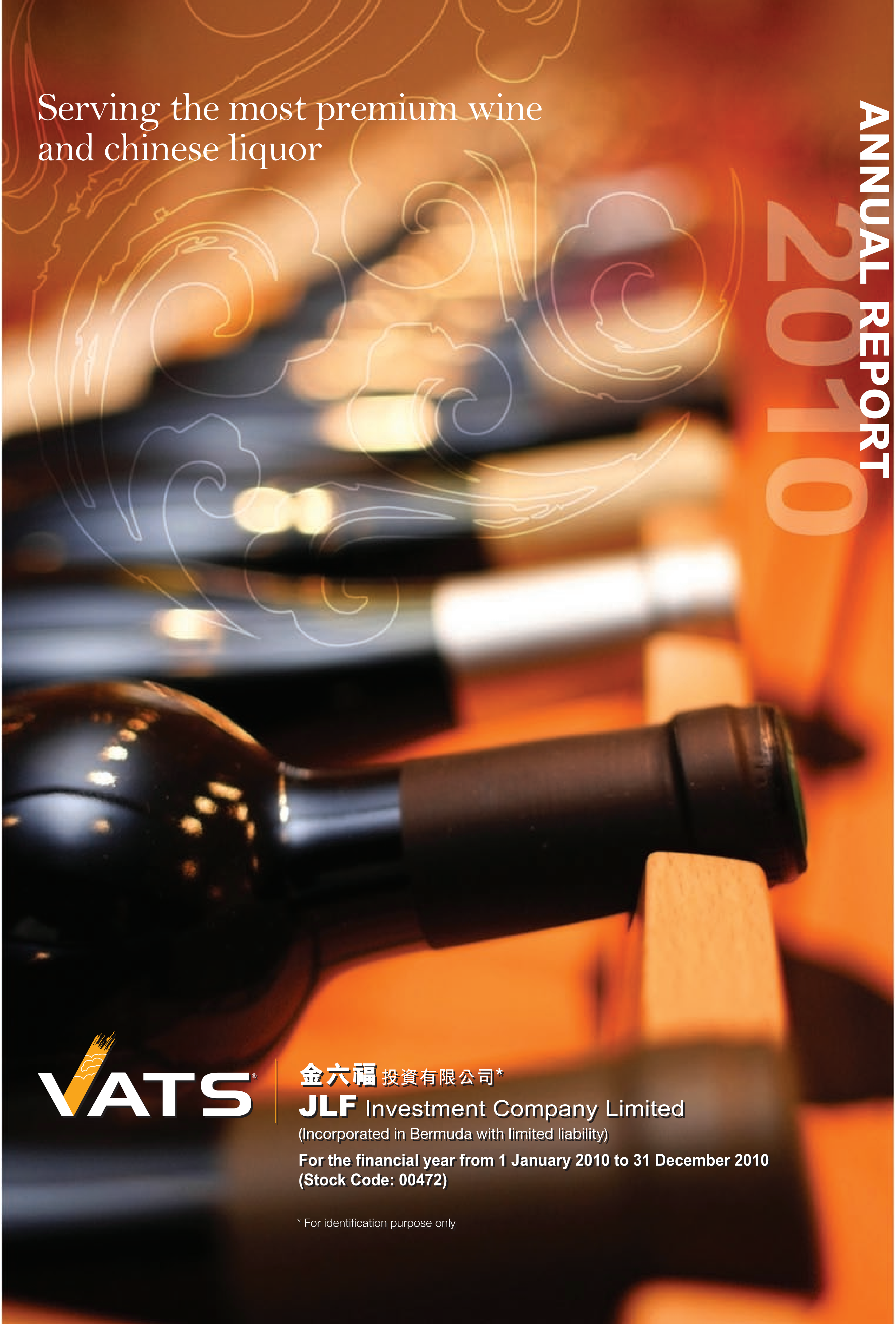

Serving the most premium wine and chinese liquor

ANNUAL REPORT 2010

VATS

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 2010 to 31 December 2010
(Stock Code: 00472)

* For identification purpose only

Serving the most premium wine and chinese liquor

VATS

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Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Mr. Wu Xiang Dong *(Chairman)*
Mr. Yan Tao *(Vice-Chairman)*
Mr. Lu Tong *(Chief Executive Officer)*
Mr. Sun Jian Xin
Mr. Shu Shi Ping
Mr. Zhang Jian
Mr. Ng Kwong Chue Paul

Independent non-executive Directors:

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

AUTHORIZED REPRESENTATIVES

Mr. Lu Tong
Mr. Ng Kwong Chue Paul

COMPANY SECRETARY

Mr. Ng Kwong Chue Paul

NOMINATION COMMITTEE

Mr. Wu Xiang Dong *(Chairman)*
Mr. Yan Tao
Mr. Ting Leung Huel, Stephen
Mr. E Meng
Mr. Cao Kuangyu

REMUNERATION COMMITTEE

Mr. Wu Xiang Dong *(Chairman)*
Mr. Yan Tao
Mr. Ting Leung Huel, Stephen
Mr. E Meng
Mr. Cao Kuangyu

AUDIT COMMITTEE

Mr. Ting Leung Huel, Stephen *(Chairman)*
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:

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

PRINCIPAL BANKERS

Bank of China Limited
CITIC Ka Wah Bank Limited
China Construction Bank Corporation
Agricultural Development Bank of China

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND 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

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

STOCK CODE

00472

Chairman's statement

Dear Fellow Shareholders,

I am pleased to present herewith on behalf of the Board of Directors (the "board") of JLF Investment Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") the Annual Report and the financial results for the year ended 31 December 2010.

BUSINESS ENVIRONMENT

During this time of the post-global financial crisis era, global economy rises and falls albeit a positive trend as the market finds its way to recovery. Various countries had implemented massive stimulative fiscal and monetary policies. The results were remarkable as the economy continues to demonstrate exceptional rebounce. As those stimulus started to fade, the fragile economy resumed its shakiness, especially during the outburst of Europe's sovereign-debt crisis towards the second half of the year. The outlook of the economic for the coming year is still uncertain. China seemed immune from the global financial crisis. The Country's gross domestic product in 2010 amounted to approximately RMB39,800 billion, signifying an annual growth of 11.2%. However, the influence of the uncertainties on China's economic growth is yet to be determined.

During the year, the Group has taken advantage of its brand awareness and solid financial foundation, actively responded to the complicated and buoyant market by promptly launching new products, building up new client bases and exploring new markets to increase market share. Leveraging on the synergistic effect, the Group has implemented streamline management methodology and reinforced the awareness of quality service to support a rapid growth, thereby securing its position as the market leader and achieving its targeted objectives.

OPERATION REVIEW

The Group's business in grape wine and Chinese liquor during the year has shown excellent growth. In general, an annual growth of around 30 percent was achieved. Revenue from operation for 2010 has increased 30% to a record high of HK$337 million. Profits before taxation increased 35% to HK$62.2 million, and profits attributable to the owners of the Company increased 30% to HK$38.3 million leading to an increase of earning per share for the owners of the Company by 31% to HK 2.32 cents.

CHINA LIQUOR BUSINESS IN CHINA – YU QUAN WINERY

Follow the acquisition of Heilongjiang Province Yu Quan Winery Company Limited ("YuQuan") in 2008, the Group has spent one and a half years for business integration and brand rebuilding. With the 60th anniversary celebration last year, the Group grasped the golden opportunity to relaunch the YuQuan brand by reinforcing its sales efforts, strengthening its distribution channel and marketing positioning which resulted in excellent growth. The revenue of YuQuan increased 36% to a record high of HK$128 million, and the profits after taxation amounted to HK$18.1 million, representing an increase of 36%.

Since the acquisition of YuQuan, the Chinese wine brand is positioned to be local market focus. By awakening YuQuan's local market loyalty together with effective product strategies, results are encouraging.

For year 2010, YuQuan wine was the only official Chinese wine sponsoring The National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC) meetings in Heilongjiang Province. It is also the designated and official Chinese wine used by the Harbin municipal government for official reception. These achievements demonstrated the extensive market recognition and support for the YuQuan Brand and the quality it delivered.

Increase of Production Capacity

Apart from the outstanding marketing achievement and unparalleled brand building effort, the Group has also strategically increased the bottling capacity of YuQuan to prepare for the increase in demand. During the year, YuQuan has completed the construction of a 50,000 ton bottling facility (the "Facility"). The Facility started to operate in the second half of year 2010. While the completion of the Facility significantly increase the production level, it also allows production to be carried out in a more cost-effective manner. Having more flexibility in production, it is able to respond to changes in market promptly, hence significantly reduce operation costs and shorten production cycle, laying a solid foundation for future success.

Chairman's statement

YuQuan Marketing

In 2011, YuQuan will continue to lead the challenge. On 8 January 2011, YuQuan had invited the China Philharmonic Orchestra to give a performance in Harbin. The performance was promoted under YuQuan's newly launched flagship product "YuQuan – Elegance". The performance was also the first time for the China Philharmonic Orchestra in Harbin, the place for harmony music lovers. The concert was named "Yu Quan Elegance – China Philharmonic Orchestra Spring concert". Under the leadership of Principal Conductor Long YU, China Philharmonic Orchestra's team of over 100 performers gave an impressive performance in Harbin – the City of Ice. The concert was one of the most influential and superior one which brought great enjoyment to the people. Whilst spreading the joyful moment, it also delivers YuQuan's culture which helps reinforce the leading position of YuQuan in the northern market.

WINE BUSINESS IN CHINA – SHANGRI-LA WINERY

Of course our Shangri-la Winery ("Shangri-la") also shares the glory with YuQuan. While maintaining its growth trend, its turnover increased 25% to HK$202 million, and profits after taxation increased 24% to HK$32.7 million.

Shangri-la Marketing Activites

Shangri-la is the brand of which the Group is targeting for the country-wide market. Currently it has already covered Fujian, Jiangsu, Zhejiang and Yunnan Provinces. Due to wide market coverage, the efforts and time incurred in Shangri-la's brand promotion and market development are greater than that of YuQuan. During the year, Shangri-la has made remarkable marketing achievements: In October and November 2010, it sponsored "Shangri-la – Tibetan Chau Wakin's Flower's Collage Tour Concert" (香格里拉•大藏秘 周華健花的拼圖演唱會) and "Shangri-la Lan Kwai Fong Sichuan Chengdu Grand Opening," (香格里拉蘭桂芳四川成都開幕式). These events were held at Fuzhou city in Fujian Province and Chengdu city in Sichuan Province respectively. The events were coincided with the launch of Shangri-la's new product: "Shangri-la Golden Snub-nosed Monkey Plateau series" (香格里拉•金絲猴高原系列).

Being one of Shangri-la's main markets, the Fujian activity was well received and connection between the consumers and Shangri-la's offerings was well established. On the other hand, the activity in Chengdu signified the penetration of Shangri-la's products to the Chengdu market. Both activities had received high regards. The brand image of Shangri-la was reinforced and it is beneficial to future market development at both the provincial and city levels.

Having originated in Yunnan, Shangri-la's products are designated by the Yunnan provincial government as the official wine used in various kinds of receptions and dinners. This demonstrates the level of support by the provincial government and the level market recognition.

Shangri la New Products

We continuously enrich our product offerings to meet the demand of the market, especially the high-end ones. Apart from Shangri-la plateau 1700, 1900, 2100, 2700 and 2800 prestigious wine series, the Shangri-la also launched the Shangri-la Plateau Cabernet Sauvignon (香格里拉高原赤霞珠干紅葡萄酒), Shangri-la Golden Snub-nosed Monkey Plateau series (香格里拉金絲猴高原系列) and Tibetan Platinum Barley dry white wine ("大藏密白金青稞干白") in year 2010. The new offerings were well received in the market, adding success to our product portfolios.

