

# 2009

## INTERIM REPORT



**VATS**

金六福 投資有限公司\*

**JLF Investment Company Limited**

(Incorporated in Bermuda with limited liability)

For the period from 1 January 2009 to 30 June 2009  
(Stock Code: 00472)

\* For identification purpose only

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The board (the “**Board**”) of directors (the “**Directors**”) of JLF Investment Company Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (together the “**Group**”) for the six months ended 30 June 2009, together with the comparative results for the previous period as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>Six months ended 30 June</b>	
		<b>2009</b> <b>(Unaudited)</b> <i>HK\$'000</i>	2008 <b>(Unaudited)</b> <i>HK\$'000</i>
<b>Turnover</b>	<i>3</i>	<b>86,388</b>	48,166
<b>Cost of sales</b>		<b>(40,510)</b>	(22,761)
<b>Gross profit</b>		<b>45,878</b>	25,405
<b>Other revenue</b>		<b>1,019</b>	1,621
<b>Selling and distribution costs</b>		<b>(18,050)</b>	(6,193)
<b>Administrative expenses</b>		<b>(12,923)</b>	(10,466)
<b>Profit from operations</b>	<i>5</i>	<b>15,924</b>	10,367
<b>Finance costs</b>		<b>(2,096)</b>	(1,375)
<b>Profit before taxation and minority interests</b>		<b>13,828</b>	8,992
<b>Taxation</b>	<i>6</i>	<b>(3,927)</b>	(1,153)
<b>Profit for the period</b>		<b>9,901</b>	7,839

## CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2009	2008
		(Unaudited)	(Unaudited)
<i>Note</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
Attributable to:			
	<b>Equity holders of the Company</b>	<b>8,666</b>	6,281
	<b>Minority interests</b>	<b>1,235</b>	1,558
		<b>9,901</b>	7,839
<b>Earnings per share attributable to the equity holders of the Company during the period (expressed in HK cents)</b>			
	Basic and diluted	<b>0.62 cents</b>	0.48 cents
	7		

**CONDENSED CONSOLIDATED STATEMENT OF  
COMPREHENSIVE INCOME**

	Six months ended 30 June	
	2009 (Unaudited) <i>HK\$'000</i>	2008 (Unaudited) <i>HK\$'000</i>
<b>Profit for the period</b>	<b>9,901</b>	7,839
<b>Other comprehensive income</b>		
Exchange differences arising on translation of foreign operations	<b>1,132</b>	4,514
<b>Total comprehensive income for the period</b>	<b>11,033</b>	12,353
Attributable to:		
<b>Equity holders of the Company</b>	<b>9,798</b>	10,795
<b>Minority interests</b>	<b>1,235</b>	1,558
	<b>11,033</b>	12,353

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

All of the Group operations are classed as continuing.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	As at 30 June 2009 (Unaudited) <i>HK\$'000</i>	As at 31 December 2008 (Audited) <i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights		29,212	29,135
Property, plant and equipment		119,021	116,640
Intangible assets		37,146	37,074
Goodwill		177,959	177,959
		<b>363,338</b>	360,808
<b>Current assets</b>			
Inventories		98,620	88,563
Trade receivables	8	10,015	5,119
Prepayment, deposit and other receivables		29,193	28,884
Bank balances and cash		81,953	71,747
		<b>219,781</b>	194,313
<b>Total assets</b>		<b>583,119</b>	555,121

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	As at 30 June 2009 (Unaudited) <i>HK\$'000</i>	As at 31 December 2008 (Audited) <i>HK\$'000</i>
<b>EQUITY</b>			
<b>Capital and reserve attributable to the Company's equity shareholders</b>			
Share capital	<i>9</i>	13,904	13,904
Reserves		354,354	344,556
		<b>368,258</b>	358,460
Minority interests		<b>55,306</b>	54,071
		<b>423,564</b>	412,531
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities		19,959	19,854
		<b>19,959</b>	19,854
<b>Current liabilities</b>			
Trade payables	<i>10</i>	20,575	17,386
Accruals, deposit received and other payables		24,364	25,443
Amounts due to related parties		24,304	16,475
Bank borrowings – secured due within one year		68,182	56,529
Tax payables		2,171	6,903
		<b>139,596</b>	122,736

