 December 2009, the Company issued Convertible Note A (CN A) with an aggregate amount of HK$276,078,000 to the Vendor as the deposit for acquiring 80% equity interest of UBNZ AHL. CN A has a maturity of 7 years from the date of issuing, and zero coupon rate. The conversion price is HK$2.50. The details were set out in the Company's announcement dated 4 June 2009. Between 23 August and 1 September 2010, all of above amount issued CN A were converted into total of 110,431,200 ordinary shares.

On 14 December 2011, according to the VSA-1 principal Agreement dated 22 May 2009 and 2011 Supplemental Agreement dated 8 December 2011, the Company has taken the instructions to issue CN A in the amount of HK$1,078,422,003 for the performance of obligation of NZ$35 million profit guarantee to another independent party, Flying Max Limited which was appointed as the manager of UBNZ AHL. There was no cash form any part of this arrangement.

Between 16 December 2011 and 2 January 2012, the amount of HK$965,547,573 issued CN A were converted into the Company's ordinary shares. All of these converted shares were escrowed by the Company's appointed solicitors pending on the performance of the delivery of the profit guarantee of NZ$35 million.

The remaining amount of HK$112,874,430 issued CN A are still escrowed by the same solicitor of the Company subject to the same performance as stated above. The effective interest rate of the liability component is 14.13% per annum.

There was no movement during the year ended 31 May 2013 and 2014.

CN B

On 21 December 2009, the Company issued Convertible Note B (CN B) with an aggregate amount of HK$552,155,998 to the Vendor as the consideration for acquiring 20% equity interest of UBNZ AHL. CN B has a maturity of 10 years from the date of issuing, and zero coupon rate. The conversion price is HK$2.00. The details were set out in the Company's announcement dated 4 June 2009. Between 23 August and 1 September 2010, all of above amount issued CN B were converted into total of 276,077,999 ordinary shares.

On 14 December 2011, according to the VSA-1 principal Agreement dated 22 May 2009 and 2011 Supplemental Agreement dated 8 December 2011, the Company has taken the instructions to issue the CN B in the amount of HK$1,243,344,000 for the performance of obligation of NZ$35 million profit guarantee to another independent parties, Flying Max Limited and Earn Cheer Limited. There was no cash form any part of this arrangement.

Between 16 December 2011 and 2 January 2012, the amount of HK$300,000,000 issued CN B were converted into 150,000,000 of the Company's ordinary shares registered under the name of Flying Max Limited, and HK$480,000,000 issued CN B were converted into the ordinary shares of 240,000,000 registered under the name of Earn Cheer Limited. All of these converted shares were escrowed by the Company's appointed solicitors pending on the performance of the delivery of the profit guarantee of NZ$35 million.

The remaining amount of HK$463,344,000 issued CN B are still escrowed by the same solicitor of the Company subject to the same performance as stated above. The effective interest rate of the liability component is 14.13% per annum.

There was no movement during the year ended 31 May 2013 and 2014.

26. CONVERTIBLE NOTES *(continued)*

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

	CN A HK$'000	CN B HK$'000	Total HK$'000
1 June 2012	47,681	131,650	179,331
Interest charged	6,754	18,648	25,402
At 31 May 2013 and 1 June 2013	54,435	150,298	204,733
Interest charged	7,691	21,237	28,928
At 31 May 2014	62,126	171,535	233,661

27. DEFERRED TAX LIABILITIES

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

Deferred tax liabilities

	Convertible notes HK$'000
At 1 June 2012	65,486
Credited to convertible notes equity reserve	(4,191)
At 31 May 2013 and 1 June 2013	61,295
Credited to convertible notes equity reserve	(4,773)
At 31 May 2014	56,522

As at 31 May 2014, the Group had unused tax losses of approximately HK$275 million (2013: HK$271 million) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Pursuant to the relevant laws and regulations in the PRC, the unused tax losses incurred by the PRC subsidiaries will be expired in 2016. Other tax losses may be carried forward indefinitely.

28. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Authorised:		
Ordinary shares of HK$0.10 each:		
At 31 May 2014 and at 31 May 2013	**8,000,000**	**800,000**
Issued and fully paid:		
Ordinary shares of HK$0.10 each:		
At 31 May 2014 and At 31 May 2013	**2,708,782**	**270,878**

29. SHARE OPTION

Pre-IPO Share Option Scheme

A pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") was approved and adopted by the Company on 30 March 2005.

The maximum number of shares which may be issued under the Pre-IPO Share Option Scheme shall be 15,000,000 ordinary shares. The Pre-IPO Share Option Scheme is not subject to any vesting condition precedent and the exercise period shall commence from the day following 6 months after 10 June 2005 and end on 30 March 2010 (both dates inclusive). Upon acceptance of the Pre-IPO share option, each participant shall pay HK$1 to the Company by way of consideration for the grant.

The exercise price is HK$0.65 per share and there is no restriction on the number of Pre-IPO share options granted under the Pre-IPO Share Option Scheme to any grantee.

At 31 May 2014 and 31 May 2013, none of the options granted was outstanding under Pre-IPO Share Option Scheme and the scheme was lapsed.

Other share option scheme

Another share option scheme (the "Share Option Scheme") was approved and adopted by the Company on 20 May 2005.

Under the Share Option Scheme, the Directors may, at their discretion, grant to any eligible person as defined under the Share Option Scheme to take up options to subscribe for shares of the Company at a subscription price to be determined by the Directors and notified to each grantee but in any case shall not be less than the higher of (1) the closing price of the shares as stated in The Stock Exchange of Hong Kong Limited's daily quotations sheet on the date on which the Directors approve the making of the offer for the grant option (the "Date Of Grant"), which must be a trading day; (2) the average of closing price of the shares as stated in The Stock Exchange of Hong Kong Limited's daily quotations sheet for the five trading days immediately preceding the Date of Grant; or (3) the nominal value of a share. Upon acceptance of the share option, the grantee shall pay HK$1 to the Company by way of consideration for the grant.

At the date of this annual report, the total number of shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 188,256,319 ordinary shares, being 10% of the total number of ordinary shares in issue at the date of approval of the refreshment of the scheme mandate limit. Details of the Share Option Scheme are set out in the prospectus dated 27 May 2005 issued by the Company.

The Company has not granted any new option under other share option scheme during the year ended 31 May 2014.

30. STATEMENT OF FINANCIAL POSITION

At 31 May 2014

	Note	2014 HK$'000	2013 HK$'000
Non-current assets			
Interests in subsidiaries		228,716	232,322
Available-for-sale investment		367,198	367,198
Property, plant and equipment		708	1,350
Prepayment		922,373	922,373
		1,518,995	1,523,243
Current assets			
Other receivables, deposits and prepayments		339,204	340,459
Amount due from a related company		3,252	3,252
Bank balances and cash		5	3
		342,461	343,714
Current liabilities			
Other payables and accrued charges		31,413	26,226
Net current assets		311,048	317,488
Total assets less current liabilities		1,830,043	1,840,731
Capital and reserves			
Share capital	*28*	270,878	270,878
Reserves	*31*	1,268,982	1,303,825
Total equity		1,539,860	1,574,703
Non-current liabilities			
Deferred tax liabilities		56,522	61,295
Convertible notes		233,661	204,733
		290,183	266,028
		1,830,043	1,840,731

31. RESERVES

The Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

The Company

	Share premium HK$'000	Contribution surplus HK$'000 *(Note)*	Convertible notes equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 June 2012	2,048,688	43,294	224,206	(495,527)	1,820,661
Loss for the year	–	–	–	(521,027)	(521,027)
Other comprehensive income	–	–	–	–	–
Total comprehensive expenses for the year	–	–	–	(521,027)	(521,027)
Recovery of deferred tax from convertible notes equity component	–	–	4,191	–	4,191
At 31 May 2013 and 1 June 2013	2,048,688	43,294	228,397	(1,016,554)	1,303,825
Loss for the year	–	–	–	(39,616)	(39,616)
Other comprehensive income	–	–	–	–	–
Total comprehensive expenses for the year	–	–	–	(39,616)	(39,616)
Recovery of deferred tax from convertible notes equity component	–	–	4,773	–	4,773
At 31 May 2014	2,048,688	43,294	233,170	(1,056,170)	1,268,982

Note:

The contribution surplus of the Company represents the difference between the fair value of the consolidated net assets of Excellent Overseas Limited acquired and the nominal value of the Company's shares issued in exchange.

