serving the most premium wine

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 2011 to 31 December 2011

(Stock Code：00472)

annual report 2011

* For identification purpose only


VATS
Serving the most
premium
and
wine
chinese
baijiu
Altitwine
1900
Shangri-La

Contents

corporate information

BOARD OF DIRECTORS

Executive Directors:
Mr. Wu Xiang Dong *(Chairman)*
Mr. Yan Tao *(Vice-Chairman)*
Mr. Shu Shi Ping *(Chief Executive)*
Mr. Sun Jian Xin
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. Shu Shi Ping
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. Ting Leung Huel, Stephen *(Chairman)*
Mr. Wu Xiang Dong
Mr. Yan Tao
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.
19/F., Prosperity Tower
39 Queen's Road Central
Central
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
CITIC Bank International 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, 19/F., 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

SEIZING AND REALIZING FUTURE OPPORTUNITIES

We endeavour to achieve rapid growth and market leadership via delicacy management and commitment to excellent service

Dear Fellow Shareholders,

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"), I am pleased to present the Group's Annual Report and the financial results for the year ended 31 December 2011.

BUSINESS ENVIRONMENT

The world economy remained challenging in year 2011. Aggravation of European debt crisis persist as serious threat to the Eurozone's financial stability and wobbling US economy post nagging worries for the international market. Yet China market remained buoyant as the Chinese government combined proactive fiscal policies and prudent monetary policies to accelerate economic restructuring. The country's economy and retail sales maintained sound momentum during the year. The uptrend in retail sales was fuelled by rising salaries which led to increase in purchasing power, echoing the nation's economic restructuring plans. Domestic consumption has gradually gaining more weight on the growth of the economy. During the year, growth in the country's GDP achieved 9.2% growth to RMB47,156.4 billion and the per capita annual disposable income for urban and rural residents increased by 8.4% and 11.4% respectively, generating new opportunities for retailers and sustained economic development.

From another perspective, domestic stimulus packages and liquidity unleashed by central banks around the world leaded to high inflationary pressure. Rising raw material prices and operational costs have been passed to consumers, hampering consumption and limiting the progress of economic restructuring. Through the implementation of tightening policies, China's 2011 CPI and PPI were able to be kept at 5.4% and 6.0% respectively within which wine and liquor sector was raised by 9.2%. Nonetheless, it is believed that the Chinese government will monitor closely the inflation trend and will work hard to maintain price stability by macroeconomic policies.

Though China's economy continued to grow steadily during the year, with the recent release of a lower than expect 5-year growth target, the pace of growth showed signs of moderation. High levels of inflationary pressure affected consumer sentiment and hindering growth in domestic consumption. Notwithstanding the challenges above, with more frequent business activities, urbanisation and rising wages, growth in China's wine and liquor industry remains promising. We see domestic consumers are more brand-oriented and sophisticated owing to rising affluence. The more differentiated the brand and the products, the more likely that it can achieve sustainability and profitability. Rising income levels and a steady increase in alcohol consumption helped to fuel growth momentum in China's wine and liquor industry. Industry players with brands that are more responsive to market changes and are capable of delivering greater value to consumers will strengthen their leading positions and will maintain the competitiveness of their distribution channels. Seeing both opportunities and challenges, the Group continued to stay focused on our mass market positioning while at the same time enhancing our brand equity, strong distribution network and innovative product creativity.

OPERATION REVIEW

Our Group has delivered promising results in year 2011. This comes from our entrepreneurial and creative culture that enables our people to pursue initiatives swiftly and develop them into business opportunities and revenue. Despite the intense competition in the industry, we consistently upheld our leading position and maintained sound financial performance. The Group's turnover increased by 18.73% year-on-year to HK$400 million (2010: HK$337 million). Unexpected weather conditions and the increase in labour and raw materials costs gave pressure to the Group's gross profit. Yet gross margin was able to stand at 54.40% and gross profit increased by 20.47% to HK$218 million (2010: HK$181 million). The general increase in labour costs and the imposition of urban construction tax and education tax have led to an increase of the administrative costs by 8% to HK$49.66 million. With the increase in transportation cost and advertising and promotion costs, distribution costs increased by 20.44% to HK$98.36 million. Luckily our net profit continued to grow by 26.88% to HK$57.84 million (2010: HK$45.59 million). Profit attributable to equity shareholders rose 18.98% to HK$45.59 million (2010: HK$38.31 million), and basic earnings per share were HK2.73 cents (2010: HK2.32 cents).

OUR SHANGRI-LA WINERY OPERATION

2011 was not an easy year for Shangri-la Winery ("Shangri-la"). The unusual cold weather early this year had seriously damaged the grape seedling planted at Shandong Penglai winery. As a result, the entire seedling has to be replanted, leading to increase in production costs and delay of harvest time. The relocation costs for the production and bottling facilities has added to the escalating pressure in labour and raw material costs resulted in higher operating and administrative expenses. Yet just like the art of brewing good wine, Shangri-la demonstrated its strength against the harsh conditions and continued to generate a steady revenue growth of 8.95% to HK$228 million (2010: 209 million). Gross profit amounted to HK$120 million (2010:HK$114 million) with gross profit rate reduce slight to 52.69% but still maintained at a healthy level. Profit before tax rate stand firm at 20%, representing strong cost control by the management team. Unavoidably, as a result of the increase in tax rate due to the expiry of tax holidays, net profit after tax increased slight by 3% returning a hearten net profit of HK$33.8 million (2010:HK$32.7 million).

Shangri-la Marketing Activities

Rather than organising large marketing event, this year Shangri-la focused more on channel development. With Fujian, Yunnan, Jiangsu and Zhejiang provinces being Shangri-la's main markets, much effort has been put to implement effective brand management strategy to strengthen Shangri-la's brand differentiation in order to support long term growth. Hunan and Guangdong province markets, though still relatively small, both demonstrate robustic development during the year. Shangri-la adjusted the pace of expansion with a more pragmatic approach by organising branding campaign and a number of marketing events, along with a series of new product launches in these markets. While retail competition has becoming fiercer with the ongoing entry of established foreign brands, Shangri-la's strategies continued to bear results as both channelling and direct group sales businesses delivered record high results during the year.

New Products and Achievements

During the year Shangri-la had developed and marketed the new Shangri-la plateau "A" series products. The new products and branding strategies earned considerable industry recognition and helped achieved solid results. The new plateau series had won Silver metal for the 2011 Vinalies China and the plateau "A" series, A5 and A6, had won the Gold and Silver medals of the Colombin Cup 1st Yantai International Wine Competition respectively. "Shangri-la" (香格里拉) brand was awarded as "China's famous brand" and the "Tin Lai" (天籟) brand, a sub-brand of Shangri-la, has also been awarded as "Yunnan's famous brand". Such industry recognition affirms the success of Shangri-la's product development efforts and assures that Shangri-la is well positioned for future achievements. 2011 was a good harvest year for great grapes from Deqin winery and Shangri-la will strike hard to produce quality wine of exceptional standard.

Production wise Shangir-la had successfully renewed ISO22000, ISO 9001 and certificates for organic product certification issued by China Quality Certification Centre. This organic recognition will be another area of new development which Shangri-la will seriously look at. The development of organic wine represents a good opportunity for Shangri-la to tap into a new market of high potential. Given its unique green and healthy position, organic wine will definitely gain popularity among high-end and health concern consumers. The new organic series will fuel Shangri-la's future growth at the same time create synergies with existing products in the market.

Plant Relocation and new Château

Luckily the relocation of the bottling facilities is on schedule and additional production and brewing capacity were added to the new relocated sites. A new crushing plant will be built at Shangir-la Deqin winery, one of the finest and highest grape plantation in China, such that the grapes can be crushed as soon as they are harvested in order to ascertain quality and freshness of the grape juice before transport to fermentation facilities. Since the use of oak plays a significant role in the making of fine wine and can have a profound effect on the resulting wine during the fermentation or aging periods, as such more premium oak wine barrels were purchased for the purpose. Further RMB40 million has been invested in Yantai's Masang Château to support the development of the Château. This Château will be a long term yet strategic move in shaping Shangri-la's brand image. Shangri-la is now intensively undergoing restructuring to better equip to support the growth initiatives for a sustainable future.

YU QUAN BAIJIU OPERATION

2011 marked the 4th consecutive year of double digit growth for YuQuan Winery ("YuQuan") since our acquisition in 2007. Based on its extensive experience in Baijiu industry and its distinct insight into the needs of the northeast market, YuQuan has achieved its targeted objectives and mapped out well-defined and practical strategies for business development, brand and product enhancement as well as sales channel and production expansion.

The "YuQuan" brand is one of the strongest competitive advantages of our baijiu business. In 2011 YuQuan has dedicated great effort and achieved an impressive 35% growth in turnover arriving at HK$172 million (2010: HK$128 million). Gross profit climbed 46% to HK$97.7 million (2010: HK$67.0 million) and net profit after tax soared 69% to HK$30.7 million (2010: HK$18.1 million)

YuQuan Baijiu Brand Development and Marketing

The increasing consumption power in China has increased the demand for high-end baijiu products which pushed up the prices of the first tier baijiu brands such as Maitou and Wuliangye leaving price increment opportunities for the local and second tier brands. Over the years, with its unique favour, "YuQuan" has been developed into a premium proprietary brand and has earned "China's famous brand" and the "China Time Honored Brand" titles. Together with its distinctive competitive advantages on product ranges, "YuQuan" has been recognized by consumers with its accentuating brand identity. With the launch of a series of TV commercials on "YuQuan" branded products featuring unique product images and endorsement by celebrities, "YuQuan" brand has highly been acknowledged by consumers. Amongst which "YuQuan Harmonious elegant series (和諧清雅系列) and "YuQuan vintage series (玉泉年份酒系列)" are particularly well-acclaimed by the market. Utilizing diverse and targeted marketing strategies, YuQuan has expanded its market to capture the higher purchasing power segment. YuQuan achieved stable profitability by introducing products with higher gross profit margins and adopting flexible pricing strategies while at the same time raised the competitiveness of each product, aiming to secure a larger market share. With the promotion of baijiu of higher gross profit margins profitability is strengthened and enhanced. As a result, current year YuQuan's gross profit margin rate increased by 5% and the net profit rate increased by 4% to 57% and 18% respectively.

YuQuan has generated substantial marketing exposure in 2011. On 8th January 2011, YuQuan had invited the China Philharmonic Orchestra to give performance in Harbin under the title named "Yu Quan Elegance – China Philharmonic Orchestra Spring concert". On 12th September 2011, YuQuan has been the title sponsor of "Harbin Zhang Huimei concert Mid-Autumn Festival, I dearest" (「2011年哈爾濱張惠妹演唱會中秋節我最親愛的!」). On 16th and 17th December 2011, YuQuan invited the National Ballet of China (中國中央芭蕾舞團) to perform Tchaikovsky-Nutcracker (胡桃夾子) in Harbin. By incorporating cultural background with different promotional channels and premium products, YuQuan effectively established elegant image, bringing YuQuan brand to a much wider spectrum of mass market consumers and effectively boosted sales in all channels. With the strong distribution network, there is good reason to believe that YuQuan can sustain strong business growth. YuQuan works closely with distributors, outlets and direct clients to boost retail performance, also actively sources new clients and enhance market coverage of the products.

