VATS

金六福投資有限公司*

JLF Investment Company Limited

(Incorporated in Bermuda with limited liability)

For the financial year from 1 January 2012 to 31 December 2012

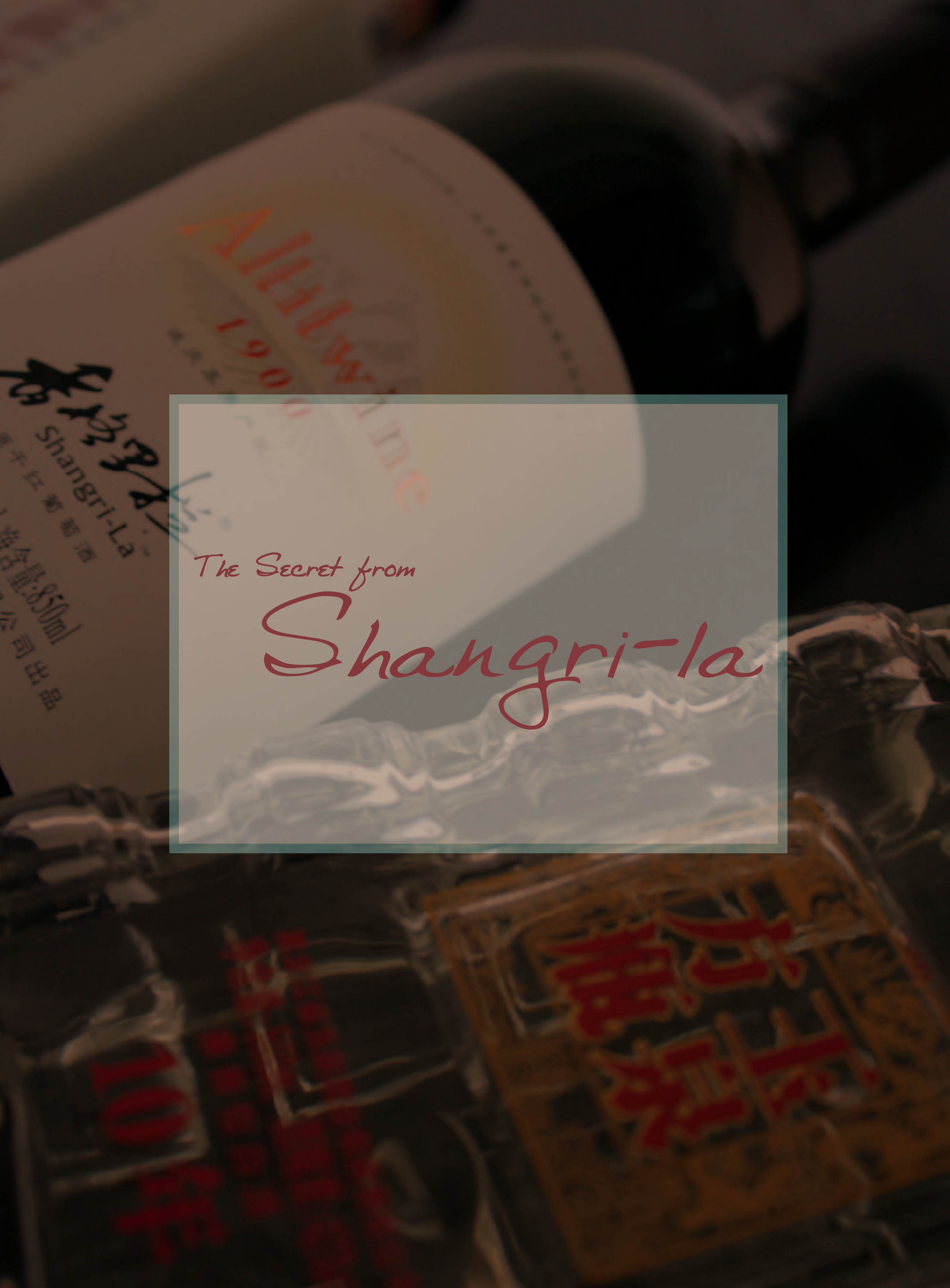
(Stock Code : HK00472)

annual report 2012

The Secret from

Shangri-la

* For identification purpose only


The Secret from
Shangri-la
Shangri-La
1900
10年

Contents

Corporate Information

BOARD OF DIRECTORS

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

Independent Non-executive Directors:
Mr. Ting Leung Huel, Stephen
Mr. E Meng
Mr. Cao Kuangyu

AUTHORIZED REPRESENTATIVES

Mr. Shu Shi Ping
Mr. Ng Kwong Chue, Paul

COMPANY SECRETARY

Mr. Ng Kwong Chue, Paul

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

Mr. Ting Leung Huel, Stephen *(Chairman)*
Mr. E Meng
Mr. Cao Kuangyu

AUDITOR

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

SOLICITORS

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

Hong Kong:
Michael Li & Co.
19/F., Prosperity Tower
39 Queen's Road Central
Central
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China CITIC Bank International Limited
China Construction Bank Corporation
Agricultural Development Bank of China

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1905B, 19/F., Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER AGENT

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

STOCK CODE

00472

CHAIRMAN'S STATEMENT

Chairman's Statement

The opportunity for growth still lines ahead. We remain optimistic and will move forward step by step

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 2012.

ECONOMY OUTLOOK

With Europe's chronic debt crisis and the persistent, recurring budget calamity in fear of the fiscal cliff in the United States, global economy continued to be weak and unstable. This, together with China following the same pattern, and experienced a slower than 10 years average growth, resulted in weakness over consumer sentiment and overshadowed the recovery in consumer market.

MARKET OVERVIEW

China market, just like other markets in the rest of the world, is very sensitive to government policy. The tightening of entertainment expenditure by the Chinese government departments during the year has caused the Chinese liquor sector to tumble. State Council subsequently implemented stringent control over public spending on entertainment and gifting, causing the markets for high-end fine wine, especially those French first growth and high-end baijiu to plunge.

FINANCIAL HIGHLIGHTS

Under this complicated market climate and a slower-than-expected market recovery, the Group has experienced a modest decrease in sales of 8.5% to HK$366.2 million. With the overall market sentiment remaining weak and excess inventory in the distribution channels, there are more discounting and pressure on price, causing gross profit margin to reduce to 50.9%. At the same time, production costs, expenses and wages in particular, continued to climb leading to a first time ever declined in overall profit since 2007. Our profit for the year dropped by 59.6% to HK$23.4 million or a return on equity of 6.3%.

YUQUAN BAIJIU

The results of the Group were polarized in such a way that specific market and the overall China market went in opposite extreme. The depression on high-end baijiu has made way for the growth of second tier and provincial baijiu. Our YuQuan baijiu, being the leading baijiu brand in Harbin, has benefited and the results soared. Notwithstanding the formidable backdrop, YuQuan managed to achieve a record-high profit of HK$40.3 million, representing an increase of 31.3%. Though turnover of YuQuan remained quite stable, change in product mix and effective costs control had successfully increased the segment margin by 12.5% and reduced the selling and distribution expenses by 8.8%. YuQuan's performance is remarkable.

BAIJIU MARKETING

In Chinese history, baijiu and art were closely related as they both represented pleasure and enjoyment. The marketing campaign on combining art and culture to YuQuan's premium products has proved to be a great success. As a grand annual event in continuation of its cultural and elegant brand marketing phenomenon, on 6 January 2013, YuQuan sponsored and hosted the "Lang Lang – Yuquan • Elegant Harmony Harbin New Year Concert". Starred by the famous international pianist Lang Lang, the concert was hosted at the Harbin International Exhibition and Sports Center Stadium. This type of annual event has become more than just a marketing event and become a kind of social responsibility initiative for YuQuan to contribute to the community of its hometown by supporting Harbin's social and cultural development.

For baijiu operation, the Group maintains its focuses in core values and key strategic initiatives by consistently investing in enhancement and driving of brand awareness for our core baijiu products: "YuQuan Harmonious Elegant Series (玉泉和諧清雅系列)" and "YuQuan Vintage Series (玉泉年份酒系列)". Since 2008, YuQuan has always been committed to building a stronger brand. After four consecutive years' marketing effort, YuQuan has achieved substantial growth in terms of revenue and profits and stand out as one of the most significant baijiu brand in the Heilongjiang province.

FUTURE DEVELOPMENT FOR BAIJIU

As the baijiu business is growing rapidly, we have planned to expand the current production site by acquiring additional 17,127 square meters of adjacent land to cope with future development. The initial investment is budgeted to be at around RMB65 million and is currently waiting for the approval of the local planning department.

SHANGRI-LA WINERY

It is a difficult year for Shangri-la Winery. Not only that it is still in the middle of transformation, exorbitant production, increasing raw materials, labour, logistic and marketing costs fuelled by the emergence of a hyper competitive retail climate caused by the flood of imported wine trembled the wine market in China. Throughout the wine industry, there is relentless steep discount as competitors fought to defend market share by sacrificing profit margins. The continued rise in both production and operating costs combined with fierce market competition leaded to a substantial decline in Shangri-la Winery's performance. Turnover of the wine operation plunged 13.5% to HK$190.6 million. Gross profit margin has dropped to 40.0% leading to an operating loss of HK$8.3 million.

MARKETING EFFORT FOR SHANGRI-LA WINERY

In order to counter the declining sales, Shangri-la Winery is enhancing sales promotion campaigns by increasing expenditure in advertisement and providing additional sales incentives to major dealers to boost sales in its main markets during the latter part of the year. Shangri-la Winery has also maintained a higher level of inventory as at the end of the year with the view to support potential turnover resulted from the promotion campaigns. Though such campaigns may not be able to result in immediate profit, it was however necessary, especially in a weak market sentiment to protect our market share and enhance brand awareness. The inventory level is expected to gradually decrease as the campaigns start to take effect in the coming year. We believe that we are in a good position to return to growth track in the coming year as we already saw solid sales growth despite severe competition in the industry in the first quarter of 2013.

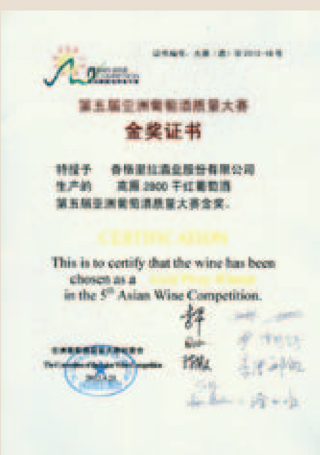
YuQuan had rolled-out new concept stores last year which had demonstrated distinct results and we will apply the same for Shangri-la Winery's business. Initial concept shops will be launched in our major markets in Yunnan, Jiangsu and Fujian provinces.

QUALITY WINE

Despite the challenging positions in the market, Shangri-la Winery's commitment in producing fine wine will never change. Shangri-la plateau and the new Shangri-la plateau "A" series continue to win industry recognition. After taking home Gold and Silver medals for the 2008 Vinalies China, Shangri-la plateau 2100 and 9º tibetan barley wine have been accredited as 'Top Ten Wines in Yunnan', and the plateau "A" series had won the Gold and Silver medals in the 5th and 6th Colombin Cup Yantai International Wine Competition respectively. "Shangri-la" brand remains as "Chinese famous brand" and "Tin Lai (天籟)" brand, a sub-brand of Shangri-la, still remains as "Yunnan's famous brand". Apart from the above, Shangri-la Winery had also successfully renewed HACCP, ISO 9001 and certificates for organic product certification issued by China Quality Certification Centre.

INTERNAL CONTROL AND COSTS CONTROL MEASURES

Due to the expansion of the operation for both Shangri-la Winery and YuQuan, the administrative expenses and operating costs of the Group as well as the related depreciation and amortization increased significantly, albeit that the sales generated were not increased at the same pace as anticipated. The Group has tightened its costs control to monitor its overhead costs and improve operating efficiency. Each business segment throughout the Group is required to rationalize its operating costs to keep costs at a minimum.



During the past two years, the Group has development plan for new production facilities at Shangri-la Diqing winery and Yantai's Masang Château. In light of the uncertainties in the market, the Group has scaled down the development and will wait until market conditions in China improve before further advancement.

The Group has recruited new experienced management for Shangri-la Winery's operation with the belief that the new management could bring expertise in the relevant areas to support the business development of the wine business and the Group's business operation as a whole.

ACQUISITION AND EXPANSION

The YuQuan acquisition is a showcase example for the Group's success in acquisition and development of a baijiu business. The Group will continue to pursue acquisition opportunities to support strategic growth. The Group is looking into provincial baijiu acquisition opportunities which could strategically strengthen the Group's geographical presence in certain areas in China. This acquisition strategy is in line with the Group's overall strategy of enhancing its product range through increased collaboration with renowned baijiu brands. In this regard, the Group is exploring and discussing with its holding company and other baijiu companies for investment and acquisition opportunities.

PROSPECTS

Despite all the uncertainties and pessimism in the market, we also observed certain level of resilience in the retail market. This resilience marked a separation from the general trend in the Chinese economy, supporting the retail market to benefit from the continued rise in spending power and consumption demand.

It is widely expected that the Chinese Government would take measures to stimulate economic growth, thereby leading to an increase in domestic demand. Such initiative is expected to boost demand for our products. We will be aware of the new challenges in the business environment arising from these changes, which might result in higher costs and squeezed profit margins. However, we also recognize the opportunities by product optimization and increasing market penetration for better business growth.

We believe that the costs control and sales promotion campaigns implemented during the year under review will position us well in capturing growth in the wine and baijiu markets as the economy improves. Though we expect that the operating environment in year 2013 might not be less challenging than 2012, we are optimistic over the long term prospects of the market in China.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all management and employees, business partners and customers of the Group for their continuous support. In addition, I would like to thank all of the Company's shareholders and investors for their ongoing support. We will be cautious but remain confident that the Group will make further progress and deliver good value to shareholders.

