MEDIA RELEASE

Synlait Milk Posts $6.3 Million Net Profit for 2012 Financial Year

Canterbury milk nutrition company Synlait Milk posted a $6.3 million profit after tax for the year ending 31 July 2012.

The company had a turnover of $377 million in its fourth year of operation, an increase of $78 million on the previous year, driven primarily by substantial growth in the company's milk powder ingredients business.

Chief Executive, Dr John Penno says the development of the company's new adult and infant nutritionals business holds exciting prospects for the future, however it has been its value added and consumer ready milk powders business that delivered the strong financial result last year.

"We were very pleased to achieve a solid profit while providing a very competitive milk price to our milk supply partners. It is even more pleasing that this came about in a year when our volume of ingredient powders has grown by 50 percent, and we were commissioning our new infant formula capable drier," said Dr Penno.

The company paid its milk suppliers a total average milk price of $6.22/kg MS.

The company's milk volume grew from 343 million litres in 2011 to 498 million litres in 2012, with 40 new farms being contracted for supply. The additional milk processed lifted manufactured volumes from 54,414 metric tonnes in 2011 to 81,398 metric tonnes in 2012.

In 2012 Synlait Milk expanded its operation to include a purpose built infant formula plant. The company also upgraded its existing spray drier to allow for the production of growing up milk powders, and its special milks drier was upgraded to produce high-value milk protein concentrate.

"We remain committed to our strategy of developing our value-added and nutritional milk powder business, and building a reputation for quality and technical excellence. Current performance confirms our view that the margins provided in these demanding market segments will be critical to Synlait Milk's future,"

"The company is now positioned at the premium end of the highest value milk protein markets. Our partnerships with our customers, milk suppliers, and staff continue to mature, and our focus on continuous improvement and quality is yielding tangible performance improvements. This has created the solid business platform that we need to build our value-added business from," said Dr Penno.

Dr Penno says that while Synlait Milk is firmly focused on further improving its performance, it is also considering future requirements, primarily being driven by market demand. This includes planned investment in consumer packaging facilities and, in time, increased scale through additional processing.

ENDS

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synlait™
making more from milk

SYNLAIT MILK LIMITED ANNUAL REPORT 2012

DELOITTE FAST 50
FOURTH CONSECUTIVE YEAR

$24.6M EBITDA

$6.3M NET PROFIT

D1 PLANT UPGRADE

+26% REVENUE

PERFORMANCE

GOAL: WORLD CLASS NUTRITIONAL POWDER BUSINESS

+130% GROSS PROFIT

498M LITRES PROCESSED

TOTAL AV MILK PRICE $6.22/KG MS

INFANT FORMULA

INNOVATION

D2 NUTRITIONAL DRIER | M3 ERP SYSTEM

MILK POWDER

GROWTH

NIGHT MILK

PEAK PROCESSING
2.8M LITRES
ONE DAY

4TH YEAR

+ ADDED VALUE

130 TOTAL STAFF

TOTAL ASSETS
$281M

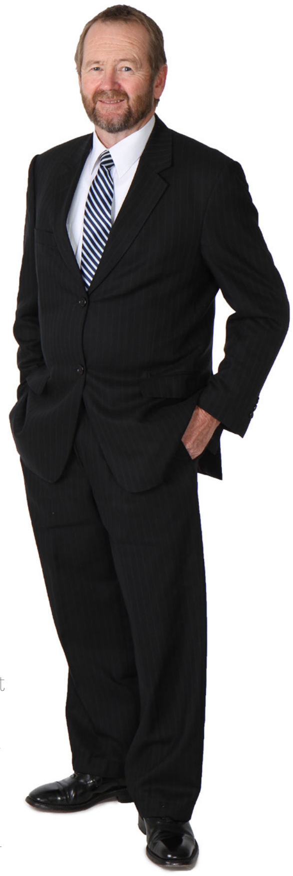
SHARE CAPITAL
$104 MILLION

NET PROFIT INCREASE
OVER $9 MILLION

OPERATING CASH FLOW
+105.5%

$377M
REVENUE

CHAIRMAN'S REPORT



IT IS A PLEASURE TO REPORT TO SHAREHOLDERS ON THE 4TH YEAR OF PRODUCTION FOR SYNLAIT MILK LTD. AS USUAL FOR A FAST GROWING COMPANY FURTHER MOMENTOUS CHANGE WAS ACHIEVED.

The revenue line increased by 26% to $377 million as the third spray drier at Dunsandel was commissioned and came on line for the season. The new plant equipped the company to enter the high end infant nutritionals market, and also to continue to establish ourselves as a supplier of customer specific dairy ingredients to our growing number of key customers.

> "Entering the nutritionals market is a major strategic step forward for Synlait Milk."

Entering the nutritionals market is a major strategic step forward for Synlait Milk. Nutritional customers require comprehensive product safety and quality levels which must be audited and verified by them long before product sales eventuate. It is a credit to all involved that with careful planning and execution the required capabilities were achieved, and several thousand tonnes of sales were delivered in the first year of operation. The market for nutritional formulations, in particular infant nutritionals, is growing strongly, and so our entry point has been particularly well timed.

More generally the market for dairy products, in particular dairy based ingredients, eased through the year. This was due to short term supply/demand issues and a bumper production season in New Zealand. However, as anticipated this is firming in the later part of calendar 2012. Despite these fluctuations and the overall languid state of the world economy, we continue to have strong confidence in an increasing demand for our product range in the medium term.