YuQuan Image Stores

YuQuan also launched image stores in Harbin with the purpose to lift brand image and to maintain competiveness for sustainable growth. Standardised guidance on product displays and retail stores were closely monitored to ensure consistency of store image. In-store posters and billboards were also provided to highlight marketing themes and product features. Specific product corners have been set to showcase YuQuan's growing portfolio of diversified products.

Production Capacity

In order to fully capture the soaring demand, YuQuan has implemented a detailed plan for production expansion. During the year, YuQuan had constructed and commenced operate China northeast's largest baijiu blending and storage facilities which is capable of storing 50,000 tons baijiu. Furthermore, new production and packaging lines had also been completed, further equip YuQuan with the means to meet strong demand in the market, and be able to benefit from greater economies of scale.

Business Development

Given YuQuan's wide experience in the baijiu operations and brand equity, coupled with the detailed plan of production capacity and sales network expansion, YuQuan will further consolidate Harbin market and dedicate additional efforts in penetrating into other north-eastern markets.

PROSPECT

As global markets are likely to remain uncertain over the unresolved debt crisis in Europe, concern over the US economy and scepticism whether China can maintain its high level of growth, the Group will remain vigilant in the implementation of its business plans. Looking ahead, the domestic consumer sentiment will continue to be affected by the moderation of China's economic development. Operating environment is expected to remain difficult in year 2012 as the industry still shadowed by pressure from increasing costs and intense competitions.

Despite the challenges ahead, we believe the Chinese government will continue to mainitain a stable economy. Improvement of income distribution among residents and acceleration of the urbanization process will be favorable to raise the consumption level of the middle to lower income groups and create new consumption demand. In the medium to long term, the future growth of China will gradually be transformed from investment and export-oriented to consumption-led growth. With rapid growth in social wealth and improvement of macroeconomic conditions, we believe China's economic will continue to accelerate. Domestic consumption will become increasingly important as a major contributor for economic growth, which will in turn lead to greater opportunities for the wine and liquor market.

The Group will further optimise and refine its sales strategies for all of its products and to implement more effective measures to boost sales performance. For Shangri-la winery's products, we will take measure to improve its revenue stream by step up sales and marketing efforts. For YuQuan baijiu, we target to further penetrate into downward stream by further develop more image stores, strengthen existing sales channel and develop new opportunities in other north-east markets.

APPRECIATION

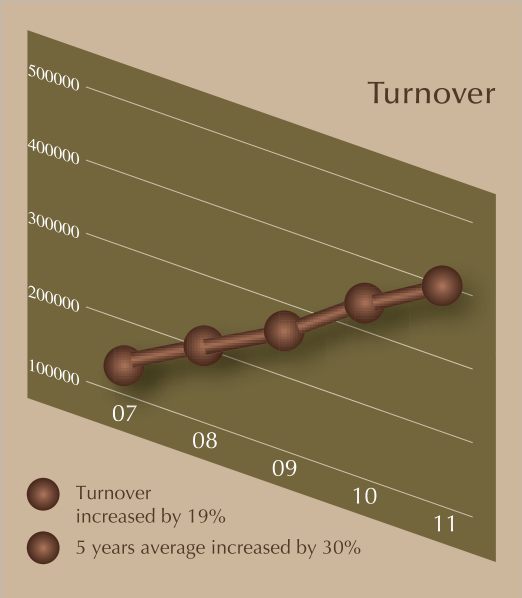
The Group's success was built on the solidity of our financial platform, the flexibility, long-term vision of our management and our track record of resilience in challenging conditions. The strong results we achieved this year would not have been possible without the leadership and dedication of our staffs and the support of our shareholders. We have confident that the Group will continue to deliver sustainable growth for the coming year. We will consistently put our competitive advantages into full play in order to tap market potential, and will strive to take effective actions and measures to ensure the steady development of the Group and to create value for our stakeholders.

