



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 2014 to 30 June 2014

(Stock Code : HK00472)

The Secret from

Shangri-la

INTERIM REPORT 2014



* For identification purpose only



CONTENTS

Condensed Consolidated Statement of Profit or Loss



Condensed Consolidated Statement of Profit or Loss and
Other Comprehensive Income



Condensed Consolidated Statement of Financial Position



Condensed Consolidated Statement of Changes in Equity



Condensed Consolidated Statement of Cash Flows



Notes to the Condensed Interim Financial Statements



Management Discussion and Analysis



Review of Operation and Prospects



Other Information





Condensed Consolidated Statement of Profit or Loss

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 (collectively the “**Group**”) for the six months ended 30 June 2014, together with the comparative results for the previous period as follows:

		For the six months ended 30 June	
	Notes	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Turnover	3	154,294	144,954
Cost of sales		(79,939)	(64,027)
Gross profit		74,355	80,927
Other revenue		4,072	4,227
Selling and distribution expenses		(45,828)	(37,751)
Administrative expenses		(26,314)	(22,975)
Profit from operating activities	5	6,285	24,428
Finance costs		(1,993)	(1,963)
Profit before taxation		4,292	22,465
Taxation	6	(4,708)	(7,967)
(Loss) profit for the period		(416)	14,498
Attributable to:			
Owners of the Company		97	11,310
Non-controlling interests		(513)	3,188
		(416)	14,498
Earnings per share attributable to owners of the Company			
Basic and diluted	7	HK0.01 cent	HK0.68 cent

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income



JLF INVESTMENT COMPANY LIMITED

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
(Loss) profit for the period	(416)	14,498
Other comprehensive (loss) income, net of income tax <i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising from translation of foreign operations	(12,642)	8,891
Total comprehensive (loss) income for the period	(13,058)	23,389
Attributable to:		
Owners of the Company	(11,014)	19,324
Non-controlling interests	(2,044)	4,065
	(13,058)	23,389

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



Condensed Consolidated Statement of Financial Position

JLF INVESTMENT COMPANY LIMITED

	Notes	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
ASSETS			
Non-current assets			
Land use rights		28,001	29,079
Property, plant and equipment	8	291,436	300,457
Intangible assets		35,503	36,582
Available-for-sale investment		1,805	1,847
Goodwill		144,449	144,449
		501,194	512,414
Current assets			
Inventories		233,101	246,293
Trade and bills receivables	9	63,160	39,450
Prepayments, deposits paid and other receivables		105,962	77,609
Cash and cash equivalents		54,043	141,623
		456,266	504,975
Total assets		957,460	1,017,389
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	10	16,685	16,685
Reserves		568,361	579,375
		585,046	596,060
Non-controlling interests		99,960	102,004
Total equity		685,006	698,064

Condensed Consolidated Statement of Financial Position



JLF INVESTMENT COMPANY LIMITED

	<i>Note</i>	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		22,193	22,736
Bank borrowing – due after one year		62,950	64,445
		85,143	87,181
Current liabilities			
Trade payables	<i>11</i>	34,457	49,667
Accruals, deposits received and other payables		149,778	174,727
Amount due to a related party		1,259	1,289
Tax payables		1,817	6,461
		187,311	232,144
Total liabilities		272,454	319,325
Total equity and liabilities		957,460	1,017,389
Net current assets		268,955	272,831
Total assets less current liabilities		770,149	785,245

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



Condensed Consolidated Statement of Changes in Equity

JLF INVESTMENT COMPANY LIMITED

	Attributable to owners of the Company							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		
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
At 1 January 2014 (audited)	16,685	409,918	77,451	34,104	356	57,546	596,060	102,004	698,064
Total comprehensive (loss) income for the period	-	-	(11,111)	-	-	97	(11,014)	(2,044)	(13,058)
At 30 June 2014 (unaudited)	16,685	409,918	66,340	34,104	356	57,643	585,046	99,960	685,006



	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Net cash (used in) generated from operating activities	(75,791)	11,430
Net cash used in investing activities	(8,709)	(30,421)
Net decrease in cash and cash equivalents	(84,500)	(18,991)
Cash and cash equivalents at the beginning of the period	141,623	132,877
Effect of exchange rate changes on the balance of cash held in foreign currency	(3,080)	1,558
Cash and cash equivalents at the end of the period	54,043	115,444
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	54,043	115,444



1. GENERAL 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 Company’s registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

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

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 Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) 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 financial statements for the year ended 31 December 2013.