32. NON-CASH TRANSACTIONS DISCLOSURE

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

	2014 HK$'000	2013 HK$'000
Purchases of property, plant and equipment	–	35,174

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

On 7 December 2007, the Group entered into an acquisition agreement with Citywin to acquire 100% equity interests in Qingdao Yongxinhui at a consideration of HK$130 million (the "Acquisition"). The consideration was to be satisfied by a cash consideration of HK$30 million and the issue of HK$100 million convertible notes with the maturity of 4 years from the date of issue (the "Convertible notes").

On 7 December 2007, the Group also signed a service agreement with Citywin for provision of various services in relation to the mining business of the Group, including advice on trading and marketing of the output from the magnetite and the introduction of prospective distributors and buyers of the products after the completion of the acquisition.

On 10 June 2009, the Group received a writ of summons from the Court of First Instance of Hong Kong. In the writ of summons, Citywin made a claim against the Company for, among other things, the Company do forthwith apply for and obtain the approval of the Listing Committee of the Stock Exchange for listing of and permission to deal in the Conversion Shares, upon the grant of the approval, the Company do within 7 days issue in favour of Citywin the Convertible notes on the terms as provided in the sale and purchase agreement save that the same was to mature on 20 December 2012, damages, interests and costs. On 10 August 2009, the Group made defense in relation to the above writ of summons by counter claiming Citywin for certain non–performance service.

On 25 September 2009, Citywin submitted a denied reply to the Court of First Instance of Hong Kong against the Group's defense and no further action was noted from the court up to the date of this report. To sustain the claims Citywin must apply the required relevant documents to the court to pursue the claims sum.

34. COMMITMENTS

(a) Capital commitments

(i) On 22 May 2009, the Company, UBNZ Trustee Limited (the "Vendor") and UBNZ Funds Management Limited (the "Warrantor") entered into an agreement, pursuant to which (a) the Vendor had conditionally agreed to dispose of and the Company had conditionally agreed to acquire or procure one of its subsidiaries ("Purchaser") to acquire 20% of the Target Company, UBNZ AHL and the Sales Debt (refer the Company's circular dated 8 September 2009 for definition) at the consideration of the HK$ equivalent of NZ$100,000,000 minus HK$1.00 (subject to adjustments); and (b) in consideration of the sum of HK$1.00 paid by the Purchaser to the Vendor, the Vendor had agreed to grant the Purchaser the right to require the Vendor to sell to the Company or its nominee the Option Shares (representing 80% of the entire issued share capital of the UBNZ AHL) and the outstanding debt, at the consideration of HK$ equivalent of NZ$400,000,000.

The consideration should be satisfied by issuing of Convertible Notes ("CN") A, B and cash, subject to the net proceeds from bank borrowing or funds raising activities to be made by the Company.

If the transaction was fully satisfied by issuing CN, the total principal amount of the CN would be NZ$500,000,000 (or equivalent to HK$2,398,750,000). Pursuant to Hong Kong Exchanges and Clearing Limited dated 4 December 2009 Listing approval on issuance of Convertible Note A (which could be converted into 412,585,000 ordinary shares) and issuance of Convertible Note B (which could be converted into 683,643,750 ordinary shares) to be used for paid as consideration of the transaction and such fair value of convertible notes should be ascertained.

