



金六福 投資有限公司\*

**JLF** Investment Company Limited

(Incorporated in Bermuda with limited liability)

For the period from 1 January 2013 to 30 June 2013

(Stock Code : HK00472)

*The Secret from*

*Shangri-la*

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\* For identification on purpose only



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# 02 Condensed Consolidated Income Statement

JLF INVESTMENT COMPANY LIMITED

The board (the “**Board**”) of directors (the “**Directors**”) of JLF Investment Company Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (together the “**Group**”) for the six months ended 30 June 2013, together with the comparative results for the previous period as follows:

		<b>For the six months ended 30 June</b>	
	<i>Notes</i>	<b>2013 (Unaudited) HK\$'000</b>	2012 (Unaudited) HK\$'000
Turnover	3	<b>144,954</b>	151,450
Cost of sales		<b>(64,027)</b>	(82,424)
Gross profit		<b>80,927</b>	69,026
Other revenue		<b>4,227</b>	8,471
Selling and distribution expenses		<b>(37,751)</b>	(33,500)
Administrative expenses		<b>(22,975)</b>	(20,468)
Profit from operating activities	5	<b>24,428</b>	23,529
Finance costs		<b>(1,963)</b>	(1,752)
Profit before taxation		<b>22,465</b>	21,777
Taxation	6	<b>(7,967)</b>	(7,872)
Profit for the period		<b>14,498</b>	13,905
<b>Attributable to:</b>			
Owners of the Company		<b>11,310</b>	11,018
Non-controlling interests		<b>3,188</b>	2,887
		<b>14,498</b>	13,905
<b>Earnings per share attributable to owners of the Company</b>			
Basic and diluted	7	<b>HK0.68 cent</b>	HK0.66 cent

	For the six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
<b>Profit for the period</b>	<b>14,498</b>	13,905
<b>Other comprehensive income</b> <i>Item that may be reclassified to profit and loss</i>		
Exchange differences arising from translation of foreign operations	<b>8,891</b>	5,169
<b>Total comprehensive income for the period</b>	<b>23,389</b>	19,074
<b>Attributable to:</b>		
Owners of the Company	<b>19,324</b>	15,739
Non-controlling interests	<b>4,065</b>	3,335
	<b>23,389</b>	19,074

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

# 04 Condensed Consolidated Statement of Financial Position

JLF INVESTMENT COMPANY LIMITED

	<i>Notes</i>	<b>As at 30 June 2013 (Unaudited) HK\$'000</b>	As at 31 December 2012 (Audited) HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights		<b>29,147</b>	29,147
Property, plant and equipment	8	<b>299,432</b>	288,113
Intangible assets		<b>36,380</b>	36,117
Available-for-sale financial assets		<b>1,825</b>	1,800
Goodwill		<b>177,959</b>	177,959
		<b>544,743</b>	533,136
<b>Current assets</b>			
Inventories		<b>299,462</b>	301,230
Trade and bills receivables	9	<b>47,097</b>	40,130
Prepayments, deposits and other receivables		<b>47,628</b>	37,995
Cash and cash equivalents		<b>115,444</b>	132,877
		<b>509,631</b>	512,232
<b>Total assets</b>		<b>1,054,374</b>	1,045,368
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	10	<b>16,685</b>	16,685
Reserves		<b>667,194</b>	647,870
		<b>683,879</b>	664,555
Non-controlling interests		<b>102,147</b>	98,082
<b>Total equity</b>		<b>786,026</b>	762,637

	<i>Note</i>	<b>As at 30 June 2013 (Unaudited) HK\$'000</b>	As at 31 December 2012 (Audited) HK\$'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>22,457</b>	22,136
		<b>22,457</b>	22,136
<b>Current liabilities</b>			
Trade payables	11	<b>42,631</b>	51,913
Accruals, deposits received and other payables		<b>123,213</b>	126,585
Amounts due to related parties		<b>4,075</b>	8,561
Bank borrowings – due within one year		<b>63,675</b>	62,795
Tax payables		<b>12,297</b>	10,741
		<b>245,891</b>	260,595
<b>Total liabilities</b>		<b>268,348</b>	282,731
<b>Total equity and liabilities</b>		<b>1,054,374</b>	1,045,368
<b>Net current assets</b>		<b>263,740</b>	251,637
<b>Total assets less current liabilities</b>		<b>808,483</b>	784,773