The accounting policies are adopted consistently with those followed in the preparation of the Group’s financial statements for the year ended 31 December 2013.

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 financial year beginning on 1 January 2014:

HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities
HKAS 32 (Amendments)	Presentation – Offsetting Financial Assets and Financial Liabilities
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

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



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

The Group has not applied the following 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.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010-2012 Cycle ²
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011-2013 Cycle ¹
HKFRS 9	Financial Instruments ⁵
HKFRS 9, HKFRS 7 and HKAS 39 (Amendments)	Hedge Accounting and Amendments to HKFRS 9, HKFRS 7 and HKAS 39 ⁵
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations ³
HKFRS 14	Regulatory Deferral Accounts ³
HKFRS 15	Revenue from Contracts with Customers ⁴
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation ³
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants ³
HKAS 19 (Amendments)	Defined Benefits Plans: Employee Contributions ¹

¹ Effective for annual periods beginning on or after 1 July 2014

² Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

³ Effective for annual periods beginning on or after 1 January 2016

⁴ Effective for annual periods beginning on or after 1 January 2017

⁵ No mandatory effective date yet determined but is available for adoption

3. TURNOVER

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Production and distribution of wine	98,834	81,453
Production and distribution of Chinese baijiu	55,460	63,501
	154,294	144,954



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. These segmentations are based on the information of the operation of the Group that management uses to make decisions.

The Group's measurement methodology used to determine reporting segment profit or loss remain unchanged from 2013.

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments for the six months ended 30 June 2014 and 2013:

	Wine		Chinese baijiu		Total	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Segment revenue						
Revenue from external customers	98,834	81,453	55,460	63,501	154,294	144,954
Segment profit	10,908	17,829	513	11,139	11,421	28,968
Unallocated corporate income					402	438
Unallocated corporate expenses					(5,538)	(4,978)
Finance costs					(1,993)	(1,963)
Profit before taxation					4,292	22,465
Taxation					(4,708)	(7,967)
(Loss) profit for the period					(416)	14,498

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 purpose of resource allocation and assessment of segment performance.



4. SEGMENT INFORMATION (Continued)

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments as at 30 June 2014 and 31 December 2013:

	Wine		Chinese baijiu		Total	
	2014 (Unaudited) HK\$'000	2013 (Audited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Audited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Audited) HK\$'000
Segment assets	602,216	609,451	353,117	398,984	955,333	1,008,435
Unallocated					2,127	8,954
					957,460	1,017,389
Segment liabilities	122,634	142,174	62,404	86,137	185,038	228,311
Unallocated					87,416	91,014
					272,454	319,325

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 and all liabilities are allocated to reportable segments except for bank borrowing, 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 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.



5. PROFIT FROM OPERATING ACTIVITIES

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Profit from operating activities has been arrived at after charging:		
Staff costs, including directors' emoluments		
– Salaries and allowances	21,992	21,976
– Retirement benefit scheme contributions	5,385	5,495
Total staff costs	27,377	27,471
Amortisation of intangible assets	232	241
Amortisation of land use rights	406	406
Cost of inventories recognised as expenses	65,484	52,176
Depreciation of property, plant and equipment	9,516	14,569

6. TAXATION

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
The PRC Corporate Income Tax	4,708	7,967

Hong Kong Profits Tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2014 (2013: Nil) as the Group and the Company have no assessable profit derived from Hong Kong for the period.

