2007 ANNUAL REPORT

金六福投資有限公司*

JLF Investment Company Limited

(Incorporated in Bermuda with limited liability)

For the financial year from 1 January 2007 to 31 December 2007

(Stock Code: 00472)

* For identification purpose only

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Wu Xiang Dong *(Chairman)*
Mr. Sun Jian Xin *(Vice-Chairman)*
Mr. Lu Tong *(Managing Director)*
Mr. Shu Shi Ping
Mr. Zhang Jian

Independent Non-executive Directors:

Mr. Ting Leung Huel, Stephen
Mr. Ma Yong
Mr. E Meng
Mr. Cao Kuangyu

AUTHORIZED REPRESENTATIVES

Mr. Lu Tong
Mr. Ng Paul

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Ng Paul

NOMINATION COMMITTEE

Mr. Wu Xiang Dong
Mr. Lu Tong
Mr. Ting Leung Huel, Stephen
Mr. Ma Yong
Mr. E Meng
Mr. Cao Kuangyu

REMUNERATION COMMITTEE

Mr. Wu Xiang Dong
Mr. Lu Tong
Mr. Ting Leung Huel, Stephen
Mr. Ma Yong
Mr. E Meng
Mr. Cao Kuangyu

AUDIT COMMITTEE

Mr. Ting Leung Huel, Stephen
Mr. Ma Yong
Mr. E Meng
Mr. Cao Kuangyu

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
31/F., Gloucester Tower
The Landmark
11 Pedder Street Central
Hong Kong

SOLICITORS

Bermuda:

Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place, Central
Hong Kong

Hong Kong:

Robertsons
57th Floor, The Center
99 Queen's Road
Central
Hong Kong

Michael Li & Co.
14/F., Printing House
6 Duddel Street
Central, Hong Kong

PRINCIPAL BANKERS

Bank of China Limited
CITIC Ka Wah Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1905B, 19th Floor, Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Progressive Registration Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

472

Dear Fellow Shareholders,

We are pleased to present herewith the Annual Report of JLF Investment Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007.

CHANGE OF MAJORITY SHAREHOLDER

Year 2007 was a remarkable year as it signifies the first year we join the VATS Family. Upon completion of a share transfer transaction on 22 August 2007, VATS Group ("VATS") officially becomes our controlling shareholder. In short, VATS is one of the major Chinese wine companies in the PRC. In fact, it is the largest in terms of the variety of product range and brand offerings and the quantity turnover. Trading under the brand name of "Jin Liu Fu Group", VATS owns the Jin Liu Fu brand and other over 17 brands of Chinese wines products and an extensive countrywide wine distribution network covering 20 Sales Districts and over 150,000 retail points in the PRC.

Our Group has a long partnership history with VATS as VATS is the ultimate holding company of our largest customer, Yunnan Jinliufu Winery Company Limited. Most of our products are channelled through Jin Liu Fu's distribution network. The joining of VATS Group, in many ways, has strengthened this relationship and fashioned a win-win situation for both organizations. On one hand our product range enriched VATS's product offerings, equipped VATS with mature products to enter into the growing market of grape wine and tibetan naked barley wine. At the same time, we can better position our products in the PRC market by VATS's prioritizing our products in Jin Liu Fu's national wide distribution network and be able to utilize VATS's centralized marketing funds.

CHANGE OF COMPANY NAME

At a special general meeting of the Company on 15 November 2007, a special resolution was passed and become effective on 4 January 2008 to change the Company's name to JLF Investment Company Limited. The implication of the name change has more meaning than just demonstration of the change in controllership. More importantly, it signifies our future role in the VATS Group that we will become VATS's flagship platform in consolidating future investment and acquisition in the PRC's wine market.

ACQUISITION OF ADDITIONAL INTEREST IN MAJOR SUBSIDIARY

Followed by the change of majority shareholder and passing of a special general meeting of the Company on 10 October 2007, we have successfully acquired a further 30% equity interest in our main subsidiary (the "Acquisition"), Shangri-La Winery Company Limited ("Shangri-La Winery") (previously known as "Yunnan Shangeli-la Winery Company Limited"). This brings our total equity holding in Shangri-La Winery from 65% to 95%. The consideration for the Acquisition of HK$46,218,600 was done by the issue of 171,180,000 new shares at HK$0.27 valuing the Acquisition at 6.33 times price-earning ratio of Shangri-La Winery's 2006 financial year earnings. The Acquisition was completed in February 2008, as a result, the effect of the Acquisition has not been reflected in the current year's financial report. However, we believe that the acquisition was a good investment as Shangri-La Winery is a growing company and our only revenue and profit contributor. By increasing our equity stake in Shangri-La Winery we are able to increase our return attributable to our shareholders and in capturing a larger share of the future grow and profitability of the grape wine business.

PLACING OF NEW SHARES

The acquisition of Shangri-La Winery by share based consideration lead to possible insufficient public float as required by the Listing Rule upon completion of the transaction. In order to avoid this situation, on 25 September 2007, we entered into a placing agreement to place 70,000,000 shares at HK$0.756 per share valued at around 70 times price-earning ratio of the Group's 2006 financial year earnings. The placing was approved in a special general meeting held on 15 November 2007 and completed on 25 November 2007, raising an additional capital of around HK$51 million, improving our current ratio from 1.70 (2006) to 2.04(2007) and reducing our gearing ratio from 0.32 (2006) to 0.12 (2007)

REVIEW OF OPERATION

Special thanks must be given to our professional management team as despite the turmoil in 2007's operation as a result of the change of substantial shareholder lead to subsequent general offer, acquisition of additional interest in subsidiary resulted in subsequent new share placement, our 2007 operation has demonstrated an above average improvement. Our operating revenue for the year has increased by 28% to HK$140 million. Other revenue increased by 49% to HK$3.35 million. Our gross profit margin remains quite steady at around 38% to operating revenue. Due to the increase in revenue, our gross profit has increased by HK$10.52 million to HK$53.42 million. Our net profits after tax for the year has increased by HK$4.32 million to 25 million, representing an increase of 21% from year 2006.

ORGANIC AHEAD

Straight after the change in control, a special task force was form by restructuring the existing Shangri-La's sales and marketing team with the sales division in VATS group specialize in selling grape wine and Tibetan naked barley wine. This will give our Group a direct control and ownership of the distribution network and customer for our product. This means that we are more flexible and profitable in our sales strategy and operations. For those provincial markets covered by our sales team, we will be able to do more direct selling and boosting our profitability. Where our sales force cannot reach, we can leverage with Jin Liu Fu's sales team.

Besides the strengthening of our sales network, we are able to leverage with VATS's marketing fund to further develop our countrywide exposure. Since March this year, our brand "香格里拉" and "大藏秘" has been appeared at the custom area of all prime airports in the PRC. Targeting business and domestic travelers, this market segment has the purchasing power and capable of carry our brand from cities to cities and to other second and third tier markets.

POTENTIAL ACQUISITION

In March this year we have announced the signing of a memorandum of understanding for a potential acquisition of a Chinese wine company in northern China. Negotiation has been progressing favorably and should there be any advancement, we shall keep our shareholders inform timelessly. This acquisition, if go through, shall have significant meanings to our growth strategy. First, it represents our entering into the Chinese wine market which has a total market size over RMB10 billion. Secondly, it signifies that we are moving towards another stage of rapid growth via acquisition. With the help from VATS's market coverage and successful merger and acquisition experiences, we believe we will be able to continually identify valuable wine companies that fulfill our acquisition criteria and be able to deliver values to our shareholders. Having say that, we shall not limit our scope to external wine companies as we believe there are very good wine companies within VATS that are worth to explore.

PROSPECT

The operation and growth of the Group had been quite steady in the year of 2007. However, the share price of the Company has followed the volatility of the capital market lead to certain concern on the operation of the Group. We strengthen the necessary to laid a solid foundation for our future development and that we will implement our planned development strategy via increasing the rate of organic growth and via series of acquisitions.

Despite the uncertainties arise as a result of the sub-prime mortgage issues lead to the possible slowdown of the world economy and the tightening monetary policy in the PRC, we believe that PRC government will strike a balance between the maintenance of a strong economy growth without jeopardous a serve inflation issue in the country. Domestic consumption will still be the main pillar of the PRC economy going forward. With our strong brand and future expansion strategy, we believe that we are well positioned to capitalise the growing trend of the market. We will continue our expansion plans of growing organically and through acquisitions.

Finally, I would like to thank the Board, management and all our staffs for their hard work and dedication efforts throughout the year, enabling smooth transition yet maintaining high level of growth for the Group.

By Order of the Board
Wu Xiang Dong
Chairman

Hong Kong, 21 April 2008

FINANCIAL INFORMATION AND LIQUIDITY

The Group continued to benefit from the rapid growth of the PRC market in year 2007. During the year, the Group's turnover increased by HK$31 million, representing an increase of 28%. Profit from operations increased by HK$10 million to HK$28 million, representing a 55% increase from 2006; profit attributable to shareholders of the Company increased by HK$1 million to HK$13.5 million.

As at 31 December 2007, the Group had total assets of HK$354 million (2006: HK$226 million) which was financed by current liabilities of HK$124 million (2006: HK$79 million), long term liability of HK$2.9 million (2006: HK$2.7 million), shareholders' equity of HK$169 million (2006: HK$94 million) and the minority interests of HK$58 million (2006: HK$50 million).

The Group maintains a strong and healthy balance sheet. Cash and cash equivalents as at 31 December 2007 rose 262% to HK$115 million (2006: HK$32 million). The working capital of the Group was HK$130 million representing an increase of 135% as compared to 31 December 2006. The Group's current ratio as at 31 December 2007 was approximately 2.04 (2006: 1.70). Gearing ratio, representing the total borrowings divided by the shareholders' equity was approximately 0.19 (2006: 0.21). The increase in current ratio and the lowering in gearing ratio are attributed to the proceeds from placing of the Company's share and increase in profitability.

During the year, net cash generated from operations amounted to HK$29 million, increased by 288% from last year, representing that the Group's ability in generate solid earnings.

Basic earnings per share attributable to the equity holders for the year ended 31 December 2007 were at HK1.17 cents (2006: HK1.08 cents).

Trade receivables turnover period is 40 days. The Group did not experience any material bad debts that required write off in 2007. The Group and the Company had no other material capital commitment and contingent liabilities as at 31 December 2007.

ACQUISITION

On 21 June 2007, the Company entered into an acquisition agreement with an independent third party (the "Vendor") that the Vendor agreed to sell and the Company agreed to purchase the 30% equity interest in Shangri-La Winery Company Limited ("Shangri-La Winery") (the "Acquisition"). The Acquisition was completed on 11 February 2008. Details of which were set out in the Company's announcement and circular dated 8 August 2007 and 19 September 2007 respectively. Following completion of the Acquisition, the Group held 95% equity in Shangri-La Winery. The Group is moving forward with its integration plans to reap the synergistic benefits in manufacturing and the supply chain for its operations. Leveraging the strengths of the combined business, the Group will be able to compete more effectively in the winery industry and to further enhance its leadership position.

MAJOR SUPPLIERS AND CUSTOMERS

During the period the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 37% (2006: 32%) of the Group's total purchases and the purchases attributable to the Group's largest supplier was approximately 10% (2006: 6%). The aggregate sales attributable to the Group's five largest customers were approximately 80% (2006: 66%) and the sales attributable to the Group's largest customer was approximately 48% (2006: 50%). None of the Directors, their associates or shareholders which, to the knowledge of the Directors, owned more than 5% of the Company's issued share capital had any beneficial interest in the five largest suppliers or customers of the Group.