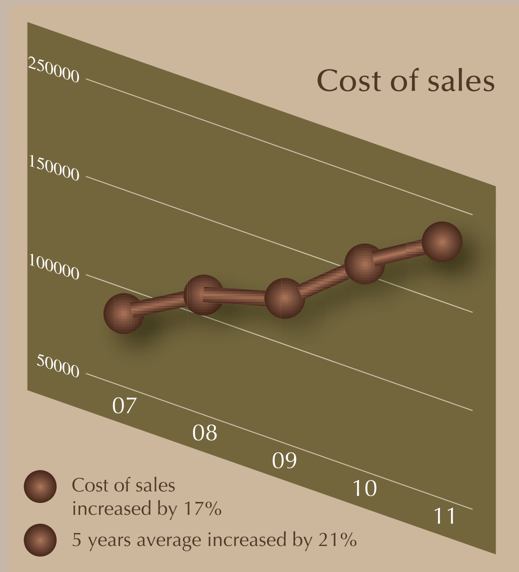
By Order of the Board

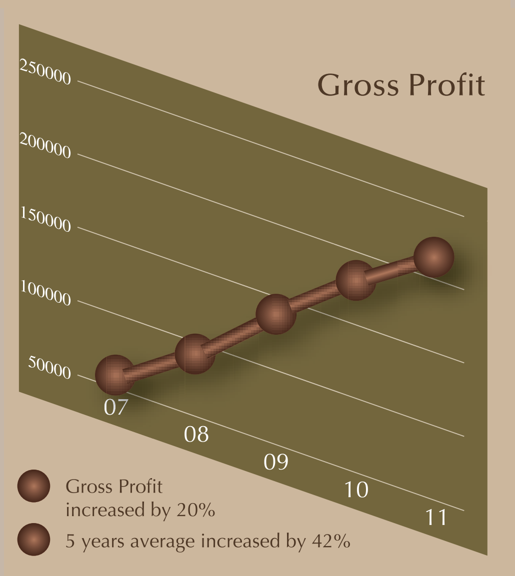
Wu Xiang Dong
Chairman

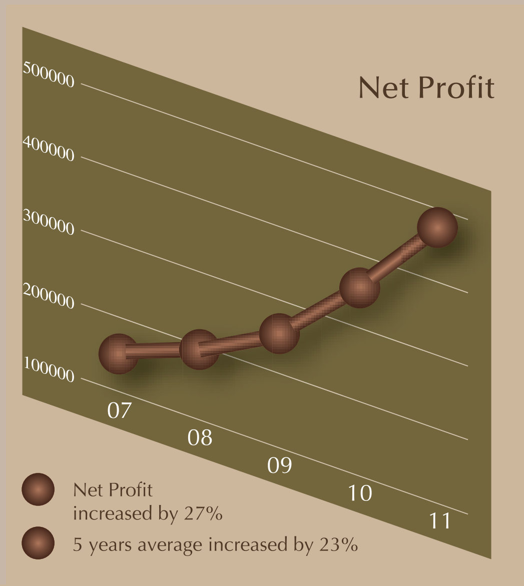
Hong Kong, 26 March 2012

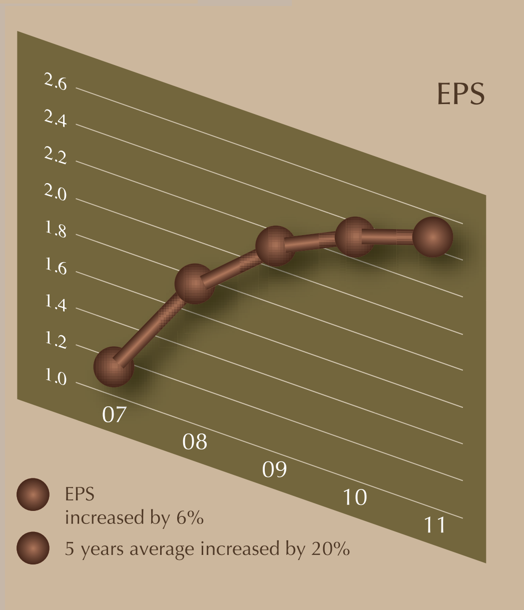
OPERATION ANALYSIS



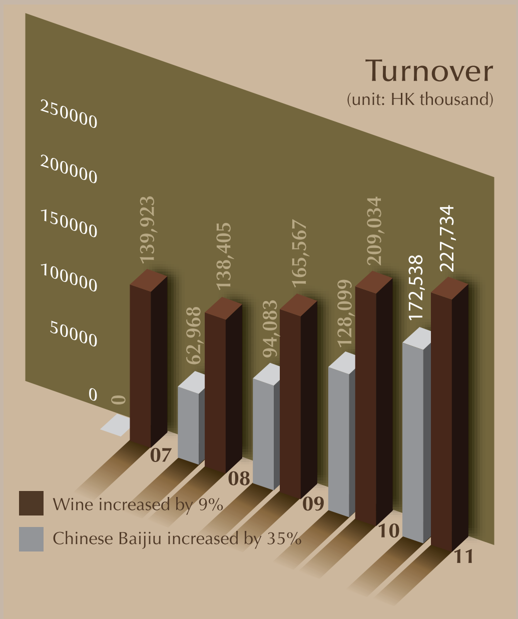


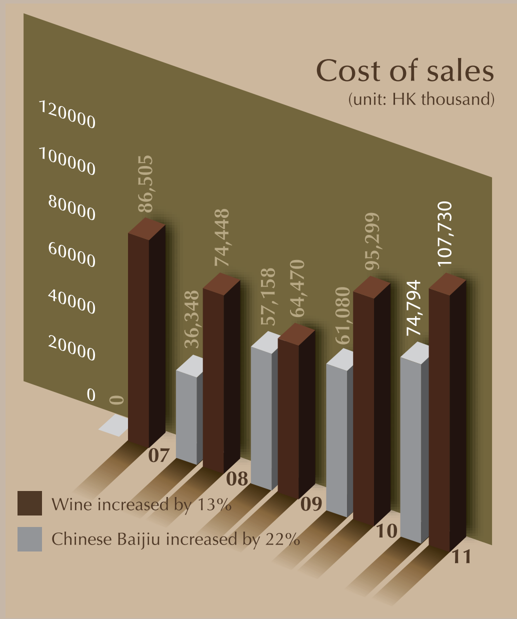


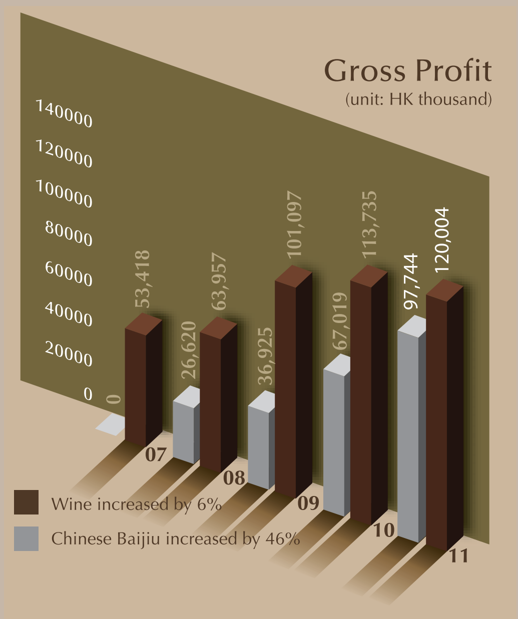


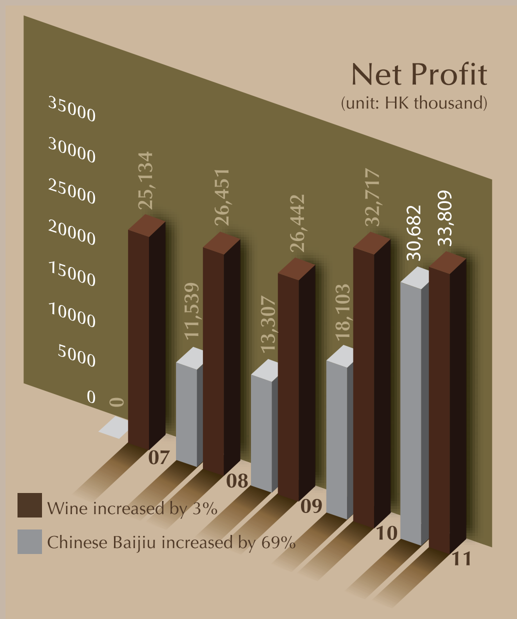


BUSINESS SEGMENTS ANALYSIS



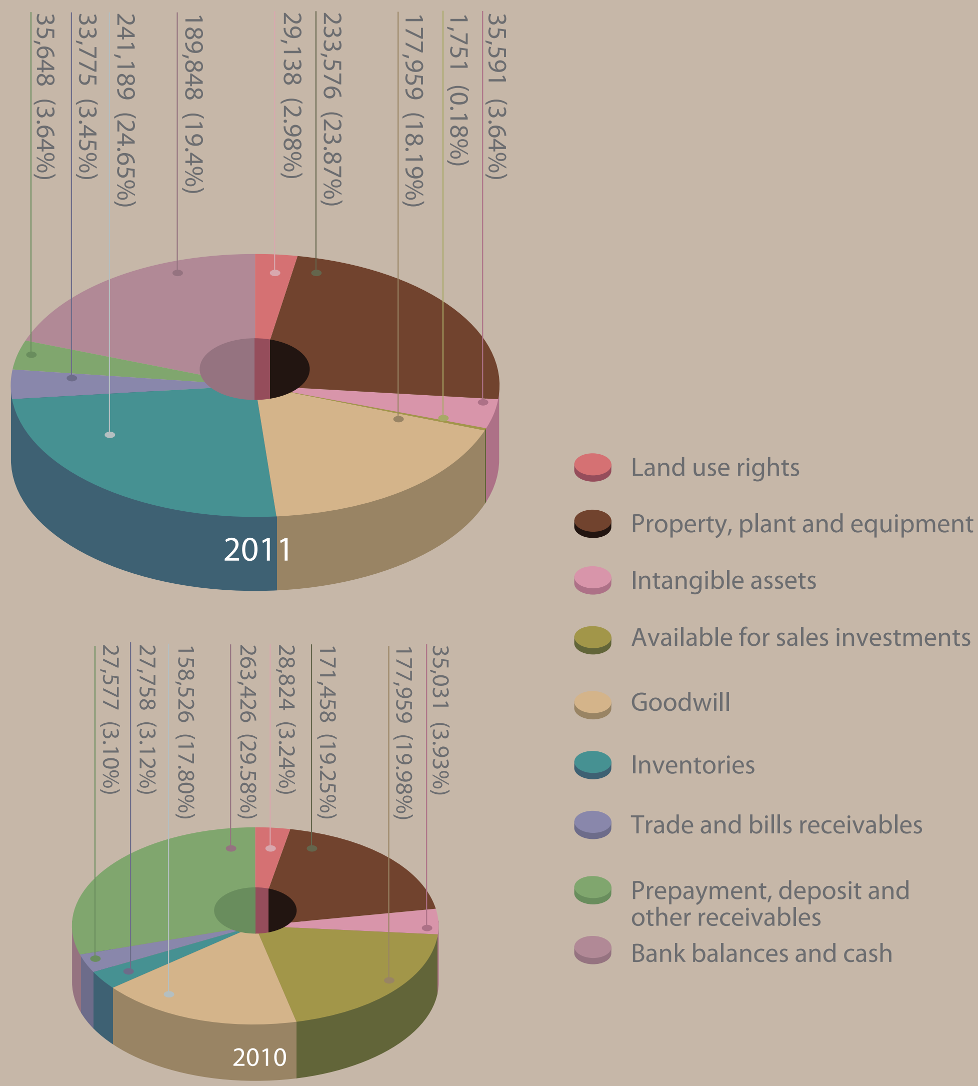




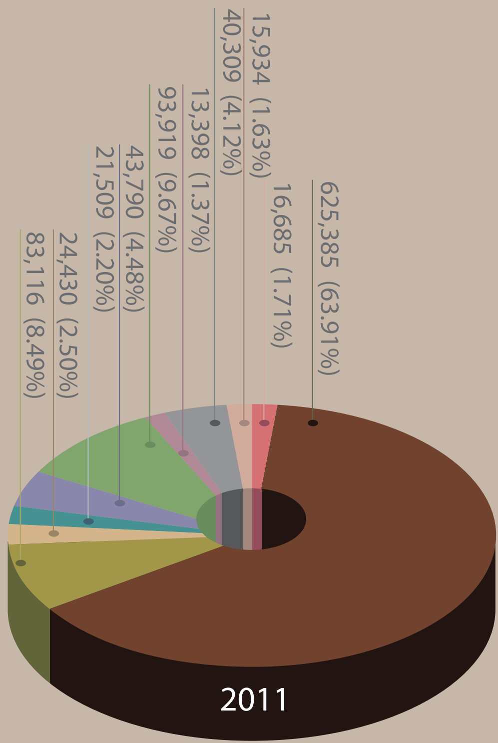


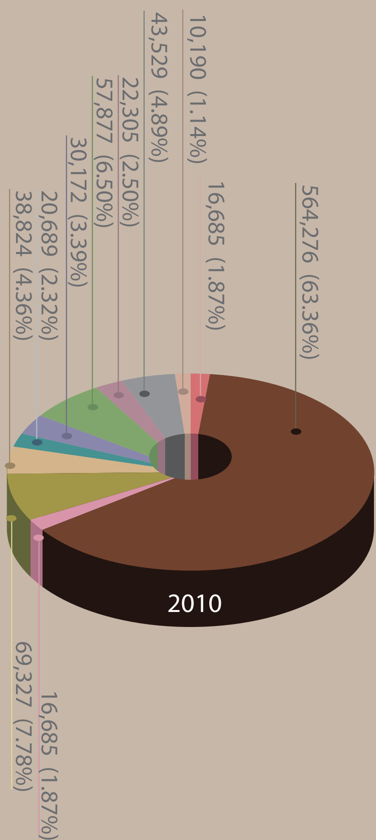
FINANCIAL HIGHLIGHTS

ASSETS DISTRIBUTION ANALYSIS



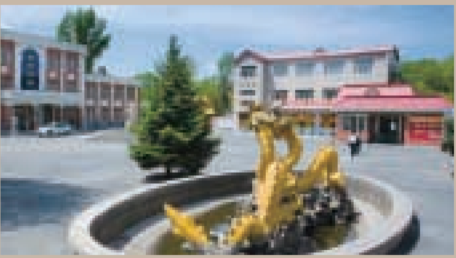
LIABILITIES AND EQUITY ANALYSIS





- Share Capital
- Reserves
- Proposed final dividend
- Non-controlling intersts
- Bank borrowings-due after one year
- Deferred tax liabilites
- Trade payables
- Accruals, deposit received and other parties
- Amounts due to related parties
- Bank borrowings-due within one year
- Tax payable

PIONEER THE WINE MARKET



We have achieved solid growth and returned exceptional results to our shareholders

FINANCIAL INFORMATION

Turnover

Our Group attained a turnover of HK$400 million for 2011 (2010: HK$337 million), representing an increase of 18.73% over previous year. Wine and Chinese baijiu segments accounted for HK$228 million and HK$172 million respectively with growth rates of 8.95% and 34.69% respectively.

Cost of Production

Cost of sales for Wine and Chinese baijiu increased 13.04% and 22.45% respectively to HK$108 million and HK$75 million respectively. Gross production cost increased by 16.72% from HK$156 million in 2010 to HK$183 million in 2011. The increase was in line with the increase in turnover for the year.

Gross Profits

Growth in gross profit was in line with increase in turnover. Gross profits increased by 20.47% from HK$181 million in 2010 to HK$218 million in 2011 due to growth in turnover. Wine and Chinese baijiu segments each accounted for HK$120 million and HK$98 million respectively with gross profit margin of 52.69% and 56.65% respectively. Gross profit margin increased slightly by 0.78 percentage point from 53.62% in 2010 to 54.40% in 2011.

Selling and Distribution Expenses

Selling and distribution expenses increased by 20.44% from HK$81.67 million in 2010 to HK$98.36 million in 2011. Selling and distribution expenses as a percentage of turnover for the year increased marginally by 0.35% to 24.57%. The increase was due to increase in overall advertisement expenses.

Administrative Expenses

As a result of the increase in general labour costs, administrative expenses increased by 8% from HK$45.99 million in 2010 to HK$49.66 million in 2011. Administrative expenses as a percentage of overall turnover decreased 1.23% to 12.41% due to a higher turnover figure.

Profit Before Tax

Our 2011 profit before tax increased 27.46% to HK$79.29 million (2010: HK$62.21 million). Profit before tax margin increase slightly by 1.36% to 19.81%.

Income Tax Expenses

Overall income tax expenses increased by 29.05% to HK$21.45 million primarily as a result of increase in turnover and expiry of Shangri-la's tax holidays.

Profit After Tax

As a result of growth in revenue and better cost management, profit after tax for the year increased 26.88% to HK$57.84 million (2010:HK$45.59 million). Net profit after tax margin increased slightly to 14.45%.

Profit Attributable to Our Owners

The profit attributable to owners of the Company increased by 18.98% from HK$38.31 million in 2010 to HK$45.59 million in 2011. The margin of profit attributable to the owners of the Company stands at 11.4% for both 2010 and 2011.

Liquidity and Capital Resources

Cash flow 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 2011, our bank balances and deposits amounted to HK$190 million (2010: HK$263 million) representing a decrease of 27.93%. The decrease was mainly due to the distribution of 2010 dividend, repayment of a bank loan and increase investment in fixed assets. About 83.53% of our cash was denominated in Renminbi.

As at 31 December 2011, our net loan repayment was HK$20 million, as such, our total borrowings decreased by 21.39% to HK$64.74 million (2010: HK$82.35 million). All of our borrowings are denominated in Renminbi. We maintain sufficient cash and available banking facilities for our working capital requirements in the forseeable future.

Capital expenditure

During the year 2011, our total capital expenditure amounted to HK$69.49 million (2010: HK$49.63 million) of which HK$20 million was used in the construction of Shangri-la Masang Château, about HK$11 million was used in development of the relocate site at Shangri-la economic development zone. Another HK$11 million was invested in additional production facilities in Shangri-la and Qinhuangdao. About HK$9 million was used in the construction of YuQuan's storage and packaging facilities and about HK$18.49 million was invested in other general facilities. For the year 2012, we have budgeted HK$120 million for capital expenditure of which HK$80 million is allocated to the construction of Yantai Masang Château, HK$20 million for the development of Shangri-la (Deqin) winery facilities, HK$10 million for the development of Shangri-la (Diqing) relocation site and another HK$10 million for YuQuan's production facilities.