As at 30 June 2014, the Group had estimated unused tax losses of approximately HK\$80,627,000 (31 December 2013: HK\$75,497,000) 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

Shangri-la Winery Company Limited, a subsidiary of the Company, was granted a tax reduction rate of 15% from Yunnan State Administration of Taxation for 3 years starting from 1 January 2011 (the “**Tax Reduction**”). The Tax Reduction had expired in year 2013.

Shangri-la (Qinhuangdao) Winery Company 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 was entitled to full exemption from the PRC corporate income tax for two years starting from 1 January 2008 and a 50% reduction for the next consecutive three years (the “**Tax Exemption Period**”) under the relevant tax rules applicable to foreign investment enterprise in the PRC. The Tax Exemption Period had expired in year 2013.

Save as disclosed above, all other subsidiaries established in the PRC are subject to a tax rate of 25% (2013: 25%).

7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit for the period attributable to owners of the Company of approximately HK\$97,000 (six months ended 30 June 2013: profit of HK\$11,310,000) and 1,668,532,146 shares in issue during the period.

Diluted earnings per share and the basic earnings per share for the six months ended 30 June 2014 and 2013 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 2014, the Group acquired items of property, plant and equipment with a total cost of approximately HK\$8,709,000 (six months ended 30 June 2013: HK\$30,421,000). No items of property, plant and equipment were disposed of during the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).



9. TRADE AND BILLS RECEIVABLES

The Group generally allows an average credit period ranging from 30 to 90 days (31 December 2013: 30 to 90 days) to its trade customers and certain specific terms to major trade customers. An aging analysis of trade and bills receivables is as follows:

	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
Within 30 days	22,404	37,740
More than 30 days and within 60 days	2,156	1,710
More than 60 days and within 90 days	9,327	–
More than 90 days and within 180 days	5,968	–
More than 180 days and within 360 days	23,305	–
More than 360 days	251	257
	63,411	39,707
Less: Impairment loss of trade and bills receivables	(251)	(257)
	63,160	39,450
Represented by:		
Receivables from related parties	54,286	29,811
Receivables from third parties	8,874	9,639
	63,160	39,450

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

**10. SHARE CAPITAL**

	Number of shares '000	Nominal Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 31 December 2013 and 30 June 2014	16,000,000	160,000
Issued and fully paid:		
At 31 December 2013 and 30 June 2014	1,668,532	16,685

11. TRADE PAYABLES

An aging analysis of trade payables is as follows:

	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
Within 90 days	24,063	36,730
More than 90 days and within 180 days	1,163	3,394
More than 180 days and within 360 days	9,231	9,543
	34,457	49,667

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

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Sales of goods		
Yunnan Jinliufu Trading Limited	27,618	20,237
VATS Chain Liquor Store Management Company Limited	5,165	2,801
Purchases of goods		
Yunnan Jinliufu Liancai Trading Company Limited	–	1,341
Rendering of services		
VATS Fine Wines & Spirits (H.K.) Company Limited	372	372

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

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

(b) Compensation of key management personnel

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

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Salaries and other short-term benefit	1,677	1,623



13. CAPITAL COMMITMENTS

	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
Authorised and contracted for:		
In connection with the construction of winery warehouses and factories	53,652	49,212
In connection with acquisition of plant and equipment	5,089	6,010
	58,741	55,222

14. FAIR VALUE HIERARCHY

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

- Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Fair values measured using 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 using 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.

During the periods ended 30 June 2014 and 2013, there were no transfers between the levels of fair value hierarchy.

15. APPROVAL OF CONDENSED INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements were approved and authorised for issue by the Board on 18 August 2014.



FINANCIAL REVIEW

Revenue

The Group's turnover for the six months ended 30 June 2014 (the "Period") increased by 6.4% to approximately HK\$154.3 million (six months ended 30 June 2013: HK\$145.0 million). Turnover of wine segment grew 21.3% to approximately HK\$98.8 million (six months ended 30 June 2013: HK\$81.5 million) as a result of effective marketing strategies and change of product mix from high-end to medium and mass markets focus. Due to fierce competition in the baijiu market, turnover of baijiu segment dropped by 12.7% to approximately HK\$55.5 million (six months ended 30 June 2013: HK\$63.5 million).

