* For identification purpose only

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 2008 to 31 December 2008
(Stock Code: 00472)

2008
ANNUAL REPORT

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

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

Independent non-executive Directors:

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

AUTHORIZED REPRESENTATIVES

Mr. Lu Tong
Mr. Ng Paul

COMPANY SECRETARY

Mr. Ng Paul

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

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

AUDITORS

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

SOLICITORS

Bermuda:

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

Hong Kong:

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

PRINCIPAL BANKERS

Bank of China Limited
CITIC Ka Wah Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

00472

VATS

Dear Fellow Shareholders,

I am pleased to present herewith on behalf of the Board of Directors (the "Board") of JLF Investment Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") the Annual Report and the financial results for the year ended 31 December 2008. This is the first full year's financial report after VATS Group has become the majority shareholder of the Company. I hereby express our gratitude on behalf of the Board to you and the community for the care and continue support.

BUSINESS ENVIRONMENT

2008 has been an extraordinary year for the People's Republic of China (the "PRC"). Starting with severe negative impact of natural disasters in the beginning of the year. Then the melamine scandal which damaged the local food industry. Followed by the ripple effect of the financial tsunami which, until now, does not show any sight of recovery. And yet, the PRC's economy managed to sustain a healthy growth which envy by the rest of the world.

Going through these difficult moments, the Group had taken full effort in capturing business opportunities by pushing forward its strategy of a retail-driven business model, with customer service, consumption driven, brand orient and growth stability as business focus. As a result of the global financial crisis and the downturn of the economy, the business environment in the PRC experienced significant change. This had brought serious challenges to the consumer products market. Drawing on years of experience, the Group promptly adopted certain measures and timely adjusted its business strategies and pace of expansion. Risk management and internal control were further strengthened. Various sophisticated issues were resolved proactively. This has assured the steady and sound operation of the Group and in its results.

During the year we stood firm in our main wine operations and did not involve in any risky financial operations. The effect of the financial tsunami to us is minimal. However, as mentioned in our interim report, the natural disasters at the beginning of 2008 did cause negative impact to our Sichuan and Yunnan operations. Yet with the support of our customers, our dedicated management team and staff, businesses were quickly restored to normal.

Towards the end of 2008 the PRC Government has announced plans to stimulate local economy. Details of the macro economic policies and implementation strategy have also been released in early 2009. Domestic consumption plays an important role in the planned stimulation packages. Amid the overall economic slowdown, the domestic food industry is relatively less affected as it was mitigated by stable and growing domestic demand. As a diversified wine production and distribution group based in the PRC, the Group generates 100% of its profits from the huge PRC market. Despite the current global economic recession, the Group is confident that by focusing on the PRC market, it will benefit from the forthcoming stimulation policies.

BUSINESS REVIEW

In 2008, the Group has thoroughly implemented its target investment strategy. Benefits from new acquisitions were obvious. Revenue from operation for 2008 has increased 44% to a record high of HK$201 million. Profit before taxation increased 49% to HK$38 million and profit attributable to the equity holders of the Company increase 80% to HK$24 million. However, as a result of the lapse of tax exemption period for Shangri-la Winery Company Limited ("Shangri-la Winery") and the combination tax effect of the new acquired Heilongjiang Province Yu Quan Winery Company Limited ("Yu Quan"), the tax expense for the year has increased 50 times to HK$8 million. Details of the financial results of the Company and the Group will be further discussed in detail at the Management Discussion and Analysis section in this Annual Report.

NEW PRODUCT LAUNCH

Shangri-la Winery has launched its unique new plateau wine series in 2009. This plateau winery series grow on a height of 1,900m-3,000m above sea level at Di Qing plateau, one of the highest lands in the world where grape grows. We maintain the natural ecosystem and use organic cultivation to conserve every nature essence of the grape in producing our plateau wine. Due to the natural growing environment and the highland, the grape is known to be one of the best kind of grapes used in brewing wine. Since launched, this plateau wine series has quickly captured market attention and won a number of world wide awards including the Gold Prize Winner for the 3rd Asia Wine Competition and Gold Prize award for the 2009 Vinalies Internationales China. We believe this high quality product will definitely be the revenue driver in the coming years.

MARKET DEVELOPMENT

The Group has modified its sale and marketing strategy by establishing a task force across different provinces and focusing its sales network in prime cities in order to centralizing instead of diversifying resources. This results in strengthened sales and enhancement of services with business penetration through establishment of sample markets and terminal networks. Our sales and production facilities have fabricated an extensive network and provided direct services to the market.

ACQUISITION OF ADDITIONAL INTEREST IN MAJOR SUBSIDIARY

The significant increase in the profit attributable to the equity holder of the Company in 2008 is the result of increasing our equity holding in Shangri-la Winery. Following the acquisition of additional 30% interest in Shangri-la Winery, our total equity holding increased from 65% to 95%, the other 5% was held by Di Qing Development Investment Company Limited which is a provincial government's investment body. The consideration for the acquisition was satisfied by the issue of 171,180,000 new shares at an issue price of HK$0.27 each, As the acquisition was completed in February 2008, the effect of the acquisition is reflected in the current year's financial statements.

ACQUISITION OF YU QUAN

It is always the Group's strategy to expedite growth via cautious acquisition. The acquisition of Yu Quan was the main driver for the rise in 2008 revenue. Yu Quan is a well-known Chinese liquor producer and distributor in northern of the PRC. Yu Quan brand is also a famous brand in the region. With the acquisition of Yu Quan, the Group widened its product offerings and geographical market diversification.

In May 2008, using Shangri-la Winery as a platform, we acquire 100% equity interest in Yu Quan. For the purpose of this acquisition, Yunnan Shangri-la Yu Quan Investment Company Limited ("Yu Quan Investment"), a company whereby Shangri-la Winery has 70% equity interest was formed. Yu Quan Investment has a registered capital of RMB10,000,000 which are contributed and owned as to 70% by Shangri-la Winery and 30% by venture partner. The total acquisition consideration was RMB120,000,000 (equivalent to approximately HK$135,670,000). Details of the acquisition can be found in the announcement and the circular issued by the Company dated 6 May 2008 and 18 June 2008 respectively.

The synergy effect of this acquisition has favourably reflected in the current year's financial statements. We have successfully and promptly consolidated Yu Quan's operations into our business. Back office and finance operation were consolidated first, following with the combination of client base and sales and distribution network in the northern region. This acquisition significantly strengthened the Group's presence in the Chinese liquor market and established the Group's leadership in the northern region.

CAPITAL EXPENDITURE

Due to the increasing demand for Shangri-la Winery product, the bottling and logistic facility in Kunming, Yunnan has reached its bottleneck. In order to ascertain future supply and to make room for future development, Shangri-la Winery is planning to acquire a nearby factory site which is twice the area of the current site. After minor renovation, Shangri-la Winery will relocate its bottling, warehousing and logistic facilities to the new factory site where back office administration can be centralised. We believe that this is the most time and cost effective way to expand the current facility without much interference to the operation.

We will also expand our Di Qing factory to take on the new product – Shangri-la's highland grape wine series. As for Yu Quan, we also plan to increase a new bottling line to cope with the rising demand.

TRADEMARKS

The Group value a lot on our own brands and trademarks as good brand management can drive sustainable growth and customer loyalty. Our own brand "Shangri-la" and our newly acquired brand "Yu Quan", were derived from the places where we produce our wine and Chinese liquor. Both of them have been awarded as the most popular product and most famous provincial brand in its respective region.

"Shangri-la" brand was first registered as trademark in category 33 – alcohol and winery products, by Shangri-la Winery in 1999 in China. In 2002, we had a dispute with Shangri-la Hotel Management Limited on the use of the trade mark in China and Hong Kong. The case in China had already awarded to our favour by State Intellectual Property Office of P.R.C. (previous known as the "Industrial and Commercial Administration Bureau of the P.R.C.") in 2005. I am pleased to inform you that the Hong Kong dispute has also been settled recently to our favour and our trade mark has been duly registered with the Trade Marks Registry of the Intellectual Property Department in Hong Kong. We believe the meaning of success in both disputes is more important than the monetary penalty received.

PROSPECT

The enormous economic stimulus policies from governments worldwide will eventually come to effect in the coming years. We believe, the PRC government is capable of delivering the promise of maintaining a growth rate at an annual rate of 8%. This will certainly put the country in a better position to weather the economic uncertainties compared to other major economies. However, it is envisioned that the overall economy will continue to be turbulent in 2009.

The Group believes that crisis leads to opportunity. The Group's healthy financial position and strong back up by its ultimate holding company, the VATS Group will give advantage to its capability to manage risk and to take advantage of the PRC's expansionary policies. Given the volatile market condition, the Company will continue to execute extreme caution in its investment strategy, placing particular emphasis on risk management.

In combating against the economic downturn resulted from the current financial turmoil, we will reinforce business integration with Yu Quan operation, enhance business synergy and sharing of resources between the Group's different divisions to optimize operational process and management efficiency. We will intensify our cost control effort to further reduce overhead expenses and freeze payroll. We will redesign performance management system and policies, with a clear focus on shareholders' return, customer satisfaction, process efficiency, staff development and corporate social responsibility, so as to strengthen sustainable competitiveness. Furthermore we will actively and carefully seek synergy cost-effective merge and acquisition opportunities in the PRC to underpin long-term growth potential.

The Board will cautiously seek fund raising opportunities to strengthen the Company's financial position, though it is understood that to secure funding is not easy at the current market condition but will keep this as one of the top priority tasks.

Finally, I would like to thank our employees and fellow managements for their dedicated efforts throughout the year. Their hard work and intelligence provide the fuel for our improved performance. On behalf of the entire organization, I express my appreciation to our shareholders, customers and partners and look forward to make 2009 another a record year for the Group.