These developments and further planned capital investments are accelerating Synlait Milk towards our vision of becoming the supplier of choice to the worlds best milk based health and nutrition companies. Whilst we are beginning to supply fully finished consumer packed products to our customers, our vision is to remain a B2B business servicing the leading brand owners and not competing with them.

Financially, as well as substantially growing the top line the bottom line also went black this year for the first time, with a $6.3 million profit after tax. Operating cashflow at just under $30 million is pleasing, and planned to continue to grow in the years ahead. Nevertheless, as outlined in the CEO's report further strongly profitable opportunities have been identified which the board is keen to pursue. In order to maintain a prudent capital structure it is likely that Synlait Milk will approach our two shareholders, Synlait Ltd and Bright Dairy & Food Co Ltd, within the next 12 months for further equity before investing in these projects.

The board, in its second year of the current configuration has settled well into its task of supporting management in the achievement of what is a bold strategy by any measure. Board meetings were held in Shanghai, Manila and Dunsandel during the period, allowing for customer visits and a deepening understanding of each shareholders businesses and key competitive advantages. Advantages that we can exploit; from the strong connections to farms in New Zealand, through to in-depth market knowledge of marketing and distribution in Asia and China specifically.

The board would like to acknowledge our skilled and growing staff led by CEO John Penno. John continues to develop into a remarkably capable CEO, being recognised and highly regarded both within the industry and by his peers in New Zealand. During the year John joined 24 other selected leaders from the primary sector in San Francisco for a week long think tank at Stanford University. John also became a recipient of the Prime Minister's Business Scholarship and will study at the prestigious international INSEAD Business School in Singapore next year. A high performing culture is being developed within the company, and the board is delighted with the appointment of several key individuals during the year. Our values of integrity, safety, product quality and environmental sustainability can only be achieved with a motivated and highly skilled team.

While we are a very young company we are now well on the way to fulfilling the faith shown in us by our shareholders. Our strategy calls for reinvestment of earnings, and as signalled previously in this report, further equity, to maintain a prudent capital structure during what is planned to be a period of further capital investment. The board is strongly focused on creating shareholder wealth by pursuing a continued growth strategy for at least the planning period.

GRAEME MILNE
CHAIRMAN

CEO - REPORT

ANOTHER SERIES OF SIGNIFICANT MILESTONES WERE ACHIEVED BY SYNLAIT MILK IN THE FINANCIAL YEAR ENDED 31 JULY 2012, IN WHAT WAS OUR FOURTH YEAR OF PRODUCTION.

The most important result was achieving a solid profit while providing a very competitive milk price to our milk supply partners. It is pleasing that this came about in a year when our volumes of ingredient powders had grown by 50%, and we were commissioning our new infant formula capable drier.

In anticipation of the new processing capacity, milk volumes grew from 343m litres in FY11 to 498m litres in FY12, with 40 new farms being contracted for supply. This additional milk processed lifted manufactured volumes from 54,414MT in FY11 to 81,398MT in FY12.

Milk prices were lower than those expected at the outset of the season. Synlait Milk paid a total average milk price of $6.22/kg MS, comprising a base milk price of $6.14/kg MS, $0.01/kg MS autumn premium, $0.04/kg MS colostrum and special milk payments and $0.03/kg MS in winter milk premiums.

Milk prices were lower than in the previous two years as a result of a strong New Zealand currency and international dairy commodity prices gradually declining through the season to a low point at year end. The company chose to carry more stock than planned through balance date to avoid selling into what became a very soft market as the 10% increase in milk produced on New Zealand dairy farms was cleared late in the season.

The D2 nutritional drier project was completed during the year, with capital cost savings relative to budget of $2m. The plant was commissioned on WMP and SMP in September and was running near capacity almost immediately as the spring flush of milk approached. As was planned, the infant formula batching kitchen and wet mix process was commissioned in December allowing commercial production to commence.

Since then our processes and quality systems have been audited by a number of important current and future customers. They consistently report that our nutritional capability is as good as any in the market. While these successful audit results are encouraging, we see many areas for improving our offering in this category.

The nutritional drier was not the only capital project during the year. The original D1 plant was upgraded to allow the production of growing up milk powders (GUMPs). The special milks drier was upgraded with the addition of a small ultra filtration plant allowing milk protein concentrate manufacture, and a new automated packaging plant was commissioned.

In parallel to the new plant development, a significant upgrading of our management and information support system was also completed. A year's planning and development resulted in the commissioning of our new M3 ERP system in August 2011. The objective was to improve business performance by ensuring that everyone making decisions had accurate and timely information at all times. This was expected to be achieved by ensuring that all information used to operate and report against the business was held within a single integrated system.

With help from the right independent experts, the system was designed to meet the needs of a world class nutritional powder business. It was designed by the team for the team. While it's fair to say that the implementation caused more pain for the team than we anticipated, by the end of the year most of the problems had been ironed out, and we are looking forward to reaping the benefits in the years to come.

The development of our new adult and infant nutritionals business holds exciting prospects for the future, however it has been our value added and consumer ready milk powders business that has delivered the strong financial result this year.

In FY12, 93% of our revenue was provided by the SMP, WMP and AMF products we broadly categorise as ingredient products. From the outset we have believed that solid returns would be achieved by focusing on providing high specification milk powder and cream ingredients directly to customers who are chosen for their leadership positions in our target markets. The past year has provided confirmation of the strength of this clear and simple strategy, with volumes from our highest returning products and customers growing significantly. We see this business continuing to grow and develop in parallel to the infant and adult nutritionals business we are now establishing. The focus will be on continuing to lift the proportion of our SMP and WMP in value added categories sold to our target customers.