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	<b>As at 30 June 2009 (Unaudited) HK\$'000</b>	<b>As at 31 December 2008 (Audited) HK\$'000</b>
<b>Total liabilities</b>	<b>159,555</b>	142,590
<b>Total equity and liabilities</b>	<b>583,119</b>	555,121
<b>Net current assets</b>	<b>80,185</b>	71,577
<b>Total assets less current liabilities</b>	<b>443,523</b>	432,385

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



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parents									Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Statutory reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Sub-total HK\$'000	Minority interest HK\$'000	
At 1 January 2008 (audited)	12,193	85,253	-	14,413	8,372	34,455	13,904	168,590	58,220	226,810
Issue of shares for acquisition of subsidiaries	1,711	160,908	-	-	-	-	-	162,619	-	162,619
Acquisition of additional interests in a subsidiary	-	-	-	-	-	-	-	-	(57,015)	(57,015)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	21,838	21,838
Capital contribution from minority interests	-	-	-	-	-	-	-	-	3,201	3,201
Total comprehensive income for the period	-	-	-	4,514	-	6,281	-	10,795	1,558	12,353
At 30 June 2008 (unaudited)	13,904	246,161	-	18,927	8,372	40,736	13,904	342,004	27,802	369,806
At 1 January 2009 (audited)	13,904	253,010	-	24,467	11,837	55,242	-	358,460	54,071	412,531
Total comprehensive income for the period	-	-	-	1,132	-	8,666	-	9,798	1,235	11,033
At 30 June 2009 (unaudited)	13,904	253,010	-	25,599	11,837	63,908	-	368,258	55,306	423,564

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

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Six months ended 30 June	
	2009 (Unaudited) <i>HK\$'000</i>	2008 (Unaudited) <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net cash generated from operating activities	<b>3,261</b>	15,290
Net cash (used in)/generated from investing activities	<b>(4,418)</b>	1,248
Net cash generated from/(used in) financing activities	<b>11,363</b>	(18,134)
Net increase/(decrease) in cash and cash equivalents	<b>10,206</b>	(1,596)
Cash and cash equivalents at beginning of period	<b>71,747</b>	115,345
Cash and cash equivalents at end of period	<b>81,953</b>	113,749
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<b>81,953</b>	113,749

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

## **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*30 June 2009 (in HK Dollars)*

### **1. CORPORATE INFORMATION**

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, a group of companies, 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. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES**

The unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Hong Kong Accounting Standard ("HKAS") 34: Interim Financial Reporting standards and other relevant HKASs and Interpretations and the Hong Kong Financial Reporting standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2008.

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities, which are carried at fair value.

The accounting policies are adopted consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008.

During the period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("INTs") (hereinafter collectively referred to as "New HKFRSs") issued by the HKICPA, which are effective for the Group's accounting periods beginning on 1 January 2009.

**2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)**

HKFRSs (Amendments)	Improvements to HKFRSs 2008
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Amendments)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 and HKAS 39 (Amendments)	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreement for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation

The adoption of the new HKFRSs, except for HKAS 1 (Revised) and HKFRS 8 as described below, had no material effect on the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been recognised.

HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 “Segment Reporting”, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group’s primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

**2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES** (Continued)

The HKICPA has also issued the following New HKFRSs that are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009 <sup>2</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>3</sup>
HKAS 39 (Amendments)	Eligible Hedged Items <sup>3</sup>
HKFRS 1 (Revised)	First-time Adoption of HKFRSs <sup>3</sup>
HKFRS 3 (Revised)	Business Combinations <sup>3</sup>
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded Derivatives <sup>4</sup>
HK(IFRIC) – INT 17	Distribution of Non-cash Assets to Owners <sup>3</sup>
HK(IFRIC) – INT 18	Transfer of Assets from Customers <sup>5</sup>

- <sup>1</sup> Amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
- <sup>2</sup> Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
- <sup>3</sup> Effective for annual periods beginning on or after 1 July 2009.
- <sup>4</sup> Effective for annual periods ending on or after 30 June 2009.
- <sup>5</sup> Effective for transfer of assets from customers received on or after 1 July 2009.