By Order of the Board

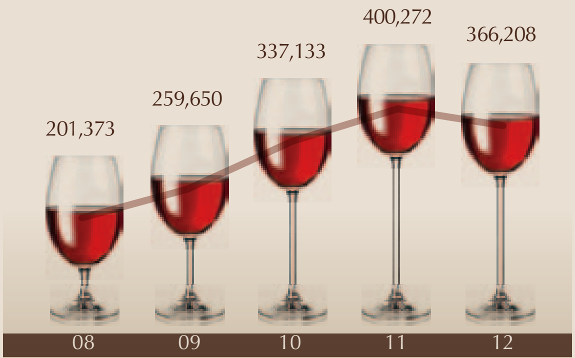
Wu Xiang Dong
Chairman

Hong Kong, 27 March 2013

Financial Highlights

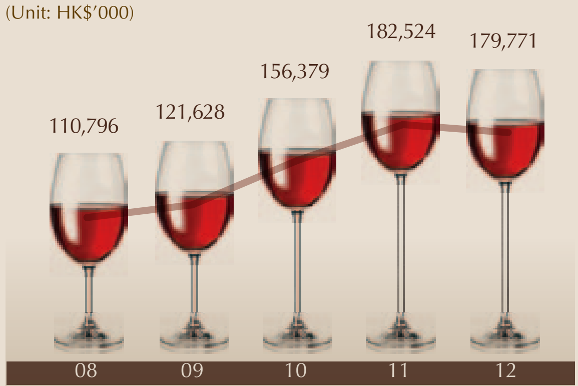
Operation Analysis

Turnover
(Unit: HK$'000)



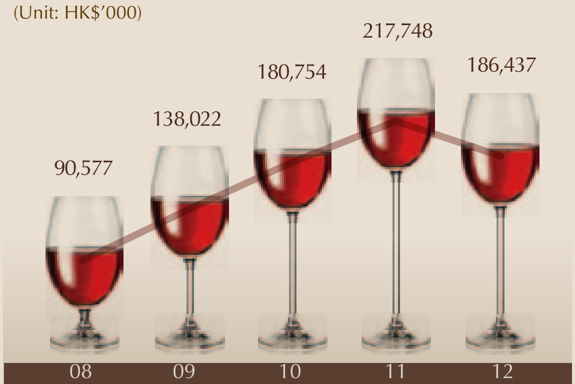
Turnover decreased by 8.5% in 2012
5 years average increased by 16.1%

Cost of Sales
(Unit: HK$'000)



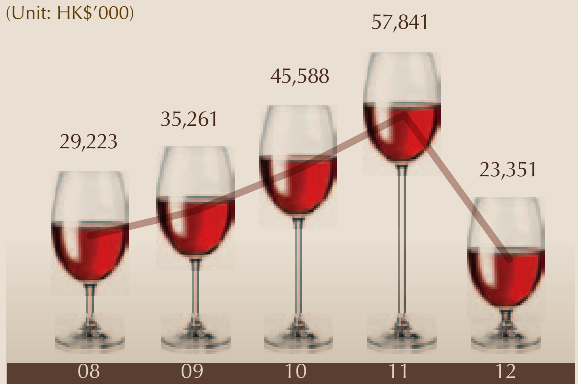
Cost of Sales decreased by 1.5% in 2012
5 years average increased by 12.9%

Gross Profit
(Unit: HK$'000)



Gross Profit decreased by 14.4% in 2012
5 years average increased by 19.8%

Net Profit
(Unit: HK$'000)



Net Profit decreased by 59.6% in 2012
5 years average decreased by 5.5%

Earnings per share
(HK cents)

Earnings per share decreased by 78.4% in 2012
5 years average decreased by 23.9%

Financial Highlights

Business Segments Analysis

Turnover
(Unit: HK$'000)

Cost of Sales
(Unit: HK$'000)

Gross Profit
(Unit: HK$'000)

Net Profit
(Unit: HK$'000)

Financial Highlights

Assets Distribution Analysis

(Unit: HK$'000)

- Land use rights
- Property, plant and equipment
- Intangible assets
- Available-for-sale financial assets
- Goodwill
- Inventories
- Trade and bills receivables
- Prepayment, deposits and other receivables
- Cash and cash equivalents

Liabilities and Equity Analysis

(Unit: HK$'000)

- Share Capital
- Reserves
- Non-controlling interests
- Bank borrowings-due after one year
- Deferred tax liabilities
- Trade payables
- Accruals, deposits received and other payables
- Amounts due to related parties
- Bank borrowings-due within one year
- Tax payable

MANAGEMENT DISCUSSION AND ANALYSIS

Depressing results never prevents our inspiration

FINANCIAL INFORMATION

Turnover

The Group recorded a turnover of HK$366.2 million in 2012 (2011: HK$400.3 million), representing a decrease of 8.5% compared with last year. Wine and Chinese baijiu segments both diminished by 14.7% and 0.3% respectively to HK$194.2 million (2011: HK$227.7 million) and HK$172.0 million (2011: HK$172.5 million).

Cost of Sales

Cost of sales for Wine segment increased by 9.2% to HK$117.7 million as a result of the increase in general production costs whereas Chinese baijiu segment decreased by 17.0% to HK$62.1 million as economies of scale takes effect. The combined effect is that the gross production cost decreased slightly by 1.5% to HK$179.8 million (2011: HK$182.5 million).

Gross Profit

Gross profit was HK$186.4 million, representing a decrease of 14.4% (2011: HK$217.7 million). Wine and Chinese baijiu segments each accounted for HK$76.5 million and HK$109.9 million with gross profit margins of 39.4% and 63.9% respectively. Gross profit margin decreased by 3.5% to 50.9% (2011: 54.4%). The decrease in gross profit was as a result of the drop in sales volume and a higher production cost in the wine segment.

Selling and Distribution Expenses

Selling and distribution expenses increased by 5.3% to HK$103.5 million (2011: HK$98.4 million). Selling and distribution expenses as a percentage of turnover for the year increased slightly by 3.7% to 28.3% (2011: 24.6%). The increase was mainly due to the increase in overall advertisement expenses.

Administrative Expenses

As a result of the increase in general labour cost, administrative expenses increased by 13.1% to HK$56.2 million (2011: HK$49.7 million). Administrative expenses as a percentage of turnover increased by 2.9% to 15.3% (2011: 12.4%) due to a reduced turnover figure.

Profit Before Tax

Profit before tax decreased by 47.4% to HK$41.7 million (2011: HK$79.3 million). Profit before tax margin reduced by 8.4% to 11.4% (2011: 19.8%).

Income Tax

Overall income tax decreased by 14.5% to HK$18.3 million (2011: HK$21.4 million) as a result of the decrease in both turnover and profit before tax.

Profit After Tax

Profit after tax for the year decreased by 59.6% to HK$23.4 million (2011: HK$57.8 million). Net profit after tax margin decreased by 8.1% to 6.4% (2011: 14.5%).

Profit Attributable to Owners

The profit attributable to owners of the Company decreased by 78.4% to HK$9.8 million (2011: HK$45.6 million). The margin of profit attributable to owners of the Company decreased by 8.7% to 2.7% (2011: 11.4%).

Liquidity and Financial Resources

Cash and bank borrowings

We generally finance our operation and capital expenditure by internally generated cash flows as well as banking facilities provided by our principal bankers. As at 31 December 2012, the Group had cash and cash equivalents of HK$132.9 million (2011: HK$189.8 million) representing a decrease of 30.0%. About 83.7% of our cash was denominated in Renminbi ("RMB").

As at 31 December 2012, our net loan payment was HK$3.8 million and our total bank borrowings decreased by 3.0% to HK$62.8 million (2011: HK$64.7 million). All of our bank borrowings are denominated in RMB. We maintain sufficient cash and available banking facilities for our working capital requirements in the foreseeable future.

Capital expenditure

During the year, our total capital expenditure amounted to HK$64.8 million (2011: HK$69.5 million) which has been mainly used in the acquisition of machineries, construction of Shangri-la Masang Château and the development of YuQuan's storage and packaging facilities. For the year 2013, we have budgeted HK$70.0 million for capital expenditure.

Inventories

Our inventories primarily consisted of finished goods, goods in transit, work in progress as well as raw materials and packaging materials. The finished goods turnover ratio (average closing finished goods divided by cost of sales) was 227 days for the year ended 31 December 2012 (2011: 167 days). The increase was due to a higher level of inventory held at the end of the year.

Balance sheet analysis

As at 31 December 2012, the Group had total assets of HK$1,045.4 million (2011: HK$978.5 million) of which current assets amounted to HK$512.3 million (2011: HK$500.5 million) and non-current assets amounted to HK$533.1 million (2011: HK$478.0 million). Total liabilities of the Group included current liabilities of HK$260.6 million (2011: HK$207.4 million) and non-current liabilities of HK$22.1 million (2011: HK$45.9 million). Our total equity was composed of shareholders' equity of HK$664.6 million (2011: HK$642.1 million) and non-controlling interests of HK$98.1 million (2011: HK$83.1 million).

The Group's current ratio as at 31 December 2012 was 1.97 (2011: 2.41). Gearing ratio, representing total borrowings divided by total equity, was 8.23% (2011: 8.93%). Both ratios are at a healthy position.

Basic earnings per share attributable to the owners of the Company for the year ended 31 December 2012, being mainly affected by the wine business, decreased by 78.4% to HK0.59 cent (2011: HK2.73 cents).

Trade receivables turnover period (average trade receivables divided by turnover) was 29 days (2011: 28 days). The Group did not experience any material bad debts that required to be written off in 2012.

The Group had capital commitments amounted to HK$60.4 million (2011: HK$64.0 million). The Group had no other material contingent liabilities as at 31 December 2012.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2012, save as the related parties transactions as disclosed in note 39 to the consolidated financial statements, the five largest suppliers and customers of the Group are as follows:

The aggregate purchases attributable to the Group's five largest suppliers comprised 27.2% (2011: 20.6%) of the Group's total purchases and the purchases attributable to the Group's largest supplier were 9.0% (2011: 6.9%).

The aggregate sales attributable to the Group's five largest customers for the year ended 31 December 2012 were 40.0% (2011: 24.2%) and the sales attributable to the Group's largest customer were 10.0% (2011: 5.9%).

None of the directors, their associates or shareholders of the Company 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 2012, the Group was granted HK$16.8 million (2011: HK$8.2 million) subsidies from the local finance department in subsidizing the Group's technical development. Profits tax rate applied to subsidiaries established in the People's Republic of China (the "PRC") ranged from 12.5% to 25%. The Hong Kong companies are subject to a profits tax rate of 16.5%.

DIVIDEND

The Board does not recommend payment of final dividend for the year ended 31 December 2012 (2011: Nil).

PLEDGE OF ASSETS

At 31 December 2012, the Group pledged its land, property, plant and equipments with net book value amounted to HK$48.3 million (2011: HK$49.7 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 RMB, there is natural hedge mechanism in place and currency exposure is relatively low. As such no material exchange rate risk is anticipated and no financial instruments for hedging purposes are employed.

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 exposures.

MATERIAL ACQUISITION AND DISPOSAL

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

EMPLOYEE INFORMATION AND EMOLUMENT POLICY

As at 31 December 2012, the Group employed a total of 1,143 (2011: 1,261) full-time employees mostly at the Group's subsidiary factories and sales offices. Out of the total employment, 458 staff related to sales and marketing, 366 staff related to production, 171 staff related to management and 148 staff related to administration. The Group's emolument policies are formulated based on the performance of individual employees and are reviewed bi-annually and annually. The Group also provides medical insurance coverage and provident fund schemes (as the case may be) to its employees depending on the location of their employments.

Biographies of Directors and Senior Management

Wu Xiang Dong

Chairman and Executive Director

Mr. Wu Xiang Dong, aged 44, was appointed as an executive director of the Company on 25 February 2004 and became the chairman of the Company on 3 October 2007. He is the chairman of the nomination committee of the Company (the "Nomination Committee") and a member of the remuneration committee of the Company (the "Remuneration Committee"). He is also a director of a subsidiary of the Group. Mr. Wu is the founder of 'Jin Liu Fu' brand and VATS Group Limited ("VATS Group"), formerly known as 'Jin Liu Fu Group' which is the ultimate holding company of the Company. Mr. Wu is currently the chairman of VATS Group and VATS Chain Liquor Store Management Company Limited. He has extensive experience in the management of large enterprises and wine business in China. Mr. Wu holds 90% equity interests in VATS Group, which is the substantial shareholder of the Company through its indirect shareholdings of JLF Investment Company Limited, a company incorporated in the British Virgin Islands.

Mr. Wu is the vice-chairman of the Hunan Federation of Industry and Commerce. He is a well-known entrepreneur in China's wine industry and has been awarded the most prestigious sales and marketing awards in China: 'Golden Censer II Award', '2009 Ernst and Young's Entrepreneur of The Year China Award', '2005 Decoration of World Outstanding Chinese Award', 'Top 10 Outstanding Entrepreneur of Chinese Brand Implementation', 'Top 10 Outstanding CEO', 'China's Creditable Entrepreneur', 'Asia Top 10 Worthies in Brand Innovation', 'Top 10 Brand Leadership in Chinese Liquor Industry', 'Top 10 Distribution Channel Leaders in Chinese Liquor Industry', 'the Most Influential Entrepreneurs in New China for 60 years' and 'the 2nd Outstanding Entrepreneur of Hunan Province'.