Inventory analysis

Our inventories primarily consist of finished goods, goods in transit, work in progress for winery products as well as raw materials and packaging materials. As we needed to ascertain adequate supply of product to meet the early arrival of 2012 Chinese New Year, as of 31 December 2011, gross inventory increased 52.14% to HK$241 million (2010: HK$159 million). The finished goods turnover ratio (average closing finished goods divided by cost of sales) was 167 days for the year ended 31 December 2011 (2010: 126 days).

Balance sheet analysis

As at 31 December 2011, the Group had total assets of HK$978 million (2010: HK$891 million) of which current assets amounted to HK$500 million (2010: HK$477 million), non-current assets amounted to HK$478 million (2010: HK$413 million). Total liabilities of the Group included current liabilities of HK$207 million (2010: HK$164 million) and non-current liabilities of HK$46 million (2010: HK$60 million). Our total equity composed of shareholders' equity of HK$642 million (2010: HK$598 million) and non-controlling interests of HK$83 million (2010: HK$69 million).

The Group's current ratio as at 31 December 2011 was approximately 2.41 (2010: 2.91). Gearing ratio, representing the total borrowings divided by total equity, was approximately 8.93% (2010: 12.35%).

Basic earnings per share attributable to the owners of the Company for the year ended 31 December 2011 increased by 17.67% to HK 2.73 cents (2010: HK2.32 cents).

Trade receivables turnover period (average trade receivables divided by turnover) was 28 days (2010: 30 days). The Group did not experience any material bad debts that required write off in 2011.

The Group has capital commitment amounted to HK$63.96 million (2010: HK$14.74 million). The Group had no other material contingent liabilities as at 31 December 2011.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2011, aggregate purchases attributable to the Group's five largest suppliers comprised approximately 20.6% (2010:15.2%) of the Group's total purchases and the purchases attributable to the Group's largest supplier was approximately 6.9% (2010: 3.6%).

The aggregate sales attributable to the Group's five largest customers for the year ended 31 December 2011 was approximately 24.2% (2010: 46.2%) and the sales attributable to the Group's largest customer was approximately 5.9% (2010: 29.5%).

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.

GOVERNMENT SUBSIDIES AND TAXATION

In year 2011, the Group was granted HK$8.17 million (2010: HK$8.13 million) as subsidies from the local finance department in subsidizing the Group's technical development. Profits tax rate applied to subsidiaries established in PRC ranged from 12.5% to 25%. The Hong Kong companies are subject to a profits tax rate of 16.5%.

DIVIDEND

The Board does not recommend payment of final dividend for the year ended 31 December 2011 (2010: HK$0.01 per share).

PLEDGE OF ASSETS

At 31 December 2011, the Group pledged its land, property, plant and equipments with net book value amounting to HK$50 million (2010: HK$51 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 has 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.

MATERIAL ACQUISITION AND DISPOSAL

During the year, there was no material acquisition and disposal of subsidiaries by the Group.

EMPLOYEE INFORMATION

As at 31 December 2011, the Group employed a total of 1,261 (2010: 846) full-time employees mostly at the Group's subsidiary factories and sales offices. Out of total employment, 504 staff related to sales and marketing, 428 staff related to production, 43 staff related to management and 286 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.

Mr. Wu Xiang Dong

Aged 43, was appointed as an executive director of the Company in February 2004 and became the chairman of the Company in September 2007. Mr. Wu is a director of a subsidiary of the Company, the chairman of the nomination committee of the Company (the "Nomination Committee") and a member of the remuneration committee of the Company (the "Remuneration Committee"). 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 wine business in China. Mr. Wu holds 90% interests in VATS Group, a company deemed to be the substantial shareholder of the Company 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 "2009 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 48, was appointed as an executive director and the vice chairman of the Company on 27 April 2009. He is a director of a subsidiary of the Company and a member of each of the Remuneration Committee and Nomination Committee. Mr. Yan is a member of the 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 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. Shu Shi Ping

Aged 49, was appointed as an executive director of the Company in September 2004 and became the chief executive and authorized representative of the Company in June 2011. He is a director of various subsidiaries of the Company. 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, the general manager of Shangri-La Winery Company Limited and the controller of Yunnan Jinliufu Trading Company Limited. 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. Sun Jian Xin

Aged 43, was appointed as an executive director of the Company in September 2007. He is a director of a subsidiary of the Company. Graduated from the Food Science Department of the Southwest Agricultural University, he has 17 years of sales and marketing experience 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). Currently he serves as the vice president of VATS Group and the managing director of Yunnan Jinliufu Wine Company Limited.

Mr. Zhang Jian

Aged 38, was appointed as an executive director of the Company in February 2004. He is also an executive director of Dongyue Group Limited (stock code:189). Mr. Zhang is the controller of the listed company department of MACRO LINK GROUP LIMITED. He has many years of experience in the areas of investment banking and corporate finance. Mr. Zhang holds a bachelor degree in Law and Economics from Jiangxi University of Finance and Economics and a master degree in Business Administration from The Chinese University of Hong Kong.

Mr. Ng Kwong Chue Paul

Aged 41, was appointed as an executive director of the Company on 28 March 2011. Mr. Ng is the authorized representative, company secretary and chief investment officer of the Company. He is also a director of a subsidiary of the Company. He holds a bachelor degree in Commerce from the University of Melbourne. He is a member of each 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 (stock code:1217) ("CII"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Chapter 21 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Mr. Ng had also acted as an executive director of CII from April 2003 to May 2006 and was re-designated as a non-executive director of CII in May 2006. 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. Ting Leung Huel

Stephen, MH, FCCA, FCPA (Practising), CTA (HK), ACA, FHKIoD, aged 58, was appointed as an independent non-executive director of the Company in February 2004. He is the chairman of the audit committee of the Company (the "Audit Committee") and the Remuneration Committee, and a member of the Nomination Committee. Mr. Ting is an accountant in public practice and currently the managing partner of Messrs Ting Ho Kwan & Chan, Certified Public Accountants with more than 30 years of experience in this field. He is a member of the 9th & 10th Chinese People's Political Consultative Conference, Fujian. He is now a non-executive director of Chow Sang Sang Holdings International Limited (stock code:116) and an independent non-executive director of six listed companies, namely, Tongda Group Holdings Limited (stock code:698), Tong Ren Tang Technologies Co. Ltd. (stock code:1666), Computer and Technologies Holdings Limited (stock code:46), Texhong Textile Group Limited (stock code:2678), China SCE Property Holdings Limited (stock code:1966) and Dongyue Group Limited (stock code:189). He was also an independent non-executive director of Minmetals Resources Limited (stock code: 1208) from June 2002 to November 2011.

Mr. E Meng

Aged 53, was appointed as an independent non-executive director of the Company in September 2004. He is a member of each of the Audit Committee, Remuneration Committee and Nomination Committee. Mr. E is the chairman and executive director of Beijing Development (Hong Kong) Limited (stock code: 154). He is also the executive director of Beijing Enterprises Holdings Limited (stock code: 392) and Beijing Enterprises Water Group Limited (stock code:371), and the chief financial officer of Beijing Enterprises Group Company Limited.

Mr. E graduated from China Science and Technology University with a master degree in engineering. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the deputy director of Beijing New Technology Development Zone and concurrently acting as the director of the Department of Financial Auditing, the general manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the deputy director of the State-owned Assets Management Office of Beijing Haidian District. Mr. E has extensive experience in economics, finance and enterprise management.

Mr. Cao Kuangyu

Aged 61, was appointed as an independent non-executive director of the Company in February 2004. He is a member of each of the Audit Committee, Remuneration Committee and Remuneration Committee. He holds bachelor of Arts in Economics from the University of Hunan and Master of Science in Financial Management with the School of Oriental and African Studies, University of London. Mr. Cao has substantial experience in the area of finance. He was the managing director of BOCI Asia Limited from 2003 to 2007, the president of Citic Bank, Shenzhen Branch from 1999 to 2003 and the deputy general manager of Bank of China in Singapore Branch from 1996 to 1999 and in Hunan Branch from 1993 to 1996. Mr. Cao is now the independent non-executive director of King Stone Energy Group Limited (stock code: 663) and Huili Resources (Group) Limited (stock code: 1303). He was also a non-executive director of Continental Holdings Limited (stock code: 513) from April 2010 to December 2011.

Mr. Xu Yan Shi

Aged 37, was appointed as the Company's financial controller on 26 March 2012. He graduated from Liaoning University and is a certified CICPA and CPV. Mr. Xu had acted as the deputy chief of VATS Group's internal audit department. He has years of accounting and auditing experiences gained from Liaoning Zheng Da Accounting firm and Beijing Zhong Xing Yu Accounting Firm before joining VATS Group.


ACHIEVE
NEW
MILESTONES

We are proud of the strong growth of our original brand: Shangri-la wine, Tibetan Barley wine and YuQuan Baijiu

The directors of the Company (the "Directors") present their annual report and the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The Group's results for the year ended 31 December 2011 are set out in the consolidated income statement on page 38.

DIVIDENDS

The Board does not recommend payment of final dividend for the year ended 31 December 2011 (2010: HK$ 0.01 per share).

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 94.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 27 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 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company did not have any distributable reserves.

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 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. Shu Shi Ping *(Chief Executive)*
Mr. Sun Jian Xin
Mr. Zhang Jian
Mr. Ng Kwong Chue, Paul (appointed on 28 March 2011)
Mr. Lu Tong (resigned on 21 June 2011)

Independent non-executive Directors:

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

In accordance with bye-law 87(1) of the Company's bye-laws (the "Bye-laws"), each of Mr. Yan Tao, Mr. Ting Leung Huel, Stephen and Mr. E Meng will retire at the forthcoming annual general meeting. Being eligible, each of the above-mentioned Directors will offer themselves for re-election. All of the remaining Directors will continue in office.

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

Pursuant to the regulations prescribed by the Listing Rules, each of the independent non-executive Directors 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 and of the senior management of the Group are set out on pages 17 to 18 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 32 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, at any time during the year ended 31 December 2011.

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 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 2011, 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	841,130,169	Long	50.41%
Mr. Ng Kwong Chue Paul	Beneficial owner	3,000,000	Long	0.18%

Note: These shares included 841,130,169 shares held 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 2011).

(ii) Associated Corporation:

Name of associated corporation	Name of owner	Capacity	Position	Number of shares held in the associated corporation	Approximate percentage of shares in the associated corporation
VATS Group Limited (「華澤集團有限公司」)	Mr. Wu Xiang Dong	Beneficial owner	Long	RMB90,000,000	90%
VATS Group Limited (「華澤集團有限公司」)	Mr. Yan Tao	Beneficial owner	Long	RMB10,000,000	10%

DISCLOSURE OF INTERESTS *(Continued)*

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

(ii) Associated Corporation: (Continued)

Save as disclosed above, as at 31 December 2011, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

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

So far as is known to the Directors and the chief executive of the Company, as at 31 December 2011, 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	841,130,169	Long	50.41%
Yunnan Jinliufu Investment Company Limited (雲南金六福投資有限公司)	1	Interest of controlled corporation	841,130,169	Long	50.41%
VATS Group Limited (華澤集團有限公司)	1	Interest of controlled corporation	841,130,169	Long	50.41%
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, a company incorporated in the British Virgin Islands, 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 2011, 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.