GOVERNMENT SUBSIDIES AND TAXATION

In year 2007, the Group was granted HK$2.23 million (2006: HK$1.39 million) as subsidies from the local finance department in, subsidising the Group's production. Besides, the State Administration of Taxation (國家稅務總局) has approved Shangri-La Company Limited's profits tax exemption application and such profits tax exemption has been effective since year 2006.

DIVIDEND

The Directors recommend payment of final dividend of HK$0.01 for the year ended 31 December 2007 (2006: Nil).

PLEDGE OF ASSETS

At 31 December 2007, the Group pledged its land use rights and buildings with net book value amounting approximately HK$0.4 million and HK$34 million (2006: HK$0.4 million and HK$33 million) to secure general banking facilities granted to the Group.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

Most of the Group's revenue, expenses, assets and liabilities are denominated in Renminbi ("RMB"). The Group's major borrowings including the ones issued during the period are in RMB. As the Group's major revenues are in RMB, there is natural hedge mechanism in place and currency exposure is relatively low. As such it does not anticipate material exchange risk and had not employed any financial instruments for hedging purposes. The slow and moderate appreciation of the RMB regime against the US dollar has a positive but negligible impact on the Group. To enhance overall risk management for its expansion, the Group has already strengthened its treasury management capability and will closely monitor its currency and interest rate exposure.

EMPLOYEE INFORMATION

As at 31 December 2007, the Group employed a total of 410 (2006: 354) full-time employees, mostly at the Group's subsidiary factories for winery products and sales offices. The Group's emolument policies are formulated based on the performance of individual employees and are reviewed annually. The Group also provides medical insurance coverage and provident fund schemes (as the case may be) to its employees depending on the location of such employees. The Company adopted a share option scheme (the "Scheme") on 16 September 2002 for the primary purpose of providing incentives to the directors and eligible employees. No options was granted under the Scheme since its adoption.

LABOUR COST AND THE NEW LABOUR LAW

The labour cost in the PRC in general has been in a rising trend. The overall cost of labour employed by the Group increased by 53%. We are always concerned on the impact of labour cost to the operation. The Group's staff cost to sales ratio increased from 4% in 2006 to 5% 2007. The change in labour cost is still within tolerant level. The Group has complied with the requirements of national laws and labour policy, as such, the implementation of new Labour Law in January 2008 has no significant impact on the labour policy and operation of the Group.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wu Xiang Dong, aged 40, was first appointed as an Executive Director of the Company in February 2004, then the Deputy Chairman of the Company in September 2004. In September 2007, he was appointed as the Company's Chairman. Mr. Wu is the Chairman of VATS Group, the ultimate holding company of the Company. He was one of the co-founder of Beijing Jinliufu Wine Co., Ltd. and VATS Group. Mr. Wu has extensive experience in the management of large enterprises and the wine industry in China.

Mr. Lu Tong, aged 34, was appointed as an Executive Director of the Company in October 2007 and Managing Director of the Company in February 2008. He also serves as the vice president of VATS Group and the Chairman of the Company's main subsidiary, Shangri-La Winery Company Limited. He has years of experiences in marketing and customer relationship in China and has been the customer relations manager, regional manager and nationwide project manager of Procter & Gamble (China) Ltd. He has served as Jin Liu Fu Winery Company Limited's deputy General Manager, the Marketing Controller and deputy President of VATS Group. He holds a degree from Jilin University of China.

Mr. Sun Jian Xin, aged 41, was appointed as an Executive Director and Vice-Chairman of the Company in October 2007. He also serves as the vice President of VATS Group and the General Manager of Yunnan Jinliufu Investment Company Limited, the Company's holding company. He has over 16 years marketing and sales experiences in China and had been worked with Hunan Zhuzhou Hualong Food Company Limited (湖南株州華隆食品有限公司). He holds a degree from the Food Science Department of the Southwest University.

Mr. Shu Shi Ping, aged 45, was appointed as Executive Director and Managing Director of the Company in September 2004. He resigned as the Group's Managing Director in February 2008 but remains as the Company's Executive Director and also serves as Managing Director in Shangri-La Winery Company Limited, the Company's main subsidiary. He has been the deputy director of the Municipal Office of Changsha, Hunan Province, the managing deputy general manager of Zhuhai Jiaguan Plastic Products Company Limited. He is very experienced in wine production. He is a qualified engineer and holds a Bachelor degree from Hubei University of Technology.

Mr. Zhang Jian, aged 35, was appointed as an Executive Director of the Company in February 2004. He is a also an Executive Director of Dongyue Group Limited, a company listed in the main broad of the Hong Kong Stock Exchange since 10 December 2007. He is the controller of the listed company department of MACRO LINK GROUP LIMITED. Mr. Zhang has many years of experience in the areas of investment banking and corporate finance. Mr. Zhang holds bachelor degrees in Law and Economics and holds a degree of Master of Business Administration from The Chinese University of Hong Kong.

Mr. Ting Leung Huel, Stephen, MH, FCPA (PRACTISING), FCCA, ACA, FTIHK, FHKIoD, aged 54, was appointed as an Independent Non-executive Director of the Company in February 2004. Mr. Ting is an accountant in public practice as managing partner of Ting Ho Kwan & Chan, Certified Public Accountants since 1987. He is a member of the 10th Chinese People Political & Consultative Conference, Fujian. Mr. Ting is now a non-executive director of Chow Sang Sang Holdings International Limited and an independent non-executive director of six other listed companies in Hong Kong namely Computer and Technologies Holdings Limited, Minmetals Resources Limited, Tong Ren Tang Technologies Company Limited, Texhong Textile Group Limited, Tongda Group Holdings Limited and Dongyue Group Limited. From 29 April 2006 to 28 May 2006, Mr. Ting was also a non-executive director of Premium Land Limited.

Mr. Ma Yong, aged 44, was appointed as an Independent Non-executive Director of the Company in October 2007. He used to be a cadre, the Vice Director and Director of China Food Industry Information and Consulting Center; Director of the Industry Management Department and director of the Integrated Business Department of the China Food Industry Association. He serves as the Vice Secretary General and a CPC committee member of the China Food Industry Association; vice chairman and secretary general of the Special Committee on White Wine of the China Food Industry Association. He holds a degree from Renmin University of China.

Mr. E Meng, aged 49, was appointed as an Independent Non-executive Director of the Company in September 2004. He is a Chairman of Beijing Development (Hong Kong) Limited (stock code: 154). He is also the Executive Directors of Beijing Enterprises Holdings Limited (stock code: 392), Beijing Development (Hong Kong) Limited (stock code: 154) and China Information Technology Development Limited (stock code: 8178). Mr. E graduated from China Science and Technology University with a master's degree in engineering. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the Deputy Director of Beijing New Technology Development Zone and concurrently acting as the Director of the Department of Financial Auditing, the General Manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the Deputy Director of the State-owned Assets Management Office of Beijing Haidian District. Mr. E has extensive experience in economics, finance and enterprise management.

Mr. Cao Kuangyu, aged 58, was appointed as an Independent Non-executive Director of the Company in February 2004. He had been the Managing Director of the investment banking division of BOCI Asia Limited and the Deputy General Manager of Bank of China Singapore branch, the head of CITIC Industrial Bank Shenzhen branch. He has substantial experience in the area of finance. Mr. Cao holds a bachelor degree in Economics from Hunan University and a degree of Master of Science in Financial Management from University of London.

Mr. Ng Paul, aged 37, was first appointed as the Company's Qualified Accountant and Company Secretary in December 2005. In September 2007, he was further appointed as the Company's Chief Investment Officer and Authorised Representative. He has years of experience in audit, taxation and corporate finance. Mr. Ng had served in PriceWaterhouseCoopers and was the co-founder of China Innovation Investment Limited ("CII"), a company listed on the Stock Exchange pursuant to Chapter 21 of the Listing Rules. Mr. Ng has also acted as an Executive Director of CII from April 2003 to May 2006. In May 2006, Mr. Ng was re-designated as a Non-executive Director of CII. He holds a Bachelor Degree in Commerce from the University of Melbourne. He is a member of CPA Australia, Hong Kong Institute of Certified Public Accountants and an affiliate member of Hong Kong Securities Institute.

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its principal subsidiaries are engaged in the manufacturing and trading of grape wine and tibetan barley wine. The Group's head office is in Hong Kong and all of its manufacturing operations are located in the People's Republic of China. Details of the principal activities of its subsidiaries are set out in note 20 to the financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 29 to 32.

The directors recommend the payment of final dividend of HK1 cent per share for the year ended 31 December 2007 (2006: Nil).

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 80.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 26 and 39 to the financial statements respectively.

RESERVES

Details of movements in the reserves of the Group and of the Company's reserves available for distribution to shareholders during the year are set out in note 27 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

DISTRIBUTABLE RESERVES

Details of distributable reserves of the Company as at 31 December 2007 are set out in note 27 to the financial statements.

DIRECTORS

The Directors who held office of the Company during the year ended 31 December 2007 and up to the date of this report were:

Executive Directors:

Mr. Wu Xiang Dong *(Chairman)*	
Mr. Sun Jian Xin *(Vice-Chairman)*	(appointed on 3 October 2007)
Mr. Lu Tong *(Managing Director)*	(appointed on 3 October 2007)
Mr. Shu Shi Ping	
Mr. Zhang Jian	
Mr. Chan Yeuk	(resigned on 3 October 2007)
Mr. Fu Kwan	(resigned on 3 October 2007)

Independent Non-executive Directors:

Mr. Ting Leung Huel, Stephen	
Mr. Ma Yong	(appointed on 3 October 2007)
Mr. E Meng	
Mr. Cao Kuangyu	

In accordance with Bye-laws 86 and 87 of the Company's Bye-laws, Mr. Shu Shi Ping, Mr. Cao Kuangyu and newly appointed directors Mr. Sun Jian Xin, Mr. Lu Tong and Mr. Ma Yong will retire at the forthcoming annual general meeting and being eligible, offer themselves for re-election. All of the remaining directors will continue in office.

The term of office for each non-executive director is 3 years subject to retirement by rotation in accordance with the Company's Bye-laws.

Each of the Independent Non-executive Directors of the Company has confirmed with the Company their independence. The Company has received such confirmation from the Independent Non-executive Directors and considers the Independent Non-executive Directors as independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and of the senior management of the Group are set out on page 8 to page 9 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 10 and 40 to the financial statements, no contracts of significance, to which the Company, its holding company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the year ended 31 December 2007.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Details of the share option schemes of the Company are set out in note 39 to the financial statements.

Save as disclosed above, at no time during the year was the Company or any of its holding companies or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debt securities, including debentures, of the Company or any other body corporate.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or any of their respective associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at 31 December 2007, the following Directors or the chief executive of the Company had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

Name of Director	Nature of interest	No. of Shares held	Position	Approximate percentage of issued share capital
Mr. Wu Xiang Dong *(Note)*	Interest of controlled corporation	650,988,050	Long	53.39%

Note: These Shares are held by JLF Investment Company Limited, a company incorporated in the British Virgin Islands, which is wholly-owned by Yunnan Jinliufu Investment Company Limited. Yunnan Jinliufu Investment Company Limited is owned as to 60% by Yunnan Shangeli-La Jinliufu Wine Sale Company Limited and 40% by Hunan Jinliufu Winery Company Limited. Yunnan Shangeli-La Jinliufu Wine Sale Company Limited is owned as to 80% by Hunan Jinliufu Winery Company Limited and 20% by Yunnan Jinliufu Investment Company Limited. Hunan Jinliufu Winery Company Limited is owned as to 80% by VATS Group Limited (a company owned as to 80% by Ms. Li Juan and 20% by Mr. Wu Xiang Dong) and 20% by 湖南新華聯石油貿易有限公司. Mr. Wu Xiang Dong also owns: (i) 20% in 新華聯控股有限公司 which holds 58% equity interest in 湖南新華聯石油貿易有限公司; and (ii) 15% equity interest in MACRO-LINK Sdn. Bhd.