Yan Tao

Vice-Chairman and Executive Director

Mr. Yan Tao, aged 49, was appointed as an executive director and the vice-chairman of the Company on 27 April 2009. He is a member of each of the Remuneration Committee and the Nomination Committee. He is also a director of a subsidiary of the Group. Mr. Yan is a member of the Communist Party of China. He graduated from Hunan University with a postgraduate in economics faculty. He had worked as deputy general manager at Hunan Zhuzhou Electric Welding Company Limited before joining VATS Group in 1999. During his engagement as the vice president of VATS Group, he had also involved in the operation of various positions within VATS Group including acting as the general manager of Shangri-la Winery Company Limited and the chief operation officer of Jin Liu Fu Sales Company Limited. He has been promoted to the president of VATS Group in March 2008 and holds 10% equity interests in VATS Group. Mr. Yan has years of experience in marketing of wine products and luxury products and has extensive experience in the operation of chain stores.

Shu Shi Ping

Executive Director and Chief Executive

Mr. Shu Shi Ping, aged 50, was appointed as an executive director of the Company on 27 September 2004 and became the chief executive and authorized representative of the Company on 21 June 2011. He is also a director of certain subsidiaries of the Group. Mr. Shu had been appointed as the deputy director of the Municipal Office of Changsha, Hunan Province, the executive deputy general manager of Zhuhai Jiaguan Plastic Products Company Limited and the general manager of Yunnan Jinliufu Liancai Trading Company Limited. He is currently the chairman of Shangri-la Winery Company Limited. Mr. Shu is a member of 'Wine Expert Committee under China Foods Association' and obtained a bachelor degree from Hubei University of Technology (formerly known as 'Hubei Light Industry College'). He is experienced in the production and sales of wine products.

Biographies of Directors and Senior Management

Sun Jian Xin
Executive Director

Mr. Sun Jian Xin, aged 44, was appointed as an executive director of the Company on 3 October 2007. He is a director of a subsidiary of the Group. He graduated from the Food Science Department of the Southwest Agricultural University and has 17 years of sales and marketing experience in the PRC. Mr. Sun used to work with Hunan Zhuzhou Hualong Food Company Limited. He currently serves as the vice president of VATS Group and the managing director of Yunnan Jinliufu Winey Company Limited.

Zhang Jian
Executive Director

Mr. Zhang Jian, aged 39, was appointed as an executive director of the Company on 25 February 2004. He currently serves as an executive director of Dongyue Group Limited (stock code: 189) and a director of Macrolink Real Estate Co. Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 000620). Mr. Zhang has many years of experience in the areas of investment banking and corporate finance. He holds a bachelor degree in law and economics from Jiangxi University of Finance and Economics and a master degree in business administration from The Chinese University of Hong Kong.

Ng Kwong Chue, Paul
Executive Director, Company Secretary and Chief Investment Officer

Mr. Ng Kwong Chue, Paul, aged 42, was appointed as an executive director of the Company on 28 March 2011. Mr. Ng is the authorized representative, company secretary and chief investment officer of the Company. He is also a director of a subsidiary of the Group. He holds a bachelor degree in Commerce from the University of Melbourne. He is a member of each of CPA Australia, Hong Kong Institute of Certified Public Accountants, Hong Kong Securities and Investment Institute and Hong Kong Investor Relations Association, and a fellow of The Hong Kong Institute of Directors. He has years of experience in audit, taxation and corporate finance gained from international accounting firms. He was the co-founder of China Innovation Investment Limited (stock code: 1217) ("CII"). Mr. Ng had also acted as an executive director of CII from April 2003 to May 2006 and was re-designated as a non-executive director of CII since May 2006. In 2008, Mr Ng was elected as the honourable president for Macao ASEAN International Chamber of Commerce and the honourable chairman for Fujian Province Shishi Yuhu Care Charity Association.

Ting Leung Huel, Stephen
Independent Non-Executive Director

Mr. Ting Leung Huel, Stephen, MH, FCCA, FCPA (Practising), ACA, CTA (HK), FHKIoD, aged 59, was appointed as an independent non-executive director of the Company on 25 February 2004. He is the chairman of each of the audit committee of the Company (the "Audit Committee") and the Remuneration Committee, and a member of the Nomination Committee. Mr. Ting is an accountant in public practice and has more than 30 years of experience in this field. Currently, he is the managing partner of Messrs Ting Ho Kwan & Chan, Certified Public Accountants. He is a member of the 9th, 10th and 11th Chinese People's Political Consultative Conference, Fujian. He is now a non-executive director of Chow Sang Sang Holdings International Limited (stock code: 116) and an independent non-executive director of six listed companies, namely Tongda Group Holdings Limited (stock code: 698), Tong Ren Tang Technologies Co. Ltd. (stock code: 1666), Computer and Technologies Holdings Limited (stock code: 46), Texhong Textile Group Limited (stock code: 2678), China SCE Property Holdings Limited (stock code: 1966) and Dongyue Group Limited (stock code: 189). He was also an independent non-executive director of MMG Limited (formerly known as "Minmetals Resources Limited" in English (stock code: 1208)) from June 2002 to November 2011.

Biographies of Directors and Senior Management

E Meng
Independent Non-Executive Director

Mr. E Meng, aged 54, was appointed as an independent non-executive director of the Company on 27 September 2004. He is a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. E graduated from China Science and Technology University with a master degree in engineering. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. Mr. E has extensive experience in economics, finance and enterprise management. 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 serves as the chairman and executive director of Beijing Development (Hong Kong) Limited (stock code: 154), an executive director and the executive vice president of Beijing Enterprises Holdings Limited (stock code: 392), an executive director of Beijing Enterprises Water Group Limited (stock code: 371) and the vice general manager of Beijing Enterprises Group Company Limited.

Cao Kuangyu
Independent Non-Executive Director

Mr. Cao Kuangyu, aged 62, was appointed as an independent non-executive director of the Company on 25 February 2004. He is a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. He holds a bachelor degree in economics from the University of Hunan and obtained a master degree in financial management from the University of London. Mr. Cao has extensive experience in the area of banking and finance. He worked in Bank of China, Hunan Province branch for the period from July 1981 to February 1996 and his last position was the deputy president of the branch. For the period from February 1996 to September 1999, Mr. Cao was the deputy general manager of Bank of China, Singapore branch. For the period from September 1999 to September 2003, he was the president of China Citic Bank, Shenzhen branch. He was then the managing director of the investment banking division of BOCI Asia Limited from September 2003 to September 2007. Mr. Cao is currently the independent non-executive director of Huili Resources (Group) Limited (stock code: 1303), Dongwu Cement International Limited (stock code: 695) and Junefield Department Store Group Limited (stock code: 758). He served as a non-executive director of Continental Holdings Limited (stock code: 513) from April 2010 to December 2011, and was the independent non-executive director of Simsen International Corporation Limited (stock code: 993) from April 2010 to June 2010 and King Stone Energy Group Limited (stock code: 663) from February 2010 to April 2012.

Xu Yan Shi
Financial Controller

Mr. Xu Yan Shi, aged 38, was appointed as the Company's financial controller on 26 March 2012. He graduated from Liaoning University and is a PRC certified public accountant and certified public valuer. Mr. Xu had served in VATS Group's internal audit department as the deputy chief for over 4 years. He has years of accounting and audit experience gained from Liaoning Zheng Da Accounting Firm and Beijing Zhong Xing Yu Accounting Firm before joining VATS Group.

DIRECTORS' REPORT

Evolves with challenges

The directors of the Company (the "Directors") present their annual report together with the audited financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its principal subsidiaries are principally engaged in the manufacturing and trading of original brand grape wine, tibetan barley wine and Chinese baijiu. The Group's head office is in Hong Kong and all of its manufacturing and sales operations are located in the PRC.

RESULTS AND APPROPRIATIONS

The Group's results for the year ended 31 December 2012 are set out in the consolidated income statement on page 45.

DIVIDEND

The Board does not recommend payment of final dividend for the year ended 31 December 2012 (2011: Nil).

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 104.

SHARE CAPITAL

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

RESERVES

Details of movements in reserves of the Group and of the Company during the year are set out in note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company did not have any distributable reserves.

PROPERTY, PLANT AND EQUIPMENT

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

DIRECTORS

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

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

Independent non-executive Directors:
Mr. Ting Leung Huel, Stephen
Mr. E Meng
Mr. Cao Kuangyu

In accordance with bye-law 87(1) of the Company's bye-laws (the "Bye-laws"), Mr. Wu Xiang Dong, Mr. Shu Shi Ping and Mr. Sun Jian Xin will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. All of the remaining Directors will continue in office.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2012, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Group are set out on pages 17 to 19 of this report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 32 and 39 to the consolidated financial statements, no contract of significance, to which the Company, any of its holding companies or subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, at any time during the year ended 31 December 2012.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Details of the share option schemes of the Company are set out in note 38 to the consolidated financial statements.

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save for Mr. Wu Xiang Dong and Mr. Yan Tao who are both holding shares and directorships in a number of private companies involved in the manufacture, sale and distribution of Chinese baijiu and wine in the PRC, 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 businesses of the Group.

The above-mentioned competing businesses are operated and managed by companies with independent management and administration. In addition, the Board is independent of the boards of the above-mentioned companies carrying on the competing businesses. Accordingly, the Group is capable of carrying on its businesses independent of the competing businesses mentioned above.

DISCLOSURE OF INTERESTS

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

As at 31 December 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 of Hong Kong Limited (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 (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

(i) The Company

Name of Director	Nature of interest	No. of shares held	Position	Approximate percentage of issued share capital
Mr. Wu Xiang Dong *(Note)*	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 ("JLF BVI") which is a company incorporated in the British Virgin Islands and is wholly-owned by Yunnan Jinliufu Investment Company Limited. Yunnan Jinliufu Investment Company Limited is owned as to 80% by VATS Group Limited (a company owned as to 90% by Mr. Wu Xiang Dong and 10% by Mr. Yan Tao) and 20% by Macro-Link Holding Company Limited. Mr. Wu Xiang Dong also owns: (i) 5% equity interests in Macro-Link Holding Company Limited; and (ii) 15% equity interests 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 31 December 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	Mr. Wu Xiang Dong	Beneficial owner	Long	RMB90,000,000	90%
VATS Group Limited	Mr. Yan Tao	Beneficial owner	Long	RMB10,000,000	10%

Save as disclosed above, as at 31 December 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.

DISCLOSURE OF INTERESTS *(Continued)*

(b) Persons who have interests or short positions to be disclosed 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 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 BVI	*1*	Beneficial owner	841,120,169	Long	50.41%
Yunnan Jinliufu Investment Company Limited	*1*	Controlled corporation	841,120,169	Long	50.41%
VATS Group Limited	*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 BVI which is a company incorporated in the British Virgin Islands and is wholly-owned by Yunnan Jinliufu Investment Company Limited. Yunnan Jinliufu Investment Company Limited is owned as to 80% by VATS Group Limited (a company owned as to 90% by Mr. Wu Xiang Dong and 10% by Mr. Yan Tao) and 20% by Macro-Link Holding Company Limited.

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 45% by Mr. Fu Kwan, as to 15% by Mr. Wu Xiang Dong and as to 40% by other four individual shareholders.

Save as disclosed above, as at 31 December 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CONTINUING CONNECTED TRANSACTIONS

In order to widen the Group's product offerings and increase the future sales value and earnings, the master sales agreements and the master purchases agreement were entered into on 6 July 2012 as described in the paragraphs below. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in force from time to time.

Master Sales Agreements

(A) *Shangri-la Agreement*

On 6 July 2012, Shangri-la Winery Company Limited ("Shangri-la Winery") entered into a master sales agreement (the "Shangri-la Agreement") with VATS Chain Liquor Store Management Company Limited ("VATS Chain Store") pursuant to which the Group agreed to sell grape wine and the related services produced and provided by Shangri-la Winery (the "Shangri-la Wines"), on a non-exclusive basis, to VATS Chain Store for a term commencing from 1 July 2012 up to 31 December 2014.

As VATS Chain Store is owned as to 67.08% by Mr. Wu Xiang Dong (who is the chairman of the Board and an executive Director) and 2.76% by VATS Group Limited (which is the ultimate holding company of JLF BVI, a company incorporated in the British Virgin Islands and interested in about 50.41% of the issued share capital of the Company) and thus, is a connected person of the Company.

Under the Shangri-la Agreement, the Shangri-la Wines are sold by the Group to VATS Chain Store at a price which is 20%-25% lower than average wholesale prices as VATS Chain Store has agreed to invest not less than 20% of the total actual annual purchased amount to promote and raise the brand image and market position of Shangri-la brand and shall bear and be solely responsible for all the costs and expenses to be incurred in relation to the sales and distribution of the Shangri-la Wines. The terms of sales will be of no less favourable than terms offered to other independent third parties who are willing to order similar quantity under similar conditions.

The sales caps under the Shangri-la Agreement for the year ended 31 December 2012 was RMB30 million and for each of the two years ending 31 December 2013 and 31 December 2014 is RMB40 million and RMB50 million respectively.

(B) *Jinliufu Agreement*

On 6 July 2012, Shangri-la Winery and Heilongjiang Province YuQuan Winery Company Limited ("YuQuan") entered into a master sales agreement (the "Jinliufu Agreement") with Yunnan Jinliufu Trading Limited ("Yunnan JLF Trading") pursuant to which the Group has agreed to sell the grape wine, tibetan naked barley wine and the related services produced and provided by Shangri-la Winery (the "Shangri-la Products"), the Chinese baijiu and the related services produced and provided by YuQuan (the "Yuquan Products"), on a non-exclusive basis, to Yunnan JLF Trading for a term commencing from 1 July 2012 up to 31 December 2014.