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 on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in the parent's interest in a subsidiary that do not result on a loss of control, which will be accounted for as equity transactions.

The Company is in the process of assessing the potential impacts of these new and revised standards, amendments and interpretation but is not yet in a position to state whether they would have a significant impact on the Company's result and financial position.

The unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company and were approved by the Board on 9 September 2009.

**3. TURNOVER**

	<b>Six months ended 30 June</b>	
	<b>2009</b> <b>(Unaudited)</b> <i>HK\$'000</i>	2008 (Unaudited) <i>HK\$'000</i>
Production and distribution of wine	<b>54,677</b>	30,786
Production and distribution of Chinese liquor	<b>31,711</b>	17,380
	<b>86,388</b>	48,166

**4. OPERATING SEGMENTS**

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

The Group has two reportable segments – production and distribution of wine and Chinese liquor. The segmentations are based on the information about the operation of the Group that management uses to make decisions.

The accounting policies of the operating segments are the same as those described in the principal accounting policies. The Group evaluates performance on the basis of profit or loss from operations after tax expense and minority interests.

The Group's measurement methods used to determine reported segment profit or loss remain unchanged from 2008.

The Group's reportable segments are strategic business units that operate different activities. They are managed separately because each business has different market and requires different marketing strategies.

Operating segment information is presented below:

**The segment results of the Group for the six months ended 30 June 2009**

	Chinese Liquor <i>HK\$'000</i>	Wine <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue				
– The People's Republic of China ("The PRC")	31,711	54,677	–	86,388
Result				
Segment result				
– Hong Kong	–	–	(3,678)	(3,678)
– The PRC	3,349	16,253	–	19,602
	3,349	16,253	(3,678)	15,924
Unallocated finance costs				(2,096)
Profit before taxation				13,828
Taxation				(3,927)
Profit for the period				9,901

**4. OPERATING SEGMENTS** (Continued)

The segment assets and liabilities of the Group as at 30 June 2009

	Chinese Liquor <i>HK\$'000</i>	Wine <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Assets</b>				
Segment assets				
– Hong Kong	–	–	22,893	22,893
– The PRC	205,634	354,592	–	560,226
Consolidated total assets	205,634	354,592	22,893	583,119
<b>Liabilities</b>				
Segment liabilities				
– Hong Kong	–	–	124	124
– The PRC	23,761	47,529	–	71,290
Reportable segment liabilities	23,761	47,529	124	71,414
Unallocated corporate liabilities				88,141
Consolidated total liabilities				159,555

**4. OPERATING SEGMENTS (Continued)**

The segment results of the Group for the six months ended 30 June 2008

	Chinese Liquor <i>HK\$'000</i>	Wine <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue				
– The PRC	17,380	30,786	–	48,166
Result				
Segment result				
– Hong Kong	–	–	(3,810)	(3,810)
– The PRC	3,877	10,300	–	14,177
	3,877	10,300	(3,810)	10,367
Unallocated finance costs				(1,375)
Profit before taxation				8,992
Taxation				(1,153)
Profit for the period				7,839



**4. OPERATING SEGMENTS (Continued)**

The segment assets and liabilities of the Group as at 31 December 2008

	Chinese Liquor <i>HK\$'000</i>	Wine <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Assets</b>				
Segment assets				
– Hong Kong	–	–	27,908	27,908
– The PRC	183,490	343,723	–	527,213
<b>Consolidated total assets</b>	<b>183,490</b>	<b>343,723</b>	<b>27,908</b>	<b>555,121</b>
<b>Liabilities</b>				
Segment liabilities				
– Hong Kong	–	–	1,565	1,565
– The PRC	15,742	48,900	–	64,642
<b>Reportable segment liabilities</b>	<b>15,742</b>	<b>48,900</b>	<b>1,565</b>	<b>66,207</b>
Unallocated corporate liabilities				76,383
<b>Consolidated total liabilities</b>				<b>142,590</b>