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

# 06 Condensed Consolidated Statement of Changes in Equity

JLF INVESTMENT COMPANY LIMITED

	Attributable to owners of the Company						Attributable to non-controlling interests		Total
	Share capital	Share premium	Translation reserve	Statutory reserve	Other reserve	Retained earnings	Sub-total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2012 (audited)	16,685	409,918	51,318	30,580	356	133,213	642,070	83,116	725,186
Total comprehensive income for the period	-	-	4,721	-	-	11,018	15,739	3,335	19,074
At 30 June 2012 (unaudited)	16,685	409,918	56,039	30,580	356	144,231	657,809	86,451	744,260
At 1 January 2013 (audited)	16,685	409,918	63,971	33,641	356	139,984	664,555	98,082	762,637
Total comprehensive income for the period	-	-	8,014	-	-	11,310	19,324	4,065	23,389
At 30 June 2013 (unaudited)	16,685	409,918	71,985	33,641	356	151,294	683,879	102,147	786,026



	For the six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Net cash from/(used in) operating activities	11,430	(45,318)
Net cash used in investing activities	(30,421)	(24,029)
Net cash from/(used in) financing activities	–	–
Net decrease in cash and cash equivalents	(18,991)	(69,347)
Cash and cash equivalents at the beginning of the period	132,877	189,848
Effects of exchange rate changes on the balance of cash held in foreign currency	1,558	1,580
Cash and cash equivalents at the end of the period	115,444	122,081
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	115,444	122,081

## 1. CORPORATE INFORMATION

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

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

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

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules (the “**Listing Rules**”) Governing the Listing of Securities on the Stock Exchange and the Hong Kong Accounting Standard (“**HKAS**”) 34: Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

The unaudited condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2012.

The accounting policies are adopted consistently with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2012.

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

During the period under review, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards (“**HKFRS(s)**”) issued by the HKICPA, which are effective for the Group’s accounting periods beginning on 1 January 2013:

HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Transition Guidance
HKFRS 13	Fair Value Measurement
HKAS 1 (Amendments)	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine
Annual Improvements to HKFRSs 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

The adoption of the new and revised HKFRSs has had no significant financial effect on these condensed interim financial statements.

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

# 10 Notes to the Condensed Interim Financial Statements

30 June 2013 (in HK Dollars)

JLF INVESTMENT COMPANY LIMITED

## 3. TURNOVER

	For the six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Production and distribution of wine	81,453	85,351
Production and distribution of Chinese baijiu	63,501	66,099
	<b>144,954</b>	151,450

## 4. 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.

The Group's measurement methods used to determine reporting segment profit or loss remain unchanged from 2012.

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

**4. SEGMENT INFORMATION** (Continued)**(a) Segment revenue and results**

The following is an analysis of the segment revenue and results of the Group for the six months ended 30 June 2013 and 2012:

	Chinese baijiu		Wine		Total	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Segment revenue						
Revenue from external customers	<b>63,501</b>	66,099	<b>81,453</b>	85,351	<b>144,954</b>	151,450
Segment results	<b>11,139</b>	11,842	<b>17,829</b>	15,845	<b>28,968</b>	27,687
Unallocated corporate income					<b>438</b>	337
Unallocated corporate expenses					<b>(4,978)</b>	(4,495)
Finance costs					<b>(1,963)</b>	(1,752)
Profit before taxation					<b>22,465</b>	21,777
Taxation					<b>(7,967)</b>	(7,872)
Profit for the period					<b>14,498</b>	13,905

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 profit 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 purposes of resource allocation and assessment of segment performance.