34. COMMITMENTS *(continued)*

(a) Capital commitments *(continued)*

(i) *(continued)*

Details of the acquisition are set out in the Company's announcements dated 4 June 2009, 24 June 2009, 31 July 2009, 20 August 2009, 7 September 2009, 13 November 2009, 18 February 2010, 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, 9 September 2013 and 3 October 2013.

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

To complete the acquisition, the Company further issued CN A amounting to HK$1,078,422,003 to Flying Max Limited as the appointed manager. In addition, CN B amounting to HK$1,243,344,000 were issued to Flying Max Limited and some were transferred to Earn Cheer Limited, all as appointed managers in different China regions; all so to complete the NZ$35 million profit guarantee from new dairy business of direct sale UHT milks in China. No cash or any cash redemption shall be allowed under such arrangement.

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

On 28 December 2012, a supplemental agreement was entered to extend the date to 30 September 2013 in respect of completion of the acquisition. On 28 September 2013, a supplemental agreement was entered to extend the date to 30 September 2014, which is expected to be further postpone on mutual agreement by both parties.

Completion of the transaction is conditional upon to all necessary consents, approvals and authorisations, including but not limited to the Overseas Investment Process Office having been obtained from any other third parties and all relevant authorities in New Zealand, Hong Kong and in any other applicable jurisdiction in connection with the Agreement and other transactions contemplated thereunder.

(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 31 May 2014 and 31 May 2013 was HK$10 million.

34. COMMITMENTS *(continued)*

(a) Capital commitments *(continued)*

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

	2014 HK$'000	2013 HK$'000
Contracted but not provided for in respect of:		
– Acquisition of property, plant and equipment	**55,723**	56,746
– Leasehold improvement	**24,416**	24,865
	80,139	81,611

(b) Operating lease commitments

The Group as lessee

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

	2014 HK$'000	2013 HK$'000
Within one year	**642**	3,110
In the second to fifth year inclusive	**169**	6,678
Over five years	**–**	10,026
	811	19,814

Operating lease payments represent rental payable by the Group for certain of its office premises and staff quarters.

35. RETIREMENT BENEFITS SCHEMES

The Group operates a MPF Scheme for all qualifying employees in Hong Kong under the MPF Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The Group is also required to make contributions to state pension schemes in the PRC based on a certain percentage of the monthly salaries of the employees of its PRC subsidiaries. The Group has no other obligation under the state pension schemes in the PRC other than the contribution payments.

During the year, the total amounts of retirement benefit contribution made by the Group amounted to HK$823,000 (2013: HK$1,241,000).

36. RELATED PARTY DISCLOSURES

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

	2014 HK$'000	2013 HK$'000
Short-term benefits	5,134	7,650
Retirement benefits contribution	60	60
	5,194	7,710

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

(b) Purchase of goods

	2014 HK$'000	2013 HK$'000
– Entities controlled by a substantial shareholder	–	5,282

Guoyuan Natural Dairy (Jiangxi) Company Limited ("Jiangxi Guo Yuan"), a wholly-owned subsidiary of the Company in the PRC, entered into a manufacturing agreement (the "MU Agreement") with UBFM pursuant to which Jiangxi Guo Yuan has agreed to engage UBFM on an non-exclusive basis in respect of the manufacturing of pasteurized UHT milk to be sold by Jiangxi Guo Yuan in the PRC according to the specifications and requirements by Jiangxi Guo Yuan. Details of the MU agreement are included in the announcement dated 9 June 2010, 20 June 2010, 7 July 2010 and 20 June 2011.

This contract is not related to the new dairy business offering profit guarantee NZ$35 million to be delivered by Target Group of UBNZ Assets Holding Limited, stipulated under the VSA-1 principal agreement dated 22 May 2009.

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

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

No amount was outstanding for the purchase of goods as at 31 May 2014 (31 May 2013: Nil) as the purchase was paid in advance.