Save as disclosed above, as at 31 December 2007, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as is known to the Directors and the chief executive of the Company, as at 31 December 2007, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	*Note*	**Capacity**	**Number of Shares held**	**Position**	**Approximate percentage of issued share capital**
JLF Investment Company Limited (金六福投資有限公司)	1	Beneficial owner	650,988,050	Long	53.39%
Yunnan Jinliufu Investment Company Limited (雲南金六福投資有限公司)	1	Interest of controlled corporation	650,988,050	Long	53.39%
Yunnan Shangeli-la Jinliufu Wine Sale Company Limited (雲南香格里拉金六福酒業銷售有限公司)	1	Interest of controlled corporation	650,988,050	Long	53.39%
Hunan Jinliufu Winery Company Limited (湖南金六福酒業有限公司)	1	Interest of controlled corporation	650,988,050	Long	53.39%
VATS Group Limited (華澤集團有限公司)	1	Interest of controlled corporation	650,988,050	Long	53.39%
Ms. Li Juan	1	Interest of controlled corporation	650,988,050	Long	53.39%
Mr. Fu Kwan	2	Interest of controlled corporation	210,980,281	Long	17.22%
MACRO-LINK International Investment Company Limited	2	Beneficial owner	210,980,281	Long	17.22%
MACRO-LINK Sdn. Bhd.	2	Interest of controlled corporation	210,980,281	Long	17.22%

Name of Shareholder	*Note*	Capacity	Number of Shares held	Position	Approximate percentage of issued share capital
Mr. Ou Yang Jian Jun	*3*	Interest of controlled corporation	171,180,000	Long	12.31%
Yon Rui Investment Company Limited	*3*	Beneficial owner	171,180,000	Long	12.31%

Notes:

1. These Shares are held by JLF Investment Company Limited, a company incorporated in the British Virgin Islands, which is wholly-owned by Yunnan Jinliufu Investment Company Limited. Yunnan Jinliufu Investment Company Limited is owned as to 60% by Yunnan Shangeli-La Jinliufu Wine Sale Company Limited and 40% by Hunan Jinliufu Winery Company Limited. Yunnan Shangeli-La Jinliufu Wine Sale Company Limited is owned as to 80% by Hunan Jinliufu Winery Company Limited and 20% by Yunnan Jinliufu Investment Company Limited. Hunan Jinliufu Winery Company Limited is owned as to 80% by VATS Group Limited (a company owned as to 80% by Ms. Li Juan and 20% by Mr. Wu Xiang Dong) and 20% by 湖南新華聯石油貿易有限公司.

2. These Shares are held by MACRO-LINK International Investment Company Limited which is wholly-owned by MACRO-LINK Sdn. Bhd.. MACRO-LINK Sdn. Bhd. is owned as to 40% by Mr. Fu Kwan, as to 15 % by Mr. Wu Xiang Dong and as to 45% by five other individual shareholders.

3. These Shares are held by Yon Rui Investment Company Limited which is a company wholly-owned by Mr. Ou Yang Jian Jun.

Save as disclosed above, as at 31 December 2007, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

PURCHASE, REDEMPTION OR SALE OR LISTED SECURITIES OF THE

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

CORPORATE GOVERNANCE

Details of the corporate governance practices duly adopted by the Company are set out in page 16 to page 26 of the Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the revised Listing Rules which came into effect on 31 March 2004 as its code of conduct regarding securities transactions by Directors ("Code of Conduct").

Having made specific enquiry of all directors, all of them confirmed that they have complied with the Code of Conduct during the period ended 31 December 2007.

AUDIT COMMITTEE

As of the date of this report, the Audit Committee comprises of four Independent Non-executive Directors namely Mr. Ting Leung Huel, Stephen (Chairman), Mr. Ma Yong, Mr. E Meng and Mr. Cao Kuangyu.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited financial statements and report of the Group for the year ended 31 December 2007. The Committee was content that the accounting policies of the Group are in accordance with current best practice in Hong Kong.

PRE-EMPTIVE RIGHTS

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

AUDITORS

HLB Hodgson Impey Cheng will retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting. A resolution for the re-appointment of HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

PUBLIC FLOAT

Based on the information which is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of the Annual Report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

On behalf of the Board
Wu Xiang Dong
Chairman

Hong Kong, 21 April 2008

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2007.

Good corporate governance has always been recognized as vital to the Group's success and to sustain development of the Group. We commit ourselves to a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of its business.

The Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") sets out the principles of good corporate governance ("Principles") and two levels of corporate governance practices:

(a) code provisions ("Code Provisions") which listed issuers are expected to comply with or to give considered reasons for any deviation; and

(b) recommended best practices ("Recommended Best Practices") for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company has applied the Principles and the Code Provisions set out in the CG Code and complied with most of the Code Provisions save for the retirement by rotation of directors, details of which will be explained below.

At the coming annual general meeting (the "AGM"), the Company will put forward resolution to amend the Company's Bye-Laws in order to comply with the CG Code. Upon passing such resolution, the Company will comply with the CG Code in full in future.

The Company has also put in place the Recommended Best Practice as set out in the CG Code by establishing the Nomination Committee.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code, and acknowledges the important role of its Board of Directors (the "Board") in providing effective leadership and direction to Company's business, and ensuring transparency and accountability of Company's operations.

The key corporate governance principles and practices of the Company are summarised as follows:

A. The Board

(1) Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the senior management to discharge its responsibilities.

A. The Board *(continued)*

(2) Composition

The composition of the Board reflects the necessary balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgment.

The Board comprises the following directors:

Executive directors:

Mr. Wu Xiang Dong	*(Chairman of the Board, Remuneration Committee & Nomination Committee)*
Mr. Sun Jian Xin	*(Deputy Chairman)*
Mr. Lu Tong	*(Managing Director & member of Remuneration Committee & Nomination Committee)*
Mr. Shu Shi Ping	
Mr. Zhang Jian	
Mr. Fu Kwan	*(Resigned)*
Mr. Chan Yeuk	*(Resigned)*

Independent non-executive directors:

Mr. Ting Leung Huel, Stephen	*(Chairman of Audit Committee & member of Remuneration Committee & Nomination Committee)*
Mr. Ma Yong	*(Member of Audit Committee, Remuneration Committee & Nomination Committee)*
Mr. E Meng	*(Member of Audit Committee, Remuneration Committee & Nomination Committee)*
Mr. Cao Kuangyu	*(Member of Audit Committee, Remuneration Committee & Nomination Committee)*

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

There is no relationship (including financial, business, family, or other material/relevant relationship(s)) among the Board members.

During the year ended 31 December 2007, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

A. The Board *(continued)*

(3) Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Each of the non-executive directors of the Company has been appointed for a term of three years.

Code Provision A.4.2 of the CG Code stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company's Bye-laws is not in line with Code Provision A.4.2 of the CG Code as it provides that one-third of the directors for the time being (save for the Chairman/Managing Director), or if their number is not a multiple of three, then the number nearest to one-third but not greater than one-third, shall retire from office and being eligible, offer themselves for re-election at annual general meetings and that any new director appointed by the Board during the year shall hold office until the next following annual general meeting after appointment, when he/she shall be eligible for re-election.

According to the current corporate governance practices of the Company, all directors of the Company, except for the Chairman and Managing Director, shall submit themselves for re-election once every three years and any new director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

In the opinion of the Board, the continuity of leadership in the roles of the Chairman and Managing Director is important for the stability and growth of the Company. The Board considers that both the Chairman and Managing Director should not be subject to retirement by rotation.

Resolution to amend the Company's Bye-Laws will be put forward at the forthcoming AGM in order to eliminate such deviations from Code Provision A4.2. Upon passing of the resolution, the Company will comply with the CG Code with such regard.

(4) Training for Directors

There were three directors newly appointed during the year ended 31 December 2007. These directors have been provided comprehensive, formal and tailored induction so as to ensure that each of them has appropriate understanding of the business and operations of the Company and that each of them is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company will consider to engage external legal and other professional advisers for providing professional briefings and training programmes to directors on an occasional basis.

A. The Board *(continued)*

(5) Board Meetings

Number of Meetings and Directors' Attendance

Regular Board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 December 2007, 9 Board meetings, 2 Audit Committee meetings, 1 Remuneration Committee meeting and 1 Nomination Committee meeting were held. The individual attendance record of each director at the meetings of the Board and committees during the year ended 31 December 2007 is set out below:

	Attendance of Meetings			
Name of Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Wu Xiang Dong	8/9	N/A	1/1	1/1
Mr. Sun Jian Xin	2/9	N/A	N/A	N/A
Mr. Lu Tong	2/9	N/A	0/1	0/1
Mr. Shu Shi Ping	8/9	N/A	N/A	N/A
Mr. Zhang Jian	8/9	N/A	N/A	N/A
Mr. Ting Leung Huel, Stephen	9/9	2/2	1/1	1/1
Mr. Ma Yong	1/9	0/2	0/1	0/1
Mr. E Meng	8/9	2/2	1/1	1/1
Mr. Cao Kuangyu	7/9	2/2	1/1	1/1
Mr. Chan Yeuk (resigned)	2/9	N/A	N/A	N/A
Mr. Fu Kwan (resigned)	2/9	N/A	0/1	N/A

Practices and Conduct of Meetings

Annual meeting schedules and draft agendas of Board and committee meetings are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

A. The Board *(continued)*

(5) Board Meetings *(continued)*

The Chief Executive Officer/Managing Director and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

B. Chairman and Chief Executive Officer/Managing Director

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer/Managing Director to ensure a balance of power and authority.

The positions of the Chairman and Chief Executive Officer/Managing Director are held by Mr. Wu Xiang Dong and Mr. Lu Tong respectively.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Chief Executive Officer/Managing Director focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer/Managing Director is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

The Board considers that the responsibilities of the Chairman and Chief Executive Officer/Managing Director respectively are clear and distinctive, therefore, written terms thereof are not necessary.

C. Board Committees

The Board has established 3 committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

The majority of the members of each Board committees are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

(I) Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of the independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge and personal integrity of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

As of the date of this report, the Nomination Committee comprises two executive directors namely Mr. Wu Xiang Dong (Chairman) and Mr. Lu Tong and four independent non-executive directors namely Mr. Ting Leung Huel, Stephen, Mr. Ma Yong, Mr. E Meng and Mr. Cao Kuangyu.

The Nomination Committee has held one meeting during the year ended 31 December 2007. Up to the date of this report, the Nomination Committee has reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

In accordance with the Company's Bye-Laws 87, one-third of the directors shall retire by rotation and, being eligible, offer themselves for re-election at the next forthcoming annual general meeting of the Company. The Nomination Committee recommended the re-appointment of these directors standing for re-election at the said annual general meeting.

The Company's circular dated 21 April 2008 contains detailed information of the directors standing for re-election.

C. Board Committees *(continued)*

(2) Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters. The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer/Managing Director of the Company about these recommendations on remuneration policy and structure and remuneration packages.

As of the date of this report, the Remuneration Committee comprises two executive directors namely Mr. Wu Xiang Dong (Chairman) and Mr. Lu Tong and four independent non executive directors namely Mr. Ting Leung Huel Stephen, Mr. Ma Yong, Mr. E Meng and Mr. Cao Kuangyu.

The Remuneration Committee has held one meeting during the year ended 31 December 2007. Up to the date of the Annual Report, the Remuneration Committee reviewed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior management for the year under review.

EMOLUMENT POLICY

The directors are paid in line with market practice. The Group adopted the following main principles of determining the directors' remuneration:

– No individual should determine his or her own remuneration

– Remuneration should be broadly aligned with companies with whom the Group competes for human resources

– Remuneration should reflect performance and responsibility with a view to motivating and retaining high performing individuals and promoting the enhancement of the value of the Company to its shareholders

In addition to the basic salaries, a share option scheme is adopted for rewarding good performers as well as retaining talented staff for the continual operation and development of the Group.