## 4. SEGMENT INFORMATION (Continued)

### (b) Segment assets and liabilities

The following is an analysis of the segment assets and liabilities of the Group as at 30 June 2013 and 31 December 2012:

	Chinese baijiu		Wine		Total	
	2013	2012	2013	2012	2013	2012
	(Unaudited) HK\$'000	(Audited) HK\$'000	(Unaudited) HK\$'000	(Audited) HK\$'000	(Unaudited) HK\$'000	(Audited) HK\$'000
Segment assets	<b>328,320</b>	334,418	<b>709,521</b>	688,220	<b>1,037,841</b>	1,022,638
Unallocated					<b>16,533</b>	22,730
					<b>1,054,374</b>	1,045,368
Segment liabilities	<b>35,601</b>	41,027	<b>145,653</b>	153,347	<b>181,254</b>	194,374
Unallocated					<b>87,094</b>	88,357
					<b>268,348</b>	282,731

For the purposes of monitoring segment performance and allocating resources between segments, all assets are allocated to reportable segments except for certain financial assets which are managed on a group basis. Goodwill is allocated to reportable segments 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.

### (c) Geographical information

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

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

**5. PROFIT FROM OPERATING ACTIVITIES**

The Group's profit from operating activities has been arrived at after charging:

	<b>For the six months ended 30 June</b>	
	<b>2013 (Unaudited) HK\$'000</b>	2012 (Unaudited) HK\$'000
Staff costs (including directors' remuneration)		
– Salaries and allowances	<b>21,976</b>	24,206
– Retirement benefit scheme contributions	<b>5,495</b>	5,568
Amortisation of intangible assets	<b>241</b>	394
Amortisation of land use rights	<b>406</b>	406
Cost of inventories recognised as expenses	<b>52,176</b>	71,162
Depreciation	<b>14,569</b>	7,189

**6. TAXATION**

	<b>For the six months ended 30 June</b>	
	<b>2013 (Unaudited) HK\$'000</b>	2012 (Unaudited) HK\$'000
The PRC corporate income tax	<b>7,967</b>	7,872

**Hong Kong Profits Tax**

No provision for Hong Kong profits tax was made for the six months ended 30 June 2013 (2012: Nil) as the Group had no assessable profits derived from Hong Kong during the period.

As at 30 June 2013, the Group had estimated unused tax losses of approximately HK\$68 million (2012: approximately HK\$64 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

## 6. TAXATION (Continued)

### The PRC Corporate Income Tax

After the expiry of the tax exemption in 2010, Shangri-la Winery Company Limited, a subsidiary of the Company, has successfully applied for a tax reduction from Yunnan State Administration of Taxation of the PRC for 3 years starting from 1 January 2011 and is subject to the tax rate of 15%.

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

Save as disclosed above, all other subsidiaries established in the PRC are subject to a tax rate of 25% (2012: 25%).

## 7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit for the period attributable to owners of the Company of approximately HK\$11,310,000 (six months ended 30 June 2012: profit of approximately HK\$11,018,000) and 1,668,532,146 shares in issue during the period.

The diluted earnings per share and the basic earnings per share for the six months ended 30 June 2013 and 2012 were the same as there were no potential dilutive ordinary shares in both periods.

## 8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired items of property, plant and equipment with a cost of approximately HK\$30,421,000 (six months ended 30 June 2012: approximately HK\$24,029,000). No items of property, plant and equipment were disposed of during the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).



**9. TRADE AND BILLS RECEIVABLES**

The Group generally allows an average credit period ranging from 30 to 90 days (31 December 2012: 30 to 90 days) to its trade customers which major trade customers with whom specific terms have been agreed. An aging analysis of trade and bills receivables is as follows:

	<b>As at 30 June 2013 (Unaudited) HK\$'000</b>	As at 31 December 2012 (Audited) HK\$'000
Within 30 days	<b>25,450</b>	39,844
More than 30 days and within 60 days	<b>1,773</b>	266
More than 60 days and within 90 days	<b>11,476</b>	–
More than 90 days and within 180 days	<b>1,810</b>	–
More than 180 days and within 360 days	<b>6,588</b>	20
More than 360 days	<b>171</b>	171
	<b>47,268</b>	40,301
Less: Impairment loss of trade and bills receivables	<b>(171)</b>	(171)
	<b>47,097</b>	40,130
Represented by:		
Receivables from related parties	<b>35,433</b>	12,343
Receivables from third parties	<b>11,664</b>	27,787
	<b>47,097</b>	40,130

All trade and bills receivables are denominated in Renminbi (“RMB”). The carrying amounts of trade and bills receivables approximate their fair values.