Shangri-la Masang Château (香格里拉瑪桑酒莊)

We are pleased to advise that the design of the Masang Château in Yantai ("Masang Château") was completed and Yantai Shangri-la Masang Winery Company Limited (煙台香格里拉瑪桑酒莊有限公司) was incorporated to carry out the tender and development of the Masang Château. As disclosed in the Company's announcement on 19 November 2010, through an internal restructuring which effectively transfer 5% of the Masang Château to the Company, Masang Château is now wholly owned by the Group. The Group plans to run this Château with a model that combines production and tourism. Masang Château will have its own vineyard to grow first-class grapes and will offer superior wine to the market. With its exceptional architect and graceful environment, it will no doubt be one of the greatest tourist attractions in Yantai. This will in turn bring up the brand and product image of Shangri-la.

The Masang Château and vineyard occupy a total area of about 1,200 *mu* (800 hectares). The construction of the winery is in line with the Group's business direction to take the wine business to the next level by establishing a landmark with the view to underpin its top of the class brand image and to reinforce its market leadership.

In 2011, the Group intends to further invest RMB40 million to Masang Château to support the construction of the Château.

Chairman's Statement

Plant Relocation

The bottling and logistic facilities currently located in Yunnan Kunming will be relocated in year 2011. The relocation plan was initially revealed in our 2009 interim report. Since then, the appreciation of land price has far exceeded our expectation. As such, the original plan to acquire a piece of land and develop a new bottling and logistic centre has to be modified. With the objective to better utilise existing resources, the bottling facility will be relocated to the Shangri-la's Economic Development Zone where the existing winery located. Some of the production facilities will be transferred to Shangri-la Qinhuangdao's production site to expand the local production capacity. Facing the high land cost, this measure would be an economic means to increase our production capacity.

Award and Achievements

Shangri-la Winery has successfully renewed its ISO22000, ISO 9001 and HACCP certificates. Its plateau series has acquired the organic product certification issued by China Quality Certification Centre. Its 1900 and 2700 product lines had also won awards in the Hong Kong International Wine & Spirit Competition and Asian Wine Competition.

FUND RAISING

The completion of an open offer ("Open Offer") on 27 January 2010 based on one offer share for every 5 shares held in November 2009 resulted in an issue of 278,088,691 shares at a price of HK$0.6 per offer share. The Open Offer was fully underwritten by our major shareholder JLF Investment Company Limited ("JLFBVI") and has been successfully completed, raising a total fund of about HK$166 million. JLFBVI's shareholding has increased to 839,670,169, representing an increase by 3.5% to 50.3%. The fund raised in the Open Offer has substantially improved the liquidity of the Group, which will benefit the Group in business development and give the Group a better position to look for potential investment and acquisition opportunities.

PROSPECT

Over the past year, although the global market has been recovering from global financial crisis, recent turmoils in the Middle East and North Africa together with the disasters that hit Japan have all casted uncertainties to the on-going recovery of the global market. The effects of which will not be limited to the supply of crude oil, but via production costs spread across to other areas including food prices. Aided by the low interest environment and excessive capital flow, inflation expectation and the formation of asset bubble might not be too far away. The Chinese government recently took measures to combat inflation, especially on the continuous rise of property prices and to set a lower growth target for the coming year. Yet the steady growth of income and the government's incentive to boost personal spending through "the twelve five-year plan" are more than enough to maintain strong domestic consumption. Certainly the wine industry will adjust to favorable market sentiment and capture the turnarounds in order to expedite growth. This will no doubt intensify competition in the industry.

No matter which way the economy goes, the Group will continue to focus on its core brand value to expand the business further. Although market condition is uncertain, we have the competitive edge to pioneer the wine market. The Group will take advantage of its brand recognition, intimate market knowledge and extensive servicing channels in seizing and realizing future opportunities. With our solid foundation, we have the determination to achieve new milestones and keep up with new achievements.

Looking forward, as Chinese economy further develops, the Group will back on the nation's growth and accommodate into the macro reform. With the Group's responsive product development skills and excellent implementation capability, we will continue to bring good quality products to the market.

Under suitable conditions and with the support of our major shareholder, the VATS Group, we will look into internal and external merging and acquisition opportunities so as to explore sizeable and influential projects and to further optimise our capital structure with the view to establish a significant platform for the China wine and liquor industry. By strengthening and reinforcing our market position, we endeavour to achieve rapid growth and to return the greatest value to shareholders.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all our staffs for their continuous hard work and loyalty. Their passion and commitment had no doubt contributed to the success of the Group. I would also like to extend my gratitude to the customers, shareholders and business partners of the Group for their strong support and trust. Such support and encouragement will give the Group the strength to refine business strategies to further advance its leadership in China's wine industry and to bring fruitful return to our shareholders.

By Order of the Board
Wu Xiang Dong
Chairman

Hong Kong, 25 March 2011

Management discussion and analysis

FINANCIAL INFORMATION

Turnover

Our Group attained a turnover of HK$337 million for 2010 (2009: HK$260 million), representing an increase of 29.8% over previous year. Wine and Chinese liquor segments accounted for HK$209 million and HK$128 million respectively with growth rates of 26.2% and 36.1% respectively.

Cost of Production

Cost of sales increased by 28.6% from HK$122 million in 2009 to HK$156 million in 2010. The increase was in line with the increase in turnover for the year.

Gross Profit

Gross profit increased by 31.0% from HK$138 million in 2009 to HK$181 million in 2010 due to growth in turnover. Wine and Chinese liquor segments each accounted for HK$109 million and HK$29 million respectively. Gross profit margin increased slightly by 0.4 percentage point from 53.2% in 2009 to 53.6% in 2010.

Selling and Distribution Expenses

Selling and distribution expenses increased by 33.3% from HK$61.3 million in 2009 to HK$81.7 million in 2010. Selling and distribution expenses as a percentage of turnover for the year increased marginally by 0.6% to 24.2%. The increase was in-line with the increase in turnover.

Administrative Expenses

Administrative expenses increased by 51.8% from HK$30.3 million in 2009 to HK$46.0 million in 2010. Administrative expenses as a percentage of our turnover increased by 2% to 13.7% in 2010. This is mainly due to provisions made to YuQuan's supplier in the year.

Operating Profit

Our operating profit increased by 31.7% from HK$50.7 million in 2009 to HK$66.7 million in 2010. Operating profit margin increase slightly from 19.5% in 2009 to 19.8% in 2010.

Income Tax Expenses

Our income tax expenses increased from HK$10.7 million in 2009 to HK$16.6 million in 2010, primarily as a result of increase in turnover and profit before tax.

Profit Attributable to Our Owners

As a result of the above, the profit attributable to our owners in 2010 increased by 29.9% from HK$29.5 million in 2009 to HK$38.3 million in 2010. The margin of profit attributable to our owners marginally stands at 11.4% for both 2009 and 2010.

Liquidity and Capital Resources

Cash and bank borrowings

We generally finance our operations and capital expenditure by internally generated cash flows as well as banking facilities provided by our principal bankers. As at 31 December 2010, our bank balances and deposits amounted to HK$263 million (31 December 2009: HK$90.5 million) representing an increase of 191%. The substantial increase was as a result of the proceed from the Open Offer. About 78.2% of our cash was denominated in Renminbi.

Our total borrowings as at 31 December 2010 decreased by 14.8% to HK$82.4 million (31 December 2009: HK$96.6 million) due to a repayment of bank facilities by YuQuan. All of our borrowings are denominated in Renminbi. We maintain sufficient cash and available banking facilities for our working capital requirements in future.

Management discussion and analysis

Cash flow

In 2010, our net cash flow increased from HK$90.5 million to HK$263 million, representing an increase of 1.9 times. This is mainly due to cash received from the Open Offer.

Capital expenditure

During the year 2010, our total capital expenditure amounted to HK$49.6 million (2009: HK$23.5 million) mainly used in the construction of bottling facilities for YuQuan. For the year 2011, we have budgeted HK$70 million for capital expenditure of which HK$50 million is allocated to the development of the Masang Chateau in Yantai and HK$20 million for the relocating of our production facilities in Kunming.

Inventory analysis

Our inventory primarily consists of finished goods, goods in transit, work in progress for winery products as well as raw materials and packaging materials. The finished goods turnover ratio (average closing finished goods divided by cost of sales) was 126 days for the year ended 31 December 2010 (2009: 88 days). The increase was due to a higher end of stock figure as a result of greater stock held in preparation for the Chinese New Year Sales.

Balance sheet analysis

As at 31 December 2010, the Group had total assets of HK$891 million (2009: HK$641 million) which was financed by current liabilities of HK$164 million (2009: HK$149 million), non-current liabilities of HK$59.51 million (2009: HK$42.7 million), shareholders' equity of HK$598 million (2009: HK$389 million) and non-controlling interests of HK$69.3 million (2009: HK$60.0 million).

The Group's current ratio as at 31 December 2010 was approximately 2.9 (2009: 1.8). Gearing ratio, representing the total borrowings divided by total equity, was approximately 12.4 % (2009: 21.5%). The reduction in gearing ratio is due to the increase in total cash level as a result of the Open Offer.

Basic earnings per share attributable to the owners of the Company for the year ended 31 December 2010 were at HK 2.32 cents (2009: HK1.77 cents (Restated)), increased by 31.1%.

Trade receivables turnover period (average trade receivables divided by turnover) was 30 days (2009: 38 days). The Group did not experience any material bad debts that required write off in 2010.

The Group has capital commitment amounted to HK$15 million (2009: HK$7 million). The Group and the Company had no other material contingent liabilities as at 31 December 2010.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2010, the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 15.2% (2009: 29.0%) of the Group's total purchases and the purchases attributable to the Group's largest supplier was approximately 3.6% (2009: 7%).

The aggregate sales attributable to the Group's five largest customers for the year ended 31 December 2010 were approximately amounting to 46.2% (2009: 26.0%) and the sales attributable to the Group's largest customer was approximately 29.5% (2009: 10.9%).

None of the directors of the Company, their associates or shareholders which, to the knowledge of the directors of the Company, 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.

Management discussion and analysis

GOVERNMENT SUBSIDIES AND TAXATION

In year 2010, the Group was granted HK$8.1 million (2009: HK$3.5 million) as subsidies from the local finance department in subsidizing the Group's technical development. Since 2006 the State Administration of Taxation (國家稅務總局) has approved Shangri-la Winery's profits tax exemption application allowing first 2 years tax exemption and the following three years half the normal rate at 12.5%. Year 2010 was the final year Shangri-la Winery is subject to 12.5% profits tax. YuQuan is subject to normal profits tax rate of 25%. The Hong Kong company is subject to a profits tax rate of 16.5%.

DIVIDEND

The Board recommended a final dividend of HK 1 cent per share for the year ended 31 December 2010 (2009: Nil) to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at 29 April 2011 subject to the approval by the Company's shareholders at the forthcoming Annual General Meeting.

PLEDGE OF ASSETS

At 31 December 2010, the Group pledged its land, property, plant and equipments with net book value amounting approximately HK$51 million (2009: HK$58 million) to secure general banking facilities granted to the Group.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

As most of the Group's revenue, expenses, assets and liabilities are denominated in Renminbi ("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 2010, the Group employed a total of 846 (2009: 875) full-time employees mostly at the Group's subsidiary factories and sales offices. Out of total employment, 192. staff related to sales and marketing, 587 staff related to production, 32 staff related to management and 35 staff related to administration. The Group's emolument policies are formulated based on the performance of individual employees and are reviewed bi-annually and 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 were granted under the Scheme since its adoption.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wu Xiang Dong, aged 42, was appointed as an Executive Director of the Company in February 2004 and became the Chairman of the Company in September 2007. He is the founder of Jin Liu Fu brand and VATS Group Limited (the "VATS Group"), previously known as "Jin Liu Fu Group",the ultimate holding company of the Company. Currently He is the Chairman of VATS Group and VATS Liquor Chain Store Management Limited. Mr. Wu has extensive experience in the management of large enterprises and the wine business in China. Mr. Wu holds 90% interests in VATS Group, a company deemed to be the substantial shareholder through its indirect shareholdings of JLF Investment Company Limited, a company incorporated in the British Virgin Islands.