C. Board Committees *(continued)*

(3) Audit Committee

The Audit Committee comprises four independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer, internal auditor (if any) or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee has held 2 meetings during the year ended 31 December 2007 to review the financial results and reports, financial reporting and compliance procedures, report on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Board has not taken any different view from that of the Audit Committee from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2007 has been reviewed by the Audit Committee.

D. Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions (the "Own Code").

Specific enquiry has been made to all of the directors and they have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2007.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who, because of such office or employment, are likely to be in possession of unpublished price-sensitive information of the Company or its securities.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

E. Responsibilities in respect of the Financial Statements and Auditors' Remuneration

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2007.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 27 to 79.

The remuneration of the external auditors of the Company in respect of audit services and non-audit services (for provision of taxation services) for the year ended 31 December 2007 is HK$780,000 and HK$50,000 respectively.

F. Shareholder Rights and Investor Relations

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting.

Results on any voting conducted by poll will be published on the Company's website on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

F. Shareholder Rights and Investor Relations *(continued)*

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as the chairmen of the Board committees or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are normally available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated executive director(s) and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

G. Internal Control

The Company adopted the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations due to manual controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorisation, assets are safeguarded, and financial records are reliable. Management also takes steps to ensure that information and communication flows are effective and to monitor performance, including performance of internal control procedures. The management has assessed the effectiveness of the Company's internal control over financial reporting as of 31 December 2007 based on the criteria set forth by the VATS Group's Internal Control - Integrated Framework.

Based on this assessment, management believes that, as of 31 December 2007, the Company's internal control over financial reporting is effective. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of 31 December 2007 has been reviewed by the audit committee which agreed on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of 31 December 2007.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
JLF INVESTMENT COMPANY LIMITED
(FORMERLY KNOWN AS MACRO-LINK INTERNATIONAL HOLDINGS LIMITED)
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of JLF Investment Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 79, which comprise the consolidated and Company balance sheets as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, 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 as to whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT

Auditors' responsibility *(continued)*

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 auditors' judgment, 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 auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements 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 Company and of the Group as at 31 December 2007 and of the Group's profit 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.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 21 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	**2007** **HK$'000**	2006 HK$'000
Turnover	7	**139,923**	109,288
Cost of sales		**(86,505)**	(66,390)
Gross profit		**53,418**	42,898
Other revenue	8	**3,352**	2,251
Selling and distribution costs		**(13,723)**	(13,667)
Administrative expenses		**(15,574)**	(13,808)
Profit from operating activities	9	**27,473**	17,674
Finance costs	11	**(2,263)**	(1,419)
Discount on acquisition of additional interests in a subsidiary		**–**	456
Discount on acquisition of a subsidiary		**–**	37
Gain on disposal of partial equity interest in a subsidiary		**–**	297
Gain on disposal of subsidiaries		**–**	3,684
Profit before taxation		**25,210**	20,729
Taxation	12	**(164)**	(7)
Profit for the year		**25,046**	20,722
Attributable to:			
Equity holders of the Company		**13,495**	12,499
Minority interests		**11,551**	8,223
		25,046	20,722
Dividend	14	**13,904**	–
Profit per share attributable to the equity holders of the Company	15		
Basic and diluted		**1.17 cents**	1.08 cents

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Land use rights	16	**5,338**	4,723
Property, plant and equipment	17	**71,718**	71,586
Intangible assets	18	**12,126**	4,748
Goodwill	19	**10,924**	10,924
		100,106	91,981
Current assets			
Inventories	21	**50,649**	47,249
Trade receivables	22	**15,226**	15,279
Prepayment, deposit and other receivables	23	**7,933**	7,066
Amounts due from related parties	24	**61,935**	32,397
Amount due from immediate holding company	24	**2,630**	–
Bank balances and cash	25	**115,345**	31,832
		253,718	133,823
Total assets		**353,824**	225,804

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
EQUITY			
Capital and reserve attributable to the Company's equity shareholders			
Share capital	26	**12,193**	11,493
Reserves		**142,493**	82,667
Proposed final dividend	14	**13,904**	–
		168,590	94,160
Minority interests		**58,220**	50,289
Total equity		**226,810**	144,449
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	28	**2,884**	2,704
Current liabilities			
Trade payables	29	**21,071**	17,672
Accruals, deposit received and other payables	30	**54,631**	15,999
Amounts due to directors	31	**–**	812
Amounts due to related parties	31	**5,760**	14,168
Bank borrowings – secured, due within one year	32	**42,668**	30,000
		124,130	78,651
Total liabilities		**127,014**	81,355
Total equity and liabilities		**353,824**	225,804
Net current assets		**129,588**	55,172
Total assets less current liabilities		**229,694**	147,153

Approved by the Board of Directors on 21 April 2008 and signed on its behalf by:

Wu Xiang Dong
Director

Lu Tong
Director

The accompanying notes form an integral part of these consolidated financial statements.

BALANCE SHEET

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	**339**	70
Interests in subsidiaries	20	**71,360**	71,360
		71,699	71,430
Current assets			
Dividend receivables		**106**	–
Prepayment, deposit and other receivables	23	**775**	409
Amount due from immediate holding company	24	**2,630**	–
Bank balances and cash	25	**84,312**	1,610
		87,823	2,019
Total assets		**159,522**	73,449
EQUITY			
Capital and reserve attributable to the Company's equity holders			
Share capital	26	**12,193**	11,493
Reserves	27	**97,187**	60,547
Proposed final dividend	14	**13,904**	–
		123,284	72,040
LIABILITIES			
Current liabilities			
Accruals, deposit received and others payables	30	**36,238**	1,409
		36,238	1,409
Total equity and liabilities		**159,522**	73,449
Net current assets		**51,585**	610
Total assets less current liabilities		**123,284**	72,040

Approved by the Board of Directors on 21 April 2008 and signed on its behalf by:

Wu Xiang Dong
Director

Lu Tong
Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2007

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Translation reserve HK$'000	Statutory reserve HK$'000	(Accumulated deficit)/ Retained earnings HK$'000	Proposed final dividend HK$'000	Sub-total HK$'000	Minority interest HK$'000	Total HK$'000
At 1 January 2006	11,493	34,621	604,497	(216)	14	(573,774)	–	76,635	38,975	115,610
Dividend paid to minority interests	–	–	–	–	–	–	–	–	(3,000)	(3,000)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	1,137	1,137
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	–	(956)	(956)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	104	104
Disposal of partial equity interests in a subsidiary	–	–	–	–	–	–	–	–	5,806	5,806
Exchange difference	–	–	–	5,026	–	–	–	5,026	–	5,026
Profit for the year	–	–	–	–	–	12,499	–	12,499	8,223	20,722
Appropriation to the PRC statutory reserve	–	–	–	–	3,024	(3,024)	–	–	–	–
At 31 December 2006 and 1 January 2007	**11,493**	**34,621***	**604,497***	**4,810***	**3,038***	**(564,299)***	**-**	**94,160**	**50,289**	**144,449**
Dividend paid to minority interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,620)**	**(3,620)**
Amount transferred to write off accumulated deficit	**-**	**-**	**(604,497)**	**-**	**-**	**604,497**	**-**	**-**	**-**	**-**
Placement of share	**700**	**52,220**	**-**	**-**	**-**	**-**	**-**	**52,920**	**-**	**52,920**
Share placement expenses	**-**	**(1,588)**	**-**	**-**	**-**	**-**	**-**	**(1,588)**	**-**	**(1,588)**
Exchange difference	**-**	**-**	**-**	**9,603**	**-**	**-**	**-**	**9,603**	**-**	**9,603**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**13,495**	**-**	**13,495**	**11,551**	**25,046**
Proposed final 2007 dividend	**-**	**-**	**-**	**-**	**-**	**(13,904)**	**13,904**	**-**	**-**	**-**
Appropriation to the PRC statutory reserve	**-**	**-**	**-**	**-**	**5,334**	**(5,334)**	**-**	**-**	**-**	**-**
At 31 December 2007	**12,193**	**85,253***	**-**	**14,413***	**8,372***	**34,455***	**13,904**	**168,590**	**58,220**	**226,810**

* These reserve accounts comprise the consolidated reserve of HK$142,493,000 (2006: HK$82,667,000) in the consolidated balance sheet.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2007

Special reserve

Special reserve of the Group represents (i) the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the Company's share issued in exchange thereof, and (ii) the difference between the nominal value of the share capital and share premium of a group of subsidiaries acquired pursuant to the Group reorganisation effective on 20 December 2001, over the nominal value of the Company's shares issued in exchange thereof.

Pursuant to a resolution passed by the board of directors of the Company at a general meeting held on 16 April 2007, the Group proposed to set-off the special reserve against the accumulated deficit (the "Proposed Set-Off"), subject to obtaining a legal opinion from a Bermudan lawyer. The Company has received the said legal opinion on 17 April 2007 which confirmed such Proposed Set-Off is legitimate under the Bermudan Law. As a result, the Proposed Set-Off became effective on the same day.

Statutory reserve

Statutory reserve of the Group comprises of statutory surplus reserve and statutory public welfare fund reserve.

Statutory surplus reserve

In accordance with the Group's articles of association, each entity shall appropriate 10% of its annual statutory net profit (after net off against any prior years' losses), prepared in accordance with the accounting principles and financial regulations applicable to companies established in the People's Republic of China (the "PRC GAAP"), to the statutory surplus reserve. When the balance of such statutory surplus reserve reaches 50% of the entity's share capital, any further appropriation is optional.

Statutory public welfare fund reserve

In accordance with the Group's articles of association, each entity shall appropriate 5% to 10% of its annual statutory net profit (after offset against any prior years' losses), prepared in accordance with the PRC GAAP, to the statutory public welfare fund reserve.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Notes	**2007** **HK$'000**	2006 HK$'000
Cash flows from operating activities			
Profit before taxation		**25,210**	20,729
Adjustment for:			
Interest income	8	**(378)**	(222)
Discount on acquisition of additional interests in a subsidiary		**–**	(456)
Discount on acquisition of a subsidiary		**–**	(37)
Gain on disposal of partial equity interest in a subsidiary		**–**	(297)
Gain on disposal of subsidiaries		**–**	(3,684)
Depreciation of property, plant and equipment	17	**6,632**	7,050
Amortisation of intangible assets and land use rights		**931**	542
Gain on disposal of property, plant and equipment		**–**	(637)
Interest expenses	11	**2,259**	1,419
Operating cash flows before movements in working capital		**34,654**	24,407
Increase in trade receivables, prepayment, deposit and other receivables		**(814)**	(18,940)
Increase in inventories		**(3,400)**	(14,247)
Increase in amounts due from related parties		**(29,538)**	(8,461)
Increase in amount due from immediate holding company		**(2,630)**	–
Decrease in amount due to immediate holding company		**–**	(440)
(Decrease)/Increase in amounts due to directors		**(812)**	812
Decrease in amounts due to related parties		**(8,408)**	(4,846)
Increase in trade payables, accruals, deposit received and other payables		**42,031**	7,927
Cash generated from/(used in) operations		**31,083**	(13,788)
Profits tax paid		**(164)**	(7)
Interest paid		**(2,259)**	(1,419)
Net cash generated from/(used in) operating activities		**28,660**	(15,214)
Cash flows from investing activities			
Interest received		**378**	222
Dividend paid		**(424)**	–
Proceeds from disposal of property, plant and equipment		**–**	845
Purchase of property, plant and equipment	17	**(1,993)**	(1,454)
Purchase of intangible assets	18	**(7,808)**	(603)
Purchase of land use rights	16	**(455)**	–
Proceeds from disposal of partial equity interests in a subsidiary		**–**	6,943
Payment on acquisition of additional interests in a subsidiary		**–**	(500)
Payment on acquisition of subsidiaries		**–**	(394)
Proceeds from disposal of subsidiaries		**–**	3,508
Net cash (used in)/generated from investing activities		**(10,302)**	8,567

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
Cash flows from financing activities		
Increase in bank borrowings	**12,668**	12,000
Placement of share	**52,920**	–
Share placement expenses	**(1,588)**	–
Net cash generated from financing activities	**64,000**	12,000
Net increase in cash and cash equivalents	**82,358**	5,353
Cash and cash equivalents at beginning of the year	**31,832**	25,556
Effect of foreign exchange rate changes	**1,155**	923
Cash and cash equivalents at end of the year	**115,345**	31,832
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**115,345**	31,832

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL

The Company is an exempted company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate of holding company is VATS Group Limited, a company incorporated in the People's Republic of China.