## 10. SHARE CAPITAL

	Number of shares <i>'000</i>	Par value <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 31 December 2012 and 30 June 2013	16,000,000	160,000
Issued and fully paid:		
At 31 December 2012 and 30 June 2013	1,668,532	16,685

## 11. TRADE PAYABLES

An aging analysis of trade payables is as follows:

	As at 30 June 2013 (Unaudited) <i>HK\$'000</i>	As at 31 December 2012 (Audited) <i>HK\$'000</i>
Within 90 days	28,416	34,497
More than 90 days and within 180 days	3,827	7,558
More than 180 days and within 360 days	10,388	9,858
	<b>42,631</b>	51,913

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

## 12. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed interim financial statements, the Group has entered into the following significant related party transactions, which in the opinion of the Directors, were conducted under commercial terms and in the normal course of the Group's business:

**12. RELATED PARTY TRANSACTIONS** (Continued)**(a) Transactions**

	<b>For the six months ended 30 June</b>	
	<b>2013 (Unaudited) HK\$'000</b>	2012 (Unaudited) HK\$'000
<b>Sales of goods</b>		
Yunnan Jinliufu Trading Limited	<b>20,237</b>	7,297
VATS Liquor Chain Store Management Joint Stock Company Limited	<b>2,801</b>	12,407
<b>Purchases of goods</b>		
Yunnan Jinliufu Liancai Trading Company Limited	<b>1,341</b>	7,435
<b>Rendering of services</b>		
VATS Fine Wines & Spirits (H.K.) Company Limited	<b>372</b>	264

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

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

**(b) Key management personnel**

Remuneration for key personnel management, including amounts paid to the Directors and certain of the highest paid employee is as follows:

	<b>For the six months ended 30 June</b>	
	<b>2013 (Unaudited) HK\$'000</b>	2012 (Unaudited) HK\$'000
Salaries and other short term benefit	<b>1,623</b>	1,617

## 13. CAPITAL COMMITMENTS

	<b>As at 30 June 2013 (Unaudited) HK\$'000</b>	As at 31 December 2012 (Audited) HK\$'000
Authorised and contracted for:		
In connection with the construction of winery warehouses and factories	<b>47,117</b>	54,443
In connection with acquisition of plant and equipment	<b>9,639</b>	5,957
	<b>56,756</b>	60,400

## 14. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: Fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: Fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed interim financial statements approximate their fair values 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.

## 15. SUBSEQUENT EVENTS

### Very Substantial Acquisition and Connected Transaction

On 25 July 2013, the Company entered into a sale and purchase agreement with a vendor in relation to a proposed acquisition (the “**Acquisition**”) of the entire equity interest in a group of companies principally engaged in the sales and distribution of baijiu and health liquor in the PRC involving issue of securities of the Company.

As the vendor is a connected person of the Company, the Acquisition also constitutes a connected transaction under the Listing Rules.

Further details of the Acquisition will be announced by the Company as soon as practicable.

## 16. COMPARATIVE FIGURES

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

## 17. APPROVAL OF CONDENSED INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements were approved and authorised for issue by the Board on 30 August 2013.

## FINANCIAL REVIEW

### Revenue Analysis

The Group's turnover for the six months ended 30 June 2013 (the "Period") decreased by 4.3% to approximately HK\$145.0 million (six months ended 30 June 2012: HK\$151.5 million). Sales of wine products decreased by 4.6% to approximately HK\$81.5 million (six months ended 30 June 2012: HK\$85.4 million) and sales of Chinese baijiu products decreased by 3.9% to approximately HK\$63.5 million (six months ended 30 June 2012: HK\$66.1 million). Decrease in turnover was mainly due to the drop in sales of high-end products as a result of tightening of entertainment expenditures by the PRC government.