As Yunnan JLF Trading is ultimately owned as to 80% by VATS Group Limited (which is the ultimate holding company of JLF BVI) and thus, is a connected person of the Company.

Under the Jinliufu Agreement, the Shangri-la Products and the Yuquan Products are sold by the Group to Yunnan JLF Trading at a price which is 20%-25% lower than average wholesale prices as Yunnan JLF Trading has agreed to invest not less than 20% of total actual annual purchased amount to promote and raise the brand image and market position of Shangri-la brand and Yuquan brand. In addition, Yunnan JLF Trading shall also bear and be solely responsible for all the costs and expenses to be incurred in relation to the sales and distribution of the Shangri-la Products and Yuquan Products. The terms of sales are of no less favourable than terms offered to other independent third parties who are willing to order similar quantity under similar conditions.

The sales caps under the Jinliufu Agreement for the year ended 31 December 2012 was RMB30 million and for each of the two years ending 31 December 2013 and 31 December 2014 is RMB30 million and RMB35 million respectively.

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Master Purchases Agreement

On 6 July 2012, YuQuan entered into a master purchases agreement ("MPA") with Yunnan Jinliufu Liancai Trading Company Limited ("Jinliufu Liancai"), pursuant to which the Group has agreed to purchase raw materials and the related services, on a non-exclusive basis, from Jinliufu Liancai for a term commencing from 1 July 2012 up to 31 December 2014. The purchase price of such raw materials shall be determined based on normal commercial terms through arm's length negotiation or on terms no less favourable than the terms available from independent third parties for purchase of similar materials and services of comparable quality and quantity.

As Jinliufu Liancai is ultimately owned as to 80% by VATS Group Limited (which is the ultimate holding company of JLF BVI) and thus, is a connected person of the Company.

The purchase caps under the MPA for the year ended 31 December 2012 was RMB12 million and for each of the two years ending 31 December 2013 and 2014 is RMB15 million.

As stated in the circular of the Company dated 6 August 2012, the Shangri-la Agreement and the Jinliufu Agreement have been entered into mainly for the purposes of bringing in additional reliable sales channel, and revising certain terms and the annual sales caps under the master sales agreement dated 27 August 2010 to cater for the continuous growth of the Group. The MPA has been entered into for the purposes of expanding the scope of and revising the annual purchase caps under the master purchase agreement dated 27 August 2010 to reflect the increases in production volume. A special general meeting of the Company was held on 23 August 2012 and approval of each of the Shangri-la Agreement, the Jinliufu Agreement and the MPA were given by the then independent shareholders.

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

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

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

(iii) in accordance with each of the Shangri-la Agreement, the Jinliufu Agreement and the MPA governing them respectively on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has also reviewed and confirmed that the above continuing connected transactions:

(i) have received the approval of the Board;

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

(iii) have been entered into in accordance with each of the Shangri-la Agreement, the Jinliufu Agreement and the MPA governing the transactions respectively; and

(iv) have not exceeded the relevant annual caps under each of the Shangri-la Agreement, the Jinliufu Agreement and the MPA respectively.

CORPORATE GOVERNANCE

Details of the corporate governance code duly adopted by the Company are set out on pages 28 to 42 of this report.

AUDIT COMMITTEE

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

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited financial statements and report of the Group for the year ended 31 December 2012. The Audit Committee was content that the accounting policies of the Group are in accordance with the current best practice in Hong Kong.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

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

AUDITOR

The consolidated financial statements for the year ended 31 December 2012 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting. A resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as the auditor of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting.

The consolidated financial statements for the years ended 31 December 2010 and 2011 were audited by HLB Hodgson Impey Cheng. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited. Save for the above, there has been no other change in the auditors of the Company in any of the preceding three years.

PUBLIC FLOAT

Based on the information which is publicly available to the Company and within the knowledge of the Directors, as at the date of this 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 March 2013

CORPORATE GOVERNANCE REPORT

Commitment to: Accountability, Consistency, Sustainability and Transparency

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2012.

CORPORATE GOVERNANCE CODE

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 attain and maintain high standards of corporate governance to enhancing shareholders' value and safeguarding interests of shareholders and other stakeholders. The Board has implemented corporate governance code appropriate to the conduct and growth of the Group's businesses.

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has made various amendments to the Code on Corporate Governance Practices (the "Former CG Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), and the revised code, namely Corporate Governance Code (the "New CG Code") became effective on 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 31 December 2012.

DIRECTORS' 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 for securities transactions by the Directors (the "Own Code").

Having made specific enquiry to all Directors, all of them confirmed that they have complied with the required standard set out in the Model Code and the Own Code throughout the year ended 31 December 2012.

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 inside 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.

THE BOARD

Responsibilities

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

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

All Directors have full and timely access to all relevant information as well as the advice and services of the Company's company secretary (the "Company Secretary") with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

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

The day-to-day management, administration and operation of the Company are delegated to the chief executive and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions or commitments entered into on the Company's behalf.

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

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.

As at 31 December 2012, the Board comprises the following members:

Name of Director	Position	Date of first appointment to the Board	Date of last re-election as Director
Mr. Wu Xiang Dong	Chairman/Executive Director	25/2/2004	17/5/2010
Mr. Yan Tao	Vice-Chairman/Executive Director	27/4/2009	15/5/2012
Mr. Shu Shi Ping	Chief Executive/Executive Director	27/9/2004	17/5/2010
Mr. Sun Jian Xin	Executive Director	3/10/2007	17/5/2010
Mr. Zhang Jian	Executive Director	25/2/2004	9/5/2011
Mr. Ng Kwong Chue, Paul	Executive Director/Company Secretary/ Chief Investment Officer	28/3/2011	9/5/2011
Mr. Ting Leung Huel, Stephen	Independent non-executive Director	25/2/2004	15/5/2012
Mr. E Meng	Independent non-executive Director	27/9/2004	15/5/2012
Mr. Cao Kuangyu	Independent non-executive Director	25/2/2004	9/5/2011

The composition of the Board is well balanced with each Director having sound knowledge, experience and expertise relevant to the business operations and development of the Group. Biographical details of the Directors are set out in the section of "Biographies of Directors and Senior Management" on pages 17 to 19 of this annual report and the Company's website. The Company has maintained on the Company's website and on the Stock Exchange an updated list of Directors identifying their role and function. Independent non-executive Directors are identified in all corporate communications that disclose the names of Directors.

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

THE BOARD *(Continued)*

Appointment and Re-election

The Company has established formal, considered and transparent procedures for the appointment of new Directors. A person may be appointed as a member of the Board at any time either by the shareholders in general meeting or by the Board upon recommendation by the Nomination Committee. The procedures for shareholders of the Company to propose a person as a Director are accessible from the Company's website.

In compliance with code provision A.4.1 of the New CG Code, non-executive Directors are appointed for a specific term, subject to re-election. Each of the independent non-executive Directors has entered into a formal appointment letter with the Company for a period of three years and subject to retirement by rotation once every three years pursuant to bye-law 87(1) of the Bye-laws.

Code provision A.4.2 of the New CG Code stipulates that any directors appointed to fill a casual vacancy should be subject to election by shareholders at the first 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 Bye-laws and the code provision of the New CG Code, all Directors (including executive Directors and independent non-executive Directors) are subject to retirement by rotation at least once every three years.

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 2012, five Board meetings were held to consider the interim and final results announcements, financial reports, continuing connected transactions and to discuss general operation of the Company. The attendance records of the Directors are set out below:

	Number of attendance
Executive Directors	
Mr. Wu Xiang Dong	5/5
Mr. Yan Tao	5/5
Mr. Shu Shi Ping	4/5
Mr. Sun Jian Xin	4/5
Mr. Zhang Jian	5/5
Mr. Ng Kwong Chue, Paul	5/5
Independent non-executive Directors	
Mr. Ting Leung Huel, Stephen	5/5
Mr. E Meng	4/5
Mr. Cao Kuangyu	5/5

Practices and Conduct of Meetings

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 BOARD *(Continued)*

Board Meetings *(Continued)*

Practices and Conduct of Meetings (Continued)

The chief executive and Company Secretary attend the regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

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

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

Independent Non-executive Directors

The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through serving on Board committees and active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests, all independent non-executive Directors make various contributions to the effective direction of the Company.

During the year ended 31 December 2012, the Board at all times met the requirements under Rules 3.10 and 3.10A of the Listing Rules with at least three independent non-executive Directors, representing one-third of the Board. Among the three independent non-executive Directors, one of them has the appropriate professional qualifications in accounting or related financial management expertise.

The Company has received written annual confirmation from each of its independent non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules. Based on such confirmation, the Company considers all the independent non-executive Directors to be independent.

The independence of each independent Director is reviewed annually by the Nomination Committee based on the criteria set out in the Listing Rules. Particular considerations were given to Mr. Ting Leung Huel, Stephen and Mr. Cao Kuangyu who have served the Board for over 9 years. The Board determined that all the independent non-executive Directors, including Mr. Ting Leung Huel, Stephen, and Mr. Cao Kuangyu, meet the requirements for independence as set out in Rule 3.13 of the Listing Rules and are independent.

Supply of and Access to Information

The management supplied the Board with adequate and sufficient information through financial reports, business and operational reports, in a timely manner, to enable them to make informed decisions.

Commencing from 1 April 2012, the management has provided all Directors with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties.

Directors' and Officers' Liability Insurance and Indemnity

The Company has arranged appropriate directors' and officers' liability insurance for its Directors and officers of the Company in respect of legal action against them arising from the performance of their duties. The insurance policy covers directors' and officers' liability contract, company reimbursement contract, legal representation expenses contract and securities claims contract. Throughout the year ended 31 December 2012, no claim has been made against the Directors and officers of the Company.

THE BOARD *(Continued)*

Continuing Professional Development

Every Director keeps abreast of his responsibility as a Director and of the conduct, business activities and development of the Group. The Company regularly reviews the business development of the Group. The Company Secretary from time to time updates and provides written materials to the Directors, and organizes seminars on the latest development of the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices. During the year ended 31 December 2012, the Company has organized a workshop on the topic of 'Corporate Governance Code (2012 Revision) and Associated Listing Rules Amendments' to the Directors and the Company's management.

Every newly appointed Director will be provided a comprehensive, formal and tailored induction so as to ensure he has appropriate understanding of the Group's business and of his duties and responsibilities under the Listing Rules and the relevant statutory requirements.

The Directors have complied with the code provision A.6.5 of the New CG Code which came into effect on 1 April 2012 on continuous professional development so as to ensure that their contribution to the Board remains informed and relevant. All Directors have participated in appropriate continuous professional development to develop and refresh their knowledge and skills and provided the Company their records of training for the year ended 31 December 2012. The types of training attended by the Directors during the year are as follows:

Directors	**Training Types** [Note]
Executive Directors	
Mr. Wu Xiang Dong	a,b,c,e
Mr. Yan Tao	a,b,c,e
Mr. Shu Shi Ping	c,d,e
Mr. Sun Jian Xin	c,e
Mr. Zhang Jian	a,b
Mr. Ng Kwong Chue, Paul	a,b,d,e
Independent non-executive Directors	
Mr. Ting Leung Huel, Stephen	a,b,d
Mr. E Meng	d,e
Mr. Cao Kuangyu	a,b

Note:

a. Regulatory
b. Corporate Governance
c. Business
d. Finance
e. Managerial

CHAIRMAN AND CHIEF EXECUTIVE

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

The positions of the chairman and the chief executive are currently held by Mr. Wu Xiang Dong and Mr. Shu Shi Ping respectively.

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

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

BOARD COMMITTEES

The Board has established three Board committees, namely the Nomination Committee, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. Details of which are as follows:

	Committee membership		
Name	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**
Mr. Wu Xiang Dong	C	M	
Mr. Yan Tao	M	M	
Mr. Shu Shi Ping			
Mr. Sun Jian Xin			
Mr. Zhang Jian			
Mr. Ng Kwong Chue, Paul			
Mr. Ting Leung Huel, Stephen	M	C	C
Mr. E Meng	M	M	M
Mr. Cao Kuangyu	M	M	M

Note:

C Chairman of the relevant Board committees
M Member of the relevant Board committees

The written terms of reference of each of the Board committees, which set out the committees' major duties, are available at the websites of the Company and the Stock Exchange.

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.

BOARD COMMITTEES *(Continued)*

(1) Nomination Committee

The Nomination Committee was established on 31 July 2005 with adoption of written terms of reference in accordance with the requirements of the Listing Rules and the Former CG Code. The revised terms of reference were approved and adopted by the Board on 26 March 2012 in compliance with the code provisions in the New CG Code. The Nomination Committee comprises two executive Directors namely Mr. Wu Xiang Dong *(Chairman)* and Mr. Yan Tao and three independent non-executive Directors namely Mr. Ting Leung Huel, Stephen, Mr. E Meng and Mr. Cao Kuangyu.

The Nomination Committee is responsible for, among other matters, the following:

- to review the structure, size and composition (including the skills, knowledge, experience and length of service) of the Board annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- to identify and nominate qualified individuals for appointment as additional Director or to fill Board's casual vacancies for the Board's approval as and when the circumstances arise;
- to assess the independence of independent non-executive Directors and to review the independence non-executive Directors' annual confirmations with respect to their independence;
- to regularly review the time required for the Directors to perform their responsibilities and to assess if they are spending enough time to fulfill their duties;
- to make recommendations to the Board on matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and chief executive;
- to ensure that on appointment to the Board, Directors receive a formal letter of appointment setting out clearly the key terms and conditions of their appointment;
- to do such things to enable the Nomination Committee to discharge its duties conferred on it by the Board; and
- to conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or imposed by the Listing Rules or applicable laws.