By Order of the Board
Wu Xiang Dong
Chairman

Hong Kong, 27 April 2009

According to the preliminary information of the National Bureau of Statistics of China, the gross domestic product ("GDP") in the PRC for the year 2008 grew by 9.0% over the previous year. The per capita disposable income in urban areas also increased by 14.5% representing a real growth of 8.4% after discounting the inflation factor.

The effect of consolidate our holdings in Shangri-la Winery and the new acquired Yu Quan had positive impact on our overall turnover and substantially improve our profit attributable to equity holder of the Group.

FINANCIAL INFORMATION AND LIQUIDITY

Sales

Our Group attained a sales of HK$201 million for 2008 (2007: HK$140 million), representing an increase of 43.9% over previous year. Wine and Chinese liquor accounted for HK$138 million and HK$63 million respectively. The increase was mainly attributable by the Yu Quan acquisition.

Cost of Production

Cost of sales increased by 27.6% from HK$87 million in 2007 to HK$111 million in 2008. However, we believe that the cost pressure should be relatively relieved in 2009. The increase was mainly as a result of the Yu Quan acquisition.

Gross Profit

Gross profit increased by 69.7% from HK$53.4 million in 2007 to HK$90.6 million in 2008 due to growth in sales. Gross profit margin increased by 6.8 percentage points from 38.2% in 2007 to 45.0% in 2008 due to the increase of sale went through the Group's direct sales channel which has a higher gross profit contribution.

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Selling and Distribution Expenses

Our selling and distribution expenses increased by 81.8% from HK$13.7 million in 2007 to HK$24.9 million in 2008. The number of sales staffs increased from 131 to 181. The increase was mainly due to the consolidation of Yu Quan's sale team, which increased the costs of sales and relevant business costs. Selling and distribution expenses as a percentage of our sales increased by 2.6 percentage point to 12.4% in 2008.

Administrative Expenses

Administrative expenses of our Group increased by 86.5% from HK$15.6 million in 2007 to HK$29.1 million in 2008 due to the acquisition of Yu Quan and higher inflationary pressure in the PRC. Administrative expenses as a percentage of our sales increased by 3.4 percentage points to 14.5% in 2008.

Operating Profit

Our operating profit increased by 51.6% from HK$27.5 million in 2007 to HK$41.7 million in 2008. Operating profit margin increase from 19.6% in 2007 to 20.7% in 2008 due to the increase in gross profit margin.

Income Tax Expenses

Our income tax expenses increased from HK$0.16 million in 2007 to HK$8.3 million in 2008, primarily as a result of the expiry of tax reductions and exemptions enjoyed by Shangri-la Winery and the tax effect on the newly acquired Yu Quan.

Profit Attributable to Our Equity Holders

As a result of the above, the profit attributable to our equity holders in 2008 increased by 80% from HK$13.5 million in 2007 to HK$24.3 million in 2008. The margin of profit attributable to our equity holders increased from 9.6% in 2007 to 12.1% in 2008 due to the increase in gross profit margin.

Liquidity and Capital Resources

Cash and bank borrowings

We generally finance our operations and capital expenditure by internally generated cash flows as well as banking facilities provided by our principal bankers. As at 31 December 2008, our bank balances and deposits amounted to HK$71.7 million (31 December 2007: HK$115.3 million) representing a decrease of 37.8%. About 62.7% of our cash was denominated in Renminbi.

Our total borrowings as at 31 December 2008 increased by 32.3% to HK$56.5 million (31 December 2007: HK$42.7 million). All of our borrowings are repayable within one year and denominated in Renminbi. We were in a net cash position (cash and cash equivalents less total borrowings) of HK$15.2 million as at 31 December 2008. The gearing ratio (total borrowings divided by total equity) decreased to 13.7% as at 31 December 2008 from 18.8% as at 31 December 2007. We maintain sufficient cash and available banking facilities for our working capital requirements in future.

Cash flow

In 2008, our net cash decreased by HK$57.4 million to HK$15.2 million as HK$135.7 million were spent on the acquisition of Yu Quan.

Capital expenditure

For the year 2009, we have budgeted HK$50 million for capital expenditure, including mainly the capital expenditure to relocate our production facilities in Kunming. During the year 2008, our total capital expenditure amounted to HK$4.6 million (2007: HK$10.3 million). We spent approximate HK$2.6 million in the addition of production facilities so as to further enhance our production capacity. The above capital expenditure was financed by internal generated resources.

Inventory analysis

Our inventory primarily consists of finished goods, goods in transit, work in progress for winery products as well as raw materials and packaging materials. The inventory turnover ratio (closing inventories divided by cost of sales) was 291 days for the year ended 31 December 2008 (2007: 214 days).

Balance sheet analysis

As at 31 December 2008, the Group had total assets of HK$555 million (2007: HK$354 million) which was financed by current liabilities of HK$123 million (2007: HK$124 million), non-current liability of HK$19.9 million (2007: HK$2.9 million), shareholders' equity of HK$358 million (2007: HK$169 million) and minority interests of HK$54 million (2007: HK$58 million).

The Group's current ratio as at 31 December 2008 was approximately 1.58 (2007: 2.04). Gearing ratio, representing the total borrowings divided by total equity, was approximately 13.7% (2007: 18.8%). The lowering in gearing ratio are due to the increase in profitability.

Basic earnings per share attributable to the equity holders for the year ended 31 December 2008 were at HK1.76 cents (2007: HK1.17 cents), increased by 50.4%.

Trade receivables turnover period is 9 days (2007: 40 days). The Group did not experience any material bad debts that required write off in 2008.

The Group and the Company had no other material capital commitment and contingent liabilities as at 31 December 2008.

MAJOR SUPPLIERS AND CUSTOMERS

During the period the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 18% (2007: 37%) of the Group's total purchases and the purchases attributable to the Group's largest supplier was approximately 7% (2007: 10%).

The aggregate sales attributable to the Group's five largest customers were approximately 47% (2007: 80%) and the sales attributable to the Group's largest customer was approximately 14% (2007: 48%).

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 2008, the Group was granted HK$1.5 million (2007: HK$2.2 million) as subsidies from the local finance department in subsidizing the Group's production. Since 2006 the State Administration of Taxation (國家稅務總局) has approved Shangri-la Winery's profits tax exemption application allowing first 2 years tax exemption and the following three years half the normal rate at 12.5%. Current year was the first year Shangri-la Winery is subject to 12.5% profits tax. Yu Quan is subject to normal profits tax rate of 25%.

DIVIDEND

The directors of the Company do not recommend payment of final dividend for the year ended 31 December 2008 (2007: HK$0.01 per share).

PLEDGE OF ASSETS

At 31 December 2008, the Group pledged its land, property, plant and equipments with net book value amounting approximately HK$51 million (2007: HK$35 million) to secure general banking facilities granted to the Group.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

As most of the Group's revenue, expenses, assets and liabilities are denominated in Renminbi ("RMB"). There is natural hedge mechanism in place and currency exposure is relatively low. As such it does not anticipate material exchange risk and had not employed any financial instruments for hedging purposes.

The slow and moderate appreciation of the RMB regime against the US dollar has a positive but negligible impact on the Group. To enhance overall risk management for its expansion, the Group has already strengthened its treasury management capability and will closely monitor its currency and interest rate exposure.

EMPLOYEE INFORMATION

As at 31 December 2008, the Group employed a total of 986 (2007: 354) full-time employees mostly at the Group's subsidiary factories and sales offices. Out of total employment, 181 staffs related to sales and marketing, 739 staffs related to production and 66 staffs related to management and 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 was granted under the Scheme since its adoption.

Mr. Wu Xiang Dong, aged 40, was appointed as an Executive Director of the Company in February 2004 and became the Chairman of the Company in September 2007. He is the founder of VATS Group, previously known as "Jin Liu Fu Group" and the co-founder of Macro Link Group Limited. Currently He is the Chairman of VATS Group and vice-president of MACRO LINK GROUP LIMITED. Mr. Wu has extensive experience in the management of large enterprises and the wine business in China.

Mr. Yan Tao, aged 44, was appointed as an Executive Director and the Vice Chairman of the Company on 27 April 2009. Mr. Yan is a member of the People's Communist Party of China. He holds a Postgraduate degree from Economics Faculty of Hunan University. He had worked as deputy general manager at Hunan Zhuzhou Electric Welding Company Limited before joining VATS Group (previously known as "Jin Liu Fu Group") in 1999. During his engagement as the vice President of VATS Group, he had also involved in the operations of various positions within the VATS Group including acting as the general manager of Shangri-la Winery Company Limited and the Chief Operation Officer of Jin Liu Fu Sales Limited. He has been promoted to the President of VATS Group in March 2008. Mr. Yan has years of experiences in marketing of wine products and luxury products and has vast experiences in the operating of retail chains. Other than being appointed as an Executive Director, Mr. Yan holds no directorship in any public listed company in the past three years. Mr. Yan is also a member of each of the remuneration committee and nomination committee of the Company.

Mr. Lu Tong, aged 35, was appointed as an Executive Director and Authorized Representative of the Company in September 2007 and became the Chief Executive of the Company in January 2008. He graduated from the History Department of Jilin University. Currently Mr. Lu serves as the vice president of VATS Group. He has also served as the deputy general manager of Jinliufu Wine Company and VATS Group's marketing controller. From 1998 to 2003, Mr. Lee was employed by Procter & Gamble (China) Ltd. Mr. Lu has substantial experience on sales & marketing and corporate management.

Mr. Sun Jian Xin, aged 41, was appointed as an Executive Director of the Company in September 2007. Graduated from the Food Science Department of the Southwest Agricultural University, he has 17 years of experience in marketing and sales in the PRC. Mr. Sun used to work with Hunan Zhuzhou Hualong Food Company Limited (湖南株州華隆食品有限公司) and currently serves as the vice president of VATS Group and the managing director of Yunnan Jinliufu Investment Company Limited.