**5. EXPENSES BY NATURE**

The following items have been charged to the operating profit during the period:

	<b>Six months ended 30 June</b>	
	<b>2009 (Unaudited) <i>HK\$'000</i></b>	<b>2008 (Unaudited) <i>HK\$'000</i></b>
Staff costs (including directors' remuneration)		
– Basic salaries and allowances	<b>9,969</b>	3,869
– Retirement benefit scheme contributions	<b>31</b>	46
Amortisation of intangible assets	<b>315</b>	362
Amortisation of land use rights	<b>557</b>	90
Cost of inventories recognised as expenses	<b>40,510</b>	22,761
Depreciation	<b>4,409</b>	3,476

**6. TAXATION**

	<b>Six months ended 30 June</b>	
	<b>2009</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>2008</b> <b>(Unaudited)</b> <b>HK\$'000</b>
The charge comprises:		
The PRC Enterprise Income Tax	<b>3,927</b>	1,153

**Hong Kong Profits Tax**

No provision for Hong Kong profits tax was made for the six months ended 30 June 2009 (2008: Nil) as the Company and its subsidiaries had no assessable profit derived from Hong Kong during the period.

As at 30 June 2009, the Group had unused tax losses of approximately HK\$44 million (31 December 2008: HK\$38 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability future profit streams.

**The PRC Income Tax**

Pursuant to the relevant rules and regulations in the PRC, Shangri-la Winery Company Limited ("Shangri-la Winery") and Diqing Shangri-la Economics Development Zone Tinlai Winery Company Limited ("Diqing Winery") are entitled to an exemption from the PRC enterprise income tax for the period from 1 January 2006 to 31 December 2007 and 50% reduction for the next consecutive three years (the "Tax Exemption Period"). The Tax Exemption Period will expiry in 2010. For the current period, Shangri-la Winery and Diqing Winery were under the second year which enjoy to 50% reduction in the PRC enterprise income tax rate.

Shangri-la (Qinhuangdao) Winery Limited ("Shangri-la (Qinhuangdao)") 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 applicable to foreign investment enterprise in the PRC. Shangri-la (Qinhuangdao) has been reported loss since establishment.

All other subsidiaries are subject to a profits tax rate of 25%.

**6. TAXATION (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%.

**7. EARNINGS PER SHARE**

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK\$8,666,000 (six months ended 30 June 2008: profit of HK\$6,281,000) and on 1,390,443,000 weighted average shares in issue during the period (period from 1 January 2008 to 30 June 2008: 1,304,853,000).

There were no potential dilutive shares in existence as at 30 June 2009 and 30 June 2008, and, accordingly, no diluted earnings per share have been presented.

**8. TRADE RECEIVABLES**

The Group generally allows an average credit period ranging from 30 to 90 days (31 December 2008: 30 to 90 days) to its trade customers which major customers with whom specific terms have agreed.

	<b>As at 30 June 2009 (Unaudited) HK\$'000</b>	<b>As at 31 December 2008 (Audited) HK\$'000</b>
Within 90 days	<b>4,627</b>	5,026
More than 90 days and within 180 days	<b>5,065</b>	78
More than 180 days and within 360 days	<b>323</b>	15
More than 360 days	<b>90</b>	90
	<b>10,105</b>	5,209
Less: provision of doubtful debts	<b>(90)</b>	(90)
	<b>10,015</b>	5,119
Represented by:		
Receivables from related companies	<b>230</b>	–
Receivables from third parties	<b>9,785</b>	5,119
	<b>10,015</b>	5,119

The carrying amounts of trade receivables approximate their fair values.