Despite the solid financial performance achieved in the past year, the new ERP system and our growing understanding of our business has allowed us to identify several significant opportunities for business improvement by doing basic things better. This has lead to a major internal focus on business performance improvement where we are targeting cost savings and efficiency gains through better planning and execution, eliminating errors and getting things "right first time".

> “The most important result was achieving a solid profit while providing a very competitive milk price to our milk supply partners.”

Over the past year a major refresh of the Synlait Milk strategy was conducted resulting in the company placing even more emphasis on our vision of becoming the supplier of choice to the worlds best milk based health and nutrition companies. We are clearly focused on our value added milk powder and nutritional powder business, and building a reputation for quality and technical excellence.

It is clear that to fulfil this vision, and to complete our offering to our customers, we will need to continue to invest in the company by creating consumer packaging options, and in time, increased scale through further processing. Based on this plan, resource consents are being sort for a blending and canning plant, an additional spray drier, value added cream processing and additional warehousing. The board is currently considering raising additional capital to support this plan.

One of the most pleasing results of the financial year was achieving a significant increase in our staff engagement levels, which doubled between the 2011 and the 2012 Kenexa Best Workplaces Surveys conducted. This result was brought about by developing a strong induction program, strengthening our performance management processes, creating opportunities to celebrate success, and getting people who don’t work in the same teams together more regularly.

John Roberts, who was the first full time employee of Synlait Milk, retired in March 2012. More than any other employee, John has left an indelible mark on the business that will last for decades to come. The importance of John’s contribution to the company as it was forming cannot be underestimated, and I am very grateful to him for the experience, support and friendship he generously shared with all of us.

Early in the financial year we appointed Mike Lee to the position of GM Ingredient Sales and Michael Wan to the new role of Marketing and Communications Manager. In preparation for John Roberts’s retirement, Neil Betteridge had been promoted to the role of GM Manufacturing, Natalie Lombe picked up responsibility for leading quality, alongside her role as GM Human Resources, and Matthew Foster was appointed to the role of GM Supply Chain. Alongside, Nigel Greenwood as CFO and Tony McKenna as GM Nutritionals, these changes have significantly increased the capacity of the Senior Management Team. I would like to acknowledge the dedication of this team. It is a privilege to lead and work alongside them.

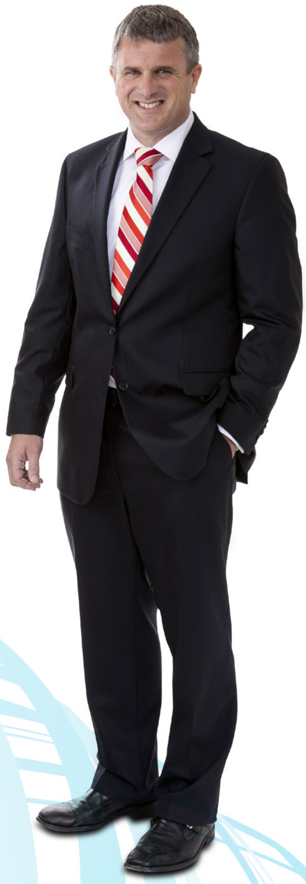
By the close of the financial year total staff numbers had grown to 130. We have been very fortunate to attract so many highly talented people, and we continue to learn that people with the right attitude and the ability to learn flourish within Synlait Milk. It’s seldom easy working within a fast growing business and again, I acknowledge the way our entire team continually faces and overcomes challenges in pursuit of excellence.

Finally, I acknowledge the ongoing support and help of our Chairman Graeme Milne and the Board of Directors. We continue to be served well by a highly experienced team of directors. After many years of working together, I continue to learn more from Graeme than anyone I have ever worked with.

Growing demand for high quality protein from the emerging middle class in some of the most populous countries in the world underpins the dairy industries future. New Zealand has many things working in our favour including our proximity to Asia and our FTA with China.

Synlait Milk is now positioned at the premium end of the highest value milk protein markets. Our partnerships with our customers, milk suppliers, and staff continue to mature, and our focus on continuous improvement and quality is yielding tangible performance improvements. This has created the solid business platform that we need to build our value added business from.

Now that we have this in place, I look forward to working with our partners and our team to fulfil our vision of making more from milk in the years to come.



JOHN PENNO
CEO

COMMUNITY

GLOBAL CUSTOMERS

NZTE

MAKING MORE FROM MILK

JOHN ROBERTS INDELIBLE LEGACY

1 TEAM

LOCAL SCHOOLS

150 MILK SUPPLIERS

DOUBLED STAFF ENGAGEMENT

PROUD SUPPORTERS OF DIRFC

NZTE

RELATIONSHIPS

CELEBRATING SUCCESS

SYNLAIT FARMS

BETTER BY DESIGN

WORKING TOGETHER

INFANT FORMULA LAUNCH

SUPPLIER OF CHOICE

CONTENTS

DIRECTORS' DECLARATION

In the opinion of the directors of Synlait Milk Limited ("the Company"), the financial statements and notes on pages 3 to 20:

– Comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company as at 31 July 2012 and the results of their operations for the year ended on that date.

– Have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider that they have taken adequate steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements.

The directors are pleased to present the financial statements of Synlait Milk Limited for the year ended 31 July 2012.