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 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 and its subsidiaries ("Shangri-la Group") 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 from 1 October 2010. As VATS Chain Store is owned as to 67.08% by Mr. Wu Xiang Dong (who is the chairman of the Board and an executive Director) and 2.76% by VATS Group Limited (which is the ultimate holding company of the Company's controlling shareholder interested in about 50.41% of the issued share capital of the Company) and thus, it is a connected person of the Company. Under the MSA, the Products are sold by the Shangri-la Group to VATS Chain Store 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 Group 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 2011 and 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, Heilongjiang Province YuQuan Winery Company Limited (黑龍江省玉泉酒業有限責任公司) ("YuQuan") has entered into a master purchase agreement ("MPA") with Yunnan Jinliufu Trading Company Limited (雲南金六福聯采商貿有限公司)("Jinliufu Trading") whereby YuQuan 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 and thus, 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 the 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.

CORPORATE GOVERNANCE

Details of the corporate governance practices duly adopted by the Company are set out on pages 28 to 35 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 to all Directors, all of them confirmed that they have complied with the Code of Conduct during the year ended 31 December 2011.

AUDIT COMMITTEE

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 2011. 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 Friday, 11 May 2012 to Tuesday, 15 May 2012 (both days inclusive), for the purposes of ascertaining shareholders' entitlement to attend and vote at the forthcoming annual general meeting of the Company. In order to be eligible to attend and vote at the forthcoming annual general meeting, 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 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 10 May 2012.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the 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

The accounts for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming annual general meeting of the Company. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganized as HLB Hodgson Impey Cheng Limited. A resolution for the appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting.

PUBLIC FLOAT

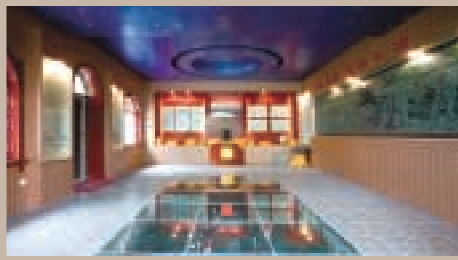
Based on the information which is publicly available to the Company and within the knowledge of the Directors, as at the date of the Annual Report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

On behalf of the Board
Wu Xiang Dong
Chairman

Hong Kong, 26 March 2012


KEEP UP
WITH NEW
ACHIEVEMENT

Commitment to high standard of corporate governance is vital to the Group's success



The Board is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2011.

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 (the "CG Code") contained in Appendix 14 of the Listing Rules sets out the principles of good corporate governance (the "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 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 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 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.

A. THE BOARD *(Continued)*

(1) Responsibilities *(Continued)*

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 of the Company 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 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.

(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 Nomination Committee and Member of the Remuneration Committee)*
Mr. Yan Tao	*(Vice Chairman of the Board, Member of Remuneration Committee and Nomination Committee)*
Mr. Shu Shi Ping	*(Chief Executive)*
Mr. Sun Jian Xin	
Mr. Zhang Jian	
Mr. Ng Kwong Chue Paul	(appointed on 28 March 2011)
Mr. Lu Tong	(resigned on 21 June 2011)

Independent non-executive Directors:

Mr. Ting Leung Huel, Stephen	*(Chairman of Audit Committee and Remuneration Committee, and Member of the Nomination Committee)*
Mr. E Meng	*(Member of Audit Committee, Remuneration Committee and Nomination Committee)*
Mr. Cao Kuangyu	*(Member of Audit Committee, Remuneration Committee and Nomination Committee)*

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

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

During the year ended 31 December 2011, 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.

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 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, 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

Mr. Ng Kwong Chue Paul has been appointed as the executive Director during the year ended 31 December 2011. He 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 2011, 5 Board meetings were held. The individual attendance record of each director at the meetings of the Board during the year ended 31 December 2011 is set out below:

Name of Directors	Number of attendance
Mr. Wu Xiang Dong	5/5
Mr. Yan Tao	5/5
Mr. Shu Shi Ping	5/5
Mr. Sun Jian Xin	5/5
Mr. Zhang Jian	5/5
Mr. Ng Kwong Chue, Paul *(note 1)*	3/3
Mr. Ting Leung Huel, Stephen	5/5
Mr. E Meng	5/5
Mr. Cao Kuangyu	5/5
Mr. Lu Tong *(note 2)*	2/2

Notes:

1. Mr. Ng Kwong, Chue Paul has been appointed as executive Director on 28 March 2011, 3 meetings were held after his appointment.

2. Mr. Lu Tong resigned on 21 June 2011, 2 meetings were held before his resignation.

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/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 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

The Company fully supports the division of responsibility between the chairman of the Board and the chief executive to ensure a balance of power and authority.

Mr. Shu Shi Ping was appointed as the chief executive on 21 June 2011 in place of Mr. Lu Tong. The positions of the chairman and chief executive are currently held by Mr. Wu Xiang Dong and Mr. Shu Shi Ping 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 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 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 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 Group and is satisfied with the findings.

C. BOARD COMMITTEES

The Board has established 3 committees, namely, the Audit Committee, Remuneration Committee and Nomination 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 published on the websites of the Stock Exchange and the Company.

C. BOARD COMMITTEES *(Continued)*

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 this 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. E Meng and Mr. Cao Kuangyu.

In accordance with the bye-law 87 of the Bye-laws, three directors shall retire by rotation and being eligible, each 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.

During the year ended 31 December 2011, one meeting of the Nomination Committee was held to consider the appointment of new Director and re-election of Directors, and assess the independence of the independent non-executive Directors.

Name of members	Number of attendance
Mr. Wu Xiang Dong	1/1
Mr. Yan Tao	1/1
Mr. Ting Leung Huel, Stephen	1/1
Mr. E Meng	1/1
Mr. Cao Kuangyu	1/1

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

C. BOARD COMMITTEES *(Continued)*

(2) Remuneration Committee *(Continued)*

To comply with the amendments to the Listing Rules which has been effective on 1 April 2012, Mr. Ting Lueng Huel, Stephen, an independent non-executive Director has been appointed as the chairman of the Remuneration Committee in place of Mr. Wu Xiang Dong, the Chairman of the Board and an executive Director, with effect from 26 March 2012. Mr. Wu Xiang Dong remained as a member of the Remuneration Committee.

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

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.

During the year ended 31 December 2011, one meeting of the Remuneration Committee was held to make recommendation of the remuneration of the proposed new Director and to review the remuneration packages of the Directors and senior management.

Name of members	Number of attendance
Mr. Ting Leung Huel, Stephen	1/1
Mr. Wu Xiang Dong	1/1
Mr. Yan Tao	1/1
Mr. E Meng	1/1
Mr. Cao Kuangyu	1/1

(3) Audit Committee

The Audit Committee comprises three independent non-executive Directors namely Mr. Ting Leung Huel, Stephen (Chairman), Mr. E Meng and Mr. Cao Kuangyu 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.

C. BOARD COMMITTEES *(Continued)*

(3) Audit Committee *(Continued)*

The Audit Committee held 2 meetings during the year ended 31 December 2011 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.

Name of members	Number of attendance
Mr. Ting Leung Huel, Stephen	2/2
Mr. E Meng	2/2
Mr. Cao Kuangyu	2/2

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 regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2011 has been reviewed by the audit committee.

D. MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made to all Directors and they have confirmed that they have complied with the Own Code and Model Code throughout the year ended 31 December 2011.

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 2011.

The accounts for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming annual general meeting of the Company. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganized as HLB Hodgson Impey Cheng Limited. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be nominated for appointment as the auditors of the Company at the forthcoming annual general meeting.

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 36.

For the year ended 31 December 2011, the external auditors' remuneration in respect of audit services provided to the Group amounted to approximately Hk$1,128,000 in which HK$128,000 was paid to the PRC auditors for auditing the PRC subsidiaries of the Group. Fees for non-audit services amounted to HK$200,000, being the service charged for review of continuing connected transactions.

F. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The procedures for voting on resolutions at shareholders' meetings are contained in the 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 Director.

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.

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 the Board 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 2011 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 2011, 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 2011 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 2011. 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.

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 38 to 93, which comprise the consolidated and Company statements of financial position as at 31 December 2011, 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 of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, 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, 26 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Turnover	7	**400,272**	337,133
Cost of sales		**(182,524)**	(156,379)
Gross profit		**217,748**	180,754
Other revenue	9	**14,391**	13,631
Selling and distribution costs		**(98,355)**	(81,666)
Administrative expenses		**(49,661)**	(45,988)
Profit from operating activities	10	**84,123**	66,731
Finance costs	12	**(4,833)**	(4,522)
Profit before taxation		**79,290**	62,209
Taxation	13	**(21,449)**	(16,621)
Profit for the year		**57,841**	45,588
Attributable to:			
Owners of the Company		**45,585**	38,314
Non-controlling interests		**12,256**	7,274
		57,841	45,588
Dividend	15	**—**	16,685
Earnings per share attributable to owners of the Company	16		
Basic and diluted		**HK2.73 cents**	HK2.32 cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
Profit for the year	**57,841**	45,588
Other comprehensive income		
Exchange differences arising on		
– translation of foreign operations	**17,057**	12,845
Total comprehensive income for the year	**74,898**	58,433
Attributable to:		
Owners of the Company	**61,109**	48,582
Non-controlling interests	**13,789**	9,851
Total comprehensive income for the year	**74,898**	58,433

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets			
Land use rights	17	**29,138**	28,824
Property, plant and equipment	18	**233,576**	171,458
Intangible assets	19	**35,591**	35,031
Available-for-sale financial assets	20	**1,751**	—
Goodwill	21	**177,959**	177,959
		478,015	413,272
Current assets			
Inventories	23	**241,189**	158,526
Trade and bills receivables	24	**33,775**	27,758
Prepayments, deposits and other receivables	25	**35,648**	27,577
Cash and cash equivalents	26	**189,848**	263,426
		500,460	477,287
Total assets		**978,475**	890,559
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	27	**16,685**	16,685
Reserves		**625,385**	564,276
Proposed final dividend	15	**—**	16,685
		642,070	597,646
Non-controlling interests		**83,116**	69,327
Total equity		**725,186**	666,973

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings – due after one year	33	**24,430**	38,824
Deferred tax liabilities	29	**21,509**	20,689
		45,939	59,513
Current liabilities			
Trade payables	30	**43,790**	30,172
Accruals, deposits received and other payables	31	**93,919**	57,877
Amounts due to related parties	32	**13,398**	22,305
Bank borrowings – due within one year	33	**40,309**	43,529
Tax payable		**15,934**	10,190
		207,350	164,073
Total liabilities		**253,289**	223,586
Total equity and liabilities		**978,475**	890,559
Net current assets		**293,110**	313,214
Total assets less current liabilities		**771,125**	726,486

Approved by the Board of Directors on 26 March 2012 and signed on its behalf by:

Wu Xiang Dong
Director

Yan Tao
Director

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	18	**241**	382
Interests in subsidiaries	22	**392,585**	388,096
		392,826	388,478
Current assets			
Prepayments, deposits and other receivables	25	**898**	936
Cash and cash equivalents	26	**31,277**	57,051
		32,175	57,987
Total assets		**425,001**	446,465
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	27	**16,685**	16,685
Reserves	28	**404,736**	411,386
Proposed final dividend	15	**—**	16,685
		421,421	444,756
LIABILITIES			
Current liabilities			
Accruals, deposits received and other payables	31	**3,580**	1,709
		3,580	1,709
Total equity and liabilities		**425,001**	446,465
Net current assets		**28,595**	56,278
Total assets less current liabilities		**421,421**	444,756

Approved by the Board of Directors on 26 March 2012 and signed on its behalf by:

Wu Xiang Dong
Director

Yan Tao
Director

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

As at 31 December 2011

	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 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 reverse	—	—	—	6,240	—	(6,240)	—	—	—	—
At 31 December 2010 and 1 January 2011	**16,685**	**409,918**	**35,794**	**21,941**	**356**	**96,267**	**16,685**	**597,646**	**69,327**	**666,973**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**45,585**	**—**	**45,585**	**12,256**	**57,841**
Other comprehensive income	**—**	**—**	**15,524**	**—**	**—**	**—**	**—**	**15,524**	**1,533**	**17,057**
Total comprehensive Income for the year	**—**	**—**	**15,524**	**—**	**—**	**45,585**	**—**	**61,109**	**13,789**	**74,898**
Final dividend paid	**—**	**—**	**—**	**—**	**—**	**—**	**(16,685)**	**(16,685)**	**—**	**(16,685)**
Appropriation to the PRC statutory reserve	**—**	**—**	**—**	**8,639**	**—**	**(8,639)**	**—**	**—**	**—**	**—**
At 31 December 2011	**16,685**	**409,918***	**51,318***	**30,580***	**356***	**133,213***	**—**	**642,070**	**83,116**	**725,186**

* These reserve accounts comprise the consolidated reserve of HK$ 625,385,000 (2010: HK$ 564,276,000) 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 Château Company Limited and its carrying amount on the date of the acquisition.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
Cash flows from operating activities		
Profit before taxation	**79,290**	62,209
Adjustment for:		
Bank interest income	**(1,428)**	(438)
Impairment loss of trade and other receivables, net	**500**	10,851
Depreciation of property, plant and equipment	**13,789**	12,019
Amortisation of intangible assets and land use rights	**1,571**	1,713
Loss on disposal of property, plant and equipment	**131**	1,188
Interest expenses	**4,752**	4,407
Operating cash flows before movements in working capital	**98,605**	91,949
(Increase)/decrease in trade receivables, prepayments, deposits and other receivables	**(15,055)**	4,875
(Increase) in inventories	**(82,663)**	(51,298)
(Decrease)/increase in amounts due to related parties	**(8,907)**	11,729
Increase in trade payables, accruals, deposits received and other payables	**49,660**	29,353
Cash generated from operations	**41,640**	86,608
Profits tax paid	**(15,705)**	(12,379)
Interest paid	**(4,752)**	(4,407)
Net cash generated from operating activities	**21,183**	69,822
Cash flows from investing activities		
Bank interest received	**1,428**	438
Acquisition of available-for-sale financial assets	**(1,751)**	—
Purchase of property, plant and equipment	**(69,490)**	(49,241)
Purchase of intangible assets	**—**	(385)
Net cash used in investing activities	**(69,813)**	(49,188)
Cash flows from financing activities		
Raise funds from open offer	**—**	166,853
Issue cost on open offer	**—**	(7,164)
Dividend paid	**(16,685)**	—
Increase in bank borrowings	**24,430**	58,824
Repayment of bank borrowings	**(45,195)**	(76,471)
Net cash (used in)/generated from financing activities	**(37,450)**	142,042
Net (decrease)/increase in cash and cash equivalents	**(86,080)**	162,676
Cash and cash equivalents at the beginning of the year	**263,426**	90,528
Effect of foreign exchange rate changes	**12,502**	10,222
Cash and cash equivalents at the end of the year	**189,848**	263,426
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**189,848**	263,426

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

1. GENERAL

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

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

The principal activity of the Company is investment holding and the activities of its principal subsidiaries are engaged in production and distribution of wine 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 new and revised 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"), which are effective for the Group's financial year beginning on 1st January 2011:

HKFRS 1 (Amendment)	Limited Exemption from Comparatives HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Presentation - Classification of Rights Issues
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follow:

(a) HKAS 24 (Revised) "Related Party Disclosures" clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 39 to the consolidated financial statements.

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

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

(b) Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

— HKFRS 3 "Business Combinations": The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008). In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets.

All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

— HKAS 1 "Presentation of Financial Statements": The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

— HKAS 27 "Consolidated and Separate Financial Statements": The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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

(ii) New standards, amendments and interpretations have been issued but are not yet effective for the financial year beginning 1 January 2011

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 1 (Amendments)	Disclosures – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopter[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures - Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 (Amendments)	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (Revised in 2011)	Employee Benefits[4]
HKAS 27 (Revised in 2011)	Separate Financial Statements[4]
HKAS 28 (Revised in 2011)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Presentation – Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

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.

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 (the "Listing Rules") and by the Hong Kong Companies Ordinance.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Intercompany transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

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

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs.

Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill 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 contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest 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 is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

(b) Basis of consolidation *(Continued)*

When the Group loses 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 interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(c) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

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.

A cash-generating unit ("CGU") 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 CGU 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 income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(d) Revenue recognition

Revenue from the 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 recognised by reference to the stage of completion of the transaction at the end of the reporting period.

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.

(e) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. It is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset or over the benefits received by the Group related to such assets.

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

(f) 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.

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.

(g) 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 are classified into the following specified categories: financial assets “at fair value through profit or loss”, “held-to-maturity” investments, “available-for-sale” financial assets and “loan and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All regular way purchases or sales of financial assets are recognised and derecognised on a 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.

The Group’s financial assets are classified as available-for-sale financial assets and loan and receivables.

Effective interest method

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

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

(g) Financial instruments *(Continued)*

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 and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition. An impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan and receivables (including trade and other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets 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 financial assets, 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.

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.

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

(g) Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

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, accruals, other payables and amount due to related parties are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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 other comprehensive income and accumulated in equity is recognised in profit or loss.

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.

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

(h) 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.

(i) 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax 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. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arised from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(j) Land use rights

Land use rights are stated 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.

(k) 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.

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

(k) Foreign currencies *(Continued)*

(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.

(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 of the Group's foreign operations are translated at the rate of exchange prevailing at the end of each reporting period;

(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 in other comprehensive income and accumulated in equity under the heading of translation reserve. 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 rate of exchange prevailing at the end of each reporting period.

(l) 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.

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

(l) Employee benefits *(Continued)*

(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 the end of each reporting period, 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 statement of financial position 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.

(m) 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.

(n) 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.

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

(n) Intangible assets *(Continued)*

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.

(o) Impairment of assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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.

(p) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

(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 end of the reporting period.

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

(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 end of each reporting period 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 income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the consolidated income statement.

(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 interests.

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

(w) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT

4.1 Categories of financial instruments

	2011 **HK$'000**	2010 HK$'000
Financial assets		
Available-for-sale financial assets	**1,751**	—
Loan and receivables (including cash and cash equivalents)	**233,671**	303,674
Financial liabilities		
Amortised cost	**172,258**	175,322

4. FINANCIAL RISK MANAGEMENT *(Continued)*

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 of the Company (the "Board") 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.

Market risk

(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, prepayments, deposits and other receivables, amount due from/to related parties, bank balances and bank borrowings, trade payables and accruals and deposits received denominated in RMB. Where RMB strengthens against Hong Kong dollar by 5%, the Group's profit for the year would increase by HK$ 3,049,000 (2010: HK$ 4,923,000), 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.

(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$ 3,237,000 (2010:HK$ 4,118,000).

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.2 Financial risk factors *(Continued)*

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 (the "Directors") 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.

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.2 Financial risk factors *(Continued)*

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.

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 2011						
Trade payables	**—**	**43,790**	**—**	**—**	**43,790**	**43,790**
Accruals and other payables	**—**	**50,331**	**—**	**—**	**50,331**	**50,331**
Amount due to related parties	**—**	**13,398**	**—**	**—**	**13,398**	**13,398**
Bank borrowings	**7.51%**	**40,309**	**28,237**	**—**	**68,546**	**64,739**
		147,828	**28,237**	**—**	**176,065**	**172,258**
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

4. FINANCIAL RISK MANAGEMENT *(Continued)*

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 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.

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 2011 and 2010 were as follows:

	2011 HK$'000	2010 HK$'000
Total borrowings	**64,739**	82,353
Less: Bank balances and cash	**(189,848)**	(263,426)
	(125,109)	(181,073)
Total equity	**725,186**	666,973
Gearing ratio*	**N/A**	N/A

* As the Group was in net cash position for the current and prior year, no gearing ratio is presented.

6. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

(a) Impairment of goodwill

The Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in note 3 (c). The recoverable amounts of CGUs 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 CGU 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.

(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) Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 when determining whether an investment in available-for-sale financial assets is other than temporarily impaired. In making the judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the expected time span the Company will hold on this investment.

(d) 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.

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

(e) 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.

(f) Useful lives of intangible assets

The Group determines the estimated useful lives and related amortisation charges for its intangible assets. Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date.

(g) 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.

(h) 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.

(i) Current taxation and deferred taxation

The Group is subject to corporate 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

	2011 HK$'000	2010 HK$'000
Production and distribution of wine	**227,734**	209,034
Production and distribution of Chinese liquor	**172,538**	128,099
	400,272	337,133

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.

Segment revenue and results

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

	Chinese liquor		Wine		Total	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Segment revenue						
Revenue from external customers	**172,538**	128,099	**227,734**	209,034	**400,272**	337,133
Segment results	**42,584**	28,630	**52,702**	47,894	**95,286**	76,524
Unallocated corporate income					**549**	158
Unallocated corporate expenses					**(11,712)**	(9,951)
Finance costs					**(4,833)**	(4,522)
Profit before taxation					**79,290**	62,209
Taxation					**(21,449)**	(16,621)
					57,841	45,588

The accounting policies on segment reporting are the same as the Group's accounting policies. 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 costs and taxation.

8. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

	Chinese liquor		Wine		Total	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Segment assets	**319,175**	270,288	**626,404**	562,033	**945,579**	832,321
Unallocated					**32,896**	58,238
					978,475	890,559
Segment liabilities	**56,174**	33,022	**107,287**	85,072	**163,461**	118,094
Unallocated					**89,828**	105,492
					253,289	223,586

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 segments as described in note 21; 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.

Other information

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

	Chinese liquor		Wine		Total	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Capital expenditure	**19,160**	36,594	**50,330**	13,032	**69,490**	49,626
Depreciation of property, plant and equipment	**4,915**	6,853	**8,874**	5,166	**13,789**	12,019
Amortisation of land use rights	**565**	544	**225**	217	**790**	761
Amortisation of intangible assets	**—**	11	**781**	941	**781**	952
Provision on impairment loss of trade and other receivables	**—**	8,716	**500**	384	**500**	9,100
Provision for obsolete inventories	**—**	—	**267**	—	**267**	—

8. SEGMENT INFORMATION *(Continued)*

Information about major customer

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

	2011 HK$'000	2010 HK$'000
Customer A	—	99,418

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.