**9. SHARE CAPITAL**

	<b>Number of shares '000</b>	<b>Par value HK\$'000</b>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 31 December 2008 and 30 June 2009	16,000,000	160,000
Issued and fully paid:		
At 31 December 2008 and 30 June 2009	1,390,443	13,904

**10. TRADE PAYABLES**

	As at 30 June 2009 (Unaudited) HK\$'000	As at 31 December 2008 (Audited) HK\$'000
Within 90 days	17,957	14,352
More than 90 days and within 180 days	1,115	1,519
More than 180 days and within 360 days	1,503	1,515
	<b>20,575</b>	<b>21,071</b>

The carrying amounts of trade payables approximate their fair values.

**11. RELATED PARTY TRANSACTIONS**

Save as disclosed elsewhere in the unaudited condensed consolidated interim financial statements, the Group entered into the following related party transactions:

**(a) Transactions**

	Six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Yunnan Jinliufu Winery Company Limited (“雲南金六福酒業有限公司”) – Sales of wine	–	54,356
Yunnan Shangri-la Jinliufu Wine Sale Company Limited (“雲南香格里拉金六福酒業銷售有限公司”) – Sales of wine	8,181	–
北京金六福酒有限公司 – Sales of wine	1,550	–

- (i) The above transactions were carried out at cost plus mark-up basis.
- (ii) Yunnan Jinliufu Winery Company Limited, Yunnan Shangri-la Jinliufu Wine Sale Company Limited and 北京金六福酒有限公司 are related parties of the Group as Mr. Wu Xiang Dong, being an executive director of the Company is a common director of both companies.

**11. RELATED PARTY TRANSACTIONS (Continued)**
**(b) Balances with related parties**

(i) Amounts due from related parties are as follows:

		<b>As at 30 June 2009 (Unaudited) HK\$'000</b>	<b>As at 31 December 2008 (Audited) HK\$'000</b>
Trade balances	<i>(i)</i>	<b>230</b>	–

(i) This represents receivables from sales of the Group's products to related parties.

(ii) Amounts due to related parties are as follows:

		<b>As at 30 June 2009 (Unaudited) HK\$'000</b>	<b>As at 31 December 2008 (Audited) HK\$'000</b>
Trade balances	<i>(i)</i>	<b>24,304</b>	16,475

(i) This represents receivables in advance for sale of goods.

**(c) Key management personnel**

Remuneration for key personnel management, including amount paid to the Company's directors and certain of the highest paid employee:

	<b>The Group Six months ended 30 June</b>	
	<b>2009 (Unaudited) HK\$'000</b>	<b>2008 (Unaudited) HK\$'000</b>
Salaries and other short term benefit	<b>1,535</b>	1,590

**12. APPROVAL OF INTERIM FINANCIAL STATEMENTS**

The Interim Financial Statements were approved and authorised for issue by the Board on 9 September 2009.

## INTERIM DIVIDEND

The board (the “**Board**”) of directors (the “**Directors**”) of the Company (the Company together with its subsidiaries the “**Group**”) does not recommend the payment of interim dividend for the six months ended 30 June 2009 (the “**Period**”) (No interim dividend was recommended or paid for the six months ended 30 June 2008).

## PLEDGE OF ASSETS

As at 30 June 2009, Shangri-la Winery Company Limited (“**Shangri-la Winery**”) had pledged land and buildings and production facilities in Diqing, the People’s Republic of China (the “**PRC**”) and Qinhuangdao, the PRC with net book value amounting to approximately HK\$43 million (31 December 2008: HK\$51 million), to China Agriculture Development Bank – Diqing Branch (中國農業發展銀行迪慶藏族自治州分行) to secure a HK\$57 million banking facilities granted to the Group.