The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The principal activity of the Company is investment holding and the activities of its principal subsidiaries are engaged in production and distribution of wine.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs has no material effect on the Group's results and financial position or any substantial changes in the Group's accounting.

The principal effect in adopting these new HKFRSs are as follows:

(a) Amendment to HKAS 1 Presentation of Financial Statements – Capital disclosures

This amendment requires the Group to make disclosures that enable users of the consolidated financial statements to evaluate the Group's objectives, policies and processes for managing capital.

These new disclosures are shown in note 4 to the consolidated financial statements.

(b) HKFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the consolidated financial statements to evaluate the significance of the Group's consolidated financial instruments and the nature and extent of risks arising from those consolidated financial instruments. The new disclosures are included throughout the consolidated financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included where appropriate.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(c) HK(IFRIC) – Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has no issued equity instruments to the Group's employees in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC) – Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC) – Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available for sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors' of the Company (the "Directors") anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKFRS 8	Operating Segments [1]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions [2]
HK(IFRIC) – Int 12	Service Concession Arrangements [3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [3]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 January 2008
[4] Effective for annual periods beginning on or after 1 July 2008

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKAS 1 has been revised to introduce changes in presentation and disclosures of financial statements and does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The expected impact is still being assessed in detail by management which the Group expects to adopt HKFRS 8 from 1 January 2009.

HK(IFRIC) – Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC) – Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC) – Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC) – Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC) – Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC) – Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are recognised by the Company on the basis of dividend received and receivable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

In prior years, goodwill arising on acquisitions prior to 1 July 2001 continues to be held in reserves, and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired. Goodwill arising on acquisitions after 1 July 2001 is capitalised and amortised on a straight-line basis over its estimated useful life and is presented separately in the consolidated balance sheet.

On disposal of investments in subsidiaries, the attributable amount of unamortised goodwill/goodwill previously eliminated against reserves is included in the determination of the profit or loss on disposal.

Following the adoption of HKFRS 3 Business Combination, the Group ceased amortisation of goodwill from 1 January 2005. All accumulated amortisation of goodwill would be eliminated with a corresponding decrease in the cost of goodwill. From the year ended 31 December 2005 onwards, goodwill is tested annually of impairment. Any goodwill raised prior to 1 July 2001 recognised in goodwill reserve would be transferred to goodwill following the change in accounting policy.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(d) Excess of the Group's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

Discount on acquisition arising on an acquisition of a subsidiary or an associate represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in the consolidated income statement. A discount on acquisition arising on an acquisition of an associate is included as income in the determination of the Group's share of results of the associate in which the investment is acquired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Revenue recognition

Sale of goods is recognised on the transfer of risks and rewards of ownership, which generally considers with the time when the goods are delivered and title has passed.

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the interest rate applicable.

Subsidy income, when there is reasonable assurance that the subsidy will be received and attaching conditions have been complied with.

(f) Government subsidy

Government subsidies represent cash assistance by the local municipal government of the People's Republic of China (the "PRC"). Such subsidies received or became receivables as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised as income of the period in which it becomes receivables.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation or amortisation and any identified impairment loss.

The cost of leasehold land is amortised over the period of the relevant leases using the straight-line method.

The cost of buildings is depreciated using straight-line method over their estimated useful lives of fifty years or, where shorter, the period of the relevant leases.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	20% or over the period of the relevant lease
Building	over the period of the relevant lease
Plant and machinery	10% – 25%
Tools, equipment and moulds	10% – 50%
Furniture and fixtures	10% – 25%
Motor vehicles	10% – $33\frac{1}{3}$%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments

The Group classifies its investments in the following categories depending on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

i *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

ii *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

iii *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risk and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sale proceeds less estimated cost to completion and selling expenses. Provision is made for inventories when they became obsolete.

Cost is calculated on a weighted average basis comprises materials, direct labour and an appropriate portion of production overheads.

(j) Taxation

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 is the profit for the year, determined in accordance with rules established by the taxation authorities, upon which income taxes are payable.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(k) Land use rights

Land use rights at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various warehouses, office premises and processing factories are situated. Amortisation of land use rights are calculated on a straight-line basis over the period of the land use rights of 50 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Foreign currencies

(i) Functional and presentation currency

Items included in the consolidated 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 HK dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges. Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) 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:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement 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 dates of the transactions); and

(3) all resulting exchange differences are recognised as a separate component of equity. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Employee benefits

i. *Retirement benefits scheme*

Payments to defined contribution retirement benefits scheme and mandatory provident fund scheme are charged as an expense as they fall due.

ii. *Share-based compensation*

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the consolidated income statement. The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, and a corresponding adjustment to equity in the consolidated balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts when the share options are exercised and when the restricted share awards are vested.

(n) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement.

(o) Intangible assets

Farmland development

Farmland development represents deferred expenditures including farmland expenditures and cost for preparation works. Farmland development has been capitalised as assets where the costs are identifiable and the ability to use the asset will generate probable future economic benefits.

Farmland development are amortised over the period in which the related benefits are expected to be realised. Farmland development is reviewed annually to determine the amount, if any, that is no longer recoverable and any such amount is written off to the income statement in the year of determination.

Trademark

Acquired trademarks are shown at historical cost. Acquired trademarks have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives.

Technical know-how

Technical know-how is recognised only if it is anticipated that the technical know-how incurred on a clear-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life of 5 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Impairment of assets other than goodwill

Goodwill, other than intangible assets, property, plant and equipment, land use rights and interests in subsidiaries are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill (and other intangible assets with an indefinite useful life) are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard. The recoverable amount is the higher of fair value, reflecting market condition less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount and 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.

(q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(r) Provision

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economics benefits is probable. When inflow is virtually certain, an asset is recognised.

(t) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The up-front prepayments made for the leasehold land and land use rights are expensed in the consolidated income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the consolidated income statement.

(u) Segment reporting

A segment is a distinguishable component of the Group that is either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has determined that business segments as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables, and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they subject to common control or common significant influences.

A transaction is considered to be a related party transaction where there is a transfer of resources or obligations between related parties.

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group is exposed to a variety of financial risks such as market risk (including foreign currency risk, fair value interest rate risk), cash flow interest rate risk, credit risk and liquidity risk, which result from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to these financial risks. The Group's exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purpose.

(a) *Foreign exchange risk*

The Group mainly operates in Hong Kong and the PRC and is exposed to foreign exchange risk arising from respective currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

(b) *Cash flow and fair value interest rate risk*

The Group has exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on other payables and short-term bank loans which carry at prevailing market interest rates. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's fair value interest rate risk relates primarily to its fixed rate short-term loans and other payables. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, management will consider hedging significant interest rate exposure should the need arise.

At 31 December 2007, if interest rates had been increased or decreased 5% with all other variables held constant, the Group's post-tax profit would be decreased or increased by approximately HK$2,133,000 (2006: HK$1,500,000).

4. FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

(c) *Credit risk*

The Group has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions.

Since the Group trades only with customers with an appropriate credit history, there is no requirement for collateral. At 31 December 2007, the Group has certain concentrations of credit risk as 35% (2006: 16%) and 80% (2006: 77%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the financial statements.

(d) *Liquidity risk*

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. The Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

The Group's financial liabilities are analysed into relevant maturity groupings based on the remaining period at the respective balance sheet dates to the contractual maturity date, using the contractual undiscounted cash flows, as follows:

	Weighted average effective interest rate	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
At 31 December 2007					
Trade payables	N/A	21,071	–	–	–
Accruals, deposits received and other payables	N/A	54,631	–	–	–
Amounts due to related parties	N/A	5,760	–	–	–
Interest-bearing borrowings	7%	42,668	–	–	–
		124,130	–	–	–
At 31 December 2006					
Trade payables	N/A	17,672	–	–	–
Accruals, deposits received and other payables	N/A	15,999	–	–	–
Amounts due to directors	N/A	812	–	–	–
Amounts due to related parties	N/A	14,168	–	–	–
Interest-bearing borrowings	6%	30,000	–	–	–
		78,651	–	–	–

4. FINANCIAL RISK MANAGEMENT *(continued)*

4.2 Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The fair value of trade receivables and payables are assumed to approximate their carrying amount due to their short-term maturities. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair values of the Group's financial assets and financial liabilities (including trade receivables, prepayment, deposit and other receivables, amounts due from related parties, amount due from immediate holding company, bank balances and cash, trade payables, accruals, deposit received and other payables, amounts due to directors, amounts due to related parties and bank borrowings) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. The Directors consider that the carrying amounts of these financial assets and financial liabilities recorded at cost in the consolidated financial statements approximate their fair value.

5. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain with industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) and total capital is calculated as "equity", as shown in the consolidated balance sheet.

The gearing ratios as at 31 December 2007 and 2006 were as follows:

	2007 **HK$'000**	2006 HK$'000
Total borrowings	**42,668**	30,000
Less: Bank balances and cash	**(115,345)**	(31,832)
	(72,677)	(1,832)
Total equity	**226,810**	144,449
Gearing ratio	**19%**	21%

6. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing the consolidated financial statements, accounting estimates and judgements need to be made. The Group evaluates these based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equate the related actual results. Estimates and assumptions that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

The Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in note 3 (c). The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(b) Trade debtors

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect our results of operations.

(c) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

6. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(continued)*

(d) Impairment of non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgment from management with respect to whether such an event has occurred. Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus the assets residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

(e) Allowance for obsolete and slow-moving inventories

The management of the Group reviews an aging analysis at each balance sheet date, and identify 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 each balance sheet date and makes allowance for obsolete items.

(f) Current taxation and deferred taxation

The Group is subject to enterprise income taxes in the PRC. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred assets and income tax expenses in the periods in which such estimate is changed.

(g) Impairment of intangible assets

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the income statement.

7. TURNOVER AND SEGMENT INFORMATION

	The Group	
	2007	2006
	HK$'000	HK$'000
Production and distribution of wine	**139,923**	109,288

No segment information analysis of the Group by business or geographical segments is presented as the Group is solely attributable to the production and distribution of wines in the PRC. Over 90% of the Group's revenue, assets and liabilities are derived from customers based in the PRC and accordingly, no further detailed analysis of the Group's geographical segments is disclosed.