During the Period, the government subsidies received by the Group decreased by 2.5% to approximately HK\$3.2 million (six months ended 30 June 2013: HK\$3.3 million).

Gross Profit

Gross profit decreased by 8.1% to approximately HK\$74.4 million (six months ended 30 June 2013: HK\$80.9 million) reflecting the shift of focus from high-end to mass market products with relatively lower gross profit margin. Baijiu segment was adversely hit by dampened luxury spendings. As more mass market baijiu products were being promoted, Yuquan's gross profit margin dropped by 17.8% to 46.1% (six months ended 30 June 2013: 63.9%). On the other hand, after last year's significant inventory adjustment, the wine segment was able to maintain a relatively stable gross profit margin at approximately 49.4% (six months ended 30 June 2013: 49.5%).

Selling and Distribution Expenses

Selling and distribution expenses for the Period increased by 21.4% to approximately HK\$45.8 million (six months ended 30 June 2013: HK\$37.8 million). In order to maintain competitive advantage in the sluggish market, much effort was spent on brand promotion to enhance brand awareness which led to an increase in advertising and marketing expenses by 34.5% to approximately HK\$28.1 million (six months ended 30 June 2013: HK\$ 20.9 million) which accounted for approximately 39.0% (six months ended 30 June 2013: 34.4%) of the Group's total expenses.

Administrative Expenses and Finance Costs

Administrative expenses increased by 14.5% to approximately HK\$26.3 million (six months ended 30 June 2013: HK\$23.0 million) mainly due to the increase in labour costs and one-off costs for renovation of Kunming office.

As borrowing was unchanged during the Period, finance costs maintained at approximately HK\$2.0 million (six months ended 30 June 2013: HK\$2.0 million).



Profit before Tax

The combined effect of the decline in gross profit and the increase in operating expenses led to a reduction in profit before tax by 80.9% to approximately HK\$4.3 million (six months ended 30 June 2013: HK\$22.5 million).

Taxation

Total tax expenses for the Period dropped by 40.9% to approximately HK\$4.7 million (six months ended 30 June 2013: HK\$8.0 million).

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company decreased by 99.1% to approximately HK\$97,000 (six months ended 30 June 2013: HK\$11.3 million). Consequently, earnings per share also reduced by 98.5% to HK0.01 cent (six months ended 30 June 2013: HK0.68 cent).

Balance Sheet Analysis

Total assets of the Group decreased by 5.9% to approximately HK\$957.5 million (31 December 2013: HK\$1,017.4 million). Total non-current assets and current assets decreased by 2.2% and 9.6% respectively to approximately HK\$501.2 million (31 December 2013: HK\$512.4 million) and HK\$456.3 million (31 December 2013: HK\$505.0 million) respectively. The decrease in current assets was mainly due to a reduction in inventory and decrease in bank balances.

Total liabilities decreased by 14.7% to approximately HK\$272.5 million (31 December 2013: HK\$319.3 million). Current liabilities reduced by 19.3% to approximately HK\$187.3 million (31 December 2013: HK\$232.1 million) as more payables were being settled.

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 2013: Nil).



LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, the Group's total borrowings amounted to approximately HK\$63.0 million (31 December 2013: HK\$64.4 million). Cash and cash equivalents amounted to approximately HK\$54.0 million (31 December 2013: HK\$141.6 million). The Group's current ratio was 2.4 (31 December 2013: 2.2) and gearing ratio, which expressed as a percentage of total borrowings divided by total equity, was 9.2% (31 December 2013: 9.2%). 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 2014, the Group had pledged land and buildings and production facilities in the PRC at Hebei Qinhuangdao with a total net book value amounting to approximately HK\$41.1 million (31 December 2013: HK\$44.6 million) to Agricultural Development Bank of China – Diqing Tibetan Autonomous Prefecture Branch to secure general banking facilities.

CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any significant contingent liabilities (31 December 2013: Nil).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

During the Period, the Group experienced little exchange rate fluctuations since the functional currency of the Group's operations is in RMB. In view of the minimal exchange rate exposure, 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 or associated companies by the Group.