For and on behalf of the Board of Directors:

GRAEME MILNE
Chairman of the Board

14 November 2012

BEN DINGLE
Director

14 November 2012

STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2012

In thousands of New Zealand dollars

Assets	Note	2012	2011
Property, plant and equipment	11	214,099	178,178
Intangible assets	12	2,871	318
Derivatives	21	-	36
Total non-current assets		**216,970**	**178,532**
Inventories	14	33,841	12,468
Current tax asset	10	231	226
Derivatives	21	4,109	6,680
Trade and other receivables	15	20,884	39,730
Income accruals and prepayments		159	508
Goods and services tax refundable		3,492	4,496
Cash and cash equivalents	16	922	2,624
Total current assets		**63,638**	**66,732**
Total assets		**280,608**	**245,264**
Equity			
Share capital	17	103,648	103,648
Reserves	17	8,856	1,740
Retained earnings/(deficit)		(24,260)	(30,570)
Total equity attributable to equity holders of the Company		**88,244**	**74,818**
Liabilities			
Deferred tax liabilities	13	9,061	5,746
Derivatives	21	1,734	1,027
Loans and borrowings	19	70,768	63,821
Total non-current liabilities		**81,563**	**70,594**
Bank overdraft	16	2,600	10,300
Trade and other payables	20	84,619	76,475
Derivatives	21	2,582	2,077
Loans and borrowings	19	21,000	11,000
Total current liabilities		**110,801**	**99,852**
Total liabilities		**192,364**	**170,446**
Total equity and liabilities		**280,608**	**245,264**

The notes on pages 7 to 20 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2012

In thousands of New Zealand dollars

	Note	2012	2011
Revenue	5	376,771	298,892
Cost of sales	7	(328,143)	(277,755)
Gross profit		**48,628**	**21,137**
Other income	6	501	1,273
Sales and distribution expenses		(21,337)	(15,074)
Administrative expenses	7, 8	(10,641)	(6,799)
Operating expenses	7, 8	(1,076)	(502)
Results from operating activities		**16,075**	**35**
Finance income	9	53	81
Finance expenses	9	(9,218)	(4,418)
Net financing (costs) / income		**(9,165)**	**(4,337)**
Profit/(loss) before income tax		**6,910**	**(4,302)**
Income tax (expense)/benefit	10	(600)	1,217
Net profit/(loss) for the period		**6,310**	**(3,085)**
Other comprehensive income/(loss)			
Revaluation of property, plant and equipment		11,056	-
Effective portion of changes in fair value of cash flow hedges		(1,408)	318
Net change in fair value of cash flow hedges transferred to profit and loss		169	(2,238)
Income tax on other comprehensive income	10	(2,701)	662
Other comprehensive income/(loss) for the period, net of income tax		**7,116**	**(1,258)**
Total comprehensive income/(loss) for the year		**13,426**	**(4,343)**

The notes on pages 7 to 20 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2012

In thousands of New Zealand dollars

	Note	Share Capital	Hedging Reserve	Revaluation Reserve	Retained Earnings	Total Equity
Balance at 1 August 2010		25,000	2,998	-	(27,485)	513
(Loss) for the year		-	-	-	(3,085)	(3,085)
Other comprehensive income/(loss)						
Effective portion of changes in fair value of cash flow hedges		-	318	-	-	318
Net change in fair value of cash flow hedges transferred to profit and loss		-	(2,238)	-	-	(2,238)
Income tax on income and expense recognised directly in equity		-	662	-	-	662
Total other comprehensive income/(loss)		-	(1,258)	-	-	(1,258)
Issue of new shares	17	82,000	-	-	-	82,000
Share issue cost	17	(3,352)	-		-	(3,352)
Total contributions by and distributions to owners		78,648	-	-	-	78,648
Balance at 31 July 2011		103,648	1,740	-	(30,570)	74,818
Profit for the year		-	-	-	6,310	6,310
Other comprehensive income						
Revaluation of property, plant and equipment		-		11,056	-	11,056
Effective portion of changes in fair value of cash flow hedges		-	(1,408)	-	-	(1,408)
Net change in fair value of cash flow hedges transferred to profit and loss		-	169	-	-	169
Income tax on income and expense recognised directly in equity		-	347	(3,048)	-	(2,701)
Total other comprehensive income		-	(892)	8,008	-	7,116
Issue of new shares	17	-	-	-	-	-
Share issue cost	17	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-
Balance at 31 July 2012		103,648	848	8,008	(24,260)	88,244

The notes on pages 7 to 20 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 JULY 2012

In thousands of New Zealand dollars

Cash flows from operating activities	Note	2012	2011
Cash receipts from customers		399,048	274,575
Cash paid to suppliers and employees		(370,241)	(258,220)
Goods and services tax refunds/(payments)		1,003	(1,794)
Income tax refunds/(payments)		10	(53)
Net cash from operating activities		**29,820**	**14,508**
Cash flows from investing activities			
Interest received		53	81
Acquisition of property, plant and equipment		(29,499)	(79,125)
Disposal/(Acquisition) of intangible assets		(3,260)	(260)
Net cash (used in) investing activities		**(32,706)**	**(79,304)**
Cash flows from financing activities			
Proceeds from issue of shares		-	80,440
Payment of borrowing		(11,000)	(81,405)
Receipt from borrowing		27,947	74,821
Interest paid		(8,063)	(4,418)
Net cash from financing activities		**8,884**	**69,438**
Net increase in cash and cash equivalents		**5,998**	**4,642**
Net overdraft at beginning of period		**(7,676)**	**(12,318)**
Net overdraft at end of period	16	**(1,678)**	**(7,676)**

The notes on pages 7 to 20 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

Synlait Milk Limited (the "Company") is a profit oriented entity incorporated and domiciled in New Zealand. The Company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

Synlait Milk Limited is primarily involved in the manufacture and sale of milk powder and milk powder related products.