During the Period, the government grant received by the Group decreased by 61.2% to approximately HK\$3.3 million (six months ended 30 June 2012: HK\$8.5 million).

### Gross Profit Analysis

Our gross profit climbed 17.2% to approximately HK\$80.9 million (six months ended 30 June 2012: HK\$69.0 million). The increase was mainly contributed by continuous improvement in product mix and better control of production costs.

### Selling and Distribution Expenses

As a result of more marketing efforts spent on brand promotion to enhance our brand awareness, the selling and distribution expenses for the Period increased by 12.7% to approximately HK\$37.8 million (six months ended 30 June 2012: HK\$33.5 million). The advertising and marketing promotion expenses accounted for approximately 54.1% (six months ended 30 June 2012: 41.7%) of the Group's selling and distribution expenses.

### Administrative Expenses and Finance Costs

The administrative expenses increased by 12.2% to approximately HK\$23.0 million (six months ended 30 June 2012: HK\$20.5 million) mainly due to the increase in labour costs.

Finance costs increased by 12.0% to approximately HK\$2.0 million (six months ended 30 June 2012: HK\$1.8 million) mainly due to the exchange effect as a result of the appreciation in RMB.

### Taxation

As a result of the increase in profit level of the Group, total tax expenses for the Period showed a slight increase of 1.2% to approximately HK\$8.0 million (six months ended 30 June 2012: HK\$7.9 million).

### Profit

The Group's profit before taxation grew 3.2% to approximately HK\$22.5 million (six months ended 30 June 2012: HK\$21.8 million). Profit after taxation increased 4.3% to approximately HK\$14.5 million (six months ended 30 June 2012: HK\$13.9 million).

### Profit Attributable to Owners of the Company

Profit attributable to owners of the Company increased slightly by 2.7% to approximately HK\$11.3 million (six months ended 30 June 2012: HK\$11.0 million). Earnings per share increased by 3.0% to HK0.68 cent (six months ended 30 June 2012: HK0.66 cent).

### Balance Sheet Analysis

Total assets of the Group marginally increased 0.9% to approximately HK\$1,054.4 million (31 December 2012: HK\$1,045.4 million). Total non-current assets increased 2.2% to approximately HK\$544.7 million (31 December 2012: HK\$533.1 million) whereas total current assets reduced by 0.5% to approximately HK\$509.6 million (31 December 2012: HK\$512.3 million). The increase of non-current assets was primarily due to the acquisition of machineries and construction of Shangri-la Masang Château.

Total liabilities decreased 5.1% to approximately HK\$268.3 million (31 December 2012: HK\$282.7 million). The decrease was mainly due to the settlement of outstanding payables which lead to the reduction of current liabilities by 5.6% to approximately HK\$245.9 million (31 December 2012: HK\$260.6 million).

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

### INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the Period (30 June 2012: Nil).

### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2013, the Group's total borrowings amounted to approximately HK\$63.7 million (31 December 2012: HK\$62.8 million). Cash and cash equivalents amounted to approximately HK\$115.4 million (31 December 2012: HK\$132.9 million). The Group's current ratio was 2.1 (31 December 2012: 2.0) and gearing ratio, which is expressed as a percentage of total borrowings divided by total equity, was 8.1% (31 December 2012: 8.2%). Taking into account of the existing banking facilities, the Group has adequate financial resources to meet its ongoing operating and development requirements.

### PLEDGE OF ASSETS

As at 30 June 2013, the Group had pledged land and buildings and production facilities in Diqing Shangri-la and Hebei Qinhuangdao, the PRC with a total net book value amounting to approximately HK\$50.7 million (31 December 2012: HK\$48.3 million) to Agricultural Development Bank of China – Diqing Branch (中國農業發展銀行迪慶藏族自治州分行) to secure general banking facilities.

### CONTINGENT LIABILITIES

As at 30 June 2013, the Group did not have any significant contingent liabilities (31 December 2012: Nil).