EMPLOYEE INFORMATION

Total number of staff members was 859 as at 30 June 2014 (31 December 2013: 1,057) of which 52 staff related to management, 238 staff related to administration, 356 staff related to production and 213 staff related to sales and marketing. The Directors believe that the quality of staff is the most important factor in sustaining the Group's growth and improving its cost effectiveness. The Group's emolument policies are formulated based on the performance of individual employees and are reviewed annually. The Group also provides medical insurance coverage and provident fund scheme (as the case may be) to its employees in compliance with the applicable laws and regulation.



MARKET OVERVIEW

Following the deteriorating market condition from 2013, China's wine and baijiu industry faced a challenging start in 2014. The gloomy outlook of global economy and slower than expected growth in China adversely changed market consumption sentiment. With a sluggish economy and frugal policies in abstaining ostentatious government expenditures in China, the business environment of the industry was in a crisis of in-depth adjustment. Though there were sights of stabilizing, wave of destocking continues. Fierce competition combined with rising operating costs pushed the industry to the edge of consolidation. While some smaller market players were forced to be phased out of the market, players with core brand value and the ability to respond quickly to market changes survived and were expected to benefit from this round of consolidation.

Amidst such a market landscape, the Group implemented effective measures and branding strategies to overcome such difficult period. Having considered the continuous challenging environment, the management has adjusted its strategies and undertaken a series of fine-tuning in the operations while proactively exploring new opportunities to sustain long-term development.

OPERATION AND FINANCIAL REVIEW

Despite the Group's efforts in taking adjustment measures in response to the market situation, the Group's overall performance for the Period still fell short of expectation. During the Period, facing with industry issues, such as excessive inventory, sluggish high-end product market, rising costs in raw materials, labour and rental etc., the Group proactively adjusted its product mix and pricing strategies to focus on medium and mass market products with enhancement on product quality. As a result, turnover for the Period increased by 6.4% to HK\$154.3 million at the expense of a drop in gross profit by 8.1% to HK\$74.4 million, reflecting the fierce competition with continuous challenges from peer competitors. The Group believed the self-initiated price reductions during the Period as necessary to mitigate inventory risks, maintain its market share and enhance future profitability despite the short-term pain. During the Period, the squeezed profit margin and increase in marketing and labour costs casted an operating loss of approximately HK\$416,000. However, after taking into account the share of the non-controlling interests, profit attributable to the shareholders of the Company reflected a small profit of HK\$97,000 (2013: HK\$11.3 million). Basic earnings per share was HK0.01 cent (2013: HK0.68 cent).

The Group believes that it is necessary to deploy sufficient marketing effort to maintain our brand awareness, yet we will continue to exercise effective costs control and sound financial management in order to improve the overall performance for the year.



Leveraging our trusted brand and strong market position, Shangri-la Winery, which is the Group's winery arm, demonstrated sights of improvement for the Period. With a revenue of HK\$98.8 million, Shangri-la Winery has returned a divisional profit of HK\$7.0 million. As for the Yuquan business, the Group's baijiu operation was adversely affected by the drop in general price of baijiu products and the tightening government policy on expenditures. To turn around, the baijiu division has strengthened management team, offered incentive marketing campaigns to promote medium to mass market baijiu products. As the baijiu market remains sluggish, it will take some time for the management team to stabilize the business. However, the Group remains optimistic on the overall prospect of the baijiu industry. We believe that the baijiu market will stabilize and hopefully the turnaround point will not be too far away from now.

MARKETING AND AWARDS

2014 marked the first year of our participation in the international Vinexpo, the largest international event for wine and liquor business. Our booth was perfectly located next to the French pavilion which gave us great exposure to industry participants from all around the world. Our Shangri-la Plateau "A" series and Dai Zang Mi (大藏秘) series had attracted enormous attention and earned high regard from various wine experts. We will continue to participate in similar events in order to gain international exposure and take our brand awareness to the international stage.