2. BASIS OF PREPARATION

(a) Statement of Compliance

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit oriented entities that qualify for and apply differential reporting concessions.

The financial statements were approved by the Board of Directors on 14 November 2012.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Land, buildings, plant and equipment
- Derivative financial instruments

The methods used to measure fair values are discussed further in note 4.

(c) Functional and presentation currency

These financial statements are presented in New Zealand dollars ($), which is the Company's functional currency and are rounded to the nearest thousand ($000).

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 and in any future periods affected.

(e) Changes in accounting policies

There have been no changes in accounting policies during the current year.

(f) Differential reporting

The Company qualifies for differential reporting exemptions as it is not publically accountable and there is no separation between the owners and the governing body. The Company has taken advantage of all available differential reporting exceptions except for NZ IAS 7 'Statement of Cash Flows' and NZ IAS 12 'Income Taxes'.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have all been applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

(b) Financial instruments

i Non-derivative financial instruments

Loans and receivables:
Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are recognised initially at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents:
Cash and cash equivalents comprise cash balances, call deposits, bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

Trade and other payables:
Trade and other payables are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods or services. Trade and other payables are recognised initially at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

Loans and borrowings:
Borrowings are recorded initially at fair value, plus transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate method.

Recognition and derecognition:
A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

ii Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward exchange contracts and interest rate swaps.

Derivatves are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date, The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on th nature of the hedge relationship. Hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments are designated as cash flow hedges by the Company.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current libailities.

Hedge accounting
The Company designates certain hedging instruments in respect of foreign currency risk as either cash flow hedges, or fair value hedges. Hedges of foreign currency exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermmore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the other comprehensive income and accumulated as a separate component of equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the Other Income or Finance Expense line.

Amounts recoginsed in the hedging reserve are classified from equity to profit or loss (as a reclassification adjustment) in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item.

Hedge accounting is discountinued when the Company revokes the hedging relationships, the hedging instrument expires or is sold, terminated, or excercised, or no longer qualifies as hedge accounting. Any cumulative gain or loss recognised in the hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in the hedging reserve is immediately recorded in profit or loss.

(c) Property, plant and equipment

i Recognition and measurement

Office equipment is measured at cost less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When a self-constructed asset meets the definition of a qualifying asset under NZ IAS 23 'Borrowing Costs", borrowing costs directly attributable to the construction of the asset are capitalised until such a time as the asset is substantially ready for its intended use or sale.

When major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

ii Revaluations

Land is stated at valuation as determined on a cyclical basis, not exceeding three years, by an independent registered valuer. Buildings and plant and equipment are stated at valuation as determined on a cyclical basis, not exceeding three years, by an independent registered valuer the basis of which valuation is the depreciated replacement cost method. Any increase in the value of land, buildings, plant and equipment is recognised in other comprehensive income and presented in the revaluation reserve in equity unless it offsets a previous decrease in value recognised in the profit or loss, in which case it is recognised in the profit or loss. A decrease in value is recognised in the profit or loss where it exceeds the increase previously recognised in equity.

iii Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

iv Depreciation

Depreciation of property, plant and equipment purchased on new acquisitions is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment.

Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings 10-50 years
- Fixtures and fittings 2-20 years
- Plant and equipment 3-33 years
- Vehicles 5-10 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(d) Leased assets

Leases on terms where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments with a corresponding liability to the lessor included in the statement of financial position as a finance lease obligation. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are apportioned between finance charges and reduction in the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Other leases are operating leases and the leased assets are not recognised on the Company's statement of financial position. Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern over which economic benefits from leased assets are consumed.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(f) Impairment

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the profit or loss.

i Impairment of receivables

The recoverable amount of the Company's receivables which are carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual instruments that are considered significant are subject to this approach.

For trade receivables which are not significant on an individual basis, impairment is assessed on a portfolio basis based on numbers of days overdue, and taking into account the historical loss experienced in portfolios with a similar amount of days overdue.

ii Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised

(g) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit or loss when incurred.

(h) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(i) Revenue

Sale of Goods:

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, discounts and allowances. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For local sales, transfer occurs at the point the goods are picked up by the purchaser. For international shipments, transfer occurs upon loading the goods onto the relevant carrier.

Interest Revenue:

Interest revenue is recognised using the effective interest rate method.

Effective Interest Method:

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount of the financial asset.

(j) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(k) Finance income and expenses

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables and losses on hedging instruments that are recognised in profit or loss).

Borrowing costs are recognised in profit or loss with the exception of borrowing costs that are attributable to construction or production of qualifying assets, in these cases borrowing costs are capitalised as part of that asset.

(l) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the revaluation of land to the extent that any revaluation is unlikely to affect the tax base of the asset. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(m) Statement of cash flows

For the purpose of the statement of cash flows, cash and cash equivolents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. The following terms are used in the statement of cash flows;

- operating activities are the principle revenue producing activities of the Company and other activities that are not investing or financing activities;
- investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivolents; and
- financing activities are activities that result in changes in the size and compositon of the contributed equity and borrowings of the entity. The Company has elected to show the cost of servicing borrowings in the financing activities section of the statement of cash flows.