8. OTHER REVENUE

	The Group	
	2007	2006
	HK$'000	HK$'000
Bank interest income	**378**	222
Government subsidies	**2,223**	1,389
Others	**751**	640
	3,352	2,251

9. EXPENSES BY NATURE

	The Group	
	2007	2006
	HK$'000	HK$'000
Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analysed as follows:		
Staff costs, including directors' remuneration		
– Basic salaries and allowances	**7,224**	4,704
– Retirement benefits scheme contributions	**36**	27
Total staff costs	**7,260**	4,731
Auditors' remuneration	**780**	780
Amortisation of intangible assets	**745**	364
Amortisation of land use rights	**186**	178
Cost of inventories recognised as expenses	**87,228**	67,051
Depreciation	**6,632**	7,050
Research and development cost	**112**	–
Minimum lease payments under operating leases:		
Land and building	**1,603**	1,880

10. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

For the year ended 31 December 2007, the emoluments paid or payable to each of the eleven (2006: nine) directors were as follows:

For the year ended 31 December 2007 and 2006:

	Fees		Salaries and other benefits		Retirement benefits scheme contributions		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Fu Kwan[1]	**–**	–	**620**	1,220	**–**	–	**620**	1,220
Wu Xiang Dong	**–**	–	**645**	20	**–**	–	**645**	20
Shu Shi Ping	**–**	–	**435**	380	**–**	–	**435**	380
Chan Yeuk[1]	**–**	–	**20**	20	**–**	–	**20**	20
Zhang Jian	**–**	–	**45**	20	**–**	–	**45**	20
Lu Tong[2]	**–**	–	**25**	–	**–**	–	**25**	–
Sun Jian Xin[2]	**–**	–	**25**	–	**–**	–	**25**	–
Hung Kin Sang, Raymond[3]	**–**	50	**–**	–	**–**	–	**–**	50
Cao Kuangyu	**130**	120	**–**	–	**–**	–	**130**	120
Ting Leung Huel, Stephen	**180**	150	**–**	–	**–**	–	**180**	150
E Meng	**130**	120	**–**	–	**–**	–	**130**	120
Ma Yong[2]	**38**	–	**–**	–	**–**	–	**38**	–
	478	440	**1,815**	1,660	**–**	–	**2,293**	2,100

Notes:

1 Mr. Fu Kwan and Mr. Chan Yeuk resigned as executive directors of the Company on 3 October 2007.

2 Mr. Lu Tong and Mr. Sun Jian Xin were appointed as executive directors of the Company and Mr. Ma Yong was appointed as an independent non-executive director of the Company on 3 October 2007.

3 Mr. Hung Kin Sang resigned as an independent non-executive director of the Company on 26 May 2006.

10. DIRECTORS' AND EMPLOYEES' REMUNERATION *(continued)*

(b) Employees' emoluments

The five highest paid individuals for the year included three directors (2006: three directors) whose emoluments are set out in (a) above. The emoluments of the remaining two (2006: two) individuals are as follows:

	2007 **HK$'000**	2006 HK$'000
Salaries, performance related incentive payments and other benefits	**1,401**	2,680
Retirement benefits scheme contribution	**22**	32
	1,423	2,712

Their remuneration is within the following bands:

	2007 **Number of employees**	2006 Number of employees
Up to HK$1,000,000	**5**	4
HK$1,000,001 to HK$1,500,000	**–**	1
	5	5

11. FINANCE COSTS

	The Group	
	2007 **HK$'000**	2006 HK$'000
Interest on bank borrowings wholly repayable within five years	**2,259**	1,413
Bank charges	**4**	6
	2,263	1,419

12. TAXATION

	2007	2006
	HK$'000	HK$'000
The charge comprises:		
Current tax:		
Hong Kong		
– current year	**–**	–
The PRC		
– current year	**15**	–
– underprovision in prior year	**149**	7
	164	7

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group and the Company has no assessable profit for the year.

A reconciliation of the tax expense applicable to (loss)/profit before tax using the statutory rates for the countries in which the Company and majority of its subsidiaries are domiciled to the tax (income)/expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

The Group – 2007

	Hong Kong		**The PRC**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
(Loss)/profit before taxation	**(88)**		**25,298**		**25,210**	
Tax at the statutory tax rate	**(15)**	**(17.50)**	**8,348**	**33.00**	**8,333**	**32.40**
Tax effect of tax losses not recognised	**225**	**256.14**	**–**	**–**	**225**	**0.89**
Tax effect of income not taxable for tax purpose	**(210)**	**(238.64)**	**–**	**–**	**(210)**	**(0.83)**
Underprovision in respect of prior year	**–**	**–**	**149**	**–**	**149**	**–**
Effect of tax exemptions granted to the PRC subsidiaries	**–**	**–**	**(8,333)**	**(33.00)**	**(8,333)**	**(32.46)**
Tax charge for the year	**–**	**–**	**164**	**–**	**164**	**–**

12. TAXATION *(continued)*

The Group – 2006

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
(Loss)/profit before taxation	(2,392)		23,121		20,729	
Tax at the statutory tax rate	(419)	(17.50)	7,630	33.00	7,211	34.75
Tax effect of tax losses not recognised	445	18.60	–	–	445	2.15
Tax effect of income not taxable for tax purpose	(26)	(1.10)	–	–	(26)	(0.13)
Effect of tax exemptions granted to the PRC subsidiaries	–	–	(7,623)	(33.00)	(7,623)	(36.77)
Tax charge for the year	–	–	7	–	7	–

Hong Kong Profits Tax

As at 31 December 2007, the Group had unused tax losses of approximately HK$29 million (2006: HK$26 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The PRC Income Tax

Pursuant to 開國税發2006 27號文件 issued by the PRC tax bureau, the Yunnan Shangeli-la Winery Company Limited is entitled to an exemption from the PRC enterprise income tax for the period from 1 January 2006 to 31 December 2007 and a 50% reduction for the next consecutive three years (the "Tax Exemption Period") under the relevant tax rules and regulations in the PRC.

Shangeli-la (Qinhuangdao) Winery Limited being a foreign investment enterprise established in the Coastal Open Economics Region of Qinhuangdao, the PRC, which is subject to preferential enterprise income tax rate of 24% and is entitled to full exemption from the PRC enterprise income tax for two years starting from its first profit-making year and a 50% reduction for the next consecutive three years under the relevant applicable to foreign investment enterprise in the PRC. Guangzhou Zangji Trading Company Limited is subject to the PRC enterprise income tax rate of 33% based on the assessable profit arising for the year. Both Shangeli-la (Qinhuangdao) Winery Limited and Guangzhou Zangji Trading Company Limited have been reported loss since their establishment. Xiamen Zanmi Winery Limited (廈門藏秘酒業有限公司) is subject to the PRC enterprise income tax rate of 14% based on the assessable profit arising for the year.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law"). The New CIT Law introduces a wide range of changes which standardises the corporate income tax rate to 25% with effect from 1 January 2008. The New CIT Law also provides that further detailed measures and regulations on the determination of taxable profit, tax incentives and grandfathering provisions.

13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The Group's consolidated profit for the year of HK$25,046,000 (2006: profit of HK$20,722,000) of which net loss attributable to equity holders of the Company for the year of HK$88,000 (2006: profit of HK$2,185,000) is dealt with in the financial statements of the Company.

14. DIVIDEND

	2007 **HK$'000**	2006 HK$'000
Proposed final – HK$0.01 (2006: Nil) per ordinary share	**13,904**	–

The proposed final dividend for the year is subject to the approval from the shareholders of the Company at the forthcoming annual general meeting.

15. EARNINGS PER SHARE

The calculation of basic and diluted earnings per ordinary share is based on the following data:

(a) Basic earnings per share

	2007 **HK$'000**	2006 HK$'000
Profit for the year attributable to the equity holders of the Company for the purpose of basic earnings per ordinary share	**13,495**	12,499
Weighted average number of shares for the purpose of basic earnings per ordinary share	**1,156,167,565**	1,149,263,455

(b) Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2007 is the same as the basic earnings per share as there were no dilutive potential ordinary shares outstanding.

16. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and its net book value are analysed as follows:

	2007 HK$'000	2006 HK$'000
Outside Hong Kong, held on:		
Lease period between 10 to 50 years	**5,338**	4,723
Cost		
As at 1 January	**4,991**	4,799
Exchange alignment	**363**	192
Additions	**455**	–
As at 31 December	**5,809**	4,991
Amortisation		
As at 1 January	**268**	90
Exchange alignment	**17**	–
Charge for the year	**186**	178
As at 31 December	**471**	268
Carrying amount		
As at 31 December	**5,338**	4,723

Land use rights comprise cost of acquiring rights to use certain land which are all located in the PRC over fixed periods. Cost of prepaid lease for land use rights is amortised on a straight-line basis over the unexpired period of rights.

As at 31 December 2007, the Group's land use rights with the carrying amount of approximately HK$421,000 (2006: HK$403,000) were pledged as security for the Group's short term borrowing.

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold improvement HK$'000	Building HK$'000	Plant and machinery HK$'000	Tools, equipment and moulds HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:							
At 1 January 2006	2,007	41,070	44,716	4,202	10,302	2,417	104,714
Exchange alignment	–	1,643	1,381	–	20	30	3,074
Additions	–	179	642	165	39	429	1,454
Acquisition of a subsidiary	–	–	–	–	–	566	566
Disposal of subsidiaries	(2,007)	–	(10,198)	(4,123)	(9,639)	(1,656)	(27,623)
Elimination upon disposals	–	–	(233)	–	(166)	–	(399)
At 31 December 2006 and 1 January 2007	–	42,892	36,308	244	556	1,786	81,786
Exchange alignment	–	2,861	2,421	–	38	120	5,440
Additions	–	844	535	314	40	260	1,993
Elimination upon disposals	–	–	–	(12)	–	–	(12)
At 31 December 2007	–	46,597	39,264	546	634	2,166	89,207
Depreciation and impairment:							
At 1 January 2006	1,073	1,141	11,124	3,843	6,717	1,129	25,027
Exchange alignment	–	46	70	–	5	4	125
Charge for the year	–	1,452	5,001	149	171	277	7,050
Disposal of subsidiaries	(1,073)	–	(9,334)	(3,818)	(6,559)	(1,027)	(21,811)
Elimination upon disposals	–	–	(95)	–	(96)	–	(191)
At 31 December 2006 and 1 January 2007	–	2,639	6,766	174	238	383	10,200
Exchange alignment	–	176	452	–	16	25	669
Charge for the year	–	3,025	3,095	45	103	364	6,632
Elimination upon disposals	–	–	–	(12)	–	–	(12)
At 31 December 2007	–	5,840	10,313	207	357	772	17,489
Net book value:							
At 31 December 2007	**–**	**40,757**	**28,951**	**339**	**277**	**1,394**	**71,718**
At 31 December 2006	–	40,253	29,542	70	318	1,403	71,586

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Company

	Tools, equipment and moulds HK$'000
Cost	
At 1 January 2006 and 2007	244
Additions	314
Elimination upon disposals	(12)
At 31 December 2007	546
Depreciation	
At 1 January 2006	70
Charge for the year	104
At 31 December 2006 and 1 January 2007	174
Charge for the year	45
Elimination upon disposals	(12)
At 31 December 2007	207
Net book value	
At 31 December 2007	**339**
At 31 December 2006	70

As at 31 December 2007, the Group's buildings with the carrying amount of approximately HK$34,094,000 (2006: HK$33,111,000) were pledged as security for the Group's short term borrowing.

The buildings located in the PRC with a lease term of 30 years.

18. INTANGIBLE ASSETS

	Farmland Development HK$'000	Technical Know-how HK$'000	Trademark HK$'000	Total HK$'000
Cost				
At 1 January 2006	2,562	1,466	541	4,569
Exchange alignment	102	59	22	183
Additions	603	–	–	603
At 31 December 2006 and 1 January 2007	3,267	1,525	563	5,355
Exchange alignment	218	102	37	357
Additions	7,808	–	–	7,808
At 31 December 2007	11,293	1,627	600	13,520
Amortisation				
At 1 January 2006	–	191	41	232
Exchange alignment	–	8	3	11
Amortisation for the year	–	300	64	364
At 31 December 2006 and 1 January 2007	–	499	108	607
Exchange alignment	–	34	8	42
Amortisation for the year	357	320	68	745
At 31 December 2007	357	853	184	1,394
Net carrying amount				
At 31 December 2007	**10,936**	**774**	**416**	**12,126**
At 31 December 2006	3,267	1,026	455	4,748

Farmland development represented farmland expenditure and cost for preparation works.

