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 2012 to 30 June 2012

(Stock Code : HK00472)

INTERIM REPORT 2012

* For identification purpose only

Contents

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 2012, together with the comparative results for the previous period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	*3*	**151,450**	111,806
Cost of sales		**(82,424)**	(44,906)
Gross profit		**69,026**	66,900
Other revenue		**8,471**	1,476
Selling and distribution costs		**(33,500)**	(28,562)
Administrative expenses		**(20,468)**	(19,777)
Profit from operating activities	*5*	**23,529**	20,037
Finance costs		**(1,752)**	(1,150)
Profit before taxation		**21,777**	18,887
Taxation	*6*	**(7,872)**	(5,938)
Profit for the period		**13,905**	12,949

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
Attributable to:			
Owners of the Company		**11,018**	10,703
Non-controlling interests		**2,887**	2,246
		13,905	12,949
Earnings per share attributable to owners of the Company			
Basic and diluted	*7*	**HK0.66 cents**	HK0.64 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the period	**13,905**	12,949
Other comprehensive income		
Exchange differences arising on translation of foreign operations	**5,169**	9,927
Total comprehensive income for the period	**19,074**	22,876
Attributable to:		
Owners of the Company	**15,739**	19,902
Non-controlling interests	**3,335**	2,974
	19,074	22,876

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2012 (Unaudited) HK$'000	As at 31 December 2011 (Audited) HK$'000
ASSETS			
Non-current assets			
Land use rights		**29,025**	29,138
Property, plant and equipment	*8*	**252,278**	233,576
Intangible assets		**37,065**	35,591
Available-for-sale financial assets		**1,768**	1,751
Goodwill		**177,959**	177,959
		498,095	478,015
Current assets			
Inventories		**264,208**	241,189
Trade and bills receivables	*9*	**41,998**	33,775
Prepayments, deposits and other receivables		**70,346**	35,648
Cash and cash equivalents		**122,081**	189,848
		498,633	500,460
Total assets		**996,728**	978,475

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2012 (Unaudited) HK$'000	As at 31 December 2011 (Audited) HK$'000
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	10	**16,685**	16,685
Reserves		**641,124**	625,385
		657,809	642,070
Non-controlling interests		**86,451**	83,116
Total equity		**744,260**	725,186
LIABILITIES			
Non-current liabilities			
Bank borrowings – due after one year		**24,674**	24,430
Deferred tax liabilities		**21,731**	21,509
		46,405	45,939
Current liabilities			
Trade payables	11	**43,338**	43,790
Accruals, deposits received and other payables		**89,801**	93,919
Amounts due to related parties		**23,574**	13,398
Bank borrowings – due within one year		**40,712**	40,309
Tax payables		**8,638**	15,934
		206,063	207,350

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2012 (Unaudited) ***HK$'000***	As at 31 December 2011 (Audited) *HK$'000*
Total liabilities	**252,468**	253,289
Total equity and liabilities	**996,728**	978,475
Net current assets	**292,570**	293,110
Total assets less current liabilities	**790,665**	771,125

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the Company									
	Share capital	Share premium	Translation reserve	Statutory reserve	Other reserve	Retained earnings	Proposed final dividend	Sub-total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011 (audited)	16,685	409,918	35,794	21,941	356	96,267	16,685	597,646	69,327	666,973
Final dividend paid	–	–	–	–	–	–	(16,685)	(16,685)	–	(16,685)
Total comprehensive income for the period	–	–	9,199	–	–	10,703	–	19,902	2,974	22,876
At 30 June 2011 (unaudited)	16,685	409,918	44,993	21,941	356	106,970	–	600,863	72,301	673,164
At 1 January 2012 (audited)	16,685	409,918	51,318	30,580	356	133,213	–	642,070	83,116	725,186
Total comprehensive income for the period	–	–	4,721	–	–	11,018	–	15,739	3,335	19,074
At 30 June 2012 (unaudited)	16,685	409,918	56,039	30,580	356	144,231	–	657,809	86,451	744,260

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash used in operating activities	**(45,318)**	(48,613)
Net cash used in investing activities	**(24,029)**	(36,819)
Net cash generated from/(used in) financing activities	**–**	–
Net decrease in cash and cash equivalents	**(69,347)**	(85,432)
Cash and cash equivalents at beginning of period	**189,848**	263,426
Effect of foreign exchange rate changes	**1,580**	9,927
Cash and cash equivalents at end of period	**122,081**	187,921
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**122,081**	187,921

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

30 June 2012 (in HK Dollars)

1. CORPORATE INFORMATION

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

The registered address of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed 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, the Hong Kong Accounting Standard ("HKAS") 34: Interim Financial Reporting and other relevant HKASs and Interpretations and the Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The unaudited condensed 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 for the year ended 31 December 2011.