Mr. Shu Shi Ping, aged 46, was appointed as Executive Director of the Company in September 2004. Mr. Shu had been appointed the deputy director of the Municipal Office of Changsha, Hunan Province, the managing deputy general manager of Zhuhai Jiaguan Plastic Products Company Limited and the general manager of Shangri-la Winery Company Limited. He is currently the controller of Yunnan Jinliufu Wine Sales Company Ltd's joint purchase centre. Mr. Shu is a qualified engineer and has obtained Bachelor degree from Hubei University of Technology (previously known as the Hubei Light Industry College). He is experienced in the production and sales of wine products.

Mr. Zhang Jian, aged 36, was appointed as an Executive Director of the Company in February 2004. He is a also an Executive Director of Dongyue Group Limited, a company listed in the main broad of the Hong Kong Stock Exchange since 10 December 2007. He is the controller of the listed company department of MACRO LINK GROUP LIMITED. Mr. Zhang has many years of experience in the areas of investment banking and corporate finance. Mr. Zhang holds bachelor degrees in Law and Economics and holds a degree of Master of Business Administration from The Chinese University of Hong Kong

Mr. Cao Kuangyu, aged 57, was appointed as an Independent Non-executive Director of the Company in February 2004. He was also the managing director of the investment banking division of BOCI Asia Limited. Mr. Cao had been the deputy general manager of Bank of China Singapore branch, head of CITIC Industrial Bank Shenzhen branch and had substantial experience in the area of finance. He holds a bachelor degree in Economics and a degree of Master of Science in Financial Management from University of London.

Mr. E Meng, aged 50, was appointed as an Independent Non-executive Director of the Company in September 2004. He is a Chairman of Beijing Development (Hong Kong) Limited (stock code: 154). He is also the Executive Director of Beijing Enterprises Holdings Limited (stock code: 392), Beijing Development (Hong Kong) Limited (stock code: 154) and Beijing Enterprises Water Group Limited (stock code: 371). Mr. E graduated from China Science and Technology University with a master's degree in engineering. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the Deputy Director of Beijing New Technology Development Zone and concurrently acting as the Director of the Department of Financial Auditing, the General Manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the Deputy Director of the State-owned Assets Management Office of Beijing Haidian District. Mr. E has extensive experience in economics, finance and enterprise management.

Mr. Ting Leung Huel, **Stephen**, MH, FCCA, FCPA(PRACTISING), ACA, FTIHK, FHKIoD, aged 55, was appointed as an Independent Non-executive Director of the Company in February 2004. Mr. Ting is an accountant in public practice as managing partner of Ting Ho Kwan & Chan, Certified Public Accountants since 1987. He is a member of the 9th & 10th Chinese People Political & Consultative Conference, Fujian. He is now a non-executive director of Chow Sang Sang Holdings International Limited (00116) and an Independent Non-executive Director of six listed companies, namely, Tongda Group Holdings Limited (00698), Minmetals Resources Limited (01204), Tong Ren Tang Technologies Company Limited (08069), Computer and Technologies Holdings Limited (00046), Texhong Textile Group Limited (02678) and Dongyue Group Limited (00189). Mr. Ting was a Non-executive Director of Premium Land Limited (00164) and eForce Holdings Limited (00943) during 29 April 2006 to 28 May 2006 and to 6 October 1999 to 3 July 2007 respectively.

Mr. Ma Yong, aged 46, graduated from Renmin University of China. He used to be a cadre, the Vice Director and Director of China Food Industry Information and Consulting Center; Director of the Industry Management Department and Director of the Integrated Business Department of the China Food Industry Association. Mr. Ma currently serves as the Vice Secretary General and a CPC committee member of the China Food Industry Association; Vice Chairman and Secretary General of the Special Committee on White Wine of the China Food Industry Association.

Mr. Ng Paul, aged 38, is the Company's Authorized Representative and the Company Secretary. He is also the Company's Chief Investment Officer. He holds a Bachelor Degree in Commerce from the University of Melbourne. He is a member of CPA Australia, Hong Kong Institute of Certified Public Accountants and Hong Kong Securities Institute. He has years of experience in audit, taxation and corporate finance. Mr. Ng had served in PriceWaterhouseCoopers and was the co-founder of China Innovation Investment Limited ("CII"), a company listed on the Stock Exchange pursuant to Chapter 21 of the Listing Rules. Apart from acting as the Company Secretary of the Company, Mr. Ng has also acted as an Executive Director of CII from April 2003 to May 2006. In May 2006, Mr. Ng was re-designated as a non-executive director of CII.

The Directors present their annual report and the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The Group's results for the year ended 31 December 2008 are set out in the consolidated income statement on page 32.

The Directors of the Company do not recommend the payment of a dividend for the year ended 31 December 2008 (2007: 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 87.

SHARE CAPITAL

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

RESERVES

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

DISTRIBUTABLE RESERVES

The Company's reserve available for distribution to shareholders amounted to HK$3,168,000 as at 31 December 2008.

PROPERTY, PLANT AND EQUIPMENT

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

DIRECTORS

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

Executive Directors:

Mr. Wu Xiang Dong *(Chairman)*
Mr. Yan Tao *(Vice-Chairman)* (Appointed on 27 April 2009)
Mr. Lu Tong *(Chief Executive)*
Mr. Sun Jian Xin
Mr. Shu Shi Ping
Mr. Zhang Jian

Independent Non-executive Directors:

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

In accordance with Bye-laws 86 and 87 of the Company's Bye-laws, Mr. Yan Tao, Mr. Zhang Jian, Mr. E Meng and Mr. Ting Leung Huel, Stephen will retire at the forthcoming annual general meeting and being eligible, offer themselves for re-election. All of the remaining directors will continue in office.

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

Pursuant to the regulations prescribed by the Listing Rules, each of the Independent Non-executive Directors of the Company has confirmed with the Company their independence. The Company has received such confirmation from the Independent Non-executive Directors and considers the Independent Non-executive Directors as independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and of the senior management of the Group are set out on page 11 to page 12 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 10 and 40 to the consolidated financial statements, no contracts of significance, to which the Company, its holding company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the year ended 31 December 2008.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Details of the share option schemes of the Company are set out in note 40 to the consolidated financial statements.

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

DISCLOSURE OF INTERESTS

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

As at 31 December 2008, the following Directors or the chief executive of the Company had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

Name of Director	Nature of interest	No. of Shares held	Position	Approximate percentage of issued share capital
Mr. Wu Xiang Dong *(Note)*	Interest of controlled corporation	650,988,050	Long	46.82%

Note: These Shares are held by JLF Investment Company Limited, a company incorporated in the British Virgin Islands, which is wholly-owned by Yunnan Jinliufu Investment Company Limited. Yunnan Jinliufu Investment Company Limited is owned as to 60% by Yunnan Shangeli-La Jinliufu Wine Sale Company Limited and 40% by Hunan Jinliufu Winery Company Limited. Yunnan Shangeli-La Jinliufu Wine Sale Company Limited is owned as to 80% by Hunan Jinliufu Winery Company Limited and 20% by Yunnan Jinliufu Investment Company Limited. Hunan Jinliufu Winery Company Limited is owned as to 80% by VATS Group Limited (a company owned as to 45% by Ms. Li Juan, 35% by Mr. Wu Xiang Dong and 20% by Mr. Jiang Jian) and 20% by 湖南新華聯石油貿易有限公司. Mr. Wu Xiang Dong also owns: (i) 20% in 新華聯控股有限公司which holds 58% equity interest in 湖南新華聯石油貿易有限公司; and (ii) 15% equity interest in MACRO-LINK Sdn. Bhd.

Save as disclosed above, as at 31 December 2008, 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 2008, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	*Note*	Capacity	Number of Shares held	Position	Approximate percentage of issued share capital
JLF Investment Company Limited (金六福投資有限公司)	1	Beneficial owner	650,988,050	Long	46.82%
Yunnan Jinliufu Investment Company Limited (雲南金六福投資有限公司)	1	Interest of controlled corporation	650,988,050	Long	46.82%
Yunnan Shangeli-la Jinliufu Wine Sale Company Limited (雲南香格里拉金六福酒業銷售有限公司)	1	Interest of controlled corporation	650,988,050	Long	46.82%
Hunan Jinliufu Winery Company Limited (湖南金六福酒業有限公司)	1	Interest of controlled corporation	650,988,050	Long	46.82%
VATS Group Limited (華澤集團有限公司)	1	Interest of controlled corporation	650,988,050	Long	46.82%
Ms. Li Juan	1	Interest of controlled corporation	650,988,050	Long	46.82%
Mr. Fu Kwan	2	Interest of controlled corporation	210,980,281	Long	15.17%
MACRO-LINK International Investment Company Limited	2	Beneficial owner	210,980,281	Long	15.17%
MACRO-LINK Sdn. Bhd.	2	Interest of controlled corporation	210,980,281	Long	15.17%

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

Notes:

1. These Shares are held by JLF Investment Company Limited, a company incorporated in the British Virgin Islands, which is wholly-owned by Yunnan Jinliufu Investment Company Limited. Yunnan Jinliufu Investment Company Limited is owned as to 60% by Yunnan Shangeli-La Jinliufu Wine Sale Company Limited and 40% by Hunan Jinliufu Winery Company Limited. Yunnan Shangeli-La Jinliufu Wine Sale Company Limited is owned as to 80% by Hunan Jinliufu Winery Company Limited and 20% by Yunnan Jinliufu Investment Company Limited. Hunan Jinliufu Winery Company Limited is owned as to 80% by VATS Group Limited (a company owned as to 45% by Ms. Li Juan, 35% by Mr. Wu Xiang Dong and 20% by Mr. Jiang Jian) and 20% by 湖南新華聯石油貿易有限公司.

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

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

Save as disclosed above, as at 31 December 2008, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

PURCHASE, REDEMPTION OR SALE OR LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

Details of the corporate governance practices duly adopted by the Company are set out in page 19 to page 29 of the Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by Directors ("Code of Conduct").