During the year ended 31 December 2012, the Nomination Committee met once, during which it assessed the independence of each of the independent non-executive Directors and considered the re-election of the retiring Directors at the annual general meeting. The attendance of each member of the Nomination Committee is set out below:

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

BOARD COMMITTEES *(Continued)*

(2) Remuneration Committee

The Remuneration Committee was established on 31 July 2005 with adoption of written terms of reference in accordance with the requirements of the Listing Rules and the Former CG Code. The revised terms of reference were approved and adopted by the Board on 26 March 2012 in compliance with the code provisions in the New CG Code. To comply with the amendments to the Listing Rules which came into effect on 1 April 2012, Mr. Ting Leung Huel, Stephen, an independent non-executive Director, has been appointed as the chairman of the Remuneration Committee in place of Mr. Wu Xiang Dong, the chairman of the Board and an executive Director, with effect from 26 March 2012. Mr. Wu Xiang Dong remained as a member of the Remuneration Committee.

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

The Remuneration Committee is responsible for, among other matters, the following:

- to advise the Board on and to review of the remuneration policy and structure for all remuneration of the Directors and senior management;
- to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
- to make recommendations to the Board on the remuneration of non-executive Directors;
- to approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment;
- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct;
- to address and deal with such other matters as may be delegated by the Board from time to time; and
- to ensure that no Director or any of his associates is involved in deciding his own remuneration.

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; and
- Remuneration should reflect performance and responsibility with a view to attracting, 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.

BOARD COMMITTEES *(Continued)*

(2) Remuneration Committee *(Continued)*

Remuneration Paid to Members of Key Management

Details of remuneration paid to members of key management (including all Directors and senior management as set out in the section of "Biographies of Directors and Senior Management" of this annual report) fell within the following bands:

Remuneration bands	Number of individuals
Up to HK$1,000,000	9
HK$1,000,001 to HK$1,500,000	1

Particulars relating to Directors' emoluments and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 11 to the consolidated financial statements as set out on pages 79 to 80 of this annual report.

During the year ended 31 December 2012, the Remuneration Committee met once, during which it conducted the annual review for the remuneration packages of the Directors and senior management. The attendance of each member of the Remuneration Committee is set out as below:

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

(3) Audit Committee

The Audit Committee was established on 31 July 2005 with the adoption of written terms of reference in accordance with the requirements of the Listing Rules and the Former CG Code. On 26 March 2012, its terms of reference were revised in compliance with the code provisions in the New CG Code. The Audit Committee comprises three independent non-executive Directors namely Mr. Ting Leung Huel, Stephen *(Chairman)*, Mr. E Meng and Mr. Cao Kuangyu with Mr. Ting Leung Huel, Stephen who possesses the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee include, among other matters, the following:

(a) to review the financial statements and consider any significant or unusual items raised by the financial controller, compliance officer, internal auditor (if any) or external auditor before submission to the Board;

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

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

BOARD COMMITTEES *(Continued)*

(3) Audit Committee *(Continued)*

During the year ended 31 December 2012, the Audit Committee held two meetings with the external auditor. The Audit Committee reviewed the interim and annual financial statements of the Group, considered the independence and re-appointment of the external auditor and reviewed the financial reporting system, compliance procedures and internal control system of the Group. The attendance records of the Audit Committee members are set out below:

Name of members	Number of attendance
Mr. Ting Leung Huel, Stephen	2/2
Mr. E Meng	1/2
Mr. Cao Kuangyu	2/2

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

The Company's annual results for the year ended 31 December 2012 has been reviewed by the Audit Committee.

(4) Corporate Governance Functions

The Board is responsible for performing the corporate governance functions as set out in the code provision D.3.1 of the New CG Code including, among other matters:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees; and
- to review the Company's compliance with the New CG Code and disclosure in the Corporate Governance Report.

During the year ended 31 December 2012, the Board has reviewed the Company's corporate governance practices and the Company's compliance with the Former CG Code and the New CG Code.

AUDITORS' REMUNERATION

For the year ended 31 December 2012, the remuneration of the Company's external auditor, HLB Hodgson Impey Cheng Limited, and the nature of services are set out as follows:

Type of services	Fee paid/payable
Audit services:	
Audit of annual financial statements	HK$1,000,000
Non-audit services:	
Review of continuing connected transactions	HK$200,000

In addition, fees of approximately HK$114,000 were paid to the PRC auditors for the auditing of the PRC subsidiaries of the Group.

The Audit Committee reviewed the independence of HLB Hodgson Impey Cheng Limited and has concluded that it is satisfied with the professional performance, and therefore recommended to the Board that HLB Hodgson Impey Cheng Limited be re-appointed as the Company's auditor in the forthcoming annual general meeting.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the financial statement of the Company for the year ended 31 December 2012 and presenting a balanced, clear and comprehensive assessment for the Group's performance, position and prospects.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of Messrs. HLB Hodgson Impey Cheng Limited, being the external auditor of the Company, reporting their responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 43 to 44.

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 Former CG Code.

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

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

All internal control systems, no matter how well designed, have inherent limitations due to human 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 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 the internal control procedures are being followed. The effectiveness of the Company's internal control is assessed based on the criteria set forth by the VATS Group's Internal Control – Integrated Framework.

INTERNAL CONTROL *(Continued)*

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 2012, the Company's internal control over financial reporting is effective. Management's assessment of the effectiveness of the Company's internal control has been reviewed by the Audit Committee which agreed on management's assessment. 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.

COMPANY SECRETARY

Mr. Ng Kwong Chue, Paul, being the Company Secretary and the executive Director, plays an important role in supporting the Board by ensuring good information flow within the Board and that the Board policy and procedures are followed.

The Company Secretary reports to the Board through the chairman and chief executive. All Directors may access to the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters.

During the year ended 31 December 2012, Mr. Ng Kwong Chue, Paul has undertaken 60 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules. Details of his training are set out in the section of 'Continuing Professional Development' on page 33 of this annual report.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Board recognizes the importance of effective communication with the shareholders and investors. The Company communicates with its shareholders and investors through various channels including publication of interim and annual reports, announcements, circulars and publications which are all available on the websites of the Stock Exchange and the Company. Corporate communications issued by the Company have been provided to the shareholders in both English and Chinese versions for better understanding.

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 or email at investor@jlfinvestment.com for any inquiries.

In order to provide shareholders with information about the Company, to enable them to engage actively with the Company and exercise their rights as shareholders in an informed manner, the Company has a 'shareholders communication policy' which is available on the Company's website. The Board shall review the policy regularly to ensure its effectiveness and efficiency.

At general meetings, each substantially separate issue has been considered by a separate resolution, including the election of individual Directors. The chairman of the Board, chairmen of the respective Board committees, senior management and the external auditor are normally available to answer questions at the shareholders' meetings.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS *(Continued)*

During the year, two general meetings were held. The 2012 annual general meeting was held on 15 May 2012 and a special general meeting was held on 23 August 2012. The attendance records of the Directors are set out below:

Directors	**Number of attendance**
Executive Directors:	
Mr. Wu Xiang Dong	1/2
Mr. Yan Tao	0/2
Mr. Shu Shi Ping	1/2
Mr. Sun Jian Xin	0/2
Mr. Zhang Jian	0/2
Mr. Ng Kwong Chue, Paul	2/2
Independent non-executive Directors:	
Mr. Ting Leung Huel, Stephen	2/2
Mr. E Meng	0/2
Mr. Cao Kuangyu	0/2

Amendments to the Bye-laws

During the year under review, the Company has made various amendments to the Bye-laws so as to bring the constitution of the Company in line with (i) amendments made to the Listing Rules which came into effect on 1 January 2012 and 1 April 2012; and (ii) amendments of the Companies Act 1981 of Bermuda (collectively the "Amendments"). The Amendments were approved and a set of new Bye-laws consolidating the Amendments and all previous amendments was adopted by the shareholders at the annual general meeting held on 15 May 2012. The Amendments included the following:

- to require a physical board meeting in lieu of written resolutions where a Director or substantial shareholder has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material;

- the 5% interests exemption for considering whether a Director has a material interest which would prevent him from forming part of the quorum or voting at Board meeting is removed;

- to allow the chairman at a general meeting to exempt procedural and administrative matters from voting by poll;

- subject to compliance with the rules and regulations of the designated stock exchange and any other relevant regulatory authority, to allow the Company to give financial assistance for the purpose of purchase of its shares; and

- to simplify the solvency test by deleting references to the Company's issued share capital and share premium accounts when considering whether dividends shall be paid or distribution made out of contributed surplus.

A consolidated version of the Memorandum of Association and the Bye-laws are available on both the websites of the Company and of the Stock Exchange.

SHAREHOLDERS' RIGHTS

Procedure for shareholders to convene a special general meeting

Pursuant to bye-law 58 of the Bye-laws, shareholder(s) holding at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself/themselves may do so in the same manner.

Procedure for shareholders to put forward proposals at general meetings

Shareholders can submit a requisition to move a resolution at general meetings pursuant to the Companies Act 1981 of Bermuda. The number of shareholders necessary for a requisition shall be:

- either representing not less than one-twentieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at the meeting; or

- not less than 100 shareholders.

The written requisitions must:

- state the resolution, with a statement not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the meeting;

- be signed by all the requisitionists (may consist of several documents in like form each signed by one or more requisitionists); and

- be deposited at the head office of the Company in Hong Kong for the attention of the Company Secretary not less than six weeks before the meeting in case of a requisitionist requiring notice of a resolution and not less than one week before the meeting in case of any other requisition.

With respect to proposing a person for election as a Director, the procedures can be accessible on the Company's website.

Shareholders enquiries to the Board

Shareholders may send their enquiries to the Board in writing with contact details, including registered name, address, telephone number and email address, to the Company Secretary as follows:

Address:	Suite 1905B, 19/F., Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong
Telephone:	(852) 2591 9919
Fax:	(852) 2575 0999
Email:	investor@jlfinvestment.com

Any matter in relation to the transfer of shares, change of name or address, loss of share certificates should be addressed to the Company's Hong Kong branch share registrar and transfer agent as follows:

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

Tel:	(852) 2980 1333
Fax:	(852) 2861 1465

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT AUDITOR'S 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 45 to 103, which comprise the consolidated and Company statements of financial position as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, 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 Limited
Chartered Accountants
Certified Public Accountants

Hon Koon Fai, Alex
Practising Certificate Number: P05029

Hong Kong, 27 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Turnover	7	**366,208**	400,272
Cost of sales		**(179,771)**	(182,524)
Gross profit		**186,437**	217,748
Other revenue	9	**19,249**	14,391
Selling and distribution expenses		**(103,535)**	(98,355)
Administrative expenses		**(56,177)**	(49,661)
Profit from operating activities	10	**45,974**	84,123
Finance costs	12	**(4,277)**	(4,833)
Profit before taxation		**41,697**	79,290
Taxation	13	**(18,346)**	(21,449)
Profit for the year		**23,351**	57,841
Attributable to:			
Owners of the Company		**9,832**	45,585
Non-controlling interests		**13,519**	12,256
		23,351	57,841
Earnings per share attributable to owners of the Company			
Basic and diluted	16	**HK0.59 cent**	HK2.73 cents

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Profit for the year	**23,351**	57,841
Other comprehensive income		
Exchange differences arising from translation of foreign operations	**14,100**	17,057
Total comprehensive income for the year	**37,451**	74,898
Attributable to:		
Owners of the Company	**22,485**	61,109
Non-controlling interests	**14,966**	13,789
	37,451	74,898

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS			
Non-current assets			
Land use rights	17	**29,147**	29,138
Property, plant and equipment	18	**288,113**	233,576
Intangible assets	19	**36,117**	35,591
Available-for-sale financial assets	20	**1,800**	1,751
Goodwill	21	**177,959**	177,959
		533,136	478,015
Current assets			
Inventories	23	**301,230**	241,189
Trade and bills receivables	24	**40,130**	33,775
Prepayments, deposits and other receivables	25	**37,995**	35,648
Cash and cash equivalents	26	**132,877**	189,848
		512,232	500,460
Total assets		**1,045,368**	978,475

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	27	**16,685**	16,685
Reserves		**647,870**	625,385
		664,555	642,070
Non-controlling interests		**98,082**	83,116
Total equity		**762,637**	725,186
LIABILITIES			
Non-current liabilities			
Bank borrowings – due after one year	33	**–**	24,430
Deferred tax liabilities	29	**22,136**	21,509
		22,136	45,939
Current liabilities			
Trade payables	30	**51,913**	43,790
Accruals, deposits received and other payables	31	**126,585**	93,919
Amounts due to related parties	32	**8,561**	13,398
Bank borrowings – due within one year	33	**62,795**	40,309
Tax payable		**10,741**	15,934
		260,595	207,350
Total liabilities		**282,731**	253,289
Total equity and liabilities		**1,045,368**	978,475
Net current assets		**251,637**	293,110
Total assets less current liabilities		**784,773**	771,125

Approved by the Board of Directors on 27 March 2013 and signed on its behalf by:

Wu Xiang Dong
Director

Yan Tao
Director

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

Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	18	**71**	241
Interests in subsidiaries	22	**393,250**	392,585
		393,321	392,826
Current assets			
Prepayments and deposits	25	**965**	898
Cash and cash equivalents	26	**21,213**	31,277
		22,178	32,175
Total assets		**415,499**	425,001
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	27	**16,685**	16,685
Reserves	28	**396,131**	404,736
		412,816	421,421
LIABILITIES			
Current liabilities			
Accruals and other payables	31	**2,683**	3,580
		2,683	3,580
Total equity and liabilities		**415,499**	425,001
Net current assets		**19,495**	28,595
Total assets less current liabilities		**412,816**	421,421