(n) Adoption of new or revised standards and interpretations

No standards have been adopted during the year which have had a material impact on these financial statements. We are not aware of any standards in issue but not yet effective which would materially impact the amounts recognised or disclosed in the financial statements.

4. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods set out below. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

Land and buildings and plant and equipment, excluding office equipment, are included in the statement of financial position at either their depreciated replacement cost (for buildings and plant and equipment) or market value (for land) as determined on a cyclical basis, not exceeding three years, by an independent registered valuer. Fair value is the amount for which assets could be exchanged between knowledgeable and willing buyers and sellers in an arms length transaction at the valuation date. Fair value is determined based on depreciated replacement cost. The fair values are reviewed at the end of each reporting period to ensure that the carrying value of the assets is not materially different from their fair values.

(b) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows.

(c) Derivatives

The fair value of forward exchange contracts and interest rate swaps are measured at the present value of future cashflows using forward foreign exchange market rates at balance date and yield curves derived from quoted interest rates matching maturities of the contracts.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5. REVENUE

In thousands of New Zealand dollars

Revenue	2012	2011
Milk powder and milk powder related products	376,771	298,892
Total revenue	376,771	298,892

6. OTHER INCOME

In thousands of New Zealand dollars

	2012	2011
Management fees	113	1,196
Other sundry income	388	77
Total other income	501	1,273

7. PERSONNEL EXPENSES

In thousands of New Zealand dollars

	2012	2011
Wages and salaries	12,584	7,647

The above wages and salaries are included within Cost of Sales, Operating and Administrative expenses.

8. ADMINISTRATIVE AND OPERATING EXPENSES

In thousands of New Zealand dollars

	2012	2011
Audit services – Deloitte	125	50
Other services provided by Deloitte	777	113
The following items of expenditure are included in operating expenses		
Research and development expenses	1,076	502

The above items of expenditure are included in administrative expenses.

9. FINANCE INCOME AND EXPENSE

In thousands of New Zealand dollars

	2012	2011
Interest income on bank deposits	53	81
Finance income	53	81
Interest & facility fees (net of capitalised interest)	(10,626)	(5,069)
Settlement of ineffective portion of cash flow hedges	1,408	3,563
Ineffective portion of changes in fair value of cash flow hedges	-	(2,912)
Finance expense	(9,218)	(4,418)
Net finance Income / (expenses)	(9,165)	(4,337)

10. INCOME TAX EXPENSE

In thousands of New Zealand dollars

Note	2012	2011
Current period	-	-
Adjustment for prior period	14	-
Current tax payable	**14**	**-**
Temporary differences	**(2,182)**	**1,277**
Prior period adjustments		
Additional prior year tax losses brought forward	1,704	-
Other prior year adjustments	(136)	(20)
Deferred tax (expense) / benefit 13	(614)	1,217
Total income tax (expense) / benefit	**(600)**	**1,217**

Income tax recognised in other comprehensive income

In thousands of New Zealand dollars

	2012			2011		
	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Cash flow hedges	(1,239)	347	(892)	(1,920)	662	(1,258)
Revaluation of property, plant and equipment	11,056	(3,048)	8,008	-	-	-
TOTAL	**9,817**	**(2,701)**	**7,116**	**(1,920)**	**662**	**(1,258)**

Reconciliation of effective tax rate

In thousands of New Zealand dollars

	2012	2011
Profit (Loss) before income tax	**6,910**	**(4,302)**
Income tax using the Company's domestic tax rate – 28% (2011:30%)	(1,935)	1,290
Permanent differences		
Reduction in tax rate of buildings	(41)	(53)
Tax exempt income	(3)	-
Other non deductable costs	(203)	-
Prior period adjustments		
Additional prior year tax losses brought forward	1,704	-
Other prior year adjustments	(122)	(20)
Total income tax (expense) / benefit	(600)	1,217

Imputation credits

In thousands of New Zealand dollars

	2012	2011
Imputation credits at 1 June	226	172
New Zealand tax payments, net of refunds	-	-
Resident withholding tax attached to interest received	5	54
Other credits	-	-
Imputation credits at end of period	**231**	**226**

NOTES TO THE FINANCIAL STATEMENTS CONT...

11. PROPERTY, PLANT AND EQUIPMENT

In thousands of New Zealand dollars

	Land and buildings	Plant and equipment	Office equipment	Assets under construction	Total
Cost or revaluation					
Balance at 1 August 2010	**24,541**	**82,323**	**1,634**	**2,689**	**111,187**
Additions	224	2,942	196	77,354	80,716
Reclassifications	-	-	-	-	-
Balance at 31 July 2011	**24,765**	**85,265**	**1,830**	**80,043**	**191,903**
Additions	4,536	2,439	566	28,450	35,991
Disposals	(29)	(13)	-	-	(42)
Reclassification / transfer	5,229	95,795	-	(104,176)	(3,152)
Revaluation	1,931	10,272	-	-	12,203
Balance at 31 July 2012	**36,432**	**193,758**	**2,396**	**4,317**	**236,903**
Accumulated depreciation					
Balance at 1 August 2010	1,486	6,745	703	-	8,934
Depreciation for the period	797	3,811	183	-	4,791
Balance at 31 July 2011	**2,283**	**10,556**	**886**	**-**	**13,725**
Depreciation for the period	959	6,720	281	-	7,960
Disposals	(18)	(10)	-	-	(28)
Revaluation	180	967	-	-	1,147
Balance at 31 July 2012	**3,404**	**18,233**	**1,167**	**-**	**22,804**
Carrying amounts					
At 31 July 2011	**22,482**	**74,709**	**944**	**77,880**	**178,178**
At 31 July 2012	**33,027**	**175,526**	**1,229**	**4,317**	**214,099**

Capitalised interest

Assets constructed during the period to 31 July 2012 include the Dryer two milk plant. Capitalised interest of $2.56m has been recognised in the period to 31 July 2012 (2011: $4.05m).