Having made specific enquiry of all directors, all of them confirmed that they have complied with the Code of Conduct during the year ended 31 December 2008.

AUDIT COMMITTEE

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

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited financial statements and report of the Group for the year ended 31 December 2008. The Audit Committee was content that the accounting policies of the Group are in accordance with current best practice in Hong Kong.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

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

AUDITORS

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

PUBLIC FLOAT

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

On behalf of the Board
Wu Xiang Dong
Chairman

Hong Kong, 27 April 2009

The Board is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2008.

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

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

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

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

The Company has applied the Principles and the Code Provisions set out in the CG Code and complied with the Code Provisions.

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

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

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

A. THE BOARD

(1) Responsibilities

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

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

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

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

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

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

A. THE BOARD *(continued)*

(2) Composition

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

The Board comprises the following directors:

Executive directors:

Mr. Wu Xiang Dong	*(Chairman of the Board, Remuneration Committee & Nomination Committee)*
Mr. Yan Tao	*(Vice Chairman of the Board, Member of Remuneration Committee and Nomination Committee)*
Mr. Lu Tong	*(Chief Executive Officer & member of Remuneration Committee and Nomination Committee)*
Mr. Sun Jian Xin	
Mr. Shu Shi Ping	
Mr. Zhang Jian	

Independent non-executive directors:

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

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

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

During the year ended 31 December 2008, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

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

The 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 of the Company has been appointed for a term of three years.

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

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

(4) Training for Directors

There was no directors newly appointed during the year ended 31 December 2008. In case there is any newly appointed director, he/she will be provided comprehensive, formal and tailored induction so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

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

A. THE BOARD *(continued)*

(5) Board Meetings

Number of Meetings and Directors' Attendance

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

During the year ended 31 December 2008, 7 Board meetings and 2 Audit Committee meetings were held. The individual attendance record of each director at the meetings of the Board and committees during the year ended 31 December 2008 is set out below:

	Attendance of Meetings	
Name of Directors	Board	Audit Committee
Mr. Wu Xiang Dong	7	N/A
Mr. Yan Tao	N/A	N/A
Mr. Lu Tong	7	N/A
Mr. Sun Jian Xin	7	N/A
Mr. Shu Shi Ping	5	N/A
Mr. Zhang Jian	6	N/A
Mr. Ting Leung Huel, Stephen	7	2
Mr. Ma Yong	4	1
Mr. Cao Kuangyu	6	2
Mr. E Meng	6	2

Practices and Conduct of Meetings

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

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

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

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

A. THE BOARD *(continued)*

(5) Board Meetings *(continued)*

Practices and Conduct of Meetings (continued)

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

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

B. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

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

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

The board has conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries.

C. BOARD COMMITTEES

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

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

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

(1) Nomination Committee

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

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

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

The Nomination Committee has not held any meeting during the year ended 31 December 2008. Up to the date of the Annual Report, the Nomination Committee reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

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

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

C. BOARD COMMITTEES *(continued)*

(2) Remuneration Committee

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

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

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

The Remuneration Committee has not held any meeting during the year ended 31 December 2008. Up to the date of the Annual Report, the Remuneration Committee reviewed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior management for the year under review.

Emolument Policy

The directors are paid 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.

C. BOARD COMMITTEES *(continued)*

(3) Audit Committee

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

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

The main duties of the Audit Committee include the following:

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

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

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

The Audit Committee held 2 meetings during the year ended 31 December 2008 to review the financial results and reports, financial reporting and compliance procedures, report on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

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

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

The Company's annual results for the year ended 31 December 2008 has been reviewed by the Audit Committee.

D. MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made to all of the directors and they have confirmed that they have complied with the Own Code and Model Code throughout the year ended 31 December 2008.

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 2008.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 30 to 31.

The remuneration of the external auditors of the Company in respect of audit services and non-audit services (for provision of taxation services) for the year ended 31 December 2008 is HK$1,100,000 and HK$60,000 respectively.

F. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

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

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

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

F. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS *(continued)*

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

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

INTERNAL CONTROL

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

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

All internal control systems, no matter how well designed, have inherent limitations due to manual controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. Management also takes steps to ensure that information and communication flows are effective and to monitor performance, including performance of internal control procedures. The management assessed the effectiveness of the Company's internal control over financial reporting as of 31 December 2008 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 2008, 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 2008 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 2008. 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 32 to 86, which comprise the consolidated and Company balance sheets as at 31 December 2008, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the 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 auditors' 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 and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 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, 27 April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	7	**201,373**	139,923
Cost of sales		**(110,796)**	(86,505)
Gross profit		**90,577**	53,418
Other revenue	8	**5,076**	3,352
Selling and distribution expenses		**(24,884)**	(13,723)
Administrative expenses		**(29,099)**	(15,574)
Profit from operating activities	9	**41,670**	27,473
Finance costs	11	**(4,140)**	(2,263)
Profit before taxation		**37,530**	25,210
Taxation	12	**(8,307)**	(164)
Profit for the year		**29,223**	25,046
Attributable to:			
Equity holders of the Company		**24,252**	13,495
Minority interests		**4,971**	11,551
		29,223	25,046
Dividend	14	**–**	13,904
Profit per share attributable to the equity holders of the Company	15		
Basic and diluted		**1.76 cents**	1.17 cents

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

As at 31 December 2008

	Notes	**2008 HK$'000**	2007 HK$'000
ASSETS			
Non-current assets			
Land use rights	16	**29,135**	5,338
Property, plant and equipment	17	**116,640**	71,718
Intangible assets	18	**37,074**	12,126
Goodwill	19	**177,959**	10,924
		360,808	100,106
Current assets			
Inventories	21	**88,563**	50,649
Trade receivables	22	**5,119**	15,226
Prepayment, deposit and other receivables	23	**28,884**	7,933
Amounts due from related parties	24	**–**	61,935
Amounts due from immediate holding company	24	**–**	2,630
Bank balances and cash	25	**71,747**	115,345
		194,313	253,718
Total assets		**555,121**	353,824

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
EQUITY			
Capital and reserve attributable to the Company's equity shareholders			
Share capital	26	**13,904**	12,193
Reserves		**344,556**	142,493
Proposed final dividend	14	**–**	13,904
		358,460	168,590
Minority interests		**54,071**	58,220
Total equity		**412,531**	226,810
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	28	**19,854**	2,884
Current liabilities			
Trade payables	29	**17,386**	21,071
Accruals, deposit received and other payables	30	**25,443**	54,631
Amounts due to related parties	31	**16,475**	5,760
Bank borrowings – secured, due within one year	32	**56,529**	42,668
Tax payable		**6,903**	–
		122,736	124,130
Total liabilities		**142,590**	127,014
Total equity and liabilities		**555,121**	353,824
Net current assets		**71,577**	129,588
Total assets less current liabilities		**432,385**	229,694

Approved by the Board of Directors on 27 April 2009 and signed on its behalf by:

Wu Xiang Dong
Director

Lu Tong
Director

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

	Notes	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	**450**	339
Interests in subsidiaries	20	**243,739**	71,360
		244,189	71,699
Current assets			
Dividend receivables		**–**	106
Prepayment, deposit and other receivables	23	**703**	775
Amount due from immediate holding company	24	**–**	2,630
Bank balances and cash	25	**26,755**	84,312
		27,458	87,823
Total assets		**271,647**	159,522
EQUITY			
Capital and reserve attributable to the Company's equity holders			
Share capital	26	**13,904**	12,193
Reserves	27	**256,178**	97,187
Proposed final dividend	14	**–**	13,904
		270,082	123,284
LIABILITIES			
Current liabilities			
Accruals, deposit received and others payables	30	**1,565**	36,238
		1,565	36,238
Total equity and liabilities		**271,647**	159,522
Net current assets		**25,893**	51,585
Total assets less current liabilities		**270,082**	123,284

Approved by the Board of Directors on 27 April 2009 and signed on its behalf by:

Wu Xiang Dong
Director

Lu Tong
Director

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

VATS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2008

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Translation reserve HK$'000	Statutory reserve HK$'000	(Accumulated deficit)/ Retained earnings HK$'000	Proposed final dividend HK$'000	Sub-total HK$'000	Minority interest HK$'000	Total HK$'000
At 1 January 2007	11,493	34,621	604,497	4,810	3,038	(564,299)	–	94,160	50,289	144,449
Dividend paid to minority interests	–	–	–	–	–	–	–	–	(3,620)	(3,620)
Amount transferred to write off accumulated deficit	–	–	(604,497)	–	–	604,497	–	–	–	–
Placement of share	700	52,220	–	–	–	–	–	52,920	–	52,920
Share placement expenses	–	(1,588)	–	–	–	–	–	(1,588)	–	(1,588)
Exchange difference	–	–	–	9,603	–	–	–	9,603	–	9,603
Profit for the year	–	–	–	–	–	13,495	–	13,495	11,551	25,046
Proposed final 2007 dividend	–	–	–	–	–	(13,904)	13,904	–	–	–
Appropriation to the PRC statutory reserve	–	–	–	–	5,334	(5,334)	–	–	–	–
At 31 December 2007 and 1 January 2008	**12,193**	**85,253**	**-**	**14,413**	**8,372**	**34,455**	**13,904**	**168,590**	**58,220**	**226,810**
Issue of shares upon acquisition of additional interest in subsidiaries	**1,711**	**167,757**	**-**	**-**	**-**	**-**	**-**	**169,468**	**-**	**169,468**
Acquisition of additional interest in subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(49,964)**	**(49,964)**
Capital contribution from a minority shareholder of a subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**40,702**	**40,702**
Exchange difference	**-**	**-**	**-**	**10,240**	**-**	**-**	**-**	**10,240**	**-**	**10,240**
Release upon winding up of subsidiaries	**-**	**-**	**-**	**(186)**	**-**	**-**	**-**	**(186)**	**142**	**(44)**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**24,252**	**-**	**24,252**	**4,971**	**29,223**
2007 final dividend paid	**-**	**-**	**-**	**-**	**-**	**-**	**(13,904)**	**(13,904)**	**-**	**(13,904)**
Appropriation to the PRC statutory reserve	**-**	**-**	**-**	**-**	**3,465**	**(3,465)**	**-**	**-**	**-**	**-**
At 31 December 2008	**13,904**	**253,010***	**-**	**24,467***	**11,837***	**55,242***	**-**	**358,460**	**54,071**	**412,531**

* These reserve accounts comprise the consolidated reserve of HK$344,556,000 (2007: HK$142,493,000) in the consolidated balance sheet.