Approved by the Board of Directors on 27 March 2013 and signed on its behalf by:

Wu Xiang Dong
Director

Yan Tao
Director

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

Consolidated Statement of Changes in Equity

As at 31 December 2012

	Attributable to owners of the Company								Attributable to non-controlling interests	
	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Statutory reserve HK$'000	Other reserve HK$'000	Retained earnings HK$'000	Proposed final dividend HK$'000	Sub-total HK$'000	HK$'000	Total HK'000
At 1 January 2011	16,685	409,918	35,794	21,941	356	96,267	16,685	597,646	69,327	666,973
Profit for the year	–	–	–	–	–	45,585	–	45,585	12,256	57,841
Other comprehensive income	–	–	15,524	–	–	–	–	15,524	1,533	17,057
Total comprehensive income for the year	–	–	15,524	–	–	45,585	–	61,109	13,789	74,898
Final dividend paid	–	–	–	–	–	–	(16,685)	(16,685)	–	(16,685)
Appropriation to the PRC statutory reserve	–	–	–	8,639	–	(8,639)	–	–	–	–
At 31 December 2011 and 1 January 2012	**16,685**	**409,918**	**51,318**	**30,580**	**356**	**133,213**	**–**	**642,070**	**83,116**	**725,186**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**9,832**	**–**	**9,832**	**13,519**	**23,351**
Other comprehensive income	**–**	**–**	**12,653**	**–**	**–**	**–**	**–**	**12,653**	**1,447**	**14,100**
Total comprehensive Income for the year	**–**	**–**	**12,653**	**–**	**–**	**9,832**	**–**	**22,485**	**14,966**	**37,451**
Appropriation to the PRC statutory reserve	**–**	**–**	**–**	**3,061**	**–**	**(3,061)**	**–**	**–**	**–**	**–**
At 31 December 2012	**16,685**	**409,918***	**63,971***	**33,641***	**356***	**139,984***	**–**	**664,555**	**98,082**	**762,637**

* These reserve accounts comprise the consolidated reserve of approximately HK$647,870,000 (2011: HK$625,385,000) in the consolidated statement of financial position.

SHARE PREMIUM

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

TRANSLATION RESERVE

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

STATUTORY RESERVE

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

OTHER RESERVE

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

Consolidated Statement of Cash Flows

	2012 HK$'000	2011 HK$'000
Cash flows from operating activities		
Profit before taxation	**41,697**	79,290
Adjustments for:		
Bank Interest income	**(711)**	(1,428)
Provision on impairment loss on trade and other receivables	**1,373**	500
Depreciation of property, plant and equipment	**16,661**	13,789
Amortisation of intangible assets and land use rights	**1,289**	1,571
Loss on disposal of property, plant and equipment	**159**	131
Interest expenses	**4,120**	4,752
Operating cash flows before movements in working capital	**64,588**	98,605
Increase in trade receivables, prepayments, deposits and other receivables	**(8,504)**	(15,055)
Increase in inventories	**(53,247)**	(82,663)
Decrease in amounts due to related parties	**(5,214)**	(8,907)
Increase in trade payables, accruals, deposits received and other payables	**36,909**	49,660
Cash generated from operations	**34,532**	41,640
Taxation paid	**(23,988)**	(15,705)
Interest paid	**(4,120)**	(4,752)
Net cash from operating activities	**6,424**	21,183
Cash flows from investing activities		
Bank Interest received	**711**	1,428
Purchase of available-for-sale financial assets	**–**	(1,751)
Purchase of property, plant and equipment	**(64,785)**	(69,490)
Net cash used in investing activities	**(64,074)**	(69,813)
Cash flows from financing activities		
Dividend paid	**–**	(16,685)
Proceeds from bank borrowings	**37,677**	24,430
Repayment of bank borrowings	**(41,445)**	(45,195)
Net cash used in financing activities	**(3,768)**	(37,450)
Net decrease in cash and cash equivalents	**(61,418)**	(86,080)
Cash and cash equivalents at the beginning of the year	**189,848**	263,426
Effects of exchange rate changes on the balance of cash held in foreign currency	**4,447**	12,502
Cash and cash equivalents at the end of the year	**132,877**	189,848
Analysis of the balances of cash and cash equivalents		
Bank balances and Cash	**132,877**	189,848

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 issued shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is VATS Group Limited, a company incorporated in the PRC.

The 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 engaged in production and distribution of wine and Chinese baijiu.

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

(i) New and amended standards adopted by the Group

In the current year, the Group has applied the following amendments to Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2012:

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

The adoption of the new and revised HKFRSs in the current year has no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

(ii) New standards, amendments and interpretations have been issued but are not yet effective for the financial year beginning on 1 January 2012

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

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009 – 2011 Cycle, except for the Amendments HKAS 1[2]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Dislcosures[4]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[3]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[1]
HKAS 32 (Amendments)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

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

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

(ii) New standards, amendments and interpretations have been issued but are not yet effective for the financial year beginning on 1 January 2012 *(Continued)*

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

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

(ii) New standards, amendments and interpretations have been issued but are not yet effective for the financial year beginning on 1 January 2012 *(Continued)*

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below:

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK (SIC)-Int 12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any material impact on the Group's consolidated financial statements.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided all of these standards are applied at the same time.

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

(ii) New standards, amendments and interpretations have been issued but are not yet effective for the financial year beginning on 1 January 2012 *(Continued)*

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

Amendments to HKFRS 7 and HKAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

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

(ii) New standards, amendments and interpretations have been issued but are not yet effective for the financial year beginning on 1 January 2012 *(Continued)*

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 *Property, Plant and Equipment* and the amendments to HKAS 32 *Financial Instruments: Presentation*.

Amendments to HKAS 16

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise.

Amendments to HKAS 32

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 *Income Taxes*.

Save as disclosed above, the Group is in the process of making an assessment of the impact of the other new and revised standards, amendments and interpretations upon initial application but is not yet in a position to state whether these new and revised standards, amendments and interpretations would have significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

(b) Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

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

Any contingent consideration to be transferred by the acquirer is recognised at acquisition–date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

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

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

(b) Basis of consolidation *(Continued)*

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

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

(c) Goodwill

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

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

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

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

(d) Revenue recognition

Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue from sale of goods is recognised on the transfer of risks and rewards of ownership, which generally considers with the time when the goods are delivered and title has passed.

Service income is recognised by reference to the stage of completion of the transaction at the end of the reporting period.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Subsidy income, when there is reasonable assurance that the subsidy will be received and attaching conditions have been complied with.

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

(e) Government grants

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

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

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation or amortisation and any impairment losses.

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% – 33⅓%

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)*

(g) Financial instruments

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

Financial assets

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

Effective interest method

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

Available-for-sale financial assets

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

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

Loans and receivables

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

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

(g) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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

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

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

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

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

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

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

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

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

(g) Financial instruments *(Continued)*

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.

Interest expense is recognised on an effective interest basis.

Bank and other borrowings

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

Other financial liabilities

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

Equity instruments

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

Derecognition

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

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

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sale proceeds less estimated costs 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)*

(i) Taxation

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit 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 is realised, based on tax rates (and tax laws) that have been enacted or substantially enacted at the end of the reporting period. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(j) Land use rights

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

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

(k) Foreign currencies

(i) Functional and presentation currency

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

(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's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities of the Group's foreign operations are translated at the rate of exchange prevailing at the end of each reporting period;

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

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

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

(l) Employee benefits

(i) Retirement benefits scheme

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

(ii) Share-based compensation

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the consolidated income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, and a corresponding adjustment to equity.

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

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement.

(n) Intangible assets

Farmland development

Farmland development represents deferred expenditures including farmland expenditures and cost for preparation works. Farmland development has been capitalised as assets where the costs are identifiable and the ability to use the asset will generate probable future economic benefits.

Farmland development are amortised over the period in which the related benefits are expected to be realised. Farmland development is reviewed annually to determine the amount, if any, that is no longer recoverable and any such amount is written off to the consolidated income statement in the year of determination.

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

(n) Intangible assets *(Continued)*

Trademarks

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

Trademarks with definite useful lives are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives.

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

Technical know-how

Technical know-how is recognised only if it is anticipated that the technical know-how incurred on a clear-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life of 5 years.

(o) Impairment of assets other than goodwill

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

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

(p) Cash and cash equivalents

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

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

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

(q) Borrowings

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

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

(r) Borrowing costs

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

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

(s) Provision

A provision is recognised when a present legal or constructive obligation has arisen 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 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.

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

(u) Operating leases

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

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

(v) Operating segment

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

(w) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT

4.1 Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets		
Available-for-sale financial assets	**1,800**	1,751
Loan and receivables (including cash and cash equivalents)	**182,084**	233,671
Financial liabilities		
Amortised cost	**169,421**	172,258

4.2 Financial risk factors

The Group is exposed to a variety of financial risks such as market risk (including foreign exchange 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 meets periodically to analyse and formulate strategies to manage the Group's exposure to these financial risks. The Group's exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purpose.

Market risk

(a) Foreign exchange risk

The Group mainly operates in Hong Kong and the PRC and is exposed to foreign exchange risk arising from fluctuation in Renminbi ("RMB"). Foreign exchange 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 exchange rates. The sensitivity analysis mainly includes the Group's trade and bills receivables, prepayments, deposits and other receivables, amounts due from/to related parties, bank balances and bank borrowings, trade payables and accruals and deposits received denominated in RMB. Where RMB strengthens against Hong Kong dollar by 5%, the Group's equity for the year would increase by approximately HK$571,000 (2011: HK$ 3,049,000), while a 5% weakening of RMB against Hong Kong dollar, there would be an equal and opposite impact on the equity and balances would be negative.

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.2 Financial risk factors *(Continued)*

***Market risk** (Continued)*

(b) Cash flow and fair value interest rate risks

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

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

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

If interest rates had been increased or decreased by 50 basis point with all other variables held constant, the Group's profit would decrease or increase by approximately HK$314,000 (2011:HK$ 324,000).

Credit risk

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

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

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

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

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.2 Financial risk factors *(Continued)*

Liquidity risk

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

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

	Weighted average effective interest rate	Less than 1 year HK$'000	Between 1 and 5 years HK$'000	Over 5 years HK$'000	Total un-discounted cash flow HK$'000	Total carrying amounts HK$'000
At 31 December 2012						
Trade payables	**–**	**51,913**	**–**	**–**	**51,913**	**51,913**
Accruals and other payables	**–**	**46,152**	**–**	**–**	**46,152**	**46,152**
Amounts due to related parties	**–**	**8,561**	**–**	**–**	**8,561**	**8,561**
Bank borrowings	**6.63%**	**66,958**	**–**	**–**	**66,958**	**62,795**
		173,584	**–**	**–**	**173,584**	**169,421**
At 31 December 2011						
Trade payables	–	43,790	–	–	43,790	43,790
Accruals and other payables	–	50,331	–	–	50,331	50,331
Amounts due to related parties	–	13,398	–	–	13,398	13,398
Bank borrowings	7.51%	40,309	28,237	–	68,546	64,739
		147,828	28,237	–	176,065	172,258

4.3 Fair value estimation

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

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

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

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. The Group's overall strategy remains unchanged from 2011.

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

The gearing ratios as at 31 December 2012 and 2011 were as follows:

	2012 **HK$'000**	2011 HK$'000
Total borrowings	**62,795**	64,739
Less: Bank balances and cash	**(132,877)**	(189,848)
	(70,082)	(125,109)
Total equity	**762,637**	725,186
Gearing ratio*	**N/A**	N/A

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

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated by the Group 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. The estimates and assumptions that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

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

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

(b) Impairment of intangible assets

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

(c) Impairment of available-for-sale financial assets

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

(d) Trade receivables

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

(e) Useful lives of property, plant and equipment

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

(f) Useful lives of intangible assets

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

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

(g) Impairment of non-current assets

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

(h) Allowance of inventories

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

(i) Current taxation and deferred taxation

The Group is subject to corporate income tax in the PRC. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. 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

	2012 **HK$'000**	2011 HK$'000
Production and distribution of wine	**194,213**	227,734
Production and distribution of Chinese baijiu	**171,995**	172,538
	366,208	400,272

8. SEGMENT INFORMATION

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 operation of the Group that management uses to make decisions.

8. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

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

	Chinese baijiu		Wine		Total	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Segment revenue						
Revenue from external customers	**171,995**	172,538	**194,213**	227,734	**366,208**	400,272
Segment results	**55,446**	42,584	**(202)**	52,702	**55,244**	95,286
Unallocated corporate income					**716**	549
Unallocated corporate expenses					**(9,986)**	(11,712)
Finance costs					**(4,277)**	(4,833)
Profit before taxation					**41,697**	79,290
Taxation					**(18,346)**	(21,449)
Profit for the year					**23,351**	57,841

The accounting policies of the reportable segments are the same as the Group's accounting policies. Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment results represent the profits earned by each segment without allocation of central administration costs including directors' emoluments, finance costs and taxation. This is the measure reported to the Chief Operating Decision Maker for the purpose of resource allocation and assessment of segment performance.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments as at the end of the current and prior years:

	Chinese baijiu		Wine		Total	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Segment assets	**334,418**	319,175	**688,220**	626,404	**1,022,638**	945,579
Unallocated					**22,730**	32,896
					1,045,368	978,475
Segment liabilities	**41,027**	56,174	**153,347**	107,287	**194,374**	163,461
Unallocated					**88,357**	89,828
					282,731	253,289

For the purpose of monitoring segment performance and allocating resources between segments, all assets are allocated to reportable segments except for certain financial assets which are managed on a group basis. Goodwill is allocated to reportable segment as described in note 21 below; and all liabilities are allocated to reportable segments except for bank borrowings, deferred tax liabilities and other financial liabilities which are managed on a group basis.