Mr. Wu is the vice President of General Chamber of Commerce in Hunan Province. He is a well known entrepreneur in China's wine industry. He has been awarded the most prestigious sales and marketing award in China: the "Golden Censer II Award", the "2010 Ernst and Young's Entrepreneur Of The Year China Award", the "Decoration of World Outstanding Chinese Award", the "Top 10 Outstanding Entrepreneur of Chinese Brand Implementation", "Top 10 Outstanding CEO", "China's Creditable Entrepreneur", "Asia Top 10 Worthies in Brand Innovation", "Top 10 Brand Leadership in Chinese Liquor Industry" and "Top 10 Distribution Channel Leaders in Chinese Liquor Industry" and "the Most Influential Entrepreneurs in New China for 60 years" and the "Outstanding Entrepreneur of Hunan Province".

Mr. Yan Tao, aged 46, was appointed as an Executive Director and the Vice Chairman of the Company on 27 April 2009. Mr. Yan is a member of the People's Communist Party of China. He holds a Postgraduate degree from Economics Faculty of Hunan University. He had worked as deputy general manager at Hunan Zhuzhou Electric Welding Company Limited before joining VATS Group (previously known as "Jin Liu Fu Group") in 1999. During his engagement as the vice President of VATS Group, he had also involved in the operations of various positions within the VATS Group including acting as the general manager of Shangri-la Winery Company Limited and the Chief Operation Officer of Jin Liu Fu Sales Limited. He has been promoted to the President of VATS Group in March 2008. Mr. Yan has years of experiences in marketing of wine products and luxury products and has vast experiences in the operating of retail chains. Mr. Yan is also a member of each of the remuneration committee and nomination committee of the Company.

Mr. Lu Tong, aged 36, was appointed as an Executive Director and Authorized Representative of the Company in September 2007 and became the Chief Executive Officer of the Company in January 2008. He graduated from the History Department of Jilin University. Currently Mr. Lu serves as the vice president of VATS Group. He has also served as the deputy general manager of Jinliufu Wine Company and VATS Group's marketing controller. From 1998 to 2003, Mr. Lu had been employed by Procter & Gamble (China) Ltd. He has substantial experience on sales & marketing and corporate management.

Mr. Sun Jian Xin, aged 42, was appointed as an Executive Director of the Company in September 2007. Graduated from the Food Science Department of the Southwest Agricultural University, he has 17 years of experience in marketing and sales in the PRC. Mr. Sun used to work with Hunan Zhuzhou Hualong Food Company Limited (湖南株州華隆食品有限公司). He has been the Managing Director of Yunnan Jinliufu Investment Company Limited. Currently Mr. Sun serves as the vice president of VATS Group and the managing director of Yunnan Jinliufu Investment Company Limited.

Mr. Shu Shi Ping, aged 47, was appointed as Executive Director of the Company in September 2004. Mr. Shu had been appointed the deputy director of the Municipal Office of Changsha, Hunan Province, the managing deputy general manager of Zhuhai Jiaguan Plastic Products Company Limited and the general manager of Shangri-la Winery Company Limited. He is currently the controller of Yunnan Jinliufu Wine Sales Company Ltd's joint purchase centre. Mr. Shu is a qualified engineer and has obtained Bachelor degree from Hubei University of Technology (previously known as the Hubei Light Industry College). He is experienced in the production and sales of wine products.

Mr. Zhang Jian, aged 37, was appointed as an Executive Director of the Company in February 2004. He is a also an executive director of Dongyue Group Limited (00189), a company listed in the main broad of the 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.

Biographies of Directors and Senior Management

Mr. Ng Kwong Chue Paul, aged 40, was appointed as Executive Director of the Company on 28 March 2011. Mr. Ng is the Company's Authorized Representative and the Company Secretary. He is also the Company's Chief Investment Officer. 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 Hong Kong Securities Institute. He has years of experience in audit, taxation and corporate finance gained from international accounting firms. He was the co-founder of China Innovation Investment Limited (01217) ("CII"), a company listed on the Stock Exchange pursuant to Chapter 21 of the Listing Rules. Apart from acting as the Company Secretary of the Company, 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. In 2008, Mr Ng was elected as the honourable President for Macao ASEAN International Chamber of Commerce and the honourable Chairman for Fujian Province Shishi Yuhu Care Charity Association.

Mr. Cao Kuangyu, aged 60, was appointed as an Independent Non-executive Director of the Company in February 2004. He was also the managing director of the investment banking division of BOCI Asia Limited. Mr. Cao had been the deputy general manager of Bank of China Singapore branch, head of CITIC Industrial Bank Shenzhen branch and had substantial experience in the area of finance. He holds a bachelor degree in Economics and a degree of Master of Science in Financial Management from Hunan University.

Mr. E Meng, aged 53, was appointed as an Independent Non-executive Director of the Company in September 2004. He is the Executive Director and Chairman of Beijing Development (Hong Kong) Limited (stock code: 154) and He is also the Executive Directors of Beijing Enterprises Holdings Limited (stock code: 392) and Beijing Enterprises Water Group Limited(Stock Code:371). 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. Ting Leung Huel, Stephen, MH, FCCA, FCPA (PRACTISING), ACA, FTIHK, FHKIoD, aged 56, 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 9th & 10th Chinese People Political & Consultative Conference, Fujian. He is now a non-executive director of Chow Sang Sang Holdings International Limited (00116) and an independent non-executive director of seven listed companies, namely, Tongda Group Holdings Limited (00698), Minmetals Resources Limited (01204), Tong Ren Tang Technologies Company Limited (08069), Computer and Technologies Holdings Limited (00046), Texhong Textile Group Limited (02678), China SCE Property Holdings Limited (01966) and Dongyue Group Limited (00189).

Mr. Ma Yong, aged 47, was appointed as an Independent Non-executive Directors of the Company in September 2007. Mr Ma graduated from Renmin University of China. 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. Mr. Ma currently 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.

Mr. Luo Yonghong, aged 40, is the Company's Financial Controller. He served as the financial manager of VATS Group since Sept.2010. Mr. Luo used to work in Hunan artificial board factory and Hunan Haida Automobile Electromechanical Trade Corporation as financial department manager and in Hunan Jinliufu Winery Co.Ltd as financial department manager. Currently he is also the deputy financial controller of VATS Group and the financial director of Division 3 of the Group.

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its principal subsidiaries are engaged in the manufacture and trading of grape wine, Tibetan Barley wine and Chinese liquor. The Group's head office is in Hong Kong and all of its manufacturing operations are located in the People's Republic of China.

RESULTS AND APPROPRIATIONS

The Group's results for the year ended 31 December 2010 are set out in the consolidated income statement on page 26.

DIVIDENDS

The Board recommended a final dividend of HK 1 cent per share for the year ended 31 December 2010 (2009: Nil) to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at 29 April 2011, subject to the approval by the Company's shareholders at the forthcoming Annual General Meeting.

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 76.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 26 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Group and of the Company during the year are set out in note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Details of distributable reserve of the Company as at 31 December 2010 are set out in note 27 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 18 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Wu Xiang Dong *(Chairman)*
Mr. Yan Tao *(Vice-Chairman)*
Mr. Lu Tong *(Chief Executive Officer)*
Mr. Sun Jian Xin
Mr. Shu Shi Ping
Mr. Zhang Jian
Mr. Ng Kwong Chue Paul (appointed on 28 March 2011)

Independent Non-executive Directors:

Mr. Ting Leung Huel, Stephen
Mr. E Meng
Mr. Cao Kuangyu
Mr. Ma Yong (retired at the annual general meeting held on 17 May 2010)

Directors' Report

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Lu Tong, Mr. Zhang Jian and Mr. Cao Kuangyu will retire at the forthcoming annual general meeting. Being eligible, each of Mr. Lu Tong, Mr. Zhang Jian and Mr. Cao Kuangyu will offer themselves for re-election. All of the remaining directors will continue in office. In accordance with Bye-law 86(2) of the Company's Bye-laws. Mr. Ng Kwong Chue Paul will retire at the forthcoming annual general meeting. Being eligible, Mr. Ng will offer himself for re-election.

The term of office for each independent non-executive Director is three years subject normal retirement by rotation in accordance with the Company's Bye-laws.

Pursuant to the regulations prescribed by the Listing Rules, 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 9 to page 10 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 31 and 39 to the consolidated 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 2010.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Details of the share option schemes of the Company are set out in note 38 to the consolidated 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 2010, 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:

(i) The Company

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	839,670,169	Long	50.32%

Note: These shares included 839,670,169 shares hold by JLF Investment Company Limited ("JLFBVI"). JLFBVI is 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 80% by VATS Group Limited (a company owned as to 90% by Mr. Wu Xiang Dong and 10% by Mr. Yan Tao) and 20% by Macro-Link Holding Limited (新華聯控股有限公司). Mr. Wu Xiang Dong also owns: (i) 20% in Macro-Link Holding Limited (新華聯控股有限公司); and (ii) 15% equity interest in MACRO-LINK Sdn. Bhd. which, through Macro-Link International Investment Company Limited, held 215,988,337 shares (or 12.94% of the issued share capital of the Company as at 31 December 2010).

(ii) Associated Corporation:

Name of associated corporation	Name of owner	Capacity	Position	Number of shares in the associated corporation	Approximate percentage of share in the associated corporation
VATS Group Limited ("華澤集團有限公司")	Mr. Wu Xiang Dong	Beneficial owner	Long	RMB45,000,000	90%
VATS Group Limited ("華澤集團有限公司")	Mr. Yan Tao	Beneficial owner	Long	RMB45,000,000	10%

Save as disclosed above, as at 31 December 2010, 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.

Directors' Report

(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 2010, 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	839,670,169	Long	50.32%
Yunnan Jinliufu Investment Company Limited (雲南金六福投資有限公司)	*1*	Interest of controlled corporation	839,670,169	Long	50.32%
VATS Group Limited (華澤集團有限公司)	*1*	Interest of controlled corporation	839,670,169	Long	50.32%
Mr. Fu Kwan	2	Interest of controlled corporation	215,988,337	Long	12.94%
MACRO-LINK International Investment Company Limited	2	Beneficial owner	215,988,337	Long	12.94%
MACRO-LINK Sdn. Bhd.	2	Interest of controlled corporation	215,988,337	Long	12.94%

Notes:

1. JLF Investment Company Limited is 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 80% by VATS Group Limited (a company owned as to 90% by Mr. Wu Xiang Dong and 10% by Mr. Yan Tao) and 20% by Macro-Link Holding Limited (新華聯控股有限公司).

2. MACRO-LINK International Investment Company Limited is wholly-owned by MACRO-LINK Sdn. Bhd. Which in turn 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.

Save as disclosed above, as at 31 December 2010, 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 OF LISTED SECURITIES OF THE COMPANY

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

Directors' Report

CONTINUING CONNECTED TRANSACTIONS

Master Sales Agreement

On 27 August 2010, Shangri-la Winery Company Limited ("Shangri-la Winery") has entered into a Master Sales Agreement ('MSA") with a connected company, VATS Chain Liquor Store Management Company Limited (華致酒行連鎖管理有限公司) ("VATS Chain Store") pursuant to which Shangri-la Winery agreed to sell grape wine and Tibetan naked barley wine and provision of related services ("the Products"), on a non-exclusive basis, to VATS Chain Store for a term of three years commencing 1 October 2010. As VATS Chain Store is owned as to 70% by Mr. Wu Xiang Dong (who is the Chairman of the Board and an executive Director) and 19.2% by VATS Group Limited (which is the ultimate holding company of the Company's controlling shareholder interested in about 50.32% of the issued share capital of the Company), it is a connected person of the Company. Under the MSA, the Products are sold by to VATS Group at a price which is 5% – 10% lower than average wholesale price as VATS Chain Store has agreed to purchase a significant amount of the Products from Shangri-la Winery and will be solely responsible for all the costs and expenses to be incurred in relation to the sale and distribution of the Products. The terms of sale are of no less favourable than terms offered to other independent third parties who are willing to order similar quantity under similar conditions. As stated in the circular of the Company dated 17 September 2010, the transactions under the MSA are expected to increase the revenue of the Group and enhance market penetration of the Products leveraging on VATS Chain Store's retail network in the PRC. It is expected that, by entering into the MSA, revenue to be generated from the sales of the Products to VATS Chain Store would remain a strong contributor of revenue to the Group. The sales caps for the three months ended 31 December 2010, the two years ended 31 December 2012 and the nine months ended 30 September 2013 contemplated under the MSA were RMB20 million, RMB40 million, RMB60 million and RMB60 million, respectively.