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

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

## **MATERIAL ACQUISITION AND DISPOSAL**

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

## **EMPLOYEE INFORMATION**

Total number of staff members was 1,097 as at 30 June 2013 (31 December 2012: 1,143) of which 183 were management, 177 were back office staff, 401 were factory workers and 336 were sales and marketing personnel. The Directors believe that the quality of its employees is the most important factor in sustaining the Group's growth and improving its cost effectiveness. The Group's emolument policies are formulated on the performance of individual employees and are reviewed annually. The Group also provides medical insurance and provident fund scheme (as the case may be) to its employees depending on the location of their employments.



## GLOBAL ECONOMIC OVERVIEW

The United States economy remained sluggish despite three doses of quantitative easing been imposed. Yet the recent debate on The Federal Reserve System's exit casted more uncertainty to global outlook. As the Europe's sovereign debt crisis continues to simmer and the political environment in the Middle East is still restless, global economy remained to tumble over the first half of 2013.

During the Period, China's GDP growth declined from 7.8% in 2012 to 7.6%, reflecting weak global and domestic markets. However, we remain optimistic on the forthcoming holiday seasons which are our traditional peak seasons. We also have confidence in the commitment by the China leader to stabilize the country's annual GDP growth rate at 7.5% which will path the way to a mild recovery in the second half of 2013.

## OPERATION AND FINANCIAL REVIEW

Due to China's new administration's effort to rein in ostentatious spending, there has been a notable slowdown in overall consumer spending. As the measure targets bigger-ticket items, our high-end products were mostly affected leading to a slightly decline in turnover by 4.3% to HK\$145.0 million as compared to the same period in 2012. In view of the rising manufacturing and labour costs in China, the Group continues to enhance its production efficiency with manufacturing processes streamlining and tighten control over the manufacturing overheads. Moreover, the Group has adjusted its product mix by phasing out low-margin customers and products. As such, gross profit margin improved despite lower revenue as compared to the same period last year. With the change of product mix and better utilization of raw materials, the Group is able to maintain its market competitiveness to combat the continuous escalation of production and operating costs. The combined effect was that the profit after taxation for the Period improved slightly by 4.3% to HK\$14.5 million. Net profit attributable to shareholders of the Company was HK\$11.3 million representing a year-on-year growth of 2.7% and an improvement of earnings per share by 3.0% to HK0.68 cent.

Having considered the continuous challenging environment, we have tightened our control over the various cost measures while proactively exploring new opportunities for investment to sustain long-term development.

## AWARDS

We participated in the International Wine Challenge 2013, which was co-organized by Hong Kong Sommelier Association and Hong Kong Exhibition Services Ltd, during HOFEX 2013 held from 7 – 10 May 2013. The result was encouraging. Of the 7 Shangri-la products we selected to enter various competitions, 8 medals were awarded including Shangri-la Plateau A2 Chardonnay which has won silver award in the cool climate selection and the bronze award in the Chardonnay category. Shangri-la Plateau A3 won silver award in Chardonnay category, Shangri-la Plateau A5, A6, 1900 and 2700 won bronze awards in their respective categories and Dai Zang Mi (大藏秘) 9° Tibetan Dry has won the seal of approval. The numerous international awards won by us over the past years have proved that our core values, our product quality and our aim on the delivery of excellence have been widely recognized. With this in mind, our team will continue the effort to bring out the best from Shangri-la in return for the appreciation of the market.

## VERY SUBSTANTIAL ACQUISITION

After the turbulence in China's baijiu industry last year, the market began to show sight of recovery. We are cautiously optimistic about the coming market development and intend to capture the industry's turnaround opportunity to lead the recovery of the baijiu market. Aiming at becoming the industry leader, we always look for acquisition opportunities for expansion, extending our geographic footprint and enriching our product offerings. On 25 July 2013, the Company entered into an agreement for the proposed acquisition of the entire equity interest in a group of companies principally engaged in the sales and distribution of baijiu and health liquor in the PRC involving issue of securities of the Company.

We believe that such acquisition represents a unique and milestone opportunity for us to realize our strategic goal. Further details of the acquisition will be announced by the Company as soon as practicable.