8. SEGMENT INFORMATION *(Continued)*

Other information

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

	Chinese baijiu		Wine		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Additions to non-current assets	**23,182**	19,160	**41,603**	50,330	**64,785**	69,490
Depreciation of property, plant and equipment	**6,074**	4,915	**10,587**	8,874	**16,661**	13,789
Amortisation of land use rights	**581**	565	**231**	225	**812**	790
Amortisation of intangible assets	**–**	–	**477**	781	**477**	781
Provision on impairment loss of trade and other receivables	**942**	–	**431**	500	**1,373**	500
Provision for obsolete inventories	**–**	–	**–**	267	**–**	267

Information about major customers

Included in revenue of approximately HK$37,267,000 and HK$36,659,000 which arose from sales to the Group's largest customers for the wine segment and Chinese baijiu segment respectively. No other single customers contributed 10% or more to the Group's revenue for both 2012 and 2011.

Geographical information

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

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

9. OTHER REVENUE

	2012 HK$'000	2011 HK$'000
Government grants (Note 40)	**16,760**	8,173
Bank interest income	**711**	1,428
Bad debts recovered	**749**	980
Service income (Note 39)	**528**	440
Sales of waste materials	**177**	3,268
Others	**324**	102
	19,249	14,391

10. PROFIT FROM OPERATING ACTIVITIES

	2012 HK$'000	2011 HK$'000
Profit from operating activities has been arrived at after charging:		
Staff costs, including directors' remuneration		
– Salaries and allowances	**47,180**	50,849
– Retirement benefits scheme contributions	**11,948**	7,923
Total staff costs	**59,128**	58,772
Auditors' remuneration	**1,114**	1,128
Amortisation of intangible assets	**477**	781
Amortisation of land use rights	**812**	790
Cost of inventories recognised as expenses	**143,860**	146,180
Provision for obsolete inventories	**–**	267
Provision on impairment loss of trade and other receivables	**1,373**	500
Depreciation	**16,661**	13,789
Research and development costs	**21**	1,110
Minimum lease payments under operating leases:		
Land and building	**2,268**	1,934

11. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

For the year ended 31 December 2012, the emoluments paid or payable to each of the nine (2011: ten) directors were as follows:

For the year ended 31 December 2012 and 2011:–

	Fees		Salaries and other benefits		Performance related incentive payments		Retirement benefits scheme contributions		Total	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Wu Xiang Dong	**–**	–	**1,300**	1,300	**–**	–	**14**	12	**1,314**	1,312
Yan Tao	**–**	–	**100**	100	**–**	–	**–**	–	**100**	100
Shu Shi Ping[1]	**–**	–	**469**	282	**–**	–	**–**	–	**469**	282
Sun Jian Xin	**–**	–	**100**	100	**–**	–	**–**	–	**100**	100
Zhang Jian	**–**	–	**100**	100	**–**	–	**–**	–	**100**	100
Ng Kwong Chue, Paul[2]	**–**	–	**600**	600	**–**	–	**14**	12	**614**	612
Lu Tong[3]	**–**	–	**–**	260	**–**	–	**–**	7	**–**	267
Ting Leung Huel, Stephen	**240**	240	**–**	–	**–**	–	**–**	–	**240**	240
E Meng	**150**	150	**–**	–	**–**	–	**–**	–	**150**	150
Cao Kuangyu	**150**	150	**–**	–	**–**	–	**–**	–	**150**	150
	540	540	**2,669**	2,742	**–**	–	**28**	31	**3,237**	3,313

Notes:

1 Mr. Shu Shi Ping is a chief executive and executive director of the Company.

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

3 Mr. Lu Tong resigned as executive director of the Company on 21 June 2011.

Neither the chief executive nor any of the directors of the Company waived any emoluments for the year ended 31 December 2012 (2011: Nil).

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

(b) Employees' emoluments

The five highest paid individuals for the year included four directors (2011: five directors) whose emoluments are set out in (a) above. For the year ended 31 December 2012, the emolument of the remaining one individual is as follows:

	2012 HK$'000	2011 HK$'000
Salaries, performance related incentive payments and other benefits	**247**	–
Retirement benefits scheme contribution	**12**	–
	259	–

The emolument payable to the remaining one individual with the highest emolument is within the following bands:

	2012 Number of employees	2011 Number of employees
Up to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**–**	–
	1	–

(c) Emoluments of key management

The emoluments of key management (including all directors and senior management whose profiles are included in "Biographies of Directors and Senior Management" of this report) fell within the following bands:

	2012 Number of individuals	2011 Number of individuals
Up to HK$1,000,000	**9**	10
HK$1,000,001 to HK$1,500,000	**1**	1
	10	11

12. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on bank borrowings wholly repayable within five years	**4,120**	4,752
Bank charges	**157**	81
	4,277	4,833

13. TAXATION

	2012 HK$'000	2011 HK$'000
The charge comprises:		
Current tax		
Hong Kong profits tax	**–**	–
The PRC corporate income tax		
– current year	**17,272**	19,573
– under-provision in prior year	**1,074**	1,876
	18,346	21,449

Hong Kong Profits Tax

Hong Kong profits tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year.

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group has no assessable profits derived from Hong Kong for the year (2011: Nil).

As at 31 December 2012, the Group had estimated unused tax losses of approximately HK$64 million (2011: HK$55 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The PRC Corporate Income Tax

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

During the year ended 31 December 2011, Shangri-la Winery Company Limited has successfully applied a tax reduction from Yunnan State Administration of Taxation of the PRC for 3 years starting from 1 January 2011 and the tax rate applied therefore becomes 15% accordingly.

Shangri-la (Qinhuangdao) Winery Limited, a subsidiary of the Company which is a foreign investment enterprise established in the Coastal Open Economics Region of Qinhuangdao, the PRC, 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) Winery Limited has reported its fourth year profit since its establishment.

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

The tax rate applicable for all other subsidiaries established in the PRC is 25% (2011: 25%).

13. TAXATION *(Continued)*

Reconciliation between tax expenses and accounting profit at applicable tax rates

A reconciliation of the tax expenses applicable to profit/(loss) before tax at the statutory rates for the countries in which the Company and the 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 – 2012

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
(Loss)/profit before taxation	(8,622)		50,319		41,697	
Tax at the statutory tax rate	(1,422)	16.5	12,580	25.0	11,158	26.8
Tax effect of tax losses not recognised	1,425	(16.5)	2,287	4.6	3,712	8.5
Tax effect of income not taxable for tax purpose	(31)	0.4	(9,413)	(18.7)	(9,444)	(22.7)
Tax effect of expense not deductible for tax purpose	28	(0.4)	12,856	25.5	12,884	30.9
Effect of tax exemptions granted to the PRC subsidiaries	–	–	(1,038)	(2.1)	(1,038)	(2.1)
Under provision in prior year	–	–	1,074	2.1	1,074	2.6
Tax charge for the year	–	–	18,346	36.4	18,346	44.0

13. TAXATION *(Continued)*

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

The Group – 2011

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

14. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group's consolidated profit for the year of approximately HK$23,351,000 (2011: profit of HK$57,841,000) of which net loss attributable to owners of the Company for the year of approximately HK$8,605,000 (2011: loss of HK$6,650,000) is dealt with in the financial statements of the Company.

15. DIVIDEND

The Board does not recommend payment of final dividend for the year ended 31 December 2012 (2011: Nil).

16. EARNINGS PER SHARE

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

	2012 HK$'000	2011 HK$'000
Profit for the year attributable to the owners of the Company for the purpose of basic and diluted earnings per ordinary share	**9,832**	45,585

	Number of shares 2012	2011
Weighted average number of shares for the purpose of basic and diluted earnings per ordinary share	**1,668,532,146**	1,668,532,146

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

17. LAND USE RIGHTS

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

	2012 HK$'000	2011 HK$'000
Outside Hong Kong, held on:		
Lease period between 10 to 50 years	**29,147**	29,138
Cost:		
As at 1 January	**32,767**	31,559
Exchange alignment	**923**	1,208
As at 31 December	**33,690**	32,767
Accumulated amortisation:		
As at 1 January	**3,629**	2,735
Exchange alignment	**102**	104
Charge for the year	**812**	790
As at 31 December	**4,543**	3,629
Carrying amounts:		
As at 31 December	**29,147**	29,138

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

As at 31 December 2012, the Group's land use rights with carrying amount of approximately HK$4,631,000 (2011: HK$4,706,000) were pledged as security for the Group's bank borrowings.

18. PROPERTY, PLANT AND EQUIPMENT

The Group

	Construction in progress HK$'000	Plant and building HK$'000	Machinery HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:							
At 1 January 2011	36,308	102,537	69,082	981	1,054	6,944	216,906
Exchange alignment	1,389	3,924	2,644	–	40	266	8,263
Transfer to plant and building and machinery	(2,856)	191	2,665	–	–	–	–
Additions	46,096	4,037	16,744	16	306	2,291	69,490
Elimination upon disposals	–	–	(1,333)	–	–	(1,056)	(2,389)
At 31 December 2011 and 1 January 2012	80,937	110,689	89,802	997	1,400	8,445	292,270
Exchange alignment	2,280	3,118	2,529	–	39	238	8,204
Transfer to plant and building and machinery	(17,205)	3,353	13,852	–	–	–	–
Additions	49,106	1,796	10,788	2	1,054	2,039	64,785
Elimination upon disposals	–	(3)	(579)	–	–	(394)	(976)
At 31 December 2012	115,118	118,953	116,392	999	2,493	10,328	364,283
Accumulated depreciation:							
At 1 January 2011	–	17,275	24,000	599	797	2,777	45,448
Exchange alignment	–	661	918	–	30	106	1,715
Charge for the year	–	4,630	8,040	157	93	869	13,789
Elimination upon disposals	–	–	(1,265)	–	–	(993)	(2,258)
At 31 December 2011 and 1 January 2012	–	22,566	31,693	756	920	2,759	58,694
Exchange alignment	–	636	892	–	26	78	1,632
Charge for the year	–	5,054	9,961	172	228	1,246	16,661
Elimination upon disposals	–	(3)	(436)	–	–	(378)	(817)
At 31 December 2012	–	28,253	42,110	928	1,174	3,705	76,170
Carrying amounts:							
At 31 December 2012	**115,118**	**90,700**	**74,282**	**71**	**1,319**	**6,623**	**288,113**
At 31 December 2011	80,937	88,123	58,109	241	480	5,686	233,576

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

The Company

	Office equipment HK$'000
Cost:	
At 1 January 2011	981
Additions	16
At 31 December 2011 and 1 January 2012	997
Additions	2
At 31 December 2012	999
Accumulated depreciation:	
At 1 January 2011	599
Charge for the year	157
At 31 December 2011 and 1 January 2012	756
Charge for the year	172
At 31 December 2012	928
Carrying amounts:	
At 31 December 2012	**71**
At 31 December 2011	241

As at 31 December 2012, the Group's building with carrying amount of approximately HK$39,863,000 and plant and machinery with carrying amount of approximately HK$3,830,000 respectively (2011: building: HK$40,386,000 and plant and machinery: HK$4,589,000) were pledged as security for the Group's bank borrowings.

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

19. INTANGIBLE ASSETS

	Farmland development HK$'000	Technical know-how HK$'000	Trademarks HK$'000	Total HK$'000
Cost:				
At 1 January 2011	14,952	1,794	25,133	41,879
Exchange alignment	572	66	962	1,600
At 31 December 2011 and 1 January 2012	15,524	1,860	26,095	43,479
Exchange alignment	438	52	735	1,225
At 31 December 2012	15,962	1,912	26,830	44,704
Accumulated amortisation:				
At 1 January 2011	4,579	1,794	475	6,848
Exchange alignment	175	66	18	259
Amortisation for the year	702	–	79	781
At 31 December 2011 and 1 January 2012	5,456	1,860	572	7,888
Exchange alignment	154	52	16	222
Amortisation for the year	403	–	74	477
At 31 December 2012	6,013	1,912	662	8,587
Carrying amounts:				
At 31 December 2012	**9,949**	**–**	**26,168**	**36,117**
At 31 December 2011	10,068	–	25,523	35,591

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 follows:–

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

Amortisation expenses of approximately HK$477,000 (2011: HK$781,000) is included in the administrative expenses in the consolidated income statement.

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

19. INTANGIBLE ASSETS *(Continued)*

Impairment test of intangible assets

Trademarks with indefinite useful life with carrying amount of approximately HK$26,168,000 is allocated to the Group's CGU of Chinese baijiu 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 at discount rate of 16.0% per annum (2011: 12.2% per annum). The growth rate used is based on the estimated growth of the Group's CGU of Chinese baijiu business taking into account the industry growth rate, past experience and the medium or long term growth target of Chinese baijiu business. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the CGU's past performance and management's expectations for the market development.

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012 **HK$'000**	2011 HK$'000
Unlisted securities, at cost	**1,800**	1,751

The above unlisted securities represent investments in unlisted equity securities issued by private entity incorporated in the PRC. The investments are stated at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

21. GOODWILL

	HK$'000
Cost:	
At 1 January 2011, 31 December 2011 and 31 December 2012	177,959
Impairment:	
At 1 January 2011, 31 December 2011 and 31 December 2012	–
Carrying amounts:	
At 31 December 2012	**177,959**
At 31 December 2011	177,959

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

	2012 HK$'000	2011 HK$'000
Wine business	**130,428**	130,428
Chinese baijiu business	**47,531**	47,531
	177,959	177,959

Impairment test of goodwill

The recoverable amounts of the above CGU of wine business and Chinese baijiu business have 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 at discount rate of 16.0% per annum (2011: 11.2% per annum). The growth rates used are based on the estimated growth rate of each unit taking into account the industry growth rate, past experience and the medium or long term growth target of each CGU. Another key assumption for the value in use calculation 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 was no impairment of goodwill at 31 December 2012 and 2011.