Farmland development, technical know-how and trademark are measured initially at cost and amortised on a straight-line basis over their estimated useful lives as follow:

Farmland Development	18 years
Technical know-how	5 years
Trademark	10 years

Amortisation expenses of approximately HK$745,000 (2006: HK$364,000) is included in the administrative expenses in the consolidated income statement.

19. GOODWILL

	HK$'000
Cost	
At 1 January 2006	13,941
Disposal of subsidiaries	(2,177)
Disposal of partial equity interest in subsidiaries	(840)
At 31 December 2006, 1 January 2007 and at 31 December 2007	10,924
Impairment	
At 1 January 2006	2,177
Disposal of subsidiaries	(2,177)
At 31 December 2006, 1 January 2007 and at 31 December 2007	–
Carrying amount	
At 31 December 2007	**10,924**
At 31 December 2006	10,924

Following the adoption of HKFRS 3 with effect from 1 January 2005, the Group no longer amortised goodwill. In accordance to the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 1 January 2005 has been eliminated against the cost of goodwill as at that date.

For the year ended 31 December 2006, 5% of equity interest in Yunnan Shangeli-la Winery Company Limited ("Yunnan Shangeli-la") was disposed of and the goodwill had decreased by approximately of HK$840,000 accordingly.

Impairment test of goodwill

As explained in note 3(c), the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill with indefinite useful lives has been allocated to an individual cash generating unit ("CGU"), the production and distribution of wine. The carrying amount of goodwill (net of accumulated impairment losses) at 31 December 2007 was approximately HK$10,924,000 (2006: HK$10,924,000).

The recoverable amount of the above CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 7% per annum (2006: 7% per annum). Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the CGU's past performance and management's expectations for the market development.

20. INTERESTS IN SUBSIDIARIES

	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**71,360**	71,689
Add: Increase in investment in a subsidiary	**–**	4,859
Less: Disposal of partial equity interest in a subsidiary	**–**	(4,767)
Disposal of subsidiaries	**–**	(421)
	71,360	71,360
Amounts due from subsidiaries	**–**	10,039
Less: Elimination upon disposal of subsidiaries	**–**	(10,039)
	–	–
	71,360	71,360

20. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the Company's principal subsidiaries at 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion of equity interests held by the Company				Principal activities
			Directly		Indirectly		
			2007 %	2006 %	**2007** %	2006 %	
Yunnan Shangeli-la Winery Company Limited (Note i)	The PRC	Registered capital RMB56,560,000	**65**	65	**–**	–	Production and distribution of wine and investment holding
Shangeli-la (Qinhuangdao) Winery Limited (Note i)	The PRC	Registered capital RMB40,000,000	**25**	25	**48**	48	Production of wine
Guangzhou Zangji Trading Company Limited (Note ii)	The PRC	Registered capital RMB3,010,000	**–**	–	**58**	58	Distribution of wine products
Diqing Shangeli-la Economics Development Zone Tinlai Winery Company Limited	The PRC	Registered capital RMB8,200,000	**–**	–	**65**	65	Distribution of wine products
廈門藏秘酒業有限公司	The PRC	Registered capital RMB1,000,000	**–**	–	**58**	58	Distribution of wine products
香格里拉葡萄種植有限公司	The PRC	Registered capital RMB2,000,000	**–**	–	**74**	–	Purchasing and distributing of grape
Yantai Shangeli-la Company Limited	The PRC	Registered capital RMB10,000,000	**–**	–	**65**	–	Manufacturing of winery products

Notes:

i Yunnan Shangeli-la Winery Company Limited and Shangeli-la (Qinhuangdao) Winery Limited were formed as a Chinese foreign equity joint venture company in the PRC under joint venture agreement dated 17 May 2005 and 3 June 2005 respectively.

ii Guangzhou Zangji Trading Company Limited was sino-foreign joint venture subsidiaries established in the PRC.

iii None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

21. INVENTORIES

	The Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**27,871**	22,870
Work in progress	**13,507**	13,824
Finished goods	**9,271**	10,555
	50,649	47,249

At 31 December 2007, the inventories of approximately HK$9,271,000 are carried at net realisable value (2006: HK$10,555,000).

22. TRADE RECEIVABLES

The Group generally allows an average credit period ranging from 30 to 90 days (2006: 30 to 90 days) to its trade customers which major customers with whom specific terms have agreed.

	The Group	
	2007	2006
	HK$'000	HK$'000
Within 90 days	**13,329**	15,236
More than 90 days and within 180 days	**1,325**	2
More than 180 days and within 360 days	**572**	77
More than 360 days	**39**	–
	15,265	15,315
Less: Provision for impairment losses of trade receivables	**(39)**	(36)
	15,226	15,279

The movements in provision for impairment losses of trade receivables were as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**36**	12,206
Disposal of subsidiaries	**–**	(12,170)
Provision for impairment losses	**3**	–
At 31 December	**39**	36

22. TRADE RECEIVABLES *(continued)*

Included in the provision for impairment losses of trade receivables are individually impaired trade receivables with an aggregate balances of HK$39,000. The Group does not hold any collateral over these balances. The maximum exposure to credit risk at the reporting date is the fair value of trade receivables.

The aged analysis of the trade receivables that are not considered to be impaired is as follow:

	The Group	
	2007	2006
	HK$'000	HK$'000
Neither past due nor impaired	**–**	–
One to six months past due	**14,654**	15,238
Six months to one year past due	**572**	41
	15,226	15,279

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

23. PREPAYMENT, DEPOSIT AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayment	**2,160**	1,883	**287**	254
Deposit	**3,577**	1,975	**474**	155
Other receivables	**2,196**	3,208	**14**	–
	7,933	7,066	**775**	409

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

24. AMOUNTS DUE FROM RELATED PARTIES/IMMEDIATE HOLDING COMPANY

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts due from related parties				
Yunnan Shangeli-la Jinliufu Wine Sale Company Limited (Note i)	**–**	32,102	**–**	–
Yunnan Jinliufu Winery Company Limited (Note i)	**61,785**	–	**–**	–
北京金六福酒有限公司 (Note i)	**150**	295	**–**	–
	61,935	32,397	**–**	–
Amount due from immediate holding company				
JLF Investment Company Limited (Note ii)	**2,630**	–	**2,630**	–
	64,565	32,397	**2,630**	–

The aged analysis of the receivables of the Group and the Company as at balance sheet date is as follow:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 90 days	**64,415**	32,101	**2,630**	–
More than 90 days and within 180 days	**150**	–	**–**	–
More than 180 days and within 360 days	**–**	–	**–**	–
More than 360 days	**–**	296	**–**	–
	64,565	32,397	**2,630**	–

The aged analysis of the receivables that are not considered to be impaired is as follow:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Neither past due nor impaired	**–**	–	**–**	–
One to six months past due	**64,565**	32,101	**2,630**	–
Six months to one year past due	**–**	296	**–**	–
	64,565	32,397	**2,630**	–

24. AMOUNTS DUE FROM RELATED PARTIES/IMMEDIATE HOLDING COMPANY

(continued)

Receivables that were past due but not impaired relate to parties that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Notes:

i Yunnan Shangeli-la Jinliufu Wine Sale Company Limited, Yunnan Jinliufu Winery Company Limited and 北京金六福酒有限公司 are related parties of the Group as Mr. Wu Xiang Dong, being an executive director of the Company, is a common director in all companies.

ii JLF Investment Company Limited, a company incorporated in the British Virgin Islands, which is immediate holding company of the Group.

iii These amounts are trade related, unsecured, interest free and repayable on demand.

25. BANK BALANCES AND CASH

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**115,345**	31,832	**84,312**	1,610

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$31,032,000 (2006: HK$30,222,000). The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

26. SHARE CAPITAL

	Number of shares		Par value	
	2007	2006	**2007**	2006
	'000	'000	**HK$'000**	HK$'000
Authorised:				
Ordinary share of HK$0.01 each	**16,000,000**	16,000,000	**160,000**	160,000
Issued and fully paid:				
At the beginning of the year	**1,149,263**	1,149,263	**11,493**	11,493
Placing of shares (Note)	**70,000**	–	**700**	–
At the end of the year	**1,219,263**	1,149,263	**12,193**	11,493

Note:

On 3 October 2007, the Company entered into a placing agreement to place 70,000,000 new shares, representing approximately 6.1% of the issued shares of the Company immediately before the placement, at a price at HK$0.756 per share

27. RESERVES

(a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 33 of the financial statements.

(b) The Company

	Share premium	Contributed surplus	Retained earnings/ (accumulated deficit)	Proposed final dividend	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006	34,621	260,227	(236,486)	–	58,362
Profit for the year	–	–	2,185	–	2,185
At 31 December 2006	34,621	260,227	(234,301)	–	60,547
Amount transferred to write off accumulated deficit	–	(260,227)	260,227	–	–
Placement of shares	52,220	–	–	–	52,220
Share placement expenses	(1,588)	–	–	–	(1,588)
Proposed final dividend	–	–	(13,904)	13,904	–
Loss for the year	–	–	(88)	–	(88)
At 31 December 2007	**85,253**	**–**	**11,934**	**13,904**	**111,091**

27. RESERVES *(continued)*

Notes:

(a) Contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the Company's share issued in exchange thereof. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

(b) Pursuant to a resolution passed by the board of directors of the Company at a general meeting held on 16 April 2007, the Company proposed to set-off the special reserve/contributed surplus against the accumulated deficit (the "Proposed Set-Off"), subject to obtaining a legal opinion from a Bermudan lawyer. The Company has received the said legal opinion on 17 April 2007 which confirmed such Proposed Set-Off is legitimate under the Bermudan Law. As a result, the Proposed Set-Off became effective on the same day.

28. DEFERRED TAX LIABILITIES

The deferred tax liabilities of the Group recognised in the consolidated balance sheet and the movements during the year are as follows:

	The Group HK$'000
Deferred tax arising from revaluation of properties as follow:	
At 1 January 2006	2,600
Exchange alignment	104
At 31 December 2006 and 1 January 2007	2,704
Exchange alignment	180
At 31 December 2007	**2,884**

The deferred tax liabilities of the Group recognised in the consolidated balance sheet raised from revaluation of land and buildings of newly acquired subsidiaries during the year ended 31 December 2005.

29. TRADE PAYABLES

	The Group **2007** **HK$'000**	 2006 HK$'000
Within 90 days	**17,072**	14,768
More than 90 days and within 180 days	**1,652**	525
More than 180 days and within 360 days	**2,347**	2,379
	21,071	17,672

Trade payables are non interest bearing and have an average term of three months.

30. ACCRUALS, DEPOSIT RECEIVED AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**6,991**	10,862	**1,227**	1,409
Trade deposit received	**2,210**	2,648	**–**	–
Other deposit received	**35,000**	–	**35,000**	–
Other payables	**10,430**	2,489	**11**	–
	54,631	15,999	**36,238**	1,409

The other deposit received represented an amount received from an independent third party (the "Vendor") for acquisition of 30% equity interest in Yunnan Shangeli-la (the "Sale Shares") from the existing shareholders. The Company then acquired the Sale Shares from the Vendor. Details of which were set out in the Company's announcement and circular dated 8 August 2007 and 19 September 2007 respectively.

31. AMOUNTS DUE TO DIRECTORS/RELATED PARTIES

The amounts due approximate their fair value which were non-trade related, unsecured, interest free and repayable on demand.