The unaudited condensed 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 consistently with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

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

During the period under review, the Group has applied, for the first time, the following new and revised HKFRSs and HKAS issued by the HKICPA, which are effective for the Group's accounting periods beginning on 1 January 2012.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The Group has not applied the new and revised standards, amendments and interpretations that have been issued but are not yet effective for the accounting period on these financial statements. The Group has already commenced an assessment of the impact of these new and revised standards, amendments and interpretations but is not in a position to state whether they would have a significant impact on its results of operation and financial position.

3. TURNOVER

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Production and distribution of wine	**85,351**	70,338
Production and distribution of Chinese Baijiu	**66,099**	41,468
	151,450	111,806

4. OPERATING SEGMENTS

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

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

The Group's measurement methods used to determine reported segment profit or loss remain unchanged from 2011.

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

Operating segment information is presented as follows:

(a) Segment revenue and results

The following is an analysis of the segment revenue and results of the Group for the six months ended 30 June 2012 and 2011:

	Chinese Baijiu		Wine		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Revenue from external customers	**66,099**	41,468	**85,351**	70,338	**151,450**	111,806
Segment results	**11,842**	5,955	**15,845**	21,402	**27,687**	27,357
Unallocated corporate income					**337**	231
Unallocated corporate expenses					**(4,495)**	(7,551)
Finance costs					**(1,752)**	(1,150)
Profit before taxation					**21,777**	18,887
Taxation					**(7,872)**	(5,938)
Profit for the period					**13,905**	12,949

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment results represent the profit earned by each segment without allocation of central administration costs, directors' salaries, finance costs and taxation. This is the measure reported to the Chief Operating Decision Maker for the purposes of resource allocation and performance assessment.

4. OPERATING SEGMENTS (Continued)

(b) Assets and liabilities

The following is an analysis of the segment assets and liabilities of the Group as at 30 June 2012 and 31 December 2011:

	Chinese Baijiu		Wine		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**308,930**	319,175	**660,486**	626,404	**969,416**	945,579
Unallocated					**27,312**	32,896
					996,728	978,475
Segment liabilities	**28,211**	56,174	**136,055**	107,287	**164,266**	163,461
Unallocated					**88,202**	89,828
					252,468	253,289

For the purposes of monitoring segment performances and allocating resources among segments, all assets are allocated to reportable segments except for certain financial assets which are managed on a group basis. All liabilities are allocated to reportable segments except for bank borrowings, deferred tax liabilities and other financial liabilities which are managed on a group basis.

(c) Geographical information

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

As at the end of reporting period, over 90% of the Group's identifiable assets and liabilities 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.

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is stated after charging the following:

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Staff costs (including directors' remuneration)		
– Basic salaries and allowances	**24,206**	21,942
– Retirement benefit scheme contributions	**26**	525
Amortisation and impairment of intangible assets	**394**	487
Amortisation of land use rights	**406**	389
Cost of inventories recognised as expenses	**71,162**	33,474
Depreciation	**7,189**	4,867

6. TAXATION

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
The PRC Corporate Income Tax	**7,872**	5,938

Hong Kong Profits Tax

No provision for Hong Kong profits tax was made for the six months ended 30 June 2012 (2011: Nil) as the Group had no assessable profit derived from Hong Kong during the period.

As at 30 June 2012, the Group had unused tax losses of approximately HK$55 million (31 December 2011: HK$55 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability future profit streams.

6. TAXATION (Continued)

The PRC Corporate Income Tax

After the expiry of the tax exemption in 2010, Shangri-la Winery Company Limited ("Shangri-la Winery"), a subsidiary of the Company, has successfully applied for a tax exemption from Yunnan State Administration of Taxation of the PRC and is subject to the tax rate of 15%.