Special reserve

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

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

Statutory reserve

Statutory surplus reserve

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
Cash flows from operating activities		
Profit before taxation	**37,530**	25,210
Adjustment for:		
Interest income	**(1,562)**	(378)
Depreciation of property, plant and equipment	**8,896**	6,632
Amortisation of intangible assets and land use rights	**1,928**	931
Loss on winding up of subsidiaries	**492**	–
Interest expenses	**3,328**	2,259
Operating cash flows before movements in working capital	**50,612**	34,654
Increase in trade receivables, prepayment, deposit and other receivables	**(8,800)**	(814)
Increase in inventories	**(26,880)**	(3,400)
Decrease/(increase) in amounts due from related parties	**61,936**	(29,538)
Decrease/(increase) in amount due from immediate holding company	**2,630**	(2,630)
Decrease in amounts due to directors	**–**	(812)
Increase/(decrease) in amounts due to related parties	**10,715**	(8,408)
(Decrease)/increase in trade payables, accruals, deposit received and other payables	**(32,887)**	42,031
Cash generated from operations	**57,326**	31,083
Profits tax paid	**(2,144)**	(164)
Interest paid	**(3,328)**	(2,259)
Net cash generated from operating activities	**51,854**	28,660
Cash flows from investing activities		
Interest received	**1,562**	378
Dividend paid	**(13,904)**	(424)
Purchase of property, plant and equipment	**(2,643)**	(1,993)
Purchase of intangible assets	**(1,939)**	(7,808)
Purchase of land use rights	**–**	(455)
Payment on acquisition of subsidiaries	**(138,365)**	–
Net cash used in investing activities	**(155,289)**	(10,302)

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
Cash flows from financing activities		
Increase in bank borrowings	**13,862**	12,668
Capital contribution from a minority shareholder of a subsidiary	**40,702**	–
Placement of share	**–**	52,920
Share placement expenses	**–**	(1,588)
Net cash generated from financing activities	**54,564**	64,000
Net (decrease)/increase in cash and cash equivalents	**(48,871)**	82,358
Cash and cash equivalents at the beginning of the year	**115,345**	31,832
Effect of foreign exchange rate changes	**5,273**	1,155
Cash and cash equivalents at the end of the year	**71,747**	115,345
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**71,747**	115,345

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.

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

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

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

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for current accounting periods for the Group and the Company.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs has no material effect on how the results and financial position of the Group for the current or prior accounting periods have been presented. Accordingly, no prior period adjustment has been required.

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

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

HKFRS (Amendments)	Improvement to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations arising on Liquidation[2]
HKAS 39 (Amendments)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[6]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 October 2008
6 Effective for transfer of assets from customers received on or after 1 July 2009

The adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result on a loss of control, which will be accounted for as equity transactions.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs and anticipates that the application of these new standards, amendments or interpretations is unlikely to have a significant impact on the results and the financial position of the Group and the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

(b) Basis of consolidation

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

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

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

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

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

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

(c) Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

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

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

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

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

(e) Acquisition of additional interest in subsidiaries

Acquisition of additional interest in subsidiaries is recorded at the book value of the net asset attributable to the interests. The excess of the cost of acquisition over net asset value of the subsidiary attributable to the additional interest acquired is recognised as goodwill.

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

(f) Revenue recognition

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

Interest income is accrued on a 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.

(g) Government subsidy

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

(h) 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.

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

(i) Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet 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

The Group's financial assets are mainly classified into one of the three categories, including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

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

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

(i) Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets

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

Financial liabilities and equity

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

Bank and other borrowings

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

Other financial liabilities

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

Derecognition

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

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

(j) Inventories

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

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

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

(k) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with rules established by the taxation authorities, upon which income taxes are payable.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

(l) Land use rights

Land use rights at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various warehouses, office premises and processing factories are situated. Amortisation of land use rights are calculated on a straight-line basis over the period of the land use rights of 30 to 50 years.

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

(m) Foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

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

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

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

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

(n) Employee benefits

(i) Retirement benefits scheme

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

(ii) Share-based compensation

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

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

(o) 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.

(p) 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)*

(p) 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 of the cash-generating unit to which the trademarks relate. An impairment loss is recognised immediately for the amount by which the asset's carrying amount exceeds its recoverable amount of the cash-generating unit. 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.

(q) Impairment of assets other than goodwill

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

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

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

(r) Borrowings

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

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

(s) Provision

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

(t) Contingent liabilities and contingent assets

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

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

(u) Operating leases

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

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

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

(v) Segment reporting

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

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

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

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

Unallocated items mainly comprise financial and corporate assets, borrowings, corporate and financing expenses and minority interests.

(w) Related party transactions

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

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

4. FINANCIAL RISK MANAGEMENT

4.1 Categories of financial instruments

	2008 **HK$'000**	2007 HK$'000
Financial assets		
Loan and receivables (including bank balances and cash)	**105,750**	203,069
Financial liabilities		
Amortised cost	**115,833**	124,130

4.2 Financial risk factors

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

(a) *Foreign currency risk*

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

The following is the Group's sensitivity to a 5% increase and decrease in RMB against Hong Kong dollar. 5% is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis mainly includes the Group's RMB trade receivables, amount due from/(to) related parties, bank balances and bank borrowings, trade payables and accruals and deposit received. Where RMB strengthens against Hong Kong dollar by 5%, the Group's profit for the year would decrease by HK$1,614,000 (2007: HK$1,257,000), 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.

4. FINANCIAL RISK MANAGEMENT *(continued)*

4.2 Financial risk factors *(continued)*

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

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

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

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 balance sheet date 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$2,826,000 (2007: HK$2,133,000).

(c) *Credit risk*

The Group has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash. 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 balance sheet.

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 each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

4. FINANCIAL RISK MANAGEMENT *(continued)*

4.2 Financial risk factors *(continued)*

(d) Liquidity risk

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

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

	Weighted Average effective interest rate	Less than 1 year	Between 1 year and 5 years	Over 5 years	Total un-discounted cash flow	Carrying amount at 31December 2008
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2008						
Trade payables	**–**	**17,386**	**–**	**–**	**17,386**	**17,386**
Accruals, deposits received and other payables	**–**	**25,443**	**–**	**–**	**25,443**	**25,443**
Amount due to related parties	**–**	**16,475**	**–**	**–**	**16,475**	**16,475**
Interest-bearing borrowings	**7%**	**58,507**	**–**	**–**	**58,507**	**56,529**
		117,811	**–**	**–**	**117,811**	**115,833**
At 31 December 2007						
Trade payables	–	21,071	–	–	21,071	21,071
Accruals, deposits received and other payables	–	54,631	–	–	54,631	54,631
Amount due to related parties	–	5,760	–	–	5,760	5,760
Interest-bearing borrowings	6%	43,948	–	–	43,948	42,668
		125,410	–	–	125,410	124,130

4. FINANCIAL RISK MANAGEMENT *(continued)*

4.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, based on discounted cash flow analysis using prices and rates from observable current market transaction.

The directors of the Company consider that the fair value of financial assets and financial liabilities recorded in the consolidated balance sheet approximate their fair value.

5. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

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

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

The gearing ratios as at 31 December 2008 and 2007 were as follows:

	2008	2007
	HK$'000	HK$'000
Total borrowings	**56,529**	42,668
Less: Bank balances and cash	**(71,747)**	(115,345)
	(15,218)	(72,677)
Total equity	**412,531**	226,810
Gearing ratio	**14%**	19%

6. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

(a) Impairment of goodwill

The Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in note 3 (c). The recoverable amounts of cash-generating units are determined based on value-in-use calculations. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(b) Impairment of intangible assets

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

(c) Trade receivables

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

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

(d) Useful lives of property, plant and equipment

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

(e) Impairment of non-current assets

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

(f) Provision for inventories

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

(g) Current taxation and deferred taxation

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

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

7. TURNOVER AND SEGMENT INFORMATION

	The Group	
	2008	2007
	HK$'000	HK$'000
Production and distribution of wine	**138,405**	139,923
Production and distribution of Chinese liquor	**62,968**	–
	201,373	139,923

For the year ended 31 December 2008

Business segment

For management purpose, the Group is currently organised in two operating segments, (i) wine business and (ii) Chinese liquor business.

These divisions are the basis on which the Group reports its primary segment information.

	Chinese liquor	**Wine**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Consolidated income statement			
Turnover	**62,968**	**138,405**	**201,373**
Segment results	**14,030**	**32,295**	**46,325**
Unallocated corporate income			**5,076**
Unallocated corporate expenses			**(9,731)**
Finance cost			**(4,140)**
Profit before taxation			**37,530**
Taxation			**(8,307)**
			29,223
Consolidated balance sheet			
Segment assets	**183,490**	**343,723**	**527,213**
Unallocated			**27,908**
			555,121
Segment liabilities	**15,742**	**48,900**	**64,642**
Unallocated			**77,948**
			142,590

7. TURNOVER AND SEGMENT INFORMATION *(continued)*

For the year ended 31 December 2008 *(continued)*

Business segment *(continued)*

	Chinese liquor HK$'000	Wine HK$'000	Total HK$'000
Other information			
Capital expenditure	**651**	**3,931**	**4,582**
Depreciation of property, plant and equipment	**2,858**	**6,038**	**8,896**
Amortisation of land use rights	**497**	**197**	**694**
Amortisation of intangible assets	**21**	**1,213**	**1,234**
Provision on impairment loss of trade and other receivables	**–**	**266**	**266**
Provision for obsolete inventories	**–**	**315**	**315**

Geographical segment

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 balance sheet dates, 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.