Shangri-la Winery had joined the 6th Asian Wine Competition in April 2014. The Plateau 2100 cabernet sauvignon of 2009 vintage and Plateau A5 cabernet sauvignon of 2011 vintage both awarded Silver Prize in the Competition.

In 2014, our Yuquan brand was also awarded the "Heilongjiang Famous Brand" issued by Heilongjiang Provincial Quality and Technical Supervision Bureau and the "Yuquan" trademark was awarded the "Famous Trademark" of the Harbin city. All of these demonstrated the wide recognition of our brands and products.

SOCIAL RESPONSIBILITIES

Both Shangri-la Winery and Yuquan attach great importance to fulfilling their social responsibilities. Shangri-la Winery has always been actively involved in supporting the development of Yunnan's poverty-stricken areas for poverty reduction. In 2014, it was awarded 'Provincial Non-Public Enterprise in Poverty Alleviation Award'. This award was issued by the State Council of Poverty Alleviation Office in recognition of outstanding contributions to poverty alleviation work by enterprises and to further promote poverty alleviation work.

Over the years, Yuquan has been organizing annual cultural events to contribute to the local community and to support Harbin's social and cultural development.



UPDATE ON OUR ACQUISITION

We announced our intention for the proposed acquisition of a group of companies principally engaged in the sales and distribution of baijiu and health liquor in the PRC in July 2013. Although we believe that such transaction would be beneficial to the Group, we regret that such transaction was shelved in view of the adverse market condition and certain regulatory issues. However, we will continue to explore similar investment and/or business opportunities with the aims to enhancing future profitability and returning to our shareholders.

MOVING FORWARD

Looking ahead, it is our determination to continue to improve the Group's profitability and to increase shareholders' value over the long-term. We see tremendous opportunities for our products and brands. We invest in our brands to invigorate future performance, to strengthen our competitive edge and to improve efficiency across our businesses. Due to the relatively tough and challenging market conditions in China, we expect that unfavourable business environment will still persist in the second half of the year but we remain positive about our business prospects over the long run. All in all, we remain optimistic that the China market would turn around in the near future.

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

As at 30 June 2014, 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 <i>(Note)</i>	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 interests 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 2014).

(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 2014, 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 2014, 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:

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 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 of the Company, and as to 3.33% by each of the other four individuals.

Save as disclosed above, as at 30 June 2014, 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 23 August 2012, the Company adopted a new share option scheme (the “**2012 Scheme**”) for the primary purpose of providing incentives to its Directors and eligible employees. Unless otherwise terminated, the 2012 Scheme would remain valid and effective until 22 August 2022.

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 2012 Scheme since its adoption.

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

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

CORPORATE GOVERNANCE

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

The Company has applied the principles and complied with all the applicable code provisions under the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the Period except for the deviations from code provisions A.6.7 and E.1.2 which are explained as follows:

Under the code provision A.6.7 which provides that independent non-executive directors and non-executive directors should attend general meetings. Mr. E Meng and Mr. Cao Kuangyu, being independent non-executive Directors, were unable to attend the annual general meeting of the Company held on 16 June 2014 (the "2014 AGM") due to their overseas business engagement.

Under the code provision E.1.2 which provides that the chairmen of the board and board committees should attend the annual general meeting to be available to answer questions thereat. Mr. Wu Xiang Dong, being the chairmen of the Board and Nomination Committee of the Company, was unable to attend the 2014 AGM due to his overseas business engagement. However, Mr. Yan Tao, being the vice-chairman of the Board, took the chair of the 2014 AGM and the chairmen of the Audit Committee and Remuneration Committee of the Company, the company secretary and the auditors attended the 2014 AGM. The Company considers that their presence is sufficient for effective communication with shareholders at the 2014 AGM.



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 2014 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

We would like to thank our shareholders for their trust in the Company and our management and staff for their dedication and hard work. We would like to extend our heartfelt gratitude to the members of the Board for their wise counsel, and our customers and business partners for their unfailing support. Having learned from our past experience, we are optimistic about the Group's prospects and believe that we will continue to grow stronger in the future.

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

Hong Kong, 18 August 2014