Shangri-la (Qinhuangdao) Winery Limited ("Shangri-la (Qinhuangdao)"), a subsidiary of the Company which is a foreign investment enterprise established in the Coastal Open Economics Region of Qinhuangdao, the PRC, is subject to corporate income tax rate of 25% and is entitled to full exemption from the PRC corporate income tax for two years starting from its first profit-making year and a 50% reduction for the next consecutive three years under the relevant tax rules applicable to foreign investment enterprise in the PRC. Shangri-la (Qinhuangdao) has been reported its third year profit since its establishment.

Save as disclosed above, all other subsidiaries established in the PRC are subject to a profit tax rate of 25% (2011: 25%).

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to owners of the Company of approximately HK$11,018,000 (six months ended 30 June 2011: profit of HK$10,703,000) and 1,668,532,146 shares in issue during the period.

The diluted earnings per share and the basic earnings per share for the six months ended 30 June 2012 and 2011 were the same as there were no potential dilutive shares in existence for both periods.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired items of property, plant and equipment with a cost of approximately HK$24,029,000 (six months ended 30 June 2011: HK$23,286,000). No items of property, plant and equipment were disposed of during the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

9. TRADE AND BILLS RECEIVABLES

The Group generally allows an average credit period ranging from 30 to 90 days (31 December 2011: 30 to 90 days) to its major trade customers with whom specific terms have been agreed. An aging analysis of trade and bills receivables is as follows:

	As at 30 June 2012 (Unaudited) *HK$'000*	As at 31 December 2011 (Audited) *HK$'000*
Within 30 days	**21,809**	30,713
More than 30 days and within 60 days	**4,297**	462
More than 60 days and within 90 days	**3,551**	1,614
More than 90 days and within 180 days	**11,720**	986
More than 180 days and within 360 days	**621**	–
More than 360 days	**208**	206
	42,206	33,981
Less: Impairment loss of trade and bills receivables	**(208)**	(206)
	41,998	33,775

The carrying amounts of trade and bills receivables approximate their fair values.

10. SHARE CAPITAL

	Number of shares *'000*	**Par value** *HK$'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 31 December 2011 and 30 June 2012	16,000,000	160,000
Issued and fully paid:		
At 31 December 2011 and 30 June 2012	1,668,532	16,685

11. TRADE PAYABLES

An aging analysis of trade payables is as follows:

	As at 30 June 2012 (Unaudited) *HK$'000*	As at 31 December 2011 (Audited) *HK$'000*
Within 90 days	**31,063**	33,609
More than 90 days and within 180 days	**10,836**	4,033
More than 180 days and within 360 days	**1,439**	6,148
	43,338	43,790

The carrying amounts of trade payables approximate their fair values.

12. RELATED PARTY TRANSACTIONS

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

(a) Transactions

	For the six months ended 30 June	
	2012 (Unaudited) *HK$'000*	2011 (Unaudited) *HK$'000*
Yunnan Jinliufu Trading Limited – Sales of wine	**7,297**	–
VATS Chain Liquor Store Management Company Limited – Sales of wine	**12,407**	12,645
Yunnan Jinliufu Liancai Trading Company Limited – Purchases of goods	**7,435**	–
VATS Fine Wines & Spirits (H.K.) Company Limited – Rendering of services	**264**	–

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

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

Purchase transactions were carried out on normal commercial terms.

12. RELATED PARTY TRANSACTIONS (Continued)

(b) Key management personnel

Remuneration for key management personnel, including amount paid to the Directors and certain of the highest paid employee:

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Salaries and other short term benefit	**2,372**	2,616

13. CAPITAL COMMITMENT

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
	HK$'000	*HK$'000*
Authorised and contract for:		
In connection with the construction of winery warehouses and factories	**66,014**	60,449
In connection with acquisition of plant and equipment	**10,041**	3,514
	76,055	63,963

14. SUBSEQUENT EVENTS

Continuing Connected Transactions

On 6 July 2012, the Group entered into master sales agreements (the "Master Sales Agreements") with each of VATS Chain Liquor Store Management Company Limited ("VATS Chain Store") and Yunnan Jinliufu Trading Limited ("Yunnan JLF Trading") respectively, pursuant to which (i) the Group has agreed to sell the grape wine and the related services, on a non-exclusive basis, to VATS Chain Store for a term commencing from 1 July 2012 and up to 31 December 2014; and (ii) the Group has agreed to sell the grape wine, Tibetan naked barley wine and the related services, Chinese Baijiu and the related services, on a non-exclusive basis, to Yunnan JLF Trading for a term commencing from 1 July 2012 and up to 31 December 2014.