For the year ended 31 December 2007

No segment information analysis of the Group by business or geographical segments is presented as the Group is solely attributable to the production and distribution of wine in the PRC for the year. Over 90% of the identifiable assets, turnover and results of the Group were derived from wine business and located in the PRC, accordingly, no business and geographical segment information was presented.

8. OTHER REVENUE

	The Group	
	2008 HK$'000	2007 HK$'000
Bank interest income	**1,562**	378
Government subsidies (Note 43)	**1,482**	2,223
Others	**2,032**	751
	5,076	3,352

9. EXPENSES BY NATURE

	The Group	
	2008	2007
	HK$'000	HK$'000
Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analysed as follow:	**1,562**	378
Staff costs, including directors' remuneration		
– Basic salaries and allowances	**16,543**	7,224
– Retirement benefits scheme contributions	**63**	36
Total staff costs	**16,606**	7,260
Auditors' remuneration	**1,100**	780
Amortisation of intangible assets	**1,234**	745
Amortisation of land use rights	**694**	186
Cost of inventories recognised as expenses	**110,796**	86,505
Provision for obsolete inventories	**315**	723
Provision on impairment loss of trade and other receivables	**266**	3
Loss on winding up of subsidiaries	**492**	–
Depreciation	**8,896**	6,632
Research and development cost	**26**	112
Minimum lease payments under operating leases:		
Land and building	**1,935**	1,603

10. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

For the year ended 31 December 2008, the emoluments paid or payable to each of the nine (2007: eleven) directors was as follow:

For the year ended 31 December 2008 and 2007:

	Fees		Salaries and other benefits		Performance related incentive payments		Retirement benefits scheme contributions		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fu Kwan[1]	–	–	–	620	–	–	–	–	–	620
Wu Xiang Dong	–	–	1,300	645	–	–	12	–	1,312	645
Shu Shi Ping	–	–	130	435	–	–	–	–	130	435
Chan Yeuk[1]	–	–	–	20	–	–	–	–	–	20
Zhang Jian	–	–	100	45	–	–	–	–	100	45
Lu Tong[2]	–	–	430	25	–	–	9	–	439	25
Sun Jian Xin[2]	–	–	100	25	–	–	–	–	100	25
Cao Kuangyu	150	130	–	–	–	–	–	–	150	130
Ting Leung Huel, Stephen	240	180	–	–	–	–	–	–	240	180
E Meng	150	130	–	–	–	–	–	–	150	130
Ma Yong[2]	150	38	–	–	–	–	–	–	150	38
	690	478	2,060	1,815	–	–	21	–	2,771	2,293

Notes:

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

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

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

(b) Employees' emoluments

The five highest paid individuals for the year included three directors (2007: three directors) whose emoluments are set out in (a) above. The emoluments of the remaining two (2007: two) individuals are as follows:

	2008 **HK$'000**	2007 HK$'000
Salaries, performance related incentive payments and other benefits	**1,322**	1,401
Retirement benefits scheme contribution	**24**	22
	1,346	1,423

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

	2008 **Number of employees**	2007 Number of employees
Up to HK$1,000,000	**3**	5
HK$1,000,001 to HK$1,500,000	**2**	–
	5	5

11. FINANCE COSTS

	The Group **2008** **HK$'000**	2007 HK$'000
Interest on bank borrowings wholly repayable within five years	**3,328**	2,259
Bank charges	**812**	4
	4,140	2,263

12. TAXATION

	2008 HK$'000	2007 HK$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	–	–
The PRC Enterprise Income Tax		
– current year	9,048	15
– under-provision in prior year	–	149
	9,048	164
Deferred tax		
Attributable to change in tax rate	(741)	–
	8,307	164

Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) 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 2008, the Group had unused tax losses of approximately HK$38 million (2007: HK$29 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The PRC Enterprise Income Tax

Pursuant to the relevant rules and regulations in the PRC, Shangri-la Winery Company Limited (formerly known as "Yunnan Shangri-la Winery Company Limited") and Diqing Shangri-la Economics Development Zone Tinlai Winery Company Limited are entitled to an exemption from the PRC enterprise income tax for the period from 1 January 2006 to 31 December 2007 and a 50% reduction for the next consecutive three years (the "Tax Exemption Period"). The Tax Exemption Period will expiry in 2010.

Shangri-la (Qinhuangdao) Winery Limited ("Shangri-la (Qinhuangdao)"), a subsidiary of the Group which is a foreign investment enterprise established in the Coastal Open Economics Region of Qinhuangdao, the PRC, subject to preferential enterprise income tax rate of 24% and is entitled to full exemption from the PRC enterprise income tax for two years starting from its first profit-making year and a 50% reduction for the next consecutive three years under the relevant tax rules applicable to foreign investment enterprise in the PRC. Shangri-la (Qinhuangdao) has been reported loss since establishment.

The tax rate applicable for all other subsidiaries is 25% (2007: 33%).

12. TAXATION *(continued)*

The PRC Enterprise Income Tax *(continued)*

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

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

Reconciliation between tax expenses and accounting profit at applicable tax rates

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

The Group – 2008

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
(Loss)/profit before taxation	**(8,766)**		**46,296**		**37,530**	
Tax at the statutory tax rate	**(1,446)**	**(16.50)**	**11,574**	**25.00**	**10,128**	**26.98**
Tax effect of tax losses not recognised	**1,596**	**18.21**	**763**	**1.65**	**2,359**	**6.29**
Tax effect of income not taxable for tax purpose	**(150)**	**(1.71)**	**(262)**	**(0.57)**	**(412)**	**(1.10)**
Tax effect of expense not deductible for tax purpose	**–**	**–**	**563**	**1.22**	**563**	**1.50**
Effect of tax exemptions granted to the PRC subsidiaries	**–**	**–**	**(3,590)**	**(7.75)**	**(3,590)**	**(9.57)**
Effect of change in tax rate	**–**	**–**	**(741)**	**(1.60)**	**(741)**	**(1.97)**
Tax charge for the year	**–**	**–**	**8,307**	**17.95**	**8,307**	**22.13**

The Group – 2007

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

13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The Group's consolidated profit for the year of HK$29,223,000 (2007: profit of HK$25,046,000) of which net loss attributable to equity holders of the Company for the year of HK$8,766,000 (2007: loss of HK$88,000) is dealt with in the financial statements of the Company.

14. DIVIDEND

	2008 **HK$'000**	2007 HK$'000
Proposed final (2007: HK$0.01) per ordinary share	**–**	13,904

The proposed final dividend declared in 2007 has been paid in 2008.

The directors of the Company do not recommend the payment of any dividend for the year ended 31 December 2008.

15. EARNINGS PER SHARE

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

(a) Basic earnings per share

	2008 **HK$'000**	2007 HK$'000
Profit for the year attributable to the equity holders of the Company for the purpose of basic earnings per ordinary share	**24,252**	13,495
Weighted average number of shares for the purpose of basic earnings per ordinary share	**1,380,183,300**	1,156,167,565

(b) Diluted earnings per share

There were no potential shares in existence for the year ended 31 December 2008 and 2007, and, accordingly, no diluted earnings per share has been presented.

16. LAND USE RIGHTS

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

	2008	2007
	HK$'000	HK$'000
Outside Hong Kong, held on:		
Lease period between 10 to 50 years	**29,135**	5,338
Cost		
As at 1 January	**5,809**	4,991
Exchange alignment	**348**	363
Additions	**–**	455
Acquisition of subsidiaries (Note 33)	**24,171**	–
As at 31 December	**30,328**	5,809
Amortisation		
As at 1 January	**471**	268
Exchange alignment	**28**	17
Charge for the year	**694**	186
As at 31 December	**1,193**	471
Carrying amount		
As at 31 December	**29,135**	5,338

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

As at 31 December 2008, the Group's land use rights with the carrying amount of approximately HK$4,946,000 (2007: HK$421,000) were pledged as security for the Group's short-term borrowing.

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Construction in progress	Plant and building	Machinery	Tools, equipment and moulds	Furniture and fixtures	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:							
At 1 January 2007	–	42,892	36,308	244	556	1,786	81,786
Exchange alignment	–	2,861	2,421	–	38	120	5,440
Additions	–	844	535	314	40	260	1,993
Elimination upon disposals	–	–	–	(12)	–	–	(12)
At 31 December 2007 and 1 January 2008	–	46,597	39,264	546	634	2,166	89,207
Exchange alignment	–	2,791	2,352	–	38	130	5,311
Additions	1,019	228	1,096	211	89	–	2,643
Acquisition of subsidiaries (Note 33)	–	42,564	3,467	–	–	1,341	47,372
Elimination upon disposals	–	–	–	(32)	(33)	(897)	(962)
At 31 December 2008	1,019	92,180	46,179	725	728	2,740	143,571
Depreciation and impairment:							
At 1 January 2007	–	2,639	6,766	174	238	383	10,200
Exchange alignment	–	176	452	–	16	25	669
Charge for the year	–	3,025	3,095	45	103	364	6,632
Elimination upon disposals	–	–	–	(12)	–	–	(12)
At 31 December 2007 and 1 January 2008	–	5,840	10,313	207	357	772	17,489
Exchange alignment	–	350	618	–	22	45	1,035
Charge for the year	–	3,771	4,496	98	126	405	8,896
Elimination upon disposals	–	–	–	(30)	(13)	(446)	(489)
At 31 December 2008	–	9,961	15,427	275	492	776	26,931
Net book value:							
At 31 December 2008	**1,019**	**82,219**	**30,752**	**450**	**236**	**1,964**	**116,640**
At 31 December 2007	–	40,757	28,951	339	277	1,394	71,718

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

The Company

	Tools, equipment and moulds HK$'000
Cost	
At 1 January 2007	244
Additions	314
Elimination upon disposals	(12)
At 31 December 2007 and 1 January 2008	546
Additions	211
Elimination upon disposals	(32)
At 31 December 2008	725
Depreciation	
At 1 January 2007	174
Charge for the year	45
Elimination upon disposals	(12)
At 31 December 2007 and 1 January 2008	207
Charge for the year	98
Elimination upon disposals	(30)
At 31 December 2008	275
Net book value	
At 31 December 2008	**450**
At 31 December 2007	339

As at 31 December 2008, the Group's plant and building with carrying amount of approximately HK$34,811,000 and machinery with carrying amount of approximately HK$10,969,000 respectively (2007: building: HK$34,094,000 and plant and machineries: HK$ Nil) were pledged as security for the Group's short-term borrowing.