9. OTHER REVENUE

	2011 HK$'000	2010 HK$'000
Government grants (Note 40)	8,173	8,130
Sub-contracting service income	—	4,584
Bank interest income	1,428	438
Bad debts recovered	980	164
Service income	440	—
Sales of waste materials*	3,268	260
Others	102	55
	14,391	13,631

* Sales of waste materials included sales of bottles amounted to approximately HK$2,999,000 (2010: HK$ Nil) and sales of cartoon boxes amounted to approximately HK$ 269,000 (2010: HK$ 260,000).

10. EXPENSES BY NATURE

	2011 HK$'000	2010 HK$'000
Profit and total comprehensive income for the year has been arrived at after charging:		
Staff costs, including directors' emoluments		
– Basic salaries and allowances	**50,849**	34,426
– Retirement benefits scheme contributions	**48**	51
Total staff costs	**50,897**	34,477
Auditors' remuneration	**1,128**	954
Amortisation of intangible assets	**781**	952
Amortisation of land use rights	**790**	761
Cost of inventories recognised as expenses	**146,180**	130,352
Provision for obsolete inventories	**267**	—
Provision on impairment loss of trade and other receivables	**500**	9,100
Depreciation of property, plant and equipment	**13,789**	12,019
Research and development cost	**1,110**	314
Minimum lease payments under operating leases:		
Land and building	**1,934**	1,895

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

For the year ended 31 December 2011, the emoluments paid or payable to each of the ten (2010: ten) directors was as follow:

For the year ended 31 December 2011 and 2010:—

	Fees		Salaries and other benefits		Performance related incentive payments		Retirement benefits scheme contributions		Total	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Wu Xiang Dong	—	—	1,300	1,300	—	—	12	12	1,312	1,312
Shu Shi Ping	—	—	282	100	—	—	—	—	282	100
Zhang Jian	—	—	100	100	—	—	—	—	100	100
Lu Tong[1]	—	—	260	460	—	—	7	12	267	472
Sun Jian Xin	—	—	100	100	—	—	—	—	100	100
Yan Tao	—	—	100	100	—	—	—	—	100	100
Ng Kwong Chue, Paul[2]	—	—	600	—	—	—	12	—	612	—
Cao Kuangyu	150	150	—	—	—	—	—	—	150	150
Ting Leung Huel, Stephen	240	240	—	—	—	—	—	—	240	240
E Meng	150	150	—	—	—	—	—	—	150	150
Ma Yong[3]	—	50	—	—	—	—	—	—	—	50
	540	590	2,742	2,160	—	—	31	24	3,313	2,774

Note:

1 Mr. Lu Tong was resiged as executive director of the Company on 21 June 2011.

2 Mr. Ng Kwong Chue, Paul was appointed as executive director of the Company on 28 March 2011 .

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

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

The five highest paid individuals for the year included five directors (2010: three directors) whose emoluments are set out in (a) above. For the year ended 31 December 2010, the emoluments of the remaining two individuals are as follows:

	2011 HK$'000	2010 HK$'000
Salaries, performance related incentive payments and other benefits	—	1,352
Retirement benefits scheme contribution	—	22
	—	1,374

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

	2011 Number of employees	2010 Number of employees
Up to HK$1,000,000	4	3
HK$1,000,001 to HK$1,500,000	1	2
	5	5

12. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Interest on bank borrowings wholly repayable within five years	4,752	4,407
Bank charges	81	115
	4,833	4,522

13. TAXATION

	2011 HK$'000	2010 HK$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	—	—
The PRC Corporate Income Tax		
– current year	19,573	16,741
– under/(over)-provision in prior year	1,876	(120)
	21,449	16,621

Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 16.5% (2010: 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 2011, the Group had unused tax losses of approximately HK$ 55 million (2010: HK$ 48 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The PRC Corporate Income Tax

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (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.

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 corporate 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. During the year ended 31 December 2011, Shangri-La Winery Company Limited has successfully applied a tax exemption from Yunnan State Administration of Taxation of the PRC and the tax rate applied therefore becomes 15% accordingly.

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 corporate income tax rate of 25% and is entitled to full exemption from the PRC corporate 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 third year profit since its establishment.

The tax rate applicable for all other subsidiaries established in the PRC is 25% (2010: 25%).

Pursuant to the transitional arrangements under the New Tax Law, the above mentioned PRC subsidiaries which are 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%.

13. TAXATION *(Continued)*

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 tax rates for the countries in which the Company and majority of its subsidiaries are domiciled to the tax expense/(credit) 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 – 2011

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
(Loss)/profit before taxation	(6,650)		85,940		79,290	
Tax at the statutory tax rates	(1,097)	(16.5)	21,485	25.0	20,388	25.7
Tax effect of tax losses not recognised	1,089	16.4	1,165	1.4	2,254	2.8
Tax effect of income not taxable for tax purpose	(18)	(0.3)	(2,882)	(3.4)	(2,900)	(3.7)
Tax effect of expense not deductible for tax purpose	26	0.4	3,201	3.7	3,227	4.1
Utilisation of previously unrecognised tax losses	—	—	(335)	(0.4)	(335)	(0.4)
Effect of tax exemptions granted to the PRC subsidiaries	—	—	(3,061)	(3.6)	(3,061)	(3.9)
Under provision in prior year	—	—	1,876	2.2	1,876	2.4
Tax charge for the year	—	—	21,449	24.9	21,449	27.0

13. TAXATION *(Continued)*

Reconciliation between tax expenses and accounting profit at applicable tax rates *(Continued)*

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 rates	(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

14. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group's consolidated profit for the year of approximately HK$ 57,841,000 (2010: profit of HK$ 45,588,000) of which net loss attributable to owners of the Company for the year of approximately HK$ 6,650,000 (2010: profit of HK$ 19,474,000) is dealt with in the financial statements of the Company.

15. DIVIDEND

The Board does not recommend payment of final dividend for the year ended 31 December 2011 (2010: HK$0.01 per share).

16. EARNINGS PER SHARE

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

	2011 HK$'000	2010 HK$'000
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per ordinary share	**45,585**	38,314

	Number of shares	
	2011	2010
Weighted average number of shares for the purpose of basic and diluted earnings per ordinary share	**1,668,532,146**	1,653,446,787

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

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:—

	2011 HK$'000	2010 HK$'000
Outside Hong Kong, held on:		
Lease period between 10 to 50 years	**29,138**	28,824
Cost		
As at 1 January	**31,559**	30,483
Exchange alignment	**1,208**	1,076
As at 31 December	**32,767**	31,559
Amortisation		
As at 1 January	**2,735**	1,907
Exchange alignment	**104**	67
Charge for the year	**790**	761
As at 31 December	**3,629**	2,735
Carrying amount		
As at 31 December	**29,138**	28,824

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 2011, the Group's land use rights with carrying amount of approximately HK$ 4,706,000 (2010: HK$ 4,738,000) were pledged as security for the Group's bank borrowings.

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 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 and 1 January 2011	36,308	102,537	69,082	981	1,054	6,944	216,906
Exchange alignment	1,389	3,924	2,644	—	40	266	8,263
Transfer to property, plant and equipment	(2,856)	191	2,665	—	—	—	—
Additions	46,096	4,037	16,744	16	306	2,291	69,490
Elimination upon disposals	—	—	(1,333)	—	—	(1,056)	(2,389)
At 31 December 2011	80,937	110,689	89,802	997	1,400	8,445	292,270
Depreciation and impairment:							
At 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 and 1 January 2011	—	17,275	24,000	599	797	2,777	45,448
Exchange alignment	—	661	918	—	30	106	1,715
Charge for the year	—	4,630	8,040	157	93	869	13,789
Elimination upon disposals	—	—	(1,265)	—	—	(993)	(2,258)
At 31 December 2011	—	22,566	31,693	756	920	2,759	58,694
Carrying amount:							
At 31 December 2011	**80,937**	**88,123**	**58,109**	**241**	**480**	**5,686**	**233,576**
At 31 December 2010	36,308	85,262	45,082	382	257	4,167	171,458

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

The Company

	Office equipment HK$'000
Cost	
At 1 January 2010	975
Additions	6
At 31 December 2010 and 1 January 2011	981
Additions	16
At 31 December 2011	997
Depreciation	
At 1 January 2010	443
Charge for the year	156
At 31 December 2010 and 1 January 2011	599
Charge for the year	157
At 31 December 2011	756
Carrying amount	
At 31 December 2011	**241**
At 31 December 2010	382

As at 31 December 2011, the Group's building with carrying amount of approximately HK$ 40,386,000 and plant and machinery with carrying amount of approximately HK$ 4,589,000 respectively (2010: building: HK$ 40,472,000 and plant and machinery: HK$5,310,000) 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.

19. INTANGIBLE ASSETS

	Farmland development HK$'000	Technical know-how HK$'000	Trademarks HK$'000	Total HK$'000
Cost				
At 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 and 1 January 2011	14,952	1,794	25,133	41,879
Exchange alignment	572	66	962	1,600
At 31 December 2011	15,524	1,860	26,095	43,479
Amortisation				
At 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 and 1 January 2011	4,579	1,794	475	6,848
Exchange alignment	175	66	18	259
Amortisation for the year	702	—	79	781
At 31 December 2011	5,456	1,860	572	7,888
Carrying amount				
At 31 December 2011	**10,068**	**—**	**25,523**	**35,591**
At 31 December 2010	10,373	—	24,658	35,031

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 approximately HK$ 781,000 (2010: HK$952,000) 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.

19. INTANGIBLE ASSETS *(Continued)*

Impairment test of intangible assets

Trademarks with indefinite useful life with carrying amount of approximately HK$ 25,523,000 are allocated to the Group's 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 financial budgets approved by management covering a five-year period, and at discount rate of 12.2% per annum (2010: 7% per annum). Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the CGU's past performance and management's expectations for the market development.

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2011 HK$'000	2010 HK$'000
Unlisted securities, at cost	1,751	—

The investments are stated at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that its fair value cannot be measured reliably.

21. GOODWILL

	HK$'000
Cost	
At 1 January 2010, 31 December 2010 and 31 December 2011	177,959
Impairment	
At 1 January 2010, 31 December 2010 and 31 December 2011	—
Carrying amount	
At 31 December 2011	**177,959**
At 31 December 2010	177,959

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

	2011 HK$'000	2010 HK$'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 11.2% per annum (2010: 8% per annum). Another key assumption for the value in use calculations is the budgeted gross profit 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 2011 and 2010.