On the even date, the Group also entered into a master purchases agreement (the "Master Purchases Agreement") with Yunnan Jinliufu Liancai Trading Company Limited ("Jinliufu Liancai"), pursuant to which the Group has agreed to purchase raw materials (including base wine and packaging materials) and the related services, on a non-exclusive basis, from Jinliufu Liancai for a term commencing from 1 July 2012 and up to 31 December 2014.

Under the Listing Rules, the above master agreements were subject to approval by the independent shareholders at the special general meeting of the Company ("SGM").

14. SUBSEQUENT EVENTS (Continued)

Proposed Adoption of New Share Option Scheme and Termination of the Existing Share Option Scheme

The Company has not adopted any share option scheme other than the existing share option scheme which was adopted on 16 September 2002 (the "Existing Share Option Scheme") for the primary purpose of providing incentives to the eligible participants including directors of the Group to subscribe for the Company's shares. Under the terms of the Existing Share Option Scheme, the Company may by ordinary resolution in general meeting or the Board may at any time terminate the Existing Share Option Scheme.

It is proposed by the Directors to terminate the Existing Share Option Scheme and to approve and adopt a new share option scheme (the "New Share Option Scheme"), which takes effect on the date of its adoption at the SGM subject to the Stock Exchange granting approval for the listing of and permission to deal in the shares which may fall to be allotted and issued upon the exercise of options in accordance with the terms and conditions of the New Share Option Scheme.

The SGM was held on 23 August 2012 at which resolutions were passed for the approval of the Master Sales Agreements, the Master Purchases Agreement, the adoption of the New Share Option Scheme and the termination of the Existing Share Option Scheme, and the transactions contemplated thereunder.

15. APPROVAL OF CONDENSED INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements were approved and authorised for issue by the Board on 17 August 2012.

INTERIM DIVIDEND

The Board did not recommend the payment of interim dividend for the six months ended 30 June 2012 (the "**Period**") (30 June 2011: Nil).

PLEDGE OF ASSETS

As at 30 June 2012, Shangri-la Winery had pledged land and buildings and production facilities in Diqing and Qinhuangdao, the PRC with net book value amounting to approximately HK$49.6 million (31 December 2011: HK$50 million) to Agricultural Development Bank of China – Diqing Branch (中國農業發展銀行迪慶藏族自治州分行) to secure approximately HK$50 million banking facilities granted to the Group.

FINANCIAL REVIEW

Revenue Analysis

Benefited from the surge of Chinese Baijiu sales and the launch of new wine products, the Group's turnover for the Period increased 35.5% to approximately HK$151.5 million (six months ended 30 June 2011: HK$111.8 million). The increase in turnover was driven by favourite sales growth and appropriate adjustments to product mix during the Period. Sales of wine products climbed 21.3% to approximately HK$85.4 million (six months ended 30 June 2011: HK$70.3 million). Sales of Chinese Baijiu products shot up 59.4% to approximately HK$66.1 million (six months ended 30 June 2011: HK$41.5 million).

During the Period, the government grant received by the Group increased 474% to approximately HK$8.5 million (six months ended 30 June 2011: HK$1.5 million). This is due to new application for government grant being approved during the Period.

Gross Profit Analysis

The costs of production, mainly consisted of costs of raw material and labour, rose at a much faster pace than the revenue by 83.5% to approximately HK$82.4 million (six months ended 30 June 2011: HK$44.9 million), which offset the gain of momentum in turnover during the Period. Gross profit for the Period increased slightly by 3.2% to approximately HK$69.0 million (six months ended 30 June 2011: HK$66.9 million).

Selling and Distribution Costs

Selling and distribution costs were adversely affected by the general increase in labour costs as a result of the minimum wages policy set by the PRC government gradually taking into effect throughout China. Due to the increase in labour costs and relocation of labours from production to marketing, the sales and distribution costs for the Period increased by 17.3% to approximately HK$33.5 million (six months ended 30 June 2011: HK$28.6 million).