Impairment

During the period, property, plant and equipment have been examined for impairment. No indicators of impairment have been identified and no material items of property, plant and equipment are considered to be impaired. The forecasted cashflows support the carrying value of assets.

Security

At 31 July 2012, the carrying value of property, plant and equipment is subject to a fixed and floating charge securing bank loans (see note 19).

Revaluations

Land, buildings, plant and equipment were independently valued as at 31 July 2012 by Jones Lang LaSalle using either the depreciated replacement cost method (for buildings and plant and equipment) or market based valuation (for land). The method applied by the valuer is described in note 3 (c). Land, buildings, plant and equipment was valued at $208.6m as at 31 July 2012. If the cost model had been used, the carrying value of land, buildings, plant and equipment would have been $197.5m, resulting in a revaluation of $11.1m.

Revaluations are accounted for by proportionately increasing both the cost and accumulated depreciation in order to arrive at the new carrying value.

Asset under construction

Assets under construction include software projects, until which time as they are commissioned and transferred to intangible assets.

12. INTANGIBLE ASSETS

In thousands of New Zealand dollars

	Trade-marks	Supplier contracts	Brand Assets	Software	Total
Balance at 31 July 2010	58	-	-	-	58
Acquisitions	1	259	-	-	260
Amortisation	-	-	-	-	-
Balance at 31 July 2011	59	259	-	-	318
Transfer from assets under construction	-	-	-	3,152	3,152
Acquisitions	6	-	102	-	108
Amortisation	-	(88)	-	(619)	(707)
Balance at 31 July 2012	65	171	102	2,533	2,871

13. DEFERRED TAX ASSETS AND LIABILITIES

Recognised tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of New Zealand dollars

	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
Property, plant and equipment	-	-	(13,760)	(7,643)	(13,760)	(7,643)
Derivatives	-	-	(330)	(677)	(330)	(677)
Other items	163	417	(16)	(17)	147	400
Tax loss carry-forward	4,882	2,174	-	-	4,882	2,174
Net tax (assets) /liabilities	5,045	2,591	(14,106)	(8,337)	(9,061)	(5,746)

Movement in temporary differences during the period

In thousands of New Zealand dollars

	Balance 1 Aug 2010	Recognised in profit or loss	Recognised in other com-prehensive income	Balance 31 July 2011	Recognised in profit or loss	Recognised in other com-prehensive income	Balance 31 July 2012
Property, plant & equipment	(5,314)	(2,329)	-	(7,643)	(3,069)	(3,048)	(13,760)
Derivatives	(1,861)	522	662	(677)	-	347	(330)
Other items	(449)	849	-	400	(253)	-	147
Tax loss carry-forward	-	2,174	-	2,174	2,708	-	4,882
Total	(7,624)	1,216	662	(5,746)	(614)	(2,701)	(9,061)

14. INVENTORIES

In thousands of New Zealand dollars

	2012	2011
Finished goods	22,485	6,910
Raw materials and consumables	11,356	5,558
Total inventories	**33,841**	**12,468**

15. TRADE AND OTHER RECEIVABLES

In thousands of New Zealand dollars

	2012	2011
Accounts receivable	20,884	39,730
Total trade and other receivables	**20,884**	**39,730**

Accounts receivable are amounts incurred in the normal course of business.

Receivables denominated in other currencies other than the functional currency comprise NZ$19.26 m (2011: $32.13m) of USD denominated trade receivables and accruals.

16. CASH AND CASH EQUIVALENTS

In thousands of New Zealand dollars

	2012	2011
Cash and cash equivalents	922	2,624
Bank overdrafts used for cash management purposes (refer to note 19)	(2,600)	(10,300)
Cash and cash equivalents in the statement of cashflows	**(1,678)**	**(7,676)**

17. CAPITAL AND RESERVES

Share capital

	Ordinary shares	
Number of ordinary shares	2012	2011
On issue at beginning of period	51,022,858	25,001,200
Issue of shares	-	26,021,658
On issue at end of period	51,022,858	51,022,858

All issued shares are fully paid and have no par value.

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time.

Ordinary shares are entitled to one vote per share at meetings of the Company.

All Ordinary Shares rank equally with regard to the Company's residual assets.

Revaluation Reserves

The revaluation reserve arises on the revaluation of land, buildings, plant and equipment. Where a revalued asset is sold, that portion of the reserve which relates to that asset, and is effectively realised, is recognised in retained earnings.

Hedging reserves

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cashflow hedging instruments related to hedged transactions that have not yet occurred.

Dividends

No dividends were declared by the Company during the year.

18. CAPITAL MANAGEMENT

The Company's capital includes share capital, retained earnings and reserves.

The Company's policy is to maintain a sound capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Company is subject to various security ratios within the Company bank loans.

The Company's policies in respect of capital management and allocation are reviewed by the Board of Directors.

19. LOANS AND BORROWINGS

In thousands of New Zealand dollars

Non-current liabilities	2012	2011
Secured bank loans	71,230	64,625
Loan facility fees	(462)	(804)
Balance at end of period	70,768	63,821
Current liabilities		
Secured bank overdraft	2,600	10,300
Secured bank loans	21,000	11,000
Balance at end of period	23,600	21,300

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings.