## MOVING FORWARD

We expect that the overall global economy and China domestic market will slowly recover in the second half of 2013. Given the discouraging market sentiment, the Group will devote considerable effort into managing the overall product profitability, adjusting the product mix, driving down the manufacturing costs, enhancing the production efficiency and tightening the control over manufacturing overheads in the coming quarters. We will continue to advance forward in our strategic direction of maintaining our prominent position as a key player in the China's wine and liquor industry. We had previously overcome a number of global economic crises in the past years and the financial strength of the Group continues to improve. With our development strategy and goal are clear and strictly adhered to, we are well positioned to lead the industry in the coming years.

## DISCLOSURE OF INTERESTS

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

As at 30 June 2013, the following Directors or the chief executive of the Company had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules:

#### (i) The Company

Name of Director	Nature of interest	No. of shares held	Position	Approximate Percentage of issued share capital
Mr. Wu Xiang Dong (Note)	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 5% equity interest in Macro-Link Holding Company Limited which, through its indirect wholly-owned subsidiary, MACRO-LINK International Investment Co, Ltd., held 215,988,337 shares (or 12.94% of the issued share capital of the Company as at 30 June 2013).

#### (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 30 June 2013, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**(b) Persons who have 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 30 June 2013, 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%
MACRO-LINK International Investment Co, Ltd.	2	Beneficial owner	215,988,337	Long	12.94%
Macro-Link Industrial Investment Limited	3	Controlled corporation	215,988,337	Long	12.94%
Macro-Link Holding Company Limited	3	Controlled corporation	215,988,337	Long	12.94%
Mr. Fu Kwan	3, 4	Controlled corporation	215,988,337	Long	12.94%
Xizang Cheung Shek Investment Company Limited	4	Controlled corporation	215,988,337	Long	12.94%
Ms. Xiao Wenhui	4	Beneficial owner/ Controlled corporation	217,988,337	Long	13.06%

Notes:

- 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.
- These shares are held by MACRO-LINK International Investment Co, Ltd. which is a company incorporated in the British Virgin Islands and is wholly-owned by Macro-Link Industrial Investment Limited.

3. Macro-Link Industrial Investment Limited is a wholly owned subsidiary of Macro-Link Holding Company Limited. Macro-Link Holding Company Limited is owned as to 75% by Xizang Cheung Shek Investment Company Limited, as to 10.63% by Mr. Fu Kwan, as to 5% by Mr. Wu Xiang Dong and as to the remaining by five individuals.
4. Xizang Cheung Shek Investment Company Limited is owned as to 53.35% by Mr. Fu Kwan, as to 33.33% by Ms. Xiao Wenhui who also has a personal interest in 2,000,000 shares, and as to 3.33% by each of the other four individuals.

Save as disclosed above, as at 30 June 2013, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### SHARE OPTION SCHEME

On 16 September 2002, the Company adopted a share option scheme (the “**2002 Scheme**”) for the primary purpose of providing incentives to its Directors and eligible employees. At the special general meeting of the Company 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.

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

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

## CORPORATE GOVERNANCE

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

The Company has applied the principles and complied with all code provisions under the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the Period.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

## AUDIT COMMITTEE

The Audit Committee met twice to date in 2013 to review with senior management and the Company's internal and external auditors, the Group's internal controls and financial matters as set out in the Audit Committee's written terms of reference. The Audit Committee's review covers the audit plans and findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, the Listing Rules and statutory compliance, internal controls, risk management and financial reporting matters.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the unaudited interim financial report for the Period. The Audit Committee comprises the three independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Mr. E Meng and Mr. Cao Kuangyu.

## APPRECIATION

The Board would like to express our sincere gratitude to our Board members, management team and all our staff for their continuous support. We also take this opportunity to extend our appreciation to our loyal shareholders, investors, customers and other business associates for keeping faith in the prospects of the Group. By setting our eyes on the future, we see a better improvement in the second half of 2013, which will bring favourable returns to our shareholders.

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

Hong Kong, 30 August 2013