Administration and Finance Costs

The administration expenses showed a slight increase of 3.5% to approximately HK$20.5 million (six months ended 30 June 2011: HK$19.8 million) as a result of the relocation of staff from production to back office support and the general increase in labour costs.

Finance costs increased by 52.3% to approximately HK$1.8 million (six months ended 30 June 2011: HK$1.2 million) which is mainly due to the general increase in bank interest rate.

Taxation

Total tax expenses for the Period increased 32.6% to approximately HK$7.9 million (six months ended 30 June 2011: HK$5.9 million) which is in line with the overall performance of the Group.

Profit

Profit before taxation grew 15.3% to approximately HK$21.8 million (six months ended 30 June 2011: HK$18.9 million). Taking into account the increase in profit tax, the Group's profit after taxation recorded only a single-digit increase, up by 7.4% to approximately HK$13.9 million (six months ended 30 June 2011: HK$12.9 million).

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company increased slightly by 2.9% to approximately HK$11.0 million (six months ended 30 June 2011: HK$10.7 million). Earnings per share increased by 3.1% to HK0.66 cents (six months ended 30 June 2011: HK0.64 cents).

Balance Sheet Analysis

Total assets of the Group marginally increased 1.9% to approximately HK$996.7 million (31 December 2011: HK$978.5 million). Total non-current assets increased 4.2% to approximately HK$498.1 million (31 December 2011: HK$478.0 million) whereas total current assets reduced by 0.4% to approximately HK$498.6 million (31 December 2011: HK$500.5 million).

Total liabilities decreased 0.3% to approximately HK$252.5 million (31 December 2011: HK$253.3 million). This was the combined effect of a marginal increase of total non-current liabilities by 1% to approximately HK$46.4 million (31 December 2011: HK$45.9 million) and a decrease of current liabilities by 0.6% to approximately HK$206.1 million (31 December 2011: HK$207.4 million).

Working capital of the Group was mainly financed by cash generated from operation and bank borrowings.

REVIEW OF OPERATION AND PROSPECTS

Business Review

Global economy slowdown caused by the financial instability of the Eurozone, the Europe's sovereign-debt crisis, slow economic recovery in the United States, tight money supply in Mainland China and regional political conflicts etc. imposed great impacts on the general economic outlook of the world in the first half of 2012. The slowdown of China's economy posed particular impact to our performance in the Period as China is where most of our operations and markets lie. In response to such challenging conditions, the Group took a cautious approach to maintain a stable development of our businesses.

Financial Overview

The results in the Period under review reflected the complicity of the business environment we are operating in. Despite the sluggish economic landscape, the Group's revenue increased by 35.5% to HK$151.5 million for the first half of the year when compared to the prior period. This was led by successful promotional activities and recognition of our new products by the market. Profit margins continue to be under pressure following increases in the production costs caused by higher fuel, minimum labour wages and higher raw materials prices in the markets, coupled with the ongoing relocation of Shangri-la's manufacturing operation. The combined effect was that the costs of production was growing at a much faster pace at 83.5% to HK$82.4 million. While relocation and redevelopment are in process, we take the opportunity to improve the facility's efficiency by streamlining the production process and explore new markets by leveraging growth with new product development. The impact on Shangri-la Winery's cost rise was comparably significant as its market coverage was broad. Facing a large frontier of competition, the increased production costs will take a longer time to be reflected in the product price. This gave rise to a higher growth in segment turnover but lower segment profits. On the other hand, Heilongjiang Province YuQuan Winery Company Limited ("YuQuan Winery"), being provincial based with a focus market in Heilongjiang and having completed major production enhancement and product reform, was relatively less affected. The production enhancement and product reform lead to a strategic change in product mix from low-medium range to medium-high range products which enable it to absorb the cost impact by way of increase of product pricing.

Despite the tough environment, the Group is still able to maintain its steady growth with a profit after taxation of HK$13.9 million representing an increase of 7.4% from the same period last year. Earnings per share increased 3.1% to HK0.66 cents for the Period.

Continuing Connected Transactions

In order to widen the Group's product offerings and increase future sales value and earnings, we have fine-tuned our distribution strategy by bringing in VATS Chain Store and Yunnan JLF Trading to market and distribute the Group's products at retail and wholesale level respectively. The Master Sales Agreements were entered into on 6 July 2012 such that high end Shangri-la wine will be distributed through VATS Chain Store's prestige high end retail network whereas medium to low end winery products and Chinese Baijiu will be distributed through Yunnan JLF Trading's country-wide wholesale network.