22. INTERESTS IN SUBSIDIARIES

	2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**240,828**	240,828
Amounts due from subsidiaries	**152,422**	151,757
	393,250	392,585

Amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms.

Particulars of the Company's principal subsidiaries as at 31 December 2012 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 2012 %	Directly 2011 %	Indirectly 2012 %	Indirectly 2011 %	Principal activities
Shangri-la Winery Company Limited (Note i) ("Shangri-la Winery")	The PRC	Registered capital RMB56,560,000	**95**	95	**–**	–	Production and distribution of wine and investment holding
Shangri-la (Qinhuangdao) Winery Limited (Note i) ("Shangri-la (Qinhuangdao)")	The PRC	Registered capital RMB40,000,000	**25**	25	**71**	71	Production of winery products
Diqing Shangri-la Economics Development Zone Tinlai Winery Company Limited	The PRC	Registered capital RMB8,200,000	**–**	–	**95**	95	Distribution of winery products
Yunnan Diqing Shangri-la YuQuan Investment Company Limited	The PRC	Registered capital RMB10,000,000	**–**	–	**66**	66	Investment holding
Qinhuangdao Shangri-la Grape Plantation Company Limited	The PRC	Registered capital RMB2,000,000	**–**	–	**96**	96	Purchasing and distribution of grape
Yantai Shangri-la Masang Château Company Limited (formerly known as Yantai Shangri-la Shuijing Cellar Company Limited)	The PRC	Registered capital RMB50,000,000	**–**	–	**100**	100	Production of winery products

22. 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		
			2012 %	2011 %	**2012** %	2011 %	
Diqing Shangri-la Economics Development Zone Zimi Winery Sales Company Limited	The PRC	Registered capital RMB2,000,000	**–**	–	**95**	95	Distribution of winery products
Heilongjiang Province YuQuan Winery Company Limited	The PRC	Registered capital RMB4,060,000	**–**	–	**66**	66	Production of Chinese baijiu products
Harbin City Xinlong Winery Company Limited	The PRC	Registered capital RMB500,000	**–**	–	**66**	66	Distribution of Chinese baijiu products
Harbin City Longcheng Winery Company Limited (formerly known as Acheng City Longcheng Company Limited)	The PRC	Registered capital RMB500,000	**–**	–	**66**	66	Distribution of Chinese baijiu 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 agreements 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.

23. INVENTORIES

	2012 HK$'000	2011 HK$'000
Raw materials	**100,908**	93,905
Work in progress	**76,120**	47,631
Finished goods	**124,202**	99,653
	301,230	241,189

The cost of inventories recognised as expense and included in 'cost of sales' amounted to approximately HK$143,860,000 (2011: HK$146,180,000).

Included in raw materials of approximately HK$56,668,000 (2011: HK$55,723,000) were unprocessed wines.

24. TRADE AND BILLS RECEIVABLES

The Group generally allows an average credit period ranging from 30 to 90 days (2011: 30 to 90 days) to its trade customers which major customers with whom specific terms have agreed.

	2012 HK$'000	2011 HK$'000
Trade and bills receivables	**40,301**	33,981
Less: Impairment loss of trade and bills receivables	**(171)**	(206)
	40,130	33,775

24. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	2012 HK$'000	2011 HK$'000
Within 30 days	**39,844**	30,713
More than 30 days and within 60 days	**266**	462
More than 60 days and within 90 days	**–**	1,614
More than 90 days and within 180 days	**–**	986
More than 180 days and within 360 days	**20**	–
	40,130	33,775
Represented by:		
Receivables from related parties	**12,343**	2,504
Receivables from third parties	**27,787**	31,271
	40,130	33,775

All trade and bills receivables were denominated in RMB.

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

	2012 HK$'000	2011 HK$'000
At 1 January	**206**	115
Exchange alignment	**6**	5
Impairment losses recognised	**171**	86
Bad debt recovered	**(212)**	–
At 31 December	**171**	206

The Group does not hold any collateral over these balances.

24. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	2012 HK$'000	2011 HK$'000
Neither past due nor impaired	40,110	32,789
One to six month past due	20	986
Six months to one year past due	–	–
	40,130	33,775

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

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 loss is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Prepayments	28,918	24,084	575	506
Deposits	1,546	1,516	390	392
Other receivables	21,109	22,607	–	–
	51,573	48,207	965	898
Less: Impairment loss of other receivables	(13,578)	(12,559)	–	–
	37,995	35,648	965	898
Represented by:				
Amount due from third parties	37,995	35,648	965	898
	37,995	35,648	965	898

Included in the Group's "Prepayments" under current assets as at 31 December 2012 were prepayments for procurement of raw materials amounted to approximately HK$11,581,000 (2011: HK$17,107,000), which were paid to the third parties of the Group.

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

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

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**12,559**	12,663	**–**	–
Exchange alignment	**354**	462		
Impairment losses recognised	**1,202**	414	**–**	–
Bad debt recovered	**(537)**	(980)	**–**	–
At 31 December	**13,578**	12,559	**–**	–

Included in the provision for impairment loss above with an aggregate balance of approximately HK$13,578,000 (2011: HK$ 12,559,000) were individual impaired receivables. The individually impaired other receivables related to other debtors that were past due over one year or in default of payments and management assessed that these receivables are generally not recoverable. The Group does not hold any collateral over these balances.

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

26. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**132,877**	189,848	**21,213**	31,277

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$111,185,000 (2011: HK$ 158,092,000). The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

27. SHARE CAPITAL

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

28. RESERVES

(a) The Group

Movements of the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on page 50 of the consolidated financial statements.

(b) The Company

	Share premium	**Accumulated losses**	**Proposed final dividend**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011	409,918	1,468	16,685	428,071
Loss for the year	–	(6,650)	–	(6,650)
Final dividend paid	–	–	(16,685)	(16,685)
At 31 December 2011 and 1 January 2012	409,918	(5,182)	–	404,736
Loss for the year	–	(8,605)	–	(8,605)
At 31 December 2012	**409,918**	**(13,787)**	**–**	**396,131**

The Company did not have any distributable reserves for both years.

29. DEFERRED TAX LIABILITIES

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

	HK$'000
Deferred tax arising from revaluation of assets as follows:	
At 1 January 2011	20,689
Exchange alignment	820
At 31 December 2011 and 1 January 2012	21,509
Exchange alignment	627
At 31 December 2012	**22,136**

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

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

30. TRADE PAYABLES

	2012 **HK$'000**	2011 HK$'000
Within 90 days	**34,497**	33,609
More than 90 days and within 180 days	**7,558**	4,033
More than 180 days and within 360 days	**9,858**	6,148
	51,913	43,790

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

31. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**11,617**	16,988	**2,664**	3,560
Trade deposits received	**80,433**	43,588	**–**	–
Other payables	**34,535**	33,343	**19**	20
	126,585	93,919	**2,683**	3,580

32. AMOUNTS DUE TO RELATED PARTIES

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

33. BANK BORROWINGS

	2012	2011
	HK$'000	HK$'000
Secured bank borrowings comprised of:		
Import loans – secured	**62,795**	48,860
Import loans – unsecured	**–**	15,879
	62,795	64,739
The borrowings are repayable as follows:		
Within one year or on demand	**62,795**	40,309
After one year	**–**	24,430
Total bank borrowings	**62,795**	64,379

Bank borrowings were secured by the followings:

(i) the Group's buildings, plant and machinery and land use rights with carrying amounts of approximately HK$39,863,000 (2011: HK$40,386,000), HK$3,830,000 (2011: HK$4,589,000) and HK$4,631,000 (2011: HK$4,706,000) respectively;

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

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

The Group's borrowings are denominated in RMB only.

The above bank borrowings are at fixed interest rate with maturity period not exceeding one year. The effective interest rate on bank borrowings is 6.63% (2011: 7.51%) per annum.

34. PLEDGE OF ASSETS

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

	2012 HK$'000	2011 HK$'000
Land use rights (Note 17)	4,631	4,706
Buildings (Note 18)	39,863	40,386
Plant and machinery (Note 18)	3,830	4,589
	48,324	49,681

35. OPERATING LEASES COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases with its rented premises falling due as follows:

	2012 HK$'000	2011 HK$'000
Within one year	7,823	2,252
In the second to fifth year inclusive	9,869	6,431
Over five years	50,706	46,831
	68,398	55,514

Operating lease payments represent rentals payable by the Group for certain of its office properties. The average lease term is 1 – 2 years. Rentals are fixed and no arrangement has been entered into for contingent rental payments.

36. CAPITAL COMMITMENTS

	2012 HK$'000	2011 HK$'000
Authorised and contracted for:		
In connection with the construction of winery warehouses and factories	54,443	60,669
In connection with acquisition of plant and equipment	5,957	3,294
	60,400	63,963

37. EMPLOYEE BENEFITS

Retirement Benefit Scheme

The Group operates a defined contribution retirement scheme (the "Defined Contribution Scheme") for certain qualifying employees. The assets of the Defined Contribution Scheme are held separately from those of the Group in funds under the control of trustees.

The retirement benefits cost of the Defined Contribution Scheme charged to the consolidated income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contribution, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the end of the reporting period, there was no significant forfeited contribution which arose upon employees leaving the Defined Contribution Scheme and which was available to reduce the contributions payable in future years.

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

The retirement benefits cost of the MPF Scheme charged to the consolidated 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-managed 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-managed retirement benefit scheme represents for the entire pension obligations payable to retired employees.

38. SHARE OPTION SCHEMES

On 16 September 2002, the Company adopted a share option scheme (the "2002 Scheme") for the primary purpose of providing incentives to its directors and eligible employees. Unless otherwise terminated, the 2002 Scheme would remain valid and effective until 15 September 2012. At the special general meeting held on 23 August 2012, the Company adopted a new share option scheme (the "2012 Scheme") and the 2002 Scheme was terminated on the same date.

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 Company's shares on the date of grant; (ii) the average closing price of the Company's shares 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 or the 2012 Scheme since their respective adoption dates.

39. RELATED PARTY TRANSACTIONS

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

	2012 HK$'000	2011 HK$'000
Sales of goods		
Yunnan Jinliufu Trading Limited ("Yunnan JLF Trading")	**37,267**	6,007
VATS Chain Liquor Store Management Company Limited ("VATS Chain Store")	**31,756**	16,862
Purchases of goods		
Yunnan Jinliufu Winery Company Limited	**–**	61
Yunnan Jinliufu Liancai Trading Company Limited ("Jinliufu Liancai")	**7,454**	6,664
Rendering of services		
VATS Fine Wines & Spirits (H.K.) Company Limited	**528**	440

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

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

Notes:

1. Included in the sales of goods to Yunnan JLF Trading and VATS Chain Store for the year ended 31 December 2012, approximately HK$37,267,000 and HK$31,756,000 respectively were carried out under the revised master sales agreements dated 6 July 2012 and which entered into with each of Yunnan JLF Trading and VATS Chain Store respectively. Details of the transactions were set out under the paragraph of "Continuing Connected Transactions" in the Directors' Report.

2. Included in the purchases of goods from Jinliufu Liancai for the year ended 31 December 2012, approximately HK$7,454,000 was carried out under the revised master purchases agreement dated 6 July 2012 and which entered into between the Group and Jinliufu Liancai. Details of the transaction were set out under the paragraph of "Continuing Connected Transactions" in the Directors' Report.

39. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Key management personnel

Remuneration for key personnel management, including amounts paid to the directors of the Company and certain of the highest paid employees, as disclosed in note 11, is as follows:–

	2012 **HK$'000**	2011 HK$'000
Salaries	**3,209**	3,282
Short-term employee benefit	**28**	31
	3,237	3,313

40. GOVERNMENT GRANTS

During the year, the Group received government grants of approximately HK$16,760,000 (2011: HK$8,173,000) for the contribution towards the business in Yunnan, Qinhuangdao, Yantai and Yuquan, the PRC. The amount has been included in other revenue for the year.

41. EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 December 2012.

42. COMPARATIVE FIGURES

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

43. AUTHORISATION FOR ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 27 March 2013.

Five Years Financial Summary

RESULTS

	For the year ended 31 December				
	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012 HK$'000**
Turnover	201,373	259,650	337,133	400,272	**366,208**
Profit from operating activities	41,670	50,661	66,731	84,123	**45,974**
Finance costs	(4,140)	(4,694)	(4,522)	(4,833)	**(4,277)**
Profit before taxation	37,530	45,968	62,209	79,290	**41,697**
Taxation	(8,307)	(10,707)	(16,621)	(21,449)	**(18,346)**
Profit for the year	29,223	35,261	45,588	57,841	**23,351**
Attributable to:					
Owners of the Company	24,252	29,500	38,314	45,585	**9,832**
Non-controlling interests	4,971	5,761	7,274	12,256	**13,519**
	29,223	35,261	45,588	57,841	**23,351**
Dividend	–	–	16,685	–	**–**

ASSETS AND LIABILITIES

	As at 31 December				
	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012 HK$'000**
Total assets	555,121	640,621	890,559	978,475	**1,045,368**
Total liabilities	(142,590)	(191,770)	(223,586)	(253,289)	**(282,731)**
Non-controlling interests	(54,071)	(59,832)	(69,327)	(83,116)	**(98,082)**
Shareholders' funds	358,460	389,019	597,646	642,070	**664,555**