32. BANK BORROWINGS – SECURED

	The Group	
	2007	2006
	HK$'000	HK$'000
Secured bank borrowings comprises:		
Import loans – secured	**42,668**	30,000
The borrowings are repayable as follows:		
Within one year or on demand	**42,668**	30,000
Less: Amounts due within one year or on demand shown under current liabilities	**(42,668)**	(30,000)
Amounts due after one year	**–**	–

Bank borrowings are secured on the Group's buildings and land use rights.

The Group's borrowings are denominated in Renminbi only.

The effective interest rate on bank borrowings is 6.57% (2006: 5.85%) per annum.

33. BUSINESS COMBINATION

(a) For the year ended 31 December 2006, the Group acquired 90% equity interest in 廈門藏秘酒業有限公司.

The fair value of the identifiable assets and liabilities of 廈門藏秘酒業有限公司 as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Carrying amount HK$'000	Fair value HK$'000
Property, plant and equipment	566	566
Prepayment, deposit and other receivables	13	13
Cash and bank balance	506	506
Accruals and other payables	(44)	(44)
Net assets	1,041	1,041
Minority interest		(104)
Net assets acquired		937
Discount on acquisition		(37)
		900
Consideration satisfied by cash		900
Net cash outflow in respect of the acquisition of subsidiaries:		
Cash consideration paid		900
Cash and bank balance acquired		(506)
		394

The subsidiary acquired during the year ended 31 December 2006 contributed approximately HK$683,000 to the Group's turnover and profit after taxation and minority interests of approximately HK$77,000 to the Group's profit for the year ended 31 December 2006.

As the revenue and results of the acquired subsidiaries before the acquisition were not significant to the Group, the total group revenue and result, as if the acquisition had been completed on 1 January 2006, are not disclosed as the information does not give additional value.

(b) For the year ended 31 December 2006, Yunnan Shangeli-la, a direct-owned subsidiary of the Company, further acquired 6.1% equity interest in Diqing Shangeli-la Economics Development Zone Tinlai Winery Company Limited at a consideration of approximately HK$500,000. The fair value of the 6.1% net assets in Diqing Shangeli-la Economics Development Zone Tinlai Winery Company Limited at the date of disposal was approximately HK$957,000. As a result, the Group recognised a discount on acquisition of additional interest in a subsidiary amounted to HK$457,000 for the year ended 31 December 2006.

As the revenue and results of the acquired additional interest in a subsidiary before the acquisition were not significant to the Group, the total group revenue and result, as if the acquisition had been completed on 1 January 2006, are not disclosed as the information does not give additional value.

34. DISPOSAL OF PARTIAL EQUITY INTEREST IN A SUBSIDIARY

(a) For the year ended 31 December 2006, the Company entered into sale and purchase agreements to dispose certain subsidiaries to an individual third party for a total consideration of US$3 (approximately equivalent to HK$24). Summary of the effects of the disposal of subsidiaries were as follows:

	2006 HK$'000
Property, plant and equipment	5,812
Inventories	10,129
Trade receivables	9,548
Prepayment, deposit and other receivables	1,611
Amount due from related parties	14
Pledged time deposits	3,354
Cash and bank balance	484
Trade payables	(9,665)
Accruals and other payables	(1,692)
Obligation under finance leases	(1,239)
Bank borrowings and overdraft – secured due within one year	(23,178)
Net liabilities	(4,822)
Minority interests	1,137
Net liabilities disposed of	(3,685)
Gain on disposal	3,684
	(1)
Consideration satisfied by cash	1
Net cash outflow in respect of the disposal of subsidiaries:	
Cash consideration received	1
Bank overdrafts	3,991
Cash and bank balance disposed of	(484)
	3,508

During the year ended 31 December 2006, the above disposed subsidiaries were engaged in manufacture and distribution of electronic products and manufacture of health care products and had not contribute turnover and profit before taxation to the Group.

(b) For the year ended 31 December 2006, the Group disposed of its 5% equity interests in Yunnan Shangeli-la to Diqing Development Investment Company Limited in the amount of HK$6,943,000. The fair value of the 5% net assets in Yunnan Shangeli-la and its subsidiaries at the date of disposal, together with the goodwill, was approximately HK$6,646,000. As a result of the disposal, the Group recognised a gain on disposal of partial equity interest amounted to approximately HK$297,000 for the year ended 31 December 2006.

35. PLEDGE OF ASSETS

At balance sheet date, the Group pledged the following assets to secure the banking facilities granted to the Group:

	2007	2006
	HK$'000	HK$'000
Buildings	**34,094**	33,111
Land use rights	**421**	403
	34,515	33,514

36. OPERATING LEASES

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating lease in respect of rented premises which fall due as follow:

	2007	2006
	HK$'000	HK$'000
Within one year	**1,792**	1,197
In two to five years inclusive	**2,676**	2,210
Over five years	**17,978**	17,267
	22,446	20,674

Operating lease payments represent rentals payable by the Group for certain of its office properties. The average lease term is 1 – 2 years. Rentals are fixed and no arrangement has been entered into for contingent rental payments.

37. CAPITAL COMMITMENT

	2007	2006
	HK$'000	HK$'000
Authorised and contracted for:		
In connection with acquisition of partial equity interest in subsidiaries	**46,218**	–

38. EMPLOYEE BENEFITS

Retirement Benefits Scheme

The Group operates a defined contribution retirement scheme (the "Defined Contribution Scheme") for certain qualifying employees. The assets of the Defined Contribution Scheme are held separately from those of the Group in funds under the control of trustees.

The retirement benefits cost of the Defined Contribution Scheme charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contribution, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet date, there was no significant forfeited contribution which arose upon employees leaving the Defined Contribution Scheme and which was available to reduce the contributions payable in future years.

With effective from 1 December 2001, the Group has jointed a Mandatory Provident Fund Scheme (the "MPF Scheme") for all other qualifying employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates 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 contributions payable in future years.

The retirement benefits cost of the MPF Scheme charged to the consolidated income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme.

The employees of the Company's subsidiary in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the basis salary of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represent for the entire pension obligations payable to retired employees.

39. SHARE OPTION SCHEMES

On 16 September 2002, the Company adopted a share option scheme (the "2002 Scheme") for the primary purpose of providing incentives to its directors and eligible employees. The 2002 Scheme will expire on 15 September 2012. Under the 2002 Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed the higher of 10% of the shares of the Company in issue as at the date of adoption of the 2002 Scheme. The number of shares in respect of which options may be granted to any individual is not permitted to exceed the higher of 1% of the number of shares issued and issuable under the 2002 Scheme or any other limit as may be permitted under the Listing Rules.

39. SHARE OPTION SCHEMES *(continued)*

Options granted must be taken up within 30 days of the date of grant, upon payment of HK$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board of Directors may at their discretion determine the specific exercise period. The exercise price is determined by the directors of the Company, and will be not less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's share for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares.

No option has been granted under the 2002 Scheme since its adoption.

40. RELATED PARTY TRANSACTIONS

(a) Save as disclosed elsewhere in the consolidated financial statements, the Group has entered into the following significant related party transactions for the year ended 31 December 2007 which, in the opinion of the Directors, were conducted under commercial terms and in the normal course of the Group's business.

	2007	2006
	HK$'000	HK$'000
Sales of goods		
– Yunnan Shangeli-la Jinliufu Wine Sale Company Limited		
– Received	**17,840**	28,801
– Receivable	**–**	26,336
– Yunnan Jinliufu Winery Company Limited		
– Received	**15,657**	–
– Receivable	**54,356**	–
Purchases of goods		
– Yunnan Shangeli-la Jinliufu Wine Sale Company Limited		
– Paid	**–**	408

The above transactions were carried out at cost plus mark-up basis.

Yunnan Shangeli-la Jinliufu Wine Sale Company Limited and Yunnan Jinliufu Winery Company Limited are related parties of the Group as Mr. Wu Xiang Dong, being an executive director of the Company, is a common director of both companies.

40. RELATED PARTY TRANSACTIONS *(continued)*

(b) Key management personnel

Remuneration for key personnel management, including amount paid to the Directors and certain of the highest paid employee, as disclosed in note 10, is as follow:

	The Group	
	2007	2006
	HK$'000	HK$'000
Salaries	**3,100**	1,780
Short term employee benefit	**32**	12
	3,132	1,792

41. GOVERNMENT SUBSIDIES

During the year, the Group received government subsidies of approximately HK$2,223,000 for the contribution towards the business in Yunnan, the PRC. The amount has been included in other revenue for the year (2006: HK$1,389,000).

42. POST BALANCE SHEET EVENTS

(a) On 21 June 2007, the Company entered into an acquisition agreement to acquire the 30% equity interest in Yunnan Shangeli-la at a consideration of approximately HK$46,219,000, which were satisfied by issuing of the Company's shares. Details of the acquisition were set out in the Company's announcement and circular dated 8 August 2007 and 19 September 2007 respectively. On 11 February 2008, the Group completed the acquisition of 30% equity interest in Yunnan Shangeli-la. Following the completion of the acquisition, the Group held 95% equity in Yunnan Shangeli-la.

(b) On 4 January 2008, the Group announced that the name of the Company has been changed from "MACRO-LINK International Holdings Limited" to "JLF Investment Company Limited" in English and from "新華聯國際控股有限公司" to "金六福投資有限公司" in Chinese for identification purpose. On 16 January 2008, the stock short name for trading the shares on the Stock Exchange will be changed from "MACROLINK INT'L" to "JLF INVESTMENT" in English and from "新華聯國際" to "金六福投資" in Chinese respectively.

(c) On 7 March 2008, the Company, as purchaser, entered into a non-binding letter of intent with a vendor for the proposed acquisition of all vendor's winery business and related product business. Details of the proposed acquisition were set out in the Company's announcement dated 7 March 2008.

43. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 21 April 2008.

FINANCIAL SUMMARY

Results

	For the year ended 30 June 2004 HK$'000	For the period from 1 July 2004 to 31 December 2004 HK$'000	For the year ended 31 December 2005 HK$'000	2006 HK$'000	**2007 HK$'000**
Turnover	83,369	55,781	141,596	109,288	**139,923**
(Loss)/profit from operations	(35,791)	(9,040)	3,226	17,674	**27,473**
Finance costs	(2,497)	(602)	(2,245)	(1,419)	**(2,263)**
Discount on acquisition of additional interests in a subsidiary	–	–	–	456	**–**
Discount on acquisition of a subsidiary	–	–	–	37	**–**
Gain on disposal of partial equity interest in a subsidiary	–	–	–	297	**–**
(Loss)/gain on disposal of subsidiaries	(5,817)	–	–	3,684	**–**
(Loss)/profit before taxation	(44,105)	(9,642)	981	20,729	**25,210**
Taxation	26	–	–	(7)	**(164)**
(Loss)/profit for the year/period	(44,079)	(9,642)	981	20,722	**25,046**
Attributable to:					
Equity holders of the Company	(44,215)	(6,321)	(1,844)	12,499	**13,495**
Minority interests	136	(3,321)	2,825	8,223	**11,551**
(Loss)/profit attributable to equity holders	(44,079)	(9,642)	981	20,722	**25,046**
Dividend	–	–	–	–	**13,904**

Assets and Liabilities

	As at 30 June 2004 HK$'000	As at 31 December 2004 HK$'000	2005 HK$'000	2006 HK$'000	**2007 HK$'000**
Total assets	128,523	109,705	215,080	225,804	**353,824**
Total liabilities	(41,209)	(32,034)	(99,470)	(81,355)	**(127,014)**
Minority interests	(4,488)	(1,167)	(38,975)	(50,289)	**(58,220)**
Shareholders' funds	82,826	76,504	76,635	94,160	**168,590**

Note: The Company was incorporated in Bermuda on 4 April 2001 and became the holding company of the Group with effect from 20 December 2001 as a result of the Group reorganisation. Details of the Group reorganisation are set out in the scheme document dated 10 July 2001.