Furthermore, due to substantial increase in demand for Yuquan Baijiu in the market and in order to secure the source of strategic base wine and production materials to cope with our production needs, we have entered into the Master Purchases Agreement with Jinliufu Liancai in order to expand the scope of and increase the annual purchases with Jinliufu Liancai to sustain the growth in sales.

Details of the Master Sales Agreements and the Master Purchases Agreement can be referred to in the announcement and the circular of the Company dated 6 July 2012 and 6 August 2012 respectively.

Award and Accreditation

As a leading enterprise in the winery industry, Shangri-la Winery has won numerous awards during the Period. On 21 April 2012, three Shangri-la products, namely Shangri-la A3 Chardonnay, Shangri-la Plateau Series 2100 Cabernet Sauvignon and 2800 Cabernet Sauvignon won the Gold Prize (金獎) in the 5th Asian Wine Competition (第五屆亞洲葡萄酒質量大賽) in its respective product category. On 27 June 2012, Shangri-la Plateau A2 Series Cabernet Sauvignon and Shangri-la Plateau A2 Series Chardonnay won the Gold Prize in the 6th Colombin Cup Yantai International Wine Competition. On 26 April 2012, the "Shangri-la" (香格里拉) brand was awarded the "Chinese Famous Trademark" (中國馳名商標) – the highest honor among the PRC enterprise brands. Only few of national winery brands had been awarded with such honour and Shangri-la was now amongst the list. This is the greatest recognition for the Group's arduous efforts to promote Shangri-la product lines across the country and our unremitting efforts for the achievement. The Chinese Famous Trademark award will greatly enhance the influence of Shangri-la brand in domestic winery industry and further accelerate our pace to develop the market throughout the country.

With YuQuan Winery's outstanding marketing success, YuQuan Baijiu was appointed the official Baijiu for the 23rd China Harbin International Economic and Trade Fair on 11 June 2012, signifying the market influence and solid market foundation of YuQuan Winery in Harbin.

Prospects

Although the economic conditions in the international market remain challenging, we hold a conservative but optimistic view towards China's winery market. We saw constant revenue growth in the first half of 2012 and we enter the second half of fiscal 2012 with continuing strong momentum. The increase in top line growth was driven by the demand for new and existing products and the strength of our brands. We have confidence that these favourable trends will sustain. With the escalating costs pressure and the expected continuing slowdown of China's economy, we believe that the market will become more challenging. We strike to impose cost optimizing strategies to optimize operation efficiency. This ongoing progress will not be easily achieved given the volatile economic landscape but our experienced management team is committed to managing our businesses in a cautious and steady manner in order to deliver organic growth and increase profitability.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the Group's total borrowings amounted to approximately HK$65.4 million (31 December 2011: HK$64.7 million) and cash and cash equivalents amounted to approximately HK$122.1 million (31 December 2011: HK$189.8 million). The Group's current ratio was 2.42 and gearing ratio, which is expressed as total borrowings divided by total equity, was 8.8%. Taking into account of the existing banking facilities, the Group has adequate financial resources to meet its ongoing operating and development requirements.

CONTINGENT LIABILITIES

As at 30 June 2012, the Group did not have any significant contingent liabilities (31 December 2011: Nil).

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.

MATERIAL ACQUISITION AND DISPOSAL

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

EMPLOYEE INFORMATION

Total number of staff members was 1,284 as at 30 June 2012 of which 41 were management, 316 were back office staff, 342 were factory workers and 585 were sales and marketing 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.