22. INTERESTS IN SUBSIDIARIES

	2011 HK$'000	2010 HK$'000
Unlisted shares, at cost	**240,828**	240,828
Amounts due from subsidiaries	**151,757**	147,268
	392,585	388,096

Particulars of the Company's principal subsidiaries at 31 December 2011 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company: Directly 2011 %	Directly 2010 %	Indirectly 2011 %	Indirectly 2010 %	Principal activities
Shangri-La Winery Company Limited (Note i) ("Shangri-La Winery")	The PRC	Registered capital RMB 56,560,000	**95**	95	**—**	—	Production and distribution of wine and investment holding
Shangri-La (Qinhuangdao) Winery Limited (Note i) ("Shangri-La (Qinhuangdao)")	The PRC	Registered capital RMB 40,000,000	**25**	25	**71**	71	Production of winery products
Diqing Shangri-La Economics Development Zone Tinlai Winery Company Limited	The PRC	Registered capital RMB 8,200,000	**—**	—	**95**	95	Distribution of winery products
Yunnan Diqing Shangri-La YuQuan Investment Company Limited	The PRC	Registered capital RMB 10,000,000	**—**	—	**66**	66	Investment holding
Shangri-La Plantation Company Limited	The PRC	Registered capital RMB 2,000,000	**—**	—	**96**	96	Purchasing and distribution of grape
Yantai Shangri-La Masang Château Company Limited (formerly known as Yantai Shangri-La Shuijing Cellar Company Limited)	The PRC	Registered capital RMB 50,000,000	**—**	—	**100**	100	Production of winery products

22. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company				Principal activities
			Directly		Indirectly		
			2011 %	2010 %	2011 %	2010 %	
Diqing Shangri-La Economics Development Zone Zimi Sales Company Limited	The PRC	Registered capital RMB 2,000,000	—	—	95	95	Distribution of winery products
Heilongjiang Province YuQuan Winery Company Limited	The PRC	Registered capital RMB 4,060,000	—	—	66	66	Production of Chinese liquor products
Harbin City Xinlong Winery Company Limited	The PRC	Registered capital RMB 500,000	—	—	66	66	Distribution of Chinese liquor products
Harbin City Longcheng Company Limited (formerly known as Acheng City Longcheng Company Limited)	The PRC	Registered capital RMB 500,000	—	—	66	66	Distribution of Chinese liquor products

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, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particular of excessive length.

23. INVENTORIES

	2011 HK$'000	2010 HK$'000
Raw materials	**93,905**	60,986
Work in progress	**47,631**	30,508
Finished goods	**99,653**	67,032
	241,189	158,526

The cost of inventories recognised as expense and included in 'cost of sales' amounted to approximately HK$ 146,180,000 (2010: HK$ 130,352,000).

24. TRADE AND BILLS RECEIVABLES

The Group generally allows an average credit period ranging from 30 to 90 days (2010: 30 to 90 days) to its trade customers which major customers with whom specific terms have agreed.

	2011 HK$'000	2010 HK$'000
Trade and bills receivables	**33,981**	27,873
Less: Impairment loss of trade and bills receivables	**(206)**	(115)
	33,775	27,758

24. TRADE AND BILLS RECEIVABLES *(Continued)*

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:

	2011 HK$'000	2010 HK$'000
Within 30 days	30,713	23,357
More than 30 days and within 60 days	462	—
More than 60 days and within 90 days	1,614	4,180
More than 90 days and within 180 days	986	221
More than 180 days and within 360 days	—	—
At 31 December	33,775	27,758
Represented by:		
Receivables from related parties	2,504	—
Receivables from third parties	31,271	27,758
	33,775	27,758

All trade and bills receivables were denominated in RMB.

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

	2011 HK$'000	2010 HK$'000
At 1 January	115	111
Exchange alignment	5	—
Impairment losses recognised	86	6
Bad debt recovered	—	(2)
At 31 December	206	115

The Group does not hold any collateral over these balances.

24. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	2011 HK$'000	2010 HK$'000
Neither past due nor impaired	32,789	27,537
One to six month past due	986	221
Six months to one year past due	—	—
	33,775	27,758

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

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Prepayments	24,084	14,764	506	482
Deposits	1,516	323	392	323
Other receivables	22,607	25,153	—	131
	48,207	40,240	898	936
Less: Impairment loss of other receivables	(12,559)	(12,663)	—	—
	35,648	27,577	898	936
Represented by:				
Amount due from related parties	—	131	—	—
Amount due from third parties	35,648	27,446	898	936
	35,648	27,577	898	936

Included in the Group's prepayments under current assets as at 31 December 2011 were prepayment for procurement of raw materials amounted to approximately HK$ 17,107,000 (2010: HK$ 9,081,000), which were paid to the third parties of the Group.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

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

	The Group		The Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
At 1 January	**12,663**	3,605	**—**	—
Exchange alignment	**462**	126		
Impairment losses recognised	**414**	9,094	**—**	—
Bad debt recovered	**(980)**	(162)	**—**	—
At 31 December	**12,559**	12,663	**—**	—

Included in the provision for impairment loss above with an aggregate balance of approximately HK$ 12,559,000 (2010: HK$ 12,663,000) 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.

26. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Cash at bank and in hand	**189,848**	263,426	**31,277**	57,051

At the end of reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$158,092,000 (2010: HK$ 205,895,000). 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.

27. SHARE CAPITAL

	Number of shares		Par value	
	2011	2010	**2011**	2010
	'000	'000	**HK$'000**	HK$'000
Authorised:				
Ordinary share of HK$0.01 each	**16,000,000**	16,000,000	**160,000**	160,000
Issued and fully paid:				
At the beginning of the year	**1,668,532**	1,390,443	**16,685**	13,904
Issue of shares upon open offer (Note i)	**—**	278,089	**—**	2,781
At the end of the year	**1,668,532**	1,668,532	**16,685**	16,685

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 purposes of relocation of Shangri-La Winery's bottling factory enhancement, upgrading existing production facilities, development of Château in Yantai and general working capital of the Group. Details of which were set out in the Company circular dated 14 December 2009.

28. 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 43 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 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 and 1 January 2011	409,918	1,468	16,685	428,071
Loss for the year	—	(6,650)	—	(6,650)
Final dividend paid	—	—	(16,685)	(16,685)
At 31 December 2011	**409,918**	**(5,182)**	**—**	**404,736**

29. 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:—

	HK$'000
Deferred tax arising from revaluation of properties as follow:	
At 1 January 2010	19,959
Exchange alignment	730
At 31 December 2010 and 1 January 2011	20,689
Exchange alignment	820
At 31 December 2011	**21,509**

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.

Under the New Tax Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

30. TRADE PAYABLES

	2011 **HK$'000**	2010 HK$'000
Within 90 days	**33,609**	28,000
More than 90 days and within 180 days	**4,033**	291
More than 180 days and within 360 days	**6,148**	1,881
	43,790	30,172

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

31. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**16,988**	7,124	**3,560**	1,700
Trade deposits received	**43,588**	17,385	**—**	—
Other payables	**33,343**	33,368	**20**	9
	93,919	57,877	**3,580**	1,709

32. AMOUNTS DUE TO RELATED PARTIES

The amounts are unsecured, interest free and repayable on demand.

33. BANK BORROWINGS

	2011	2010
	HK$'000	HK$'000
Secured bank borrowings comprised of:		
Import loans – secured	**48,860**	58,824
Import loans – unsecured	**15,879**	23,529
	64,739	82,353
The borrowings are repayable as follows:		
Within one year or on demand	**40,309**	43,529
After one year	**24,430**	38,824
Total bank borrowings	**64,379**	82,353

Bank borrowings were secured by the followings:

(i) the Group's buildings, plant and machinery and land use rights with carrying amount of approximately HK$40,386,000 (2010: HK$40,472,000), HK$ 4,589,000 (2010: HK$5,310,000) and HK$ 4,706,000 (2010: 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 7.51% (2010: 5.31%) per annum.

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:

	2011 HK$'000	2010 HK$'000
Buildings (Note 18)	**40,386**	40,472
Plant and machinery (Note 18)	**4,589**	5,310
Land use rights (Note 17)	**4,706**	4,738
	49,681	50,520

35. OPERATING LEASES COMMITMEMTS

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:

	2011 HK$'000	2010 HK$'000
Within one year	**2,252**	1,952
In the second to fifth year inclusive	**6,431**	5,121
Over five years	**46,831**	47,193
	55,514	54,266

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.

36. CAPITAL COMMITMENTS

	2011 HK$'000	2010 HK$'000
Authorised and contracted for:		
In connection with acquisition of plant and equipment	**63,963**	14,743

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 may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 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 may at their discretion determine the specific exercise period. The exercise price is determined by the Directors, 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, were conducted under commercial terms and in the normal course of the Group's business.

	2011 HK$'000	2010 HK$'000
Sales of goods		
Yunnan Jinliufu Winery Company Limited — Received	—	3,605
Yunnan Jinliufu Trading Limited (雲南金六福貿易有限公司) — Received	6,007	—
VATS Chain Liquor Store Management Company Limited ("VATS Chain Store") — Received (Note 1)	16,862	31,482
Purchases of goods		
Yunnan Jinliufu Winery Company Limited — Paid	61	684
Yunnan Jinliufu Trading Company Limited (雲南金六福聯采商貿有限公司) ("Jinliufu Trading") — Paid (Note 2)	6,664	7,576
Rendering of services		
VATS Fine Wines & Spirits (H.K.) Company Limited — Received	440	—

The above companies are related parties of the Group as Mr. Wu Xiang Dong, being an executive director of the Company, is a substantial shareholder of all companies.

Sales and purchases transactions were carried out at cost plus mark-up basis.

Notes:

1. Included in the sales of goods to VATS Chain Store during the year ended 31 December 2011, approximately HK$16,862,000 (2010: HK$ 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 Store. Details of the transactions were set out under "Continuing Connected Transactions" in the Directors Report.

2. Included in the purchases of goods from Jinliufu Trading during the year ended 31 December 2011, approximately HK$ 6,664,000 (2010: 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' Report.

39. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Key management personnel

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

	2011	2010
	HK$'000	HK$'000
Salaries	**3,282**	4,102
Short-term employee benefit	**31**	46
	3,313	4,148

40. GOVERNMENT GRANTS

During the year, the Group received government grants of HK$8,173,000 (2010: HK$8,130,000) for the contribution towards the business in Yunnan, Qinhuangdao, Yantai and Yuquan, the PRC. The amount has been included in other revenue for the year.

41. EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 December 2011.

42. COMPARATIVE FIGURES

Certain comparative figures of prior years have been re-presented to conform with the current year's presentation.

43. AUTHORISATION FOR ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 26 March 2012.

RESULTS

	For the year ended 31 December				
	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	**2011** **HK$'000**
Turnover	139,923	201,373	259,650	337,133	**400,272**
Profit from operations	27,473	41,670	50,661	66,731	**84,123**
Finance costs	(2,263)	(4,140)	(4,694)	(4,522)	**(4,833)**
Profit before taxation	25,210	37,530	45,968	62,209	**79,290**
Taxation	(164)	(8,307)	(10,707)	(16,621)	**(21,449)**
Profit for the year	25,046	29,223	35,261	45,588	**57,841**
Attributable to:					
Owners of the Company	13,495	24,252	29,500	38,314	**45,585**
Non–controlling interests	11,551	4,971	5,761	7,274	**12,256**
Profit for the year	25,046	29,223	35,261	45,588	**57,841**
Dividend	13,904	—	—	16,685	**—**

ASSETS AND LIABILITIES

	As at 31 December				
	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	**2011** **HK$'000**
Total assets	353,824	555,121	640,621	890,559	**978,475**
Total liabilities	(127,014)	(142,590)	(191,770)	(223,586)	**(253,289)**
Non–controlling interests	(58,220)	(54,071)	(59,832)	(69,327)	**(83,116)**
Shareholders' funds	168,590	358,460	389,019	597,646	**642,070**