Master Purchase Agreement

On 27 August 2010, YuQuan Winery has entered into a Master Purchase Agreement ("MPA") with another connected company, Yunnan Jinliufu Trading Company Limited (雲南金六福聯采商貿有限公司) ("Jinliufu Trading") whereby YuQuan Winery has agreed to purchase packaging materials and the related services on a non-exclusive basis, from Jinliufu Trading for a term of three years commencing from 1 October 2010. The purchase price of such packaging materials shall be determined based on normal commercial terms through arm's length negotiation or on terms no less favourable than the terms available from independent third parties for purchase of similar materials and services of comparable quality and quantity. As Jinliufu Trading is owned as to 80% by VATS Group Limited, it is a connected person of the Company. The maximum amounts (i.e. the Purchases Caps) of purchases of packaging materials and the related services from Jinliufu Trading for the coming three years is estimated at HK$9 million per annum.

The independent non-executive Directors have reviewed and confirmed that the above continuing connected transactions have been entered into:

(i) in the ordinary and usual course of business of the Company;

(ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the MSA and MPA governing them respectively on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have also reviewed and confirmed that the above continuing connected transactions:

(i) have received the approval of Board;

(ii) are in accordance with the pricing policies of the Group;

(iii) have been entered into in accordance with the MSA and MPA governing the transactions respectively; and

(iv) have not exceeded the relevant annual caps under the MSA and MPA respectively.

Directors' Report

CORPORATE GOVERNANCE

Details of the corporate governance practices duly adopted by the Company are set out on page 17 to page 24 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 Listing Rules 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 year ended 31 December 2010.

AUDIT COMMITTEE

As of the date of this report, the Audit Committee comprises three Independent Non-executive Directors namely Mr. Ting Leung Huel, Stephen (Chairman), 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 2010. The Audit Committee was content that the accounting policies of the Group are in accordance with current best practice in Hong Kong.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 April 2011 to 29 April 2011 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend for the year ended 31 December 2010 and for attending the forthcoming Annual General Meeting of the Company to be held, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Progressive Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 26 April 2011.

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.

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's shares.

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, 25 March 2011

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 2010.

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 ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") 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.

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 make 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.

CORPORATE GOVERNANCE REPORT

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, Chairman of the Remuneration Committee & Chairman of the Nomination Committee)*
Mr. Yan Tao	*(Vice Chairman of the Board, Member of Remuneration Committee and Nomination Committee)*
Mr. Lu Tong	*(Chief Executive Officer)*
Mr. Sun Jian Xin	
Mr. Shu Shi Ping	
Mr. Zhang Jian	
Mr. Ng Kwong Chue Paul	*(appointed on 28 March 2011)*

Independent non-executive directors:

Mr. Ting Leung Huel, Stephen	*(Chairman of Audit Committee & member of Remuneration Committee and Nomination Committee)*
Mr. Cao Kuangyu	*(Member of Audit Committee, Remuneration Committee & Nomination Committee)*
Mr. E Meng	*(Member of Audit Committee, Remuneration Committee & Nomination Committee)*
Mr. Ma Yong	*(retired at the annual general meeting on 17 May 2010)*

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 2010, the Board at all times met the requirements of the Listing Rules with at least three independent non-executive directors, one of whom possesses 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 Independent 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 Independent non-executive directors make various contributions to the effective direction of the Company.

Corporate Governance Report

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 independent 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 next 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.

According to the current corporate governance practices of the Company, all directors of the Company, 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.

(4) Training for Directors

There was no newly appointed director during the year ended 31 December 2010. The new director appointed in March 2011 has been provided comprehensive, formal and tailored induction so as to ensure that he has appropriate understanding of the business and operations of the Company and that he 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.

(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 2010, 4 Board meetings and 2 Audit Committee meetings were held. The individual attendance record of each director at the meetings of the Board and committees during the year ended 31 December 2010 is set out below:

	Attendance of Meetings	
Name of Directors	**Board**	**Audit Committee**
Mr. Wu Xiang Dong	4	N/A
Mr. Yan Tao	4	N/A
Mr. Lu Tong	4	N/A
Mr. Sun Jian Xin	4	N/A
Mr. Shu Shi Ping	4	N/A
Mr. Zhang Jian	2	N/A
Mr. Ting Leung Huel, Stephen	4	2
Mr. Cao Kuangyu	4	2
Mr. E Meng	4	2
Mr. Ma Yong *(note 1)*	N/A	N/A
Mr. Ng Kwong Chue Paul *(note 2)*	N/A	N/A

Notes:

1. Ma Yong was retired as director at the annual general meeting held on 17 May 2010.

2. Mr. Ng Kwong Chue Paul was appointed as director on 28 March 2011.

CORPORATE GOVERNANCE REPORT

A. THE BOARD *(continued)*

(5) Board Meetings *(continued)*

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.

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

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

The positions of the Chairman and Chief Executive Officer 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 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 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 respectively are clear and distinctive, therefore, written terms thereof are not necessary.

The Board has conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries and is satisfied with the findings.

Corporate governance report

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.

(1) 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 assessment of 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 report, the Nomination Committee comprises two executive directors namely Mr. Wu Xiang Dong (Chairman) and Mr. Yan Tao and three independent non-executive directors namely Mr. Ting Leung Huel, Stephen, Mr. Cao Kuangyu and Mr. E Meng.

The Nomination Committee has not held any meeting during the year ended 31 December 2010.

In accordance with the Company's Bye-Law 87, three directors shall retire by rotation and in accordance with the Company's Bye-Law 86(2), the new director appointed in March 2011 shall also retire at the following general meeting of the Company. Being eligible, all of them will offer themselves for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular despatched together with this report contains detailed information of the directors standing for re-election.

(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 of the Company about these recommendations on remuneration policy and structure and remuneration packages.

CORPORATE GOVERNANCE REPORT

C. BOARD COMMITTEES *(continued)*

(2) Remuneration Committee *(continued)*

As of the date of the report, the Remuneration Committee comprises two executive directors namely Mr. Wu Xiang Dong (Chairman) and Mr. Yan Tao and three independent non-executive directors namely Mr. Ting Leung Huel Stephen, Mr. Cao Kuangyu and Mr. E Meng.

The Remuneration Committee has not held any meeting during the year ended 31 December 2010. Up to the date of the Annual Report.

Emolument Policy

The directors are paid fees 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.

(3) Audit Committee

The Audit Committee comprises three independent non-executive directors namely Mr. Ting Leung Huel, Stephen (Chairman of Audit Committee), Mr. Cao Kuangyu and Mr. E Meng with Mr. Ting Leung Huel, Stephen 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 held 2 meetings during the year ended 31 December 2010 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 2010 has been reviewed by the Audit Committee.

Corporate governance report

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 Model Code throughout the year ended 31 December 2010.

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 2010.

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 page 25.

The remuneration of the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2010 is HK$800,000 and HK$300,000 respectively.

F. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The procedures for voting on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such voting by poll and the poll procedures will be explained before the proceedings of meetings.

Results on any voting conducted by poll will be published immediately following the shareholders' meeting by posting on the websites of the Stock Exchange and the Company.

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 and senior management 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.

Corporate governance report

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 authorization, 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 assessed the effectiveness of the Company's internal control over financial reporting as of 31 December 2010 based on the criteria set forth by the VATS Group's Internal Control – Integrated Framework.

Based on this assessment which covers all material controls including financial, operational and compliance controls and risk management functions, management believes that, as of 31 December 2010, 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 2010 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 2010. The Board is satisfied that there are adequate resources of staff with appropriate qualifications and experience in its accounting and financial reporting team and that sufficient training and budget have been provided.

Independent Auditors' Report

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
(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 26 to 75, which comprise the consolidated and Company statement of financial position as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity's preparation that give true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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, 25 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Turnover	7	**337,133**	259,650
Cost of sales		**(156,379)**	(121,628)
Gross profit		**180,754**	138,022
Other revenue	9	**13,631**	4,200
Selling and distribution costs		**(81,666)**	(61,257)
Administrative expenses		**(45,988)**	(30,303)
Profit from operating activities	10	**66,731**	50,662
Finance costs	12	**(4,522)**	(4,694)
Profit before taxation		**62,209**	45,968
Taxation	13	**(16,621)**	(10,707)
Profit for the year		**45,588**	35,261
Attributable to:			
Owners of the Company		**38,314**	29,500
Non-controlling interests		**7,274**	5,761
		45,588	35,261
Dividend	15	**16,685**	–
Earnings per share attributable to owners of the Company	16		
Basic and diluted (2009: Restated)		**HK2.32 cents**	HK1.77 cents

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
Profit for the year	**45,588**	35,261
Other comprehensive income		
Exchange differences arising on		
- translation of foreign operations	**12,845**	1,059
Total comprehensive income for the year	**58,433**	36,320
Attributable to:		
Owners of the Company	**48,582**	30,559
Non-controlling interests	**9,851**	5,761
Total comprehensive income for the year	**58,433**	36,320

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Land use rights	17	**28,824**	28,576
Property, plant and equipment	18	**171,458**	130,825
Intangible assets	19	**35,031**	36,233
Goodwill	20	**177,959**	177,959
		413,272	373,593
Current assets			
Inventories	22	**158,526**	107,228
Trade and bills receivables	23	**27,758**	27,254
Prepayment, deposit and other receivables	24	**27,577**	42,018
Bank balances and cash	25	**263,426**	90,528
		477,287	267,028
Total assets		**890,559**	640,621
EQUITY			
Capital and reserve attributable to owners of the Company			
Share capital	26	**16,685**	13,904
Reserves		**564,276**	375,115
Proposed final dividend	15	**16,685**	–
		597,646	389,019
Non-controlling interests		**69,327**	59,832
Total equity		**666,973**	448,851

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings – due after one year	32	**38,824**	22,727
Deferred tax liabilities	28	**20,689**	19,959
		59,513	42,686
Current liabilities			
Trade payables	29	**30,172**	29,538
Accruals, deposit received and other payables	30	**57,877**	29,158
Amounts due to related parties	31	**22,305**	10,576
Bank borrowings – due within one year	32	**43,529**	73,864
Tax payable		**10,190**	5,948
		164,073	149,084
Total liabilities		**223,586**	191,770
Total equity and liabilities		**890,559**	640,621
Net current assets		**313,214**	117,944
Total assets less current liabilities		**726,486**	491,537

Approved by the Board of Directors on 25 March 2011 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.