Terms of loans and borrowings

Group	Nominal interest rate	Year of maturity	Carrying amount 2012	Carrying amount 2011
Secured bank loan – ANZ / BNZ	5.05%	2014	91,768	74,821
Secured bank overdraft – ANZ / BNZ	4.98%	2014	2,600	10,300

The secured bank loans and bank overdraft within Synlait Milk Limited are secured under the terms of the Composite Security Deed dated 26 July 2010, by which all present and future property is secured to the ANZ National Bank and Bank of New Zealand.

As the loans facility maturity period expires in December 2014 these loans and borrowings have been classified as non-current, except for the annual tranche payments due 31 July each year.

20. TRADE AND OTHER PAYABLES

In thousands of New Zealand dollars

	2012	2011
Trade payables	35,888	31,470
Accruals and other payables	48,731	45,005
Balance at end of period	**84,619**	**76,475**

21. DERIVATIVES

Derivative balances comprise of:

In thousands of New Zealand dollars

	2012	2011
Foreign currency forward contracts	3,756	4,654
Interest rate swaps	(3,963)	(2,911)
Land purchase option	-	1,869
Balance at end of period	(207)	3,612

Classified as:

In thousands of New Zealand dollars

	2012	2011
Non current assets	-	36
Current assets	4,109	6,680
Non current liabilities	(1,734)	(1,027)
Current liabilities	(2,582)	(2,077)
	(207)	3,612

22. RELATED PARTIES

(a) Parent entity

The parent entity is Bright Dairy and Food Limited which is domiciled in the Peoples Republic of China. Bright Dairy and Food Limited hold 51% of the shares issued by the Company with the remainder of shares on issue being owned by Synlait Limited.

(b) Transactions with key management personnel:

i Loans to directors

There were no loans to directors issued during the period ended 31 July 2012 (2011: $nil).

ii Key management personnel compensation

Other than their salaries and bonus incentives, there are no other cash benefits to directors and executive officers.

iii Other transactions with key management personnel

Directors of the Company, indirectly through shareholdings in Synlait Limited, control 13.3% (2011: 12.9%) of the voting shares of the company at balance date.

iv Other related party transactions:

Purchase of goods and services	Transaction value		Balance outstanding	
In thousands of New Zealand dollars	2012	2011	2012	2011
Bright Dairy & Food Co Ltd – Directors fees	165	61	14	61
Synlait Farms Limited – purchase of raw milk	32,804	45,838	6,817	3,557

Sale of goods and services	Transaction value		Balance outstanding	
In thousands of New Zealand dollars	2012	2011	2012	2011
Bright Dairy & Food Co Ltd – Sale of milk powder products	4,604	9,107	481	1,655
Bright Dairy & Food Co Ltd – Reimbursement of costs	181	0	(39)	0
Management fees received from Synlait Farms Limited	113	1,196	8	1,704

Synlait Farms Limited is a 100% subsidary of Synlait Limited.
All transactions with related parties are at arm's length on normal trading terms.

23. OPERATING LEASES

Leases as lessees:

Non-cancellable operating lease rentals are payable as follows:

In thousands of New Zealand dollars

	2012	2011
Less than one year	840	633
Between one and five years	-	232
Greater than five years	-	-

The operating leases relate to the leasing of warehouse space. All terms are reviewed on a regular basis.

24. COMMITMENTS

As at 31 July 2012 the Company has no capital commitments (2011: $16.192m).

25. CONTINGENCIES

The company has no contingent liabilities as at 31 July 2012 (2011: nil).

26. RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES

In thousands of New Zealand dollars

	2012	2011
Profit (Loss) for the year	**6,310**	**(3,085)**
Non-cash and non operating items:	**21,000**	**5,030**
Depreciation and amortisation of non-current assets	8,639	4,800
Interest costs classified as financing cash flow	9,166	4,337
Deferred tax	614	(1,217)
(Increase)/decrease in other receivables	2,581	(2,890)
Movements in working capital:	**2,510**	**12,563**
(Increase)/decrease in trade receivables	18,846	(23,933)
(Increase)/decrease in prepayments	349	1,233
(Increase)/decrease in inventories	(21,373)	13
(Increase)/decrease in other current assets	1,012	(1,847)
(Decrease)/increase in trade and other payables	3,676	37,097
Net cash generated by operating activities	**29,820**	**14,508**

Deloitte.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SYNLAIT MILK LIMITED

Report on the Financial Statements

We have audited the financial statements of Synlait Milk Limited on pages 3 to 20, which comprise the statement of financial position as at 31 July 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation of financial statements, in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 financial statements that give a true and fair view of the matters to which they relate 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 the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

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

Other than in our capacity as auditor, the provision of information technology services, taxation and financial model assurance and assistance we have no relationship with or interests in Synlait Milk Limited.

Opinion

In our opinion, the financial statements on pages 3 to 20:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of Synlait Milk Limited as at 31 July 2012, and its financial performance and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 July 2012:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Synlait Milk Limited as far as appears from our examination of those records.

Deloitte

Chartered Accountants
14 November 2012
Christchurch, New Zealand

This audit report relates to the financial statements of Synlait Milk Limited for the year ended 31 July 2012 included on Synlait Milk Limited's website. The Board of Directors is responsible for the maintenance and integrity of Synlait Milk Limited's website. We have not been engaged to report on the integrity of Synlait Milk Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 14 November 2012 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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