(c) Provision of services

	2014 HK$'000	2013 HK$'000
– Entities controlled by a substantial shareholder	–	2,750

36. RELATED PARTY DISCLOSURES *(continued)*

(d) Balances with related parties

	2014 **HK$'000**	2013 HK$'000
Advance to related parties *(Note 21(a))*	**215,249**	214,933
Amount due to related companies	**6,543**	6,224
Amount due to a Director	**1,345**	1,345
Other borrowings	**16,457**	18,002
Trade deposit *(Note 21(b) and (c))*	**273,923**	273,923

Amount due to related companies and a director are unsecured, non-interest bearing and repayable on demand. Other borrowings are unsecured, non-interest bearing and repayable on demand except for HK$3,679,000 in 2013 which are secured by motor vehicles.

37. CONTINGENT LIABILITIES

(a) Litigation with Citywin Pacific Limited

The amount on claim is considered to be highly disputable, of which HK$69,000,000 is used for setting off the respective balances due, and the remaining is non-payable on non-performance according to the sale contract. The plaintiff claims has been on suspension for over 4 years without further actions or reliable documentation supplied to the court by the plaintiff.

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

	2014 **HK$'000**	2013 HK$'000
Performance bonds	**1,227**	1,227

On 10 June 2009, the Company received a Writ of Summons from the Court of First Instance of Hong Kong. Details are set out in Note 33.

(b) On 22 July 2013, a financial advisor Amasse Capital Limited initiated a writ of summons for HK$9,000,000 consultancy fees to be claimed from Natural Dairy (NZ) Holdings Limited. The Company has considered such claim as highly disputable for reason that 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. To avoid prolony legal costs to both parties, now a mediation settlement has been reach at 15 September 2014 for HK$700,000 instalments payment and HK$1,300,000 payable after the Shares resume to trading.

(c) On 27 July 2012, a New Zealand company lodged a statutory demand on the Company's New Zealand subsidiary NZ Natural Dairy Limited claiming NZ$1,943,000 plus interest, pursuant to a noni-juice supply contract. Now the case has been settled and withdraw thereafter 26 May 2014 on NZ$50,000 paid to the plaintiff.

38. PRINCIPAL SUBSIDIARIES

Particulars of the Group's principal subsidiaries as at 31 May 2014 are as follows:

Name of subsidiaries	Place of incorporation/ establishment and operations	Class of shares	Issued share/ paid-up registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Direct	Indirect	
Excellent Overseas Limited	British Virgin Islands	Ordinary shares	US$1	100%	–	Investment holding
Nation Yield Limited	Hong Kong	Ordinary shares	HK$1	100%	–	Investment holding and trading of dairy related products
Guoyuan Natural Dairy (Jiangxi) Company Limited(i)	PRC	Registered capital	HK$310,584,100	–	100%	Manufacturing and sales of beverage, dairy related products
Guoyuan Dairy (Xiamen) Import and Export Company Limited(i)	PRC	Registered capital	HK$20,010,000	–	100%	Trading of dairy related products
Tonison Pattern Enterprises Limited	Hong Kong	Ordinary shares	HK$100,000	100%	–	Holding an approval notice for the vehicle and driver from Guangdong Public Security Bureau
Power High Limited	British Virgin Islands	Ordinary shares	US$1	100%	–	Investment holding
Nation Resources Limited	Hong Kong	Ordinary shares	HK$100	–	100%	Trading of food and beverage
Jin Lun Duo Engineering (Shenzhen) Company Limited(i)	PRC	Registered capital	HK$3,000,000	–	100%	Provision of installation and maintenance services
Beijing Jinlunduo Resources Technology Company Limited(i)	PRC	Registered capital	RMB6,000,000	–	100%	Inactive
Seasonal Holding Limited (formerly known as NZ Natural Dairy Limited)	New Zealand	Ordinary shares	NZ$100	100%	–	Management services to subsidiaries
NZND Assets Holdings Limited	New Zealand	Ordinary shares	NZ$100	–	100%	Property holding
NZND Media Limited	New Zealand	Ordinary shares	NZ$100	–	100%	Production and sale of Chinese language newspaper

Note:

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

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities subsisting at the end of the year or any time during the year.

39. COMPARATIVE FIGURES

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