Statement of financial position

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	18	**382**	532
Interests in subsidiaries	21	**388,096**	243,644
		388,478	244,176
Current assets			
Trade receivables	23	**–**	4,391
Prepayment, deposit and other receivables	24	**936**	3,336
Bank balances and cash	25	**57,051**	15,822
		57,987	23,549
Total assets		**446,465**	267,725
EQUITY			
Capital and reserve attributable to owner's of the Company			
Share capital	26	**16,685**	13,904
Reserves	27	**411,386**	251,689
Proposed final dividend	15	**16,685**	–
		444,756	265,593
LIABILITIES			
Current liabilities			
Accruals, deposit received and others payables	30	**1,709**	1,303
Amounts due to subsidiaries	31	**–**	453
Amounts due to a related party	31	**–**	376
		1,709	2,132
Total equity and liabilities		**446,465**	267,725
Net current assets		**56,278**	21,417
Total assets less current liabilities		**444,756**	265,593

Approved by the Board of Directors on 25 March 2011 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 2010

	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Statutory reserve HK$'000	Other reserve HK$'000	Retained earnings HK$'000	Proposed final dividend HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK'000
At 1 January 2009	13,904	253,010	24,467	11,837	–	55,242	–	358,460	54,071	412,531
Profit for the year	–	–	–	–	–	29,500	–	29,500	5,761	35,261
Other comprehensive income	–	–	1,059	–	–	–	–	1,059	–	1,059
Total comprehensive income for the year	–	–	1,059	–	–	29,500	–	30,559	5,761	36,320
Appropriation to the PRC statutory reserve	–	–	–	3,864	–	(3,864)	–	–	–	–
At 31 December 2009 and 1 January 2010	**13,904**	**253,010**	**25,526**	**15,701**	**–**	**80,878**	**–**	**389,019**	**59,832**	**448,851**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**38,314**	**–**	**38,314**	**7,274**	**45,588**
Other comprehensive income	**–**	**–**	**10,268**	**–**	**–**	**–**	**–**	**10,268**	**2,577**	**12,845**
Total comprehensive income for the year	**–**	**–**	**10,268**	**–**	**–**	**38,314**	**–**	**48,582**	**9,851**	**58,433**
Proposed final dividend	**–**	**–**	**–**	**–**	**–**	**(16,685)**	**16,685**	**–**	**–**	**–**
Issue of shares on open offer	**2,781**	**164,072**	**–**	**–**	**–**	**–**	**–**	**166,853**	**–**	**166,853**
Issue cost on open offer	**–**	**(7,164)**	**–**	**–**	**–**	**–**	**–**	**(7,164)**	**–**	**(7,164)**
Acquisition of additional interest in a subsidiary	**–**	**–**	**–**	**–**	**356**	**–**	**–**	**356**	**(356)**	**–**
Appropriation to the PRC statutory reserve	**–**	**–**	**–**	**6,240**	**–**	**(6,240)**	**–**	**–**	**–**	**–**
At 31 December 2010	**16,685**	**409,918 ***	**35,794 ***	**21,941 ***	**356 ***	**96,267 ***	**16,685**	**597,646**	**69,327**	**666,973**

* These reserve accounts comprise the consolidated reserve of HK$564,276,000 (2009: HK$ 375,115,000) in the consolidated statement of financial position.

Share premium

The application of share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda.

Translation reserve

Exchange differences arising from the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (ie Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the translation reserve. The reserve is dealt with in accordance with the accounting policy of foreign currencies set out in note 3.

Statutory reserve

Statutory reserve represents the appropriation of 10% of profit after taxation, calculated in accordance with the accounting standards and regulations applicable to subsidiaries of the Company established in the People's Republic of China (the "PRC"). When the balance of such statutory surplus reserve reaches 50% of the entity's share capital, any further appropriation is optional.

Other reserve

Other reserve represents the difference between the consideration paid to obtain additional non-controlling interests in Yantai Shangri-La Masang Company Limited and its carrying amount on the date of the acqusition.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
Cash flows from operating activities		
Profit before taxation	**62,209**	45,968
Adjustment for:		
Interest income	**(438)**	(585)
Impairment loss on intangible asset trade, and other receivables, net	**10,851**	–
Depreciation of property, plant and equipment	**12,019**	9,457
Amortisation of intangible assets and land use rights	**1,713**	1,829
Loss on disposal of property, plant and equipment	**1,188**	–
Interest expenses	**4,522**	4,694
Operating cash flows before movements in working capital	**92,064**	61,363
Decrease/(increase) in trade receivables, prepayment, deposit and other receivables	**4,875**	(35,270)
(Increase) in inventories	**(51,298)**	(18,665)
Increase/(decrease) in amounts due to related parties	**11,729**	(5,899)
Increase in trade payables, accruals, deposit received and other payables	**29,353**	15,867
Cash generated from operations	**86,723**	17,396
Profits tax paid	**(12,379)**	(11,663)
Interest paid	**(4,522)**	(4,694)
Net cash generated from operating activities	**69,822**	1,039
Cash flows from investing activities		
Interest received	**438**	585
Proceeds from disposal of property, plant and equipment	**–**	320
Purchase of property, plant and equipment	**(49,241)**	(23,368)
Purchase of intangible assets	**(385)**	(91)
Net cash used in investing activities	**(49,188)**	(22,554)
Cash flows from financing activities		
Raise funds from open offer	**166,853**	–
Issue cost on open offer	**(7,164)**	–
Increase in bank borrowings	**58,824**	40,062
Repayment of bank borrowings	**(76,471)**	–
Net cash generated from financing activities	**142,042**	40,062
Net increase in cash and cash equivalents	**162,676**	18,547
Cash and cash equivalents at the beginning of the year	**90,528**	71,747
Effect of foreign exchange rate changes	**10,222**	234
Cash and cash equivalents at the end of the year	**263,426**	90,528
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**263,426**	90,528

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 holding company is VATS Group Limited, a company incorporated in the PRC.

The address of the register 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 and Chinese liquor.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(i) New and amended standards and interpretation adopted by the Group

In the current year, the Group has applied, the following Hong Kong Financial Reporting Standards (which includes all Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and interpretations ("HK(IFRIC) Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemption for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised 2008)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK Interpretation 4	Amendment to HK Interpretation 4 Lease – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a term loan that contains a Repayment on Demand Clause

Except as disclosed below, the adoption of these new and revised HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods.

HKFRS 3 (Revised 2008) "Business Combination"

HKFRS 3 (Revised 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. It introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKFRS 3 (Revised 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as "minority interests") either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

HKFRS 3 (Revised 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to the contingent consideration classified as an asset or a liability are recognised in profit or loss.

Notes to the consolidated financial statements

For the year ended 31 December 2010

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

(i) New and amended standards and interpretation adopted by the Group *(continued)*

HKFRS 3 (Revised 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

HKAS 27 (Revised 2008) "Consolidated and Separate Financial Statements"

The revised standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (Revised 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. The resulting difference is recognised as a gain or loss in the consolidated income statements. The changes introduced in respect of adoption of HKAS 27 (Revised 2008) had been applied prospectively from 1 January 2010.

Amendment to HKAS 17 "Leases"

HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Land use rights", and amortised over the lease term.

HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases, and considered the application of the amendment to HKAS 17 has had no impact on the consolidated financial statements.

HK Interpretation 5 "Classification by the Borrower of a term loan that contains a Repayment on Demand Clause"

The interpretation requires a term loan that contains a repayment on demand clause that gives the lender the unconditional right to call the loan at any time shall be classified in total by the borrower as current in the statement of financial position. As the Group's term loan did not include such repayment on demand clause, the interpretation has had no impact on the financial position or results of operations of the Group.

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

(ii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted

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

HKFRS (Amendments)	Improvement to HKFRSs issued in 2010[2]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopter[3]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopter
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets[3]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24	Related party Disclosures[6]
HKAS 32 Amendments	Financial Instruments: Presentation – Classification of Rights Issues[4]
HK(IFRIC) – Int 14 (Amendment)	Prepayment of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application and is not yet in a position to state whether these would have a significant impact on the results of operations and financial position.

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 HKFRSs, 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 entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income/income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

(b) Basis of consolidation *(continued)*

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

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

When the Group losses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

(c) Business combinations

Business combinations that took place on or after 1 January 2010

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

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

* deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

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

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

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

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

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

(c) Business combinations *(continued)*

Business combinations that took place on or after 1 January 2010 (continued)

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

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

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

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

(d) Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

(d) Goodwill *(continued)*

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income/income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(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.

Service income is recognized when services are provided.

Interest income is accrued on a time 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 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.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use.

No depreciation is provided for construction in progress. Depreciation will commence on the basis of other assets of the same category when the assets are ready for their intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

(g) Property, plant and equipment *(continued)*

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$^{1}/_{3}$%

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.

(h) Financial instruments

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

Financial assets

Financial assets within the scope of HKAS 39 are classified as loans and receivables, financial assets at fair value through profit or loss ("FVTPL") and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

(h) Financial instruments *(continued)*

Financial assets (continued)

Financial Assets at Fair Value through Profit or Loss

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At the end of the reporting period, subsequent to initial recognition, FVTPL are measured at fair value, with changes in fair value arising from remeasurement directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

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 reporting date.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition. An impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired.

Impairment of financial assets

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

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

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or it becomes probable that the borrower will enter bankruptcy or financial reorganisation.

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

For financial assets carried at amortised cost, the amount of impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

(h) Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets *(continued)*

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

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

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank and other borrowings

Interest-bearing bank loans and other loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Other financial liabilities

Other financial liabilities including trade payables, other payables, amount due to related parties are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and any cumulative gain or loss that had been recognised directly in equity is recognised in consolidated income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated income statement.

(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.

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

(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 reporting 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 end of the reporting period. Deferred tax is charged or credited in the consolidated 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 30 to 50 years.

(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 Hong Kong 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

(l) Foreign currencies *(continued)*

(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.

(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 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 income statement, and a corresponding adjustment to equity in the 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.

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

(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 consolidated income statement in the year of determination.

Trademarks

On initial recognition, trademarks acquired separately and from business combinations are recognised at cost and at fair value at the acquisition date respectively. The fair value of intangible assets acquired in business combination is determined based on the discount cash flow forecast of the projection of profit streams from trademarks held by subsidiaries at the date of acquisition. After initial recognition, trademarks are recorded at cost less accumulated amortisation (where the estimated useful life are finite) and impairment loss.

Trademarks with 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.

Trademarks with indefinite useful lives are not amortised but are tested for impairment annually, and whenever there is an indication that they may be impaired, by comparing their carrying amounts with their recoverable amounts. An impairment loss is recognised immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

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.

(p) Impairment of assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

(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) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(s) 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.

(t) 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 the consolidated 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 consolidated financial statements when an inflow of economics benefits is probable. When inflow is virtually certain, an asset is recognised.

(u) 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 profit and loss account 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

(v) Operating segment

Operating segment is reported in a manner consistent with the internal management reporting provided to the chief operating decision-makers. Segment assets consist primarily of fixed assets, financial assets and other assets. Segment liabilities comprise financial liabilities and other liabilities. The Group evaluates performance on the basis of profit or loss from operations after tax expenses and non-controlling interest.

(w) 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 operation 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 Categories of financial instruments

	2010 HK$'000	2009 HK$'000
Financial assets		
Loan and receivables (including bank balances and cash)	**303,674**	135,294
Financial liabilities		
Amortised cost	**175,322**	154,652

4.2 Financial risk factors

The Group is exposed to a variety of financial risks such as market risk (including foreign currency risk, 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 currency risk

The Group mainly operates in Hong Kong and the PRC and is exposed to foreign currency risk arising from fluctuation in Renminbi ("RMB"). Foreign currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The following is the Group's sensitivity to a 5% increase and decrease in RMB against Hong Kong dollar. 5% is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis mainly includes the Group's trade and bills receivables, prepayment, deposit and other receivables, amount due to related parties, bank balances and bank borrowings, trade payables and accruals and deposit received denominated that in RMB. Where RMB strengthens against Hong Kong dollar by 5%, the Group's profit for the year would increase by HK$4,923,000 (2009: HK$1,987,000), while a 5% weakening of RMB against Hong Kong dollar, there would be an equal and opposite impact on the profit and balances would be negative.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

4. FINANCIAL RISK MANAGEMENT *(continued)*

4.2 Financial risk factors *(continued)*

(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 bank borrowings 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 bank borrowings 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.

The sensitivity analyses below have been determined based on the exposure to interest rates of variable rate bank balances and borrowings. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability and bank balances outstanding at the end of each reporting period was outstanding for the whole year.