## FINANCIAL REVIEW

Benefiting from effective sales and marketing strategies of the Group and the consolidation of the revenue of Heilongjiang Province YuQuan Winery Company Limited (“**YuQuan**”) (黑龍江省玉泉酒業有限公司) for the Period, the Group’s turnover increased 79% achieved a record high of approximately HK\$86 million (2008: HK\$48 million). Profit before tax soared 53% to HK\$13.8 million (2008: HK\$9 million) and net profit up 26% to approximately HK\$9.9 million (2008: HK\$7.8 million), after adjustment for minority interest, profits attributable to the equity holders of the Company increased by 37.8% to approximately HK\$8.6 million (2008: HK\$6.3 million), lead to an earnings per share of the Company (the “**Share or Shares**”) of HK0.62 cents (2008: HK0.48 cents).

The increase in turnover was resulted from the combined sales increase in both Shangri-la Winery’s wine and YuQuan’s Chinese liquor. Wine products sales increased 77% to approximately HK\$54.7 million and Chinese liquor products sales increased 83% to approximately HK\$31.7 million. The increase in turnover was mainly due to strengthening marketing campaign which drove up the volume of sales and our product upgrade program which generally increase product price offerings.

Cost of sales rose 78% to approximately HK\$41 million (2008: HK\$23 million). Other expenses also increased moderately due to the consolidation effect of YuQuan and slight inflation pressure. Administration expense has increased by 23% to approximately HK\$12.9 million. As a result of larger bank facilities, financial costs were up 52% to approximately HK\$2 million (2008: HK\$1.4 million) for the Period.

Whilst most costs increased in line with the turnover, marketing and taxation expenses escalated at a greater magnitude. Most marketing expenses for the year were engaged at the beginning of the year, the effect of which was reflected in the sales and distribution cost for the Period. Compare to same period last year, it almost tripled to approximately HK\$18 million. However, the positive impact has outweighed its cost. It takes time for the propaganda to come into effect, we made the initial challenge and we believe that the promotion to sale shall last throughout the year.

Taxation expense was also on the rise. Apart from the consolidation effect of YuQuan, Shangri-la Winery's tax exempt period has come to an end. Shangri-la Winery is now subject to a profits tax of 12.5%. The combine effect has brought the aggregate taxation expense up 2.4 times to HK\$3.9 million (2008: HK\$1.2 million).

As compare to the beginning of the year, the overall total assets and total liabilities of the Group as at 30 June 2009 increased moderately by 9.58% and 11.9% respectively to approximately HK\$583 million and approximately HK\$160 million respectively. Working capital of the Group was mainly financed by bank borrowing of HK\$68 million and reserves of approximately HK\$354 million. The gearing ratio (total borrowings/total equity) and current ratio (current assets/current liabilities) of the Group was 0.38 and 1.57 respectively. Taking into account of the existing financial resources, the Group has adequate financial resources to meet its ongoing operating and development requirements.

## **REVIEW OF OPERATION AND PROSPECTS**

Despite the adverse impact of the financial tsunami and the H1N1 influenza, the Group's business recorded rapid growth during the Period leveraging on the upturn of the PRC economy and effective sales strategy.

The Group has introduced new grape wine products, the Shangri-la Plateau series, during the Period. The Shangri-la Plateau series was stricter in the selection of natural raw materials from Diqing Plateau, while refining its flavour to give the perfect feeling of lifestyle and healthiness. The Shangri-la Plateau series demonstrated strong sales and became a successful sub-category, high end product with outstanding performance in the market. In view of the heritage of luxurious wine culture and the changes in the consumers' values, drinking wine became more popular and more in demand by consumers. Apart from launching new product lines to meet different consumer needs, by introducing this high end product, Shangri-la Winery has also built up a luxurious brand image.



## **Effect of YuQuan Acquisition**

In May 2008, we have acquired 70% equity interest in YuQuan. During the Period, we fully consolidated its financial results which is an important factor contributing to the increase in turnover. As the operation further runs in, we expect YuQuan's contribution to the Group's Chinese liquor business will play a more important role towards the end of the year when the traditional peak season approach.