DISCLOSURE OF INTERESTS

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

As at 30 June 2012, 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 Issuers contained in the Listing Rules (the "**Model Code**"):

(i) The Company

Name of Director	Nature of interest	No. of shares held	Position	Approximate percentage of issued share capital
Mr. Wu Xiang Dong *(Note)*	Controlled corporation	841,120,169	Long	50.41%
Mr. Ng Kwong Chue Paul	Beneficial owner	3,000,000	Long	0.18%

Note: These shares are held by JLF Investment Company Limited which is a company incorporated in the British Virgin Islands and wholly-owned by Yunnan Jinliufu Investment Company Limited. Yunnan Jinliufu Investment Company Limited is owned as to 80% by VATS Group Limited (a company owned as to 90% by Mr. Wu Xiang Dong and 10% by Mr. Yan Tao) and 20% by Macro-Link Holding Limited (新華聯控股有限公司). Mr. Wu Xiang Dong also owns: (i) 20% equity interest in Macro-Link Holding Limited (新華聯控股有限公司); and (ii) 15% equity interest in MACRO-LINK Sdn. Bhd. which, through its wholly-owned subsidiary, Macro-Link International Investment Company Limited, held 215,988,337 shares (or 12.94% of the issued share capital of the Company as at 30 June 2012).

(ii) Associated Corporation:

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

Save as disclosed above, as at 30 June 2012, 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 2012, 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	*Notes*	Nature of interest	No. of shares held	Position	Approximate percentage of issued share capital
JLF Investment Company Limited (金六福投資有限公司)	*1*	Beneficial owner	841,120,169	Long	50.41%
Yunnan Jinliufu Investment Company Limited (雲南金六福投資有限公司)	*1*	Controlled corporation	841,120,169	Long	50.41%
VATS Group Limited (華澤集團有限公司)	*1*	Controlled corporation	841,120,169	Long	50.41%
Mr. Fu Kwan	*2*	Controlled corporation	215,988,337	Long	12.94%
MACRO-LINK Sdn. Bhd.	*2*	Controlled corporation	215,988,337	Long	12.94%
MACRO-LINK International Investment Company Limited	*2*	Beneficial owner	215,988,337	Long	12.94%

Notes:

1. These shares are held by JLF Investment Company Limited which is a company incorporated in the British Virgin Islands and wholly-owned by Yunnan Jinliufu Investment Company Limited. Yunnan Jinliufu Investment Company Limited is owned as to 80% by VATS Group Limited (a company owned as to 90% by Mr. Wu Xiang Dong and 10% by Mr. Yan Tao) and 20% by Macro-Link Holding Limited (新華聯控股有限公司).

2. 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 other five individual shareholders.

Save as disclosed above, as at 30 June 2012, 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. Unless otherwise terminated, the 2002 Scheme will remain valid and effective until 15 September 2012. At the special general meeting of the Company held on 23 August 2012, the Company has adopted a new share option scheme (the "**2012 Scheme**") and the 2002 Scheme was terminated on the same date. No option has been granted under the 2002 Scheme or the 2012 Scheme since their respective adoption dates.

Under the terms of the 2012 Scheme, the Board is entitled to grant options to selected eligible participants as incentives or rewards for their contribution or potential contribution to the Group or any invested entity.

The total number of shares which may be issued upon exercise of all options to be granted under the 2012 Scheme and any other schemes must not in aggregate exceed 10% of the total issued share capital of the Company as at the date of adoption of the 2012 Scheme. The total number of shares in respect of which options may be granted to each eligible participant (including exercised and outstanding options) in any twelve-month period shall not exceed 1% of the number of shares in issue unless shareholders' approval is obtained in general meeting. Options granted must be taken up within 30 days from the date of grant with payment of HK$1 per grant. Options may be exercised at any time from the date of grant up 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 not be less than the highest 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.

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 adopted the code provisions set out in the Code on Corporate Governance Practices (the "Former CG Code") under Appendix 14 to the Listing Rules, which came into effect on 1 January 2005 and was revised and renamed as the Corporate Governance Code (the "New CG Code") with effect from 1 April 2012.

The Company has met all code provisions set out in the Former CG Code during the period from 1 January 2012 to 31 March 2012 and the New CG Code during the period from 1 April 2012 to 30 June 2012.

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 twice to date in 2012 to review with senior management and the Company's internal and external auditors, the Group's internal controls and financial matters as set out in the Audit 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, the 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 Period. The Audit Committee comprises the three independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Mr. E Meng and Mr. Cao Kuangyu.

APPRECIATION

The Board would like to take this opportunity to extend our cordial gratitude to our management team and staff for their hard work. Our thanks also go to all business partners, shareholders and customers for their valuable cooperation. We feel confident that we will continue to achieve excellent results and create higher value for our shareholders.

By order of the Board
JLF Investment Company Limited
Wu Xiang Dong
Chairman

Hong Kong, 17 August 2012