If interest rates had been increased or decreased by 5% with all other variables held constant, the Group's profit would decrease or increase by approximately HK$4,118,000 (2009:HK$4,830,000).

(c) *Credit risk*

The Group has policies in place to ensure that wholesale of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties, is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk in relation to trade receivables and amount due from related parties, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

Since the Group trades only with customers with an appropriate credit history, there is no requirement for collateral. The management monitored the financial background and creditability of those debtors on an ongoing basis.

(d) *Liquidity risk*

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. The Group consistently measures and maintains a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

4. FINANCIAL RISK MANAGEMENT *(continued)*

4.2 Financial risk factors *(continued)*

(d) Liquidity risk (continued)

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rates) and the earliest date the Group can be required to pay:

	Weighted average effective interest rate	Less than 1 year HK$'000	Between 1 and 5 years HK$'000	Over 5 years HK$'000	Total un-discounted cash flow HK$'000	Total carrying amount HK$'000
At 31 December 2010						
Trade payables	**–**	**30,172**	**–**	**–**	**30,172**	**30,172**
Accruals and other payables	**–**	**40,492**	**–**	**–**	**40,492**	**40,492**
Amount due to related parties	**–**	**22,305**	**–**	**–**	**22,305**	**22,305**
Bank borrowings	**5%**	**43,529**	**44,944**	**–**	**88,473**	**82,353**
		136,498	**44,944**	**–**	**181,442**	**175,322**
At 31 December 2009						
Trade payables	–	29,538	–	–	29,538	29,538
Accruals and other payables	–	17,947	–	–	17,947	17,947
Amount due to related parties	–	10,576	–	–	10,576	10,576
Bank borrowings	5%	77,786	26,075	–	103,861	96,591
		135,847	26,075	–	161,922	154,652

4.3 Fair value estimation

The fair value of financial assets and financial liabilities are determined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The directors of the Company consider that the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments and no analysis is disclosed as the Group has no financial instruments that are measured subsequent to initial recognition at fair value at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 statement of financial position) and total capital is calculated as "equity", as shown in the consolidated statement of financial position.

The gearing ratios as at 31 December 2010 and 2009 were as follows:

	2010 HK$'000	2009 HK$'000
Total borrowings	**82,353**	96,591
Less: Bank balances and cash	**(263,426)**	(90,528)
	(181,073)	6,063
Total equity	**666,973**	448,851
Gearing ratio	**12 %**	22%

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 (d). The recoverable amounts of cash-generating units are determined based on value-in-use calculations. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

(b) 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 and 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 consolidated income statement.

(c) Trade receivables

The aged debt profile of trade receivables is reviewed on a regular basis to ensure that the trade receivables 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 consolidated income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect our results of operations.

(d) 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.

(e) 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.

(f) Allowance of inventories

The management of the Group reviews an aging analysis at the end of reporting period, 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 the end of reporting period and makes allowance for obsolete items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

(g) 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.

7. TURNOVER

	The Group	
	2010	2009
	HK$'000	HK$'000
Production and distribution of wine	**209,034**	165,567
Production and distribution of Chinese liquor	**128,099**	94,083
	337,133	259,650

8. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has identified operating segments based on similar products. The operating segments are identified by senior management who is designated as "Chief Operating Decision Maker" to make decisions about resource allocation to the segments and assess their performance.

The Group has two reportable segments, (i) production and distribution of wine and (ii) production and distribution of Chinese Liquor. The segmentations are based on the information about the operation of the Group that management uses to make decisions.

8. SEGMENT INFORMATION *(continued)*

Segment revenue and results

The following is an analysis of the Group's revenues and results by reportable segment for the current and prior years:

	Chinese liquor HK$'000		Wine HK$'000		Total HK$'000	
	2010	2009	**2010**	2009	**2010**	2009
Segment revenue Revenue from external customers	**128,099**	94,083	**209,034**	165,567	**337,133**	259,650
Segment results	**28,630**	20,201	**47,894**	38,939	**76,524**	59,140
Unallocated corporate income					**158**	163
Unallocated corporate expenses					**(9,951)**	(8,641)
Finance cost					**(4,522)**	(4,694)
Profit before taxation					**62,209**	45,968
Taxation					**(16,621)**	(10,707)
					45,588	35,261

The accounting policies on segment reporting are the same as the Group's accounting policies described in note 3. Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment results represented the profits earned by each segment without allocation of central administration costs, directors salaries, finance cost and taxation.

Segment assets and liabilities

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

	Chinese liquor HK$'000		Wine HK$'000		Total HK$'000	
	2010	2009	**2010**	2009	**2010**	2009
Segment assets	**270,288**	236,462	**562,033**	384,469	**832,321**	616,540
Unallocated					**58,238**	24,081
					890,559	640,621
Segment liabilities	**33,022**	14,774	**85,072**	58,766	**118,094**	73,540
Unallocated					**105,492**	118,230
					223,586	191,770

For the purpose of monitoring segment performance and allocating resources between segments, all assets are allocated to reportable segments except for certain financial assets which are managed on a group basis. Goodwill is allocated to reportable segment as described in note 20; and all liabilities are allocated to reportable segments except for bank borrowings, deferred tax liabilities and other financial liabilities which are managed on a group basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

8. SEGMENT INFORMATION *(continued)*

Other information

The following is an analysis of the Group's other segment information for the current and prior years:

	Chinese liquor HK$'000		Wine HK$'000		Total HK$'000	
	2010	2009	**2010**	2009	**2010**	2009
Capital expenditure	**36,594**	13,207	**13,032**	10,254	**49,626**	23,461
Depreciation of property, plant and equipment	**6,853**	2,861	**5,166**	6,596	**12,019**	9,457
Amortisation of land use rights	**544**	498	**217**	210	**761**	708
Amortisation of intangible assets	**11**	11	**941**	1,110	**952**	1,121
Provision on impairment loss of trade and other receivables	**8,716**	2,841	**384**	25	**9,100**	2,866
Provision for obsolete inventories	**–**	–	**–**	147	**–**	147

Information about major customers

The following is an analysis of revenue from customers contributing over 10% of the total sales of the Group for the current and prior years:

	Total HK$'000	
	2010	2009
Customer A	**99,418**	32,164

Geographical information

Over 90% of the Group's turnover and results were derived from the PRC. Accordingly, no geographical segment analysis is presented for the year.

As at the end of reporting period, over 90% of the identifiable assets of the Group were located in the PRC. Accordingly, no geographical segment analysis on the carrying amount of segment assets or additions to property, plant and equipment is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

9. OTHER REVENUE

	The Group	
	2010 **HK$'000**	2009 HK$'000
Government subsidies (Note 40)	**8,130**	3,503
Sub-contracting service income	**4,584**	–
Bank interest income	**438**	585
Others	**479**	112
	13,631	4,200

10. EXPENSES BY NATURE

	The Group	
	2010 **HK$'000**	2009 HK$'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	**34,426**	21,462
– Retirement benefits scheme contributions	**51**	58
Total staff costs	**34,477**	21,520
Auditors' remuneration**	**954**	965
Amortisation of intangible assets**	**952**	1,121
Amortisation of land use rights**	**761**	708
Cost of inventories recognised as expenses*	**130,352**	98,118
Provision for obsolete inventories**	**–**	147
Provision on impairment loss of trade and other receivables**	**9,100**	2,866
Depreciation**	**12,019**	9,457
Research and development cost**	**314**	549
Minimum lease payments under operating leases:		
Land and building**	**1,895**	2,273

* Included in "Cost of sales" of the consolidated income statement.

** Included in "Administrative expenses" of the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

11. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

For the year ended 31 December 2010, the emoluments paid or payable to each of the ten (2009: ten) directors was as follow:

For the year ended 31 December 2010 and 2009:

	Fees		Salaries and other benefits		Performance related incentive payments		Retirement benefits scheme contributions		Total	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Wu Xiang Dong	**–**	–	**1,300**	1,300	**–**	–	**12**	12	**1,312**	1,312
Shu Shi Ping	**–**	–	**100**	100	**–**	–	**–**	–	**100**	100
Zhang Jian	**–**	–	**100**	100	**–**	–	**–**	–	**100**	100
Lu Tong	**–**	–	**460**	460	**–**	–	**12**	12	**472**	472
Sun Jian Xin	**–**	–	**100**	100	**–**	–	**–**	–	**100**	100
Yan Tao[1]	**–**	–	**100**	75	**–**	–	**–**	–	**100**	75
Cao Kuangyu	**150**	150	**–**	–	**–**	–	**–**	–	**150**	150
Ting Leung Huel, Stephen	**240**	240	**–**	–	**–**	–	**–**	–	**240**	240
E Meng	**150**	150	**–**	–	**–**	–	**–**	–	**150**	150
Ma Yong[2]	**50**	150	**–**	–	**–**	–	**–**	–	**50**	150
	590	690	**2,160**	2,135	**–**	–	**24**	24	**2,774**	2,849

Note:

1 Mr. Yan Tao was appointed as executive director of the Company on 27 April 2009.

2 Mr. Ma Yong was retired as independent non-executive director of the Company on 17 May 2010.

(b) Employees' emoluments

The five highest paid individuals for the year included three directors (2009: three directors) whose emoluments are set out in (a) above. The emoluments of the remaining two (2009: two) individuals are as follows:

	2010 HK$'000	2009 HK$'000
Salaries, performance related incentive payments and other benefits	**1,352**	1,192
Retirement benefits scheme contribution	**22**	20
	1,374	1,212

The emoluments of the five individual with the highest emoluments are within the following bands:

	2010 Number of employees	2009 Number of employees
Up to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**2**	2
	5	5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

12. FINANCE COSTS

	The Group	
	2010 HK$'000	2009 HK$'000
Interest on bank borrowings wholly repayable within five years	**4,407**	4,529
Bank charges	**115**	165
	4,522	4,694

13. TAXATION

	2010 HK$'000	2009 HK$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**–**	–
The PRC Enterprise Income Tax		
– current year	**16,741**	10,688
– (over)/under-provision in prior year	**(120)**	19
	16,621	10,707

Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year.

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 derived from Hong Kong for the year.

As at 31 December 2010, the Group had unused tax losses of approximately HK$48 million (2009: HK$43 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The PRC Enterprise Income Tax

Pursuant to the relevant rules and regulations in the PRC, Shangri-La Winery Company Limited and Diqing Shangri-La Economics Development Zone Tinlai Winery Company Limited, subsidiaries of the Company, are 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"). The Tax Exemption Period has expired in 2010.

Shangri-La (Qinhuangdao) Winery Limited, a subsidiary of the Company which is a foreign investment enterprise established in the Coastal Open Economics Region of Qinhuangdao, the PRC, 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 tax rules applicable to foreign investment enterprise in the PRC. Shangri-La (Qinhuangdao) Winery Limited has been reported its second year profit since its establishment.

The tax rate applicable for all other subsidiaries established in the PRC is 25% (2009: 25%).

On 16 March 2007, the Fifth Plenary Session of the Tenth National people's Congress passed the Corporate Income Tax Law of the People's Republic of China (the "New Tax Law") which became effective on 1 January 2008, when the income tax rules and regulations of the PRC applicable to foreign investment enterprises (the "FEIT Law") was abolished. The New Tax Law adopts a uniform tax of 25% of all enterprises including foreign investment enterprises.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

13. TAXATION *(continued)*

The PRC Enterprise Income Tax *(continued)*

Pursuant to the transitional arrangements under the New Tax Law, the above mentioned PRC subsidiaries which is in the Tax Exemption Period will continue to enjoy the tax-exemption or 50% reduction in the applicable income tax rate until the expiry of the Tax Exemption Period previously granted under the FEIT Law, and thereafter it will be subject to the unified rate of 25%.