## **Enhancing Market Coverage**

While strengthening its marketing position in the existing markets in Yunnan Province and Fujian Province, the Group continues to develop new markets in Hunan and Zhejiang Provinces. Our sales in Fujian market has increased 60% during the Period and is still on the rise whereas Hunan market demonstrated the greatest potential. For the Chinese liquor business, the Group continues to maintain its position as the leading Chinese Liquor seller in the Northeast provinces namely Heilongjiang, Jilin and Liaoning. Apart from strengthening its established provincial markets, the Group will strive to achieve further breakthroughs in other markets.

## **Self-own brands and brand distribution**

It is the Group's ongoing strategy to persistently strengthen the build-up of its own brands. Having drastically restructured and re-positioned its own brands, the Group accelerated the expansion pace of establishing its own distribution network in the PRC, and further carried out systematic planning for new distribution channels. Sales in those regions are growing gradually. We believe the build-up of the Group's own brands can establish a sound foundation for its sustainable development.

## **Accelerate Pace for Acquisition and Merger**

The Group will continue the merger and acquisition activities by taking over medium enterprises in the industry, so as to further increase the Group's production capacity and market share, thereby strengthening its leading position in the industry.

## **Enhance Production Capacity**

The plan to re-locate Shangri-la Winery's bottling and logistic facility in Yunnan Province, to a new industry development zone has reached its final stage. Timely announcement will be made according to the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") when the purchase contract been materialised.

The Group has also purchased a production line from Europe for around RMB6 million to enhance the productivity of Shangri-la Winery's products. The installation of new production line will be completed by the end of November this year. Upon completion of installation, the bottling capacity will be doubled. This will be just in time to cope with the peak ordering season and the increasing in demand for Shangri-la Winery's products.

At the same time, improvement has also been made to YuQuan's production facilities to enhance productivity. We believe the new set up will be able to enhance efficiency and lower cost of production.

## **Prospects**

Driven by the growth in domestic demand and fixed asset investments, the gross domestic product (GDP) of the PRC during the first six months of the year realized accelerated growth. Since the outbreak of the financial crisis, the PRC economy show signs of rebound driven by the pull of domestic demand. Given the string of the current market conditions, we believe domestic demand will continue to be the driving force for economy stability. With the policy guidance still on the side of encouraging domestic consumption, the wine industry will continue to develop steadily. Though the wine market competition is severe, we will adhere to our long-term development plan and seize opportunities to continue to build on our strength.

Looking forward, the Group will continue to focus on developing its wine and Chinese liquor businesses and to further strengthen its leading position in the PRC market.

## DISCLOSURE OF INTERESTS

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

As at 30 June 2009, 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 (the "Model Code") contained in the Listing Rules:

#### The Company

Name of Director	Capacity	Number of Shares held	Position	Approximate percentage of the issued share capital
Mr Wu Xian Dong	Interested of controlled corporation	650,988,050 <i>(note)</i>	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 Shangri-la Jinliufu Wine Sale Company Limited and 40% by Hunan Jinliufu Winery Company Limited. Yunnan Shangri-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 30 June 2009, 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.

**(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 30 June 2009, 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	<i>Note</i>	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 Shangri-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%

Name of Shareholder	Note	Capacity	Number of Shares held	Position	Approximate percentage of issued share capital
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	209,990,281	Long	15.10%
MACRO-LINK International Investment Company Limited	2	Beneficial owner	209,990,281	Long	15.10%
MACRO-LINK Sdn. Bhd.	2	Interest of controlled corporation	209,990,281	Long	15.10%
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:*

- 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 Shangri-la Jinliufu Wine Sale Company Limited and 40% by Hunan Jinliufu Winery Company Limited. Yunnan Shangri-la Jinliufu Wine Sale Company Limited is owned as to 80% by Hunan Jinliufu Winery Company Limited and 20% by Yunnan Jinliufu Investment Company Limited. Hunan Jinliufu Winery Company Limited is owned as to 80% by VATS Group Limited (a company owned as to 80% by Ms. Li Juan and 20% by Mr. Wu Xiang Dong) and 20% by 湖南新華聯石油貿易有限公司.