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

18. INTANGIBLE ASSETS

	Farmland development HK$'000	Technical know-how HK$'000	Trademarks HK$'000	Total HK$'000
Cost				
At 1 January 2007	3,267	1,525	563	5,355
Exchange alignment	218	102	37	357
Additions	7,808	–	–	7,808
At 31 December 2007 and 1 January 2008	11,293	1,627	600	13,520
Exchange alignment	676	97	36	809
Additions	1,939	–	–	1,939
Acquisition of subsidiaries (Note 33)	–	–	23,517	23,517
At 31 December 2008	13,908	1,724	24,153	39,785
Amortisation				
At 1 January 2007	–	499	108	607
Exchange alignment	–	34	8	42
Amortisation for the year	357	320	68	745
At 31 December 2007 and 1 January 2008	357	853	184	1,394
Exchange alignment	22	51	10	83
Amortisation for the year	799	339	96	1,234
At 31 December 2008	1,178	1,243	290	2,711
Net carrying amount				
At 31 December 2008	**12,730**	**481**	**23,863**	**37,074**
At 31 December 2007	10,936	774	416	12,126

Farmland development represented farmland expenditure and cost for preparation works.

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

Farmland development	18 years
Technical know-how	5 years
Trademarks	10 years

Amortisation expenses of HK$1,234,000 (2007: HK$745,000) 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.

18. INTANGIBLE ASSETS *(continued)*

Impairment test of intangible assets

Trademarks with indefinite useful life with carrying amount of approximately HK$23,517,000 are allocated to the Group's cash generating unit ("CGU") of Chinese liquor business. The recoverable amount of the above CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and at discount rate of 7% per annum (2007: 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.

19. GOODWILL

	HK$'000
Cost	
At 1 January 2007, 31 December 2007 and 1 January 2008	10,924
Acquisition of subsidiaries (Note 33)	47,531
Acquisition of partial equity interest in subsidiaries (Note 34)	119,504
At 31 December 2008	**177,959**
Impairment	
At 1 January 2007, 31 December 2007, 1 January 2008 and 31 December 2008	–
Carrying amount	
At 31 December 2008	**177,959**
At 31 December 2007	10,924

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

	2008 **HK$'000**	2007 HK$'000
Wine business	**130,428**	10,924
Chinese liquor business	**47,531**	–
	177,959	10,924

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 7% per annum (2007: 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.

The management of the Group determined that there is no impairment of goodwill at 31 December 2008.

20. INTERESTS IN SUBSIDIARIES

	2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	**71,360**	71,360
Add: Increase in investment in a subsidiary	**169,468**	–
	240,828	71,360
Amounts due from subsidiaries	**2,911**	–
	243,739	71,360

Particulars of the Company's principal subsidiaries at 31 December 2008 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company – Directly 2008 %	Directly 2007 %	Indirectly 2008 %	Indirectly 2007 %	Principal activities
Shangri-la Winery Company Limited (Note i) ("Shangri-la Winery") (formerly known as Yunnan Shangeli-la Winery Company Limited)	The PRC	Registered capital RMB56,560,000	**95**	65	**–**	–	Production and distribution of wine and investment holding
Shangri-la (Qinhuangdao) Winery Limited (Note i) ("Shangri-la (Qinhuangdao)")	The PRC	Registered capital RMB40,000,000	**25**	25	**71**	48	Production of winery products
Diqing Shangri-la Economics Development Zone Tinlai Winery Company Limited	The PRC	Registered capital RMB8,200,000	**–**	–	**95**	65	Distribution of winery products
Yunnan Diqing Shangri-la Yu Quan Investment Company Limited	The PRC	Registered capital RMB10,000,000	**–**	–	**66**	–	Investment holding
Shangri-la Plantation Company Limited	The PRC	Registered capital RMB1,210,000	**–**	–	**96**	74	Purchasing and distributing of grape

20. INTERESTS IN SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company				Principal activities
			Directly		Indirectly		
			2008	2007	**2008**	2007	
			%	%	**%**	%	
Yantai Shangri-la Shuijing Cellar Company Limited (formerly known as Yantai Shangri-la Company Limited)	The PRC	Registered capital RMB10,000,000	**–**	–	**95**	65	Manufacturing of winery products
Diqing Shangri-la Economics Development Zone Zimi Sales Company Limited	The PRC	Registered capital RMB2,000,000	**–**	–	**95**	–	Distribution of winery products
Heilongjiang Province Yu Quan Winery Company Limited	The PRC	Registered capital RMB4,060,000	**–**	–	**66**	–	Production of Chinese liquor products
Harbin Xinlong Winery Company Limited	The PRC	Registered capital RMB500,000	**–**	–	**66**	–	Distribution of Chinese liquor products
Acheng City Longcheng Company Limited	The PRC	Registered capital RMB500,000	**–**	–	**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 of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particular of excessive length.

21. INVENTORIES

	The Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**46,863**	27,871
Work in progress	**23,704**	13,507
Finished goods	**17,996**	9,271
	88,563	50,649

At 31 December 2008, the inventories of approximately HK$17,996,000 are carried at net realisable value (2007: HK$9,271,000).

22. TRADE RECEIVABLES

The Group generally allows an average credit period ranging from 30 to 90 days (2007: 30 to 90 days) to its trade customers which major customers with whom specific terms have agreed.

	The Group	
	2008	2007
	HK$'000	HK$'000
Within 90 days	**5,026**	13,329
More than 90 days and within 180 days	**78**	1,325
More than 180 days and within 360 days	**15**	572
More than 360 days	**90**	39
	5,209	15,265
Less: Provision for impairment loss of trade receivables	**(90)**	(39)
	5,119	15,226

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

	The Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**39**	36
Provision for impairment losses	**90**	3
Bad debt recovered	**(39)**	–
At 31 December	**90**	39

The Group does not hold any collateral over these balances.

22. TRADE RECEIVABLES *(continued)*

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

	The Group	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**5,026**	13,329
One to six month past due	**78**	1,325
Six months to one year past due	**15**	572
	5,119	15,226

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

23. PREPAYMENT, DEPOSIT AND OTHER RECEIVABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayment	**9,500**	2,160	**387**	287
Deposit	**3,550**	3,577	**316**	474
Other receivables	**16,594**	2,196	**–**	14
	29,644	7,933	**703**	775
Less: Provision for impairment loss of other receivables	**(760)**	–	**–**	–
	28,884	7,933	**703**	775

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

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**–**	–	**–**	–
Provision for impairment losses	**176**	–	**–**	–
Acquisition of subsidiaries	**1,410**	–	**–**	–
Bad debt recovered	**(826)**	–	**–**	–
At 31 December	**760**	–	**–**	–

24. AMOUNTS DUE FROM RELATED PARTIES/IMMEDIATE HOLDING COMPANY

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts due from related parties				
Yunnan Jinliufu Winery Company Limited (Note i)	**–**	61,785	**–**	–
Beijing Jinliufu Winery Company Limited (Note i)	**–**	150	**–**	–
	–	61,935	**–**	–
Amount due from immediate holding company				
JLF Investment Company Limited (Note ii)	**–**	2,630	**–**	2,630
	–	64,565	**–**	2,630

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

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 90 days	**–**	64,415	**–**	2,630
More than 90 days and within 180 days	**–**	150	**–**	–
More than 180 days and within 360 days	**–**	–	**–**	–
More than 360 days	**–**	–	**–**	–
	–	64,565	**–**	2,630

The aged analysis of the receivables due from related parties of the Group that are not considered to be impaired is as follow:

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Neither past due nor impaired	**–**	64,415	**–**	2,630
One to six months past due	**–**	150	**–**	–
Six months to one year past due	**–**	–	**–**	–
	–	64,565	**–**	2,630

24. AMOUNTS DUE FROM RELATED PARTIES/IMMEDIATE HOLDING COMPANY *(continued)*

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

Notes:

i Yunnan Jinliufu Winery Company Limited and Beijing Jinliufu Winery Company Limited are related parties of the Group as Mr. Wu Xiang Dong, being an executive director of the Company, is a common director in both companies.

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

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

25. BANK BALANCES AND CASH

	The Group		**The Company**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**71,747**	115,345	**26,755**	84,312

At the balance sheet date, the bank balances and cash of the Group denominated in RMB amounted to approximately HK$44,992,000 (2007: HK$31,032,000). The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

26. SHARE CAPITAL

	Number of shares		**Par value**	
	2008	2007	**2008**	2007
	'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	**1,219,263**	1,149,263	**12,193**	11,493
Issue of shares upon acquisition of subsidiaries (Note i)	**171,180**	–	**1,711**	–
Placing of shares (Note ii)	**–**	70,000	**–**	700
At the end of the year	**1,390,443**	1,219,263	**13,904**	12,193

26. SHARE CAPITAL *(continued)*

Notes:

(i) In February 2008, the Company issued 171,180,000 new shares of the Company upon completion of the acquisition of 30% in Shangri-la Winery. Details of which were set out in note 34.