Reconciliation between tax expenses and accounting profit at applicable tax rates

A reconciliation of the tax expenses applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and majority of its subsidiaries are domiciled to the tax expense/(income) 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 – 2010

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
(Loss)/profit before taxation	(5,232)		67,441		62,209	
Tax at the statutory tax rate	(863)	(16.5)	16,860	25.0	15,997	25.7
Tax effect of tax losses not recognised	877	16.8	873	1.3	1,750	2.8
Tax effect of income not taxable for tax purpose	(40)	(0.8)	(9,748)	(14.5)	(9,788)	(15.7)
Tax effect of expense not deductible for tax purpose	26	0.5	11,083	16.4	11,109	17.8
Effect of tax exemptions granted to the PRC subsidiaries	–	–	(2,327)	(3.4)	(2,327)	(3.7)
Over provision in prior year	–	–	(120)	(0.2)	(120)	(0.2)
Tax charge for the year	–	–	16,621	24.6	16,621	26.7

The Group – 2009

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
(Loss)/profit before taxation	(4,499)		50,467		45,968	
Tax at the statutory tax rate	(742)	(16.5)	12,617	25.0	11,875	25.8
Tax effect of tax losses not recognised	720	16.0	362	0.7	1,082	2.4
Tax effect of income not taxable for tax purpose	–	–	(324)	(0.6)	(324)	(0.7)
Tax effect of expense not deductible for tax purpose	22	0.5	3,128	6.2	3,150	6.9
Effect of tax exemptions granted to the PRC subsidiaries	–	–	(5,095)	(10.1)	(5,095)	(11.1)
Under provision in prior year	–	–	19	–	19	–
Tax charge for the year	–	–	10,707	21.2	10,707	23.3

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

14. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group's consolidated profit for the year of HK$45,588,000 (2009: profit of HK$35,261,000) of which profit attributable to owners of the Company for the year of HK$19,474,000 (2009: loss of HK$4,489,000) is dealt with in the financial statements of the Company.

15. DIVIDEND

A final dividend of HK 1 cent per share for the year ended 31 December 2010, amounted to approximately HK$16,685,000, is proposed by the Board and subject to approval by the shareholders at the forthcoming Annual General Meeting.

16. EARNINGS PER SHARE

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

	2010 HK$'000	2009 HK$'000
Profit for the year attributable to the owners of the Company for the purpose of basic earnings per share	**38,314**	29,500

	Number of shares	
	2010	2009 (Restated)
Weighted average number of shares for the purpose of basic earnings per share	**1,653,446,787**	1,668,532,146

The weighted average number of shares for the purposes of calculating basis and diluted earnings per share for both years has been adjusted to reflect the open offer effective in January 2010.

Diluted earnings per share were same as the basic earnings per share as there were no dilutive potential ordinary shares in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17. 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:

	2010 HK$'000	2009 HK$'000
Outside Hong Kong, held on: Lease period between 10 to 50 years	**28,824**	28,576
Cost		
As at 1 January	**30,483**	30,328
Exchange alignment	**1,076**	155
As at 31 December	**31,559**	30,483
Amortisation		
As at 1 January	**1,907**	1,193
Exchange alignment	**67**	6
Charge for the year	**761**	708
As at 31 December	**2,735**	1,907
Carrying amount		
As at 31 December	**28,824**	28,576

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

As at 31 December 2010, the Group's land use rights with carrying amount of approximately HK$4,738,000 (2009: HK$4,774,000) were pledged as security for the Group's bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

18. PROPERTY, PLANT AND EQUIPMENT

The Group

	Construction in progress HK$'000	Plant and building HK$'000	Machinery HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:							
At 1 January 2009	1,019	92,180	46,179	725	728	2,740	143,571
Exchange alignment	5	471	236	–	4	14	730
Transfer to property, plant and equipment	(1,024)	615	409	–	–	–	–
Additions	16,999	313	3,807	250	207	1,794	23,370
Elimination upon disposals	–	(489)	(203)	–	–	(50)	(742)
At 31 December 2009 and 1 January 2010	16,999	93,090	50,428	975	939	4,498	166,929
Exchange alignment	600	3,286	1,780	–	33	159	5,858
Transfer to property, plant and equipment	(25,566)	8,264	17,302	–	–	–	–
Additions	44,275	427	2,164	6	82	2,287	49,241
Elimination upon disposals	–	(2,530)	(2,592)	–	–	–	(5,122)
At 31 December 2010	36,308	102,537	69,082	981	1,054	6,944	216,906
Depreciation and impairment:							
At 1 January 2009	–	9,961	15,427	275	492	776	26,931
Exchange alignment	–	51	80	–	3	4	138
Charge for the year	–	4,074	4,619	168	158	438	9,457
Elimination upon disposals	–	(238)	(136)	–	–	(48)	(422)
At 31 December 2009 and 1 January 2010	–	13,848	19,990	443	653	1,170	36,104
Exchange alignment	–	489	706	–	23	41	1,259
Charge for the year	–	4,798	5,378	156	121	1,566	12,019
Elimination upon disposals	–	(1,860)	(2,074)	–	–	–	(3,934)
At 31 December 2010	–	17,275	24,000	599	797	2,777	45,448
Net book value:							
At 31 December 2010	**36,308**	**85,262**	**45,082**	**382**	**257**	**4,167**	**171,458**
At 31 December 2009	16,999	79,242	30,438	532	286	3,328	130,825

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

The Company

	Office equipment HK$'000
Cost	
At 1 January 2009	725
Additions	250
At 31 December 2009 and 1 January 2010	975
Additions	6
At 31 December 2010	981
Depreciation	
At 1 January 2009	275
Charge for the year	168
At 31 December 2009 and 1 January 2010	443
Charge for the year	156
At 31 December 2010	599
Net book value	
At 31 December 2010	**382**
At 31 December 2009	532

As at 31 December 2010, the Group's building with carrying amount of approximately HK$40,472,000 and plant and machinery with carrying amount of approximately HK$5,310,000 respectively (2009: building: HK$40,707,000 and plant and machinery: HK$12,482,000) were pledged as security for the Group's bank borrowings.

The buildings located in the PRC with a lease term of 30 to 50 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

19. INTANGIBLE ASSETS

	Farmland development HK$'000	Technical know-how HK$'000	Trademarks HK$'000	Total HK$'000
Cost				
At 1 January 2009	13,908	1,724	24,153	39,785
Exchange alignment	71	9	123	203
Additions	91	–	–	91
At 31 December 2009 and 1 January 2010	14,070	1,733	24,276	40,079
Exchange alignment	497	61	857	1,415
Additions	385	–	–	385
At 31 December 2010	14,952	1,794	25,133	41,879
Amortisation				
At 1 January 2009	1,178	1,243	290	2,711
Exchange alignment	6	7	1	14
Amortisation for the year	696	341	84	1,121
At 31 December 2009 and 1 January 2010	1,880	1,591	375	3,846
Exchange alignment	66	56	13	135
Amortisation for the year	718	147	87	952
Impairment	1,915	–	–	1,915
At 31 December 2010	4,579	1,794	475	6,848
Net carrying amount				
At 31 December 2010	**10,373**	**–**	**24,658**	**35,031**
At 31 December 2009	12,190	142	23,901	36,233

Farmland development represented farmland expenditure and cost for preparation works.

Farmland development, technical know-how and trademarks 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
Trademarks	10 years

Amortisation expenses of HK$952,000 (2009: HK$1,121,000) is included in the administrative expenses in the consolidated income statement.

The trademarks acquired in the business combination are classified as an intangible asset with indefinite life. The management of the Group considered that the legal rights of the trademarks are capable of being renewed indefinitely at insignificant cost and it is expected to generate positive cash flows indefinitely. The trademarks will not be amortised until its useful life is determined to be finite upon reassessment of its useful life annually by the management. Instead they will be tested for impairment and whenever there is an indication that it may be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

19. INTANGIBLE ASSETS *(continued)*

Impairment test of intangible assets

Trademarks with indefinite useful life with carrying amount of approximately HK$24,658,000 are allocated to the Group's cash generating unit ("CGU") of Chinese liquor business. 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 a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and at discount rate of 7% per annum (2009: 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.

During the year, an extreme unstable climate in the PRC had a harmful effect to certain area of farmland and its environment. The directors of the Company considered an impairment loss on the damaged farmland development of approximately HK$1,915,000 recognised in the consolidated income statement accordingly.

20. GOODWILL

	HK$'000
Cost	
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	177,959
Impairment	
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	–
Carrying amount	
At 31 December 2010	**177,959**
At 31 December 2009	177,959

Goodwill is allocated to the Group's CGU identified according to business as follows:

	2010 HK$'000	2009 HK$'000
Wine business	**130,428**	130,428
Chinese liquor business	**47,531**	47,531
	177,959	177,959

Impairment test of goodwill

The recoverable amount of the above CGU of wine business and Chinese liquor business 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 at discount rate of 8% per annum (2009 8% 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.

The management of the Group determined that there is no impairment of goodwill at 31 December 2010 and 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

21. INTERESTS IN SUBSIDIARIES

	2010 HK$'000	2009 HK$'000
Unlisted shares, at cost	**240,828**	240,828
Amounts due from subsidiaries	**147,268**	2,816
	388,096	243,644

Particulars of the Company's principal subsidiaries at 31 December 2010 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company Directly 2010 %	Directly 2009 %	Indirectly 2010 %	Indirectly 2009 %	Principal activities
Shangri-La Winery Company Limited (Note i) ("Shangri-La Winery")	The PRC	Registered capital RMB56,560,000	**95**	95	**–**	–	Production and distribution of wine and investment holding
Shangri-La (Qinhuangdao) Winery Limited (Note i) ("Shangri-La (Qinhuangdao)")	The PRC	Registered capital RMB40,000,000	**25**	25	**71**	71	Production of winery products
Diqing Shangri-La Economics Development Zone Tinlai Winery Company Limited	The PRC	Registered capital RMB8,200,000	**–**	–	**95**	95	Distribution of winery products
Yunnan Diqing Shangri-La YuQuan Investment Company Limited	The PRC	Registered capital RMB10,000,000	**–**	–	**66**	66	Investment holding
Shangri-La Plantation Company Limited	The PRC	Registered capital RMB2,000,000	**–**	–	**96**	96	Purchasing and distribution of grape
Yantai Shangri-La Masang Company Limited (formerly known as Yantai Shangri-La Shuijing Cellar Company Limited) ("Yantai Shangri-La")	The PRC	Registered capital RMB10,000,000	**–**	–	**100**	95	Production of winery products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

21. INTERESTS IN SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company Directly 2010 %	Directly 2009 %	Indirectly 2010 %	Indirectly 2009 %	Principal activities
Diqing Shangri-La Economics Development Zone Zimi Sales Company Limited	The PRC	Registered capital RMB2,000,000	**–**	–	**95**	95	Distribution of winery products
Heilongjiang Province YuQuan Winery Company Limited ("Heilongjang YuQuan")	The PRC	Registered capital RMB4,060,000	**–**	–	**66**	66	Production of Chinese liquor products
Harbin Xinlong Winery Company Limited	The PRC	Registered capital RMB500,000	**–**	–	**66**	66	Distribution of Chinese liquor products
Acheng City Longcheng Company Limited	The PRC	Registered capital RMB500,000	**–**	–	**66**	66	Distribution of Chinese liquor products
Diqing Jinliufu Commercial Consulting Company Limited	The PRC	Registered capital RMB856,900	**–**	–	**100**	–	Investment holding

Notes:

i Shangri-La Winery and Shangri-La (Qinhuangdao) were formed as Chinese foreign equity joint venture companies in the PRC under joint venture agreement dated 17 May 2005 and 3 June 2005 respectively.

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

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

22. INVENTORIES

	The Group 2010 HK$'000	2009 HK$'000
Raw materials	**60,986**	44,112
Work in progress	**30,508**	22,280
Finished goods	**67,032**	40,836
	158,526	107,228

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For the year ended 31 December 2010

23. TRADE AND BILLS RECEIVABLES

The Group generally allows an average credit period ranging from 30 to 90 days (2009: 30 to 90 days) to its trade customers which major customers with whom specific terms have agreed.