2. These Shares are held by MACRO-LINK International Investment Company Limited (“MACRO-LINK”) 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. On 31 July 2009, MACRO-LINK has reduced its holding by 30,000,000 to 179,990,281 representing 12.94% of total issued share capital of the Company.
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 30 June 2009, 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.

## SHARE OPTION SCHEME

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 is entitled to grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for Shares.

The total number of Shares which may be issued upon exercise of all options to be granted under the 2002 Scheme must not exceed 10% of the Shares 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 must not exceed 1% of the number of Shares issued and issuable under the 2002 Scheme or any other limit as may be permitted under the Listing Rules. Options granted must be taken up within 30 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board may at their discretion determine the specific exercise period. The exercise price is determined by the Board, and will be not less than the higher of (i) the closing price of the Shares on the date of grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Shares.

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

## **LIQUIDITY AND FINANCIAL INFORMATION**

As at 30 June 2009, the Group's total borrowings amounted to approximately HK\$68 million and cash and bank balances amounted to approximately HK\$82 million. The Group's current ratio was 1.57 and gearing ratio which is expressed as a ratio of total borrowings to total equity was 0.38. Taking into account of the existing financial resources, the Group has adequate financial resources to meet its ongoing operating and development requirements.

## **EXPOSURE TO FLUCTUATION IN EXCHANGE RATES**

During the Period, the Group experienced only immaterial exchange rate fluctuations as the functional currencies of the Group's operations were mainly in Hong Kong dollars and Renminbi. As the risk on exchange rate difference was considered to be immaterial, the Group did not employ any financial instrument for hedging purposes.

## **ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATES**

During the Period, there was no acquisition or disposal of the Company's subsidiaries and associates.

## **EMPLOYEE INFORMATION**

Total number of staff members was 1,479 as at 30 June 2009 (30 June 2008: 730) of which 150 were management and back office staffs, 1,036 factory workers and 293 sales personnel. The Directors believe that the quality of its employees is the most important factor in sustaining the Group's growth and improving its cost effectiveness. The Group's emolument policies are formulated on the performance of individual employees and are reviewed annually. The Group also provides medical insurance, and provident fund scheme (as the case may be) to its employees depending on the location of such employees.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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

## **CORPORATE GOVERNANCE**

The Company is committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business and to ensure that affairs are conducted in accordance with applicable laws and regulations.

The Company has applied the principles and complied with all the code provisions of the Code on Corporate Governance Practices (the "**Code**") contained in appendix 14 to the Listing Rules for the Period except for the provision E.1.2 of the Code that the chairman of the Board was absent from the annual general meeting of the Company held on 3 June 2009 due to business matters.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as set out in appendix 10 to the Listing Rules. Upon specific enquiry by the Company, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the Period.

## **AUDIT COMMITTEE**

The Audit Committee met two times to date in 2009 (with a 100% attendance rate) to review with senior management and the Company's internal and external auditors, the Group's significant internal controls and financial matters as set out in the Committee's written terms of reference. The Audit Committee's review covers the audit plans and findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, listing rules and statutory compliance, internal controls, risk management and financial reporting matters.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the unaudited interim financial report for the six months ended 30 June 2009. The Audit Committee comprises the four independent non-executive Directors, namely Mr Ting Leung Huel, Stephen, Mr Ma Yong, Mr E Meng and Mr Cao Kuangyu.



## APPRECIATION

On behalf of the Group, I would like to extend my gratitude to our shareholders, customers and business partners for their ongoing support and guidance, as well as my fellow Board members and colleagues for their contributions and diligence.

In spite of the global economic crisis, I am optimistic about the Group's future prospects. With a solid financial foundation and a strong income base, the management believes that the Group is well-positioned to reach new heights and create greater value for our shareholders.

By order of the Board

**Wu Xiang Dong**

*Executive Director, Chairman*

Hong Kong, 9 September 2009