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

27. RESERVES

(a) The Group

Movement of the Group's reserves for the current and prior years is presented in the consolidated statement of changes in equity on page 36.

(b) The Company

	Share premium	Contributed surplus	(Accumulated deficit)/ retained earnings	Proposed final dividend	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007	34,621	260,227	(234,301)	–	60,547
Amount transferred to write off accumulated deficit	–	(260,227)	260,227	–	–
Placement of new shares	52,220	–	–	–	52,220
Share placement expenses	(1,588)	–	–	–	(1,588)
Proposed final dividend	–	–	(13,904)	13,904	–
Loss for the year	–	–	(88)	–	(88)
At 31 December 2007 and 1 January 2008	85,253	–	11,934	13,904	111,091
Issue of shares upon acquisition of subsidiaries	167,757	–	–	–	167,757
2007 final dividend paid	–	–	–	(13,904)	(13,904)
Loss for the year	–	–	(8,766)	–	(8,766)
At 31 December 2008	**253,010**	**–**	**3,168**	**–**	**256,178**

27. RESERVES *(continued)*

(b) The Company *(continued)*

Notes:

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

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

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

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

28. DEFERRED TAX LIABILITIES

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

	The Group
	HK$'000
Deferred tax arising from revaluation of properties as follow:	
At 1 January 2007	2,704
Exchange alignment	180
At 31 December 2007 and 1 January 2008	2,884
Exchange alignment	173
Acquisition of subsidiaries (Note 33)	17,538
Effect of change in tax rate	(741)
At 31 December 2008	**19,854**

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

29. TRADE PAYABLES

	The Group	
	2008	2007
	HK$'000	HK$'000
Within 90 days	**14,352**	17,072
More than 90 days and within 180 days	**1,519**	1,652
More than 180 days and within 360 days	**1,515**	2,347
	17,386	21,071

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

30. ACCRUALS, DEPOSIT RECEIVED AND OTHER PAYABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**7,252**	6,991	**1,550**	1,227
Trade deposit received	**4,636**	2,210	**–**	–
Other deposit received	**–**	35,000	**–**	35,000
Other payables	**13,555**	10,430	**15**	11
	25,443	54,631	**1,565**	36,238

31. AMOUNTS DUE TO RELATED PARTIES

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

32. BANK BORROWINGS – SECURED

	The Group	
	2008	2007
	HK$'000	HK$'000
Secured bank borrowings comprised of:		
Import loans – secured	**56,529**	42,668
The borrowings are repayable as follows:		
Within one year or on demand	**56,529**	42,668
Less: Amounts due within one year or on demand shown under current liabilities	**(56,529)**	(42,668)
Amounts due after one year	**–**	–

Bank borrowings are secured by the Group's plant and building, machinery and land use rights.

The Group's borrowings are denominated in RMB only.

The effective interest rate on bank borrowings is 7.47% (2007: 6.57%) per annum.

33. BUSINESS COMBINATION

In May 2008, the Group acquired 100% equity interest in Heilongjiang Province Yu Quan Winery Company Limited ("Yu Quan").

The fair value of the identifiable assets and liabilities of Yu Quan as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition was as follow:

	Carrying amount	**Fair value adjustment**	**Fair value**
	HK$'000	HK$'000	HK$'000
Land use rights	11,976	12,195	24,171
Property, plant and equipment	12,886	34,486	47,372
Property under development	182		182
Intangible assets	46	23,471	23,517
Inventories	11,035		11,035
Trade and other receivables	2,095		2,095
Deferred taxation	–	(17,538)	(17,538)
Net assets	38,220		90,834
Goodwill (note 19)			47,531
			138,365
Total consideration satisfied by:			
Cash			135,670
Transaction cost directly attributable to the acquisition			2,695
			138,365
Net cash outflow in respect of the acquisition of subsidiaries:			
Cash consideration paid			135,670
Transaction cost directly attributable to the acquisition			2,695
			138,365

The subsidiaries acquired during the year contributed approximately HK$62,968,000 and HK$7,674,000 to the Group's turnover and profit after taxation and minority interests since acquisition.

If the acquisition had been completed on 1 January 2008, total group turnover for the year would have been HK$220,747,000 and profit for the year would have been HK$30,036,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

34. ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES

In February 2008, the Group completed the acquisition of additional 30% equity interest in Shangri-la Winery at consideration of approximately HK$169,468,000 by way of issue and allotment of shares of the Company. Prior to the acquisition, the Group held 65% interest in Shangri-la Winery and Shangri-la Winery then became a 95% interest subsidiary of the Group upon completion of the acquisition. 171,180,000 shares with market price of HK$0.99 were issued on the completion date. The acquisition of 30% interest in Shangri-la Winery gave rise to goodwill of approximately HK$119,504,000, which represented the difference between the consideration and the carrying amount of the net assets attributable to the additional interest in the subsidiaries being acquired from the minority interest.

35. WINDING UP OF SUBSIDIARIES

During the year, two indirect owned subsidiaries of the Group, Guangzhou Zangji Trading Company Limited and Xiamen Zanmi Winery Limited, were voluntarily wound up. The net assets of the subsidiaries at the date of winding up were as follows:

Net assets:	
Property, plant and equipment	471
Trade receivables	51
Other receivables	14
	536
Minority interests	142
	678
Release of translation reserve	(186)
Loss on winding up of subsidiaries	(492)
	–

The subsidiaries wound up in the year did not have significant contribution to the Group's revenue, operating results and cash flow for the year.

36. PLEDGE OF ASSETS

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

	2008	2007
	HK$'000	HK$'000
Plant and building	**34,811**	34,094
Machinery	**10,969**	–
Land use rights	**4,946**	421
	50,726	34,515

37. OPERATING LEASES

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

	2008	2007
	HK$'000	HK$'000
Within one year	**1,383**	1,792
In the second to the fifth year inclusive	**2,331**	2,676
Over five years	**18,119**	17,978
	21,833	22,446

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.

38. CAPITAL COMMITMENT

	2008	2007
	HK$'000	HK$'000
Authorised and contracted for:		
In connection with acquisition of partial equity interest in subsidiaries	**–**	46,218

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

With effective from 1 December 2001, the Group has jointed a mandatory provident fund scheme (the "MPF Scheme") for all other qualifying employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contributions payable in future years.

39. EMPLOYEE BENEFITS *(continued)*

Retirement Benefit Scheme *(continued)*

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.

40. SHARE OPTION SCHEMES

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

The total number of shares in respect of which options may be granted under the 2002 Scheme is 114,926,182 shares, representing 10% of the shares of the Company in issue as at the date of adoption of the 2002 Scheme. The number of shares in respect of which options may be granted to any individual is not permitted to exceed the higher of 1% of the number of shares issued and issuable under the 2002 Scheme or any other limit as may be permitted under the Listing Rules.

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

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

41. RELATED PARTY TRANSACTIONS

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

	2008	2007
	HK$'000	HK$'000
Sales of goods		
Yunnan Shangri-la Jinliufu Wine Sales Company Limited		
– Received	**27,858**	17,840
Yunnan Jinliufu Winery Company Limited		
– Received	**6,048**	15,657
– Receivable	**–**	54,356
Purchases of goods		
Yunnan Shangri-la Jinliufu Wine Sales Company Limited		
– Paid	**3,230**	–
Acquisition of additional interests in subsidiaries		
Yon Rui Investment Company Limited	**169,468**	–

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

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

(b) Key management personnel

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

	The Group	
	2008	2007
	HK$'000	HK$'000
Salaries	**3,292**	3,100
Short-term employee benefit	**45**	32
	3,337	3,132

42. NON-CASH TRANSACTION

During the year, the Company further acquired 30% equity interest in Shangri-la Winery by way of issue and allotment of 171,180,000 ordinary shares of the Company amounted to approximately HK$169,468,000.

43. GOVERNMENT SUBSIDIES

During the year, the Group received government subsidies of HK$1,482,000 for the contribution towards the business in Yunnan and Qinhuangdao, the PRC. The amount has been included in other revenue for the year (2007: HK$2,223,000).

44. AUTHORISATION FOR ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 27 April 2009.

Results

	For the period from 1 July 2004 to 31 December	For the year ended 31 December			
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	55,781	141,596	109,288	139,923	**201,373**
(Loss)/profit from operations	(9,040)	3,226	17,674	27,473	**41,670**
Finance costs	(602)	(2,245)	(1,419)	(2,263)	**(4,140)**
Discount on acquisition of additional interests in a subsidiary	–	–	456	–	**–**
Discount on acquisition of a subsidiary	–	–	37	–	**–**
Gain on disposal of partial equity interest in a subsidiary	–	–	297	–	**–**
Gain on disposal of subsidiaries	–	–	3,684	–	**–**
(Loss)/profit before taxation	(9,642)	981	20,729	25,210	**37,530**
Taxation	–	–	(7)	(164)	**(8,307)**
(Loss)/profit for the year/period	(9,642)	981	20,722	25,046	**29,223**
Attributable to:					
Equity holders of the Company	(6,321)	(1,844)	12,499	13,495	**24,252**
Minority interests	(3,321)	2,825	8,223	11,551	**4,971**
(Loss)/profit attributable to equity holders	(9,642)	981	20,722	25,046	**29,223**
Dividend	–	–	–	13,904	**–**

Assets and Liabilities

	As at 31 December				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	109,705	215,080	225,804	353,824	**555,121**
Total liabilities	(32,034)	(99,470)	(81,355)	(127,014)	**(142,590)**
Minority interests	(1,167)	(38,975)	(50,289)	(58,220)	**(54,071)**
Shareholders' funds	76,504	76,635	94,160	168,590	**358,460**

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