	The Group		The Company	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Trade and bills receivables	**27,873**	27,365	**–**	4,391
Less: Impairment loss of trade and bills receivables	**(115)**	(111)	**–**	–
	27,758	27,254	**–**	4,391

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follow:

	The Group		The Company	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Within 30 days	**23,357**	27,073	**–**	4,391
More than 30 days and within 60 days	**–**	–	**–**	–
More than 60 days and within 90 days	**4,180**	98	**–**	–
More than 90 days and within 180 days	**221**	83	**–**	–
More than 180 days and within 360 days	**–**	–	**–**	–
At 31 December	**27,758**	27,254	**–**	4,391
Represented by:				
Receivables from related companies	**–**	7,218	**–**	–
Receivables from third parties	**27,758**	20,036	**–**	4,391
	27,758	27,254	**–**	4,391

All trade and bills receivables were denominated in RMB.

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

	The Group		The Company	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
At 1 January	**111**	90	**–**	–
Impairment losses recognised	**6**	25	**–**	–
Bad debt recovered	**(2)**	(4)	**–**	–
At 31 December	**115**	111	**–**	–

Notes to the consolidated financial statements

For the year ended 31 December 2010

23. TRADE AND BILLS RECEIVABLES *(continued)*

The Group does not hold any collateral over these balances.

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

	The Group		The Company	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Neither past due nor impaired	**27,537**	27,171	**–**	4,391
One to six month past due	**221**	83	**–**	–
Six months to one year past due	**–**	–	**–**	–
	27,758	27,254	**–**	4,391

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 of the Company 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.

24. PREPAYMENT, DEPOSIT AND OTHER RECEIVABLES

	The Group		The Company	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Prepayment	**14,764**	26,897	**482**	3,027
Deposit	**323**	309	**323**	309
Other receivables	**25,153**	18,417	**131**	–
	40,240	45,623	**936**	3,336
Less: Impairment loss of other receivables	**(12,663)**	(3,605)	**–**	–
	27,577	42,018	**936**	3,336
Represented by:				
Amount due from related parties	**131**	4,419	**–**	–
Amount due from third parties	**27,446**	37,599	**936**	3,336
	27,577	42,018	**936**	3,336

Included in the balance due from related parties as at 31 December 2010 was an amount of approximately HK$131,000 which is non-traded related, unsecured, interest-free and repayable on demand. The amount due from related parties as at 31 December 2009 is traded related, unsecured, interest-free and repayable on demand.

24. PREPAYMENT, DEPOSIT AND OTHER RECEIVABLES *(continued)*

The movement in provision for impairment loss of other receivables were as follows:

	The Group		The Company	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
At 1 January	**3,605**	760	**–**	–
Exchange alignment	**126**	4		
Impairment losses recognised	**9,094**	2,841	**–**	–
Bad debt recovered	**(162)**	–	**–**	–
At 31 December	**12,663**	3,605	**–**	–

Included in the provision for impairment loss above with an aggregate balance of approximately HK$12,663,000 (2009: HK$3,605,000) were individual impaired receivables. The individually impaired other receivables related to other debtors that were past due over one year or in default of payments and management assessed that these receivables are generally not recoverable. The Group does not hold any collateral over these balances.

The carrying amounts of the remaining other receivables that were neither past due nor impaired relate to other debtors for whom there were no recent history of default.

25. BANK BALANCES AND CASH

	The Group		The Company	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Cash at bank and in hand	**263,426**	90,528	**57,051**	15,822

At the end of reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$205,895,000 (2009: HK$74,706,000). 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 banks 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	
	2010 '000	2009 '000	**2010 HK$'000**	2009 HK$'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	**1,390,443**	1,390,443	**13,904**	13,904
Issue of shares upon open offer (Note i)	**278,089**	–	**2,781**	–
At the end of the year	**1,668,532**	1,390,443	**16,685**	13,904

Note:

(i) In January 2010, the Company issued and allotted 278,089,000 ordinary shares of HK$0.01 each to the existing qualifying shareholders pursuant to the open offer on the basis of one open offer shares for every five existing shares held. The net proceeds of approximately HK$160,000,000 from the open offer was used for the purpose of relocation of Shangri-La Winery's bottling factory, enhancement and upgrading existing production facilities, development of Chateau in Yantai and general working capital of the Group. Details of which were set out in the Company circular dated 14 December 2009.

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27. RESERVES

(a) The Group

Movement of the Group's reserves for the current and prior years is presented in the consolidated statement of changes in equity on pages 31 of the consolidated financial statements.

(b) The Company

	Share premium HK$'000	**Retained earnings** HK$'000	**Proposed final dividend** HK$'000	**Total** HK$'000
At 1 January 2009	253,010	3,168	–	256,178
Loss for the year	–	(4,489)	–	(4,489)
At 31 December 2009 and 1 January 2010	253,010	(1,321)	–	251,689
Issue of shares on open offer	164,072	–	–	164,072
Issue cost on open offer	(7,164)	–	–	(7,164)
Profit for the year	–	19,474	–	19,474
Proposed final dividend	–	(16,685)	16,685	–
At 31 December 2010	**409,918**	**1,468**	**16,685**	**428,071**

28. DEFERRED TAX LIABILITIES

The deferred tax liabilities of the Group recognised in the consolidated statement of financial position and the movements during the year are as follow:

	The Group HK$'000
Deferred tax arising from revaluation of properties as follow:	
At 1 January 2009	19,854
Exchange alignment	105
At 31 December 2009 and 1 January 2010	19,959
Exchange alignment	730
At 31 December 2010	**20,689**

The deferred tax liabilities of the Group recognised in the consolidated statement of financial position was attributable from revaluation of land and buildings and intangible assets upon acquisition of subsidiaries in 2005 and 2008 respectively.

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29. TRADE PAYABLES

	The Group	
	2010 HK$'000	2009 HK$'000
Within 90 days	**28,000**	25,767
More than 90 days and within 180 days	**291**	2,750
More than 180 days and within 360 days	**1,881**	1,021
	30,172	29,538

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	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Accruals	**7,124**	2,390	**1,700**	1,290
Trade deposit received	**17,385**	11,211	**–**	–
Other payables	**33,368**	15,557	**9**	13
	57,877	29,158	**1,709**	1,303

31. AMOUNTS DUE TO RELATED PARTIES/SUBSIDIARIES

The amounts are non-trade related, unsecured, interest free and repayable on demand.

32. BANK BORROWINGS

	The Group	
	2010 HK$'000	2009 HK$'000
Secured bank borrowings comprised of:		
Import loans – secured	**58,824**	56,818
Import loans – unsecured	**23,529**	39,773
	82,353	96,591
The borrowings are repayable as follows:		
Within one year or on demand	**43,529**	73,864
After one year	**38,824**	22,727
Total bank borrowings	**82,353**	96,591

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

32. BANK BORROWINGS *(continued)*

Bank borrowings were secured by the followings:

(i) the Group's buildings, plant and machinery and land use rights with carrying amount of HK$40,472,000, HK$5,310,000 and HK$ 4,738,000 respectively.

(ii) corporate guarantee from VATS Group Limited, an ultimate holding company of the Company and

(iii) personal guarantee from a director of the Company.

The Group's borrowings are denominated in RMB only.

The effective interest rate on bank borrowings is 5.31% (2009: 5.31%) per annum.

33. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

In October 2010, the Group acquired an additional 5% equity interest in Yantai Shangri-La at nil consideration, increasing its ownership from 95% to 100%. The Group recognised a decrease in non-controlling interests of approximately HK$356,000 and an increase in other reserve of approximately HK$ 356,000 respectively.

34. PLEDGE OF ASSETS

At the end of the reporting period, the Group pledged the following assets to secure the banking facilities granted to the Group:

	2010 HK$'000	2009 HK$'000
Buildings	**40,472**	40,707
Plant and machinery	**5,310**	12,482
Land use rights	**4,738**	4,774
	50,520	57,963

35. OPERATING LEASES

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

	2010 HK$'000	2009 HK$'000
Within one year	**1,952**	1,950
In the second to fifth year inclusive	**5,121**	5,426
Over five years	**47,193**	46,692
	54,266	54,068

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

36. CAPITAL COMMITMENT

	2010 HK$'000	2009 HK$'000
Authorised and contracted for:		
In connection with acquisition of plant and equipment	**14,743**	7,193

37. EMPLOYEE BENEFITS

Retirement Benefit 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 consolidated 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 end of the reporting period, 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 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 subsidiaries 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.

38. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

38. SHARE OPTION SCHEMES *(continued)*

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 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.

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.

39. RELATED PARTY TRANSACTIONS

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

	2010 HK$'000	2009 HK$'000
Sales of goods		
Yunnan Jinliufu Winery Company Limited		
– Received	**3,605**	–
VATs Chain Liquor Store Management Company Limited ("VATs Chain Liquor Store")		
– Received	**31,482**	549
– Receivable	**–**	7,218
Purchases of goods		
Yunnan Jinliufu Winery Company Limited		
– Paid	**684**	7,198
Yunnan Jinliufu Trading Company Limited ("Jinliufu Trading")		
– Paid	**7,576**	863
– Prepayment to supplier	**–**	4,419

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

Yunnan Jinliufu Winery Company Limited, VATs Chain Liquor Store and Jinliufu Trading are related parties of the Group as Mr. Wu Xiang Dong, being an executive director of the Company, is a common director of and has beneficial interest to all above companies.

Included in the sales of goods to VATs Chain Liquor Store during the year ended 31 December 2010, approximately HK$17,842,000 was carried out under the master sales agreement dated 27 August 2010 and which entered into between the Group and VATs Chain Liquor Store. Details of the transactions were set out under "Continuing Connected Transactions" in the Directors' Deport.

Included in the purchase of goods from Jinliufu Trading during the year ended 31 December 2010, approximately HK$4,548,000 was carried out under the master purchase agreement dated 27 August 2010 and which entered into between the Group and Jinliufu Trading. Details of the transactions were set out under "Continuing Connected Transactions" in the Directors' Deport.

Notes to the Consolidated Financial Statements

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39. RELATED PARTY TRANSACTIONS *(continued)*

(b) Key management personnel

Remuneration for key personnel management, including amount paid to the directors of the Company and certain of the highest paid employee, as disclosed in note 11, is as follow:

	The Group	
	2010 HK$'000	2009 HK$'000
Salaries	**4,102**	*4,041*
Short-term employee benefit	**46**	*44*
	4,148	*4,085*

40. GOVERNMENT SUBSIDIES

During the year, the Group received government subsidies of HK$8,130,000 for the contribution towards the business in Yunnan, Qinhuangdao and YuQuan the PRC. The amount has been included in other revenue for the year (2009: HK$3,503,000).

41. AUTHORISATION FOR ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 25 March 2011.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	**2010 HK$'000**
Turnover	109,288	139,923	201,373	259,650	**337,133**
Profit from operations	17,674	27,473	41,670	50,661	**66,731**
Finance costs	(1,419)	(2,263)	(4,140)	(4,694)	**(4,522)**
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	20,729	25,210	37,530	45,968	**62,209**
Taxation	(7)	(164)	(8,307)	(10,707)	**(16,621)**
Profit for the year	20,722	25,046	29,223	35,261	**45,588**
Attributable to:					
Owners of the Company	12,499	13,495	24,252	29,500	**38,314**
Non-controlling interests	8,223	11,551	4,971	5,761	**7,274**
Profit for the year	20,722	25,046	29,223	35,261	**45,588**
Dividend	–	13,904	–	–	**16,685**

ASSETS AND LIABILITIES

	As at 31 December				
	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	**2010 HK$'000**
Total assets	225,804	353,824	555,121	640,621	**890,559**
Total liabilities	(81,355)	(127,014)	(142,590)	(191,770)	**(223,586)**
Non-controlling interests	(50,289)	(58,220)	(54,071)	(59,832)	**(69,327)**
Shareholders' funds	94,160	168,590	358,460	389,019	**597,646**