VATS®

金六福投資有限公司*

JLF Investment Company Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 472)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

The board of directors (the "Board") of JLF Investment Company Limited (the "Company") announces herewith the audited consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2010, together with the comparative figures for the year ended 31 December 2009 as follow:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Notes	**2010** *HK$'000*	2009 *HK$'000*
Turnover	*3*	**337,133**	259,650
Cost of sales		**(156,379)**	(121,628)
Gross profit		**180,754**	138,022
Other revenue		**13,631**	4,200
Selling and distribution costs		**(81,666)**	(61,257)
Administrative expenses		**(45,988)**	(30,303)
Profit from operating activities	*5*	**66,731**	50,662
Finance costs	*6*	**(4,522)**	(4,694)
Profit before taxation		**62,209**	45,968
Taxation	*7*	**(16,621)**	(10,707)
Profit for the year		**45,588**	35,261
Attributable to:			
Owners of the Company		**38,314**	29,500
Non-controlling interests		**7,274**	5,761
		45,588	35,261
Dividend	*8*	**16,685**	–
Earnings per share attributable to owners of the Company	*9*		
Basic and diluted (2009: Restated)		**HK2.32 cents**	HK1.77 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'000*
Profit for the year	**45,588**	35,261
Other comprehensive income		
Exchange differences arising on		
– translation of foreign operations	**12,845**	1,059
Total comprehensive income for the year	**58,433**	36,320
Attributable to:		
Owners of the Company	**48,582**	30,559
Non-controlling interests	**9,851**	5,761
Total comprehensive income for the year	**58,433**	36,320

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Land use rights		**28,824**	28,576
Property, plant and equipment		**171,458**	130,825
Intangible assets		**35,031**	36,233
Goodwill	*10*	**177,959**	177,959
		413,272	373,593
Current assets			
Inventories		**158,526**	107,228
Trade and bills receivables	*11*	**27,758**	27,254
Prepayment, deposit and other receivables		**27,577**	42,018
Bank balances and cash		**263,426**	90,528
		477,287	267,028
Total assets		**890,559**	640,621

	Notes	2010 HK$'000	2009 HK$'000
EQUITY			
Capital and reserve attributable to owners of the Company			
Share capital		**16,685**	13,904
Reserves		**564,276**	375,115
Proposed final dividend	*8*	**16,685**	–
		597,646	389,019
Non-controlling interests		**69,327**	59,832
Total equity		**666,973**	448,851
LIABILITIES			
Non-current liabilities			
Bank borrowings – due after one year		**38,824**	22,727
Deferred tax liabilities		**20,689**	19,959
		59,513	42,686
Current liabilities			
Trade payables	*12*	**30,172**	29,538
Accruals, deposit received and other payables		**57,877**	29,158
Amounts due to related parties		**22,305**	10,576
Bank borrowings – due within one year		**43,529**	73,864
Tax payable		**10,190**	5,948
		164,073	149,084
Total liabilities		**223,586**	191,770
Total equity and liabilities		**890,559**	640,621
Net current assets		**313,214**	117,944
Total assets less current liabilities		**726,486**	491,537

Notes:

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

(i) New and amended standards and interpretation adopted by the Group

In the current year, the Group has applied, the following Hong Kong Financial Reporting Standards (which includes all Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and interpretations ("HK(IFRIC) Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemption for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised 2008)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK Interpretation 4	Amendment to HK Interpretation 4 Lease – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a term loan that contains a Repayment on Demand Clause

Except as disclosed below, the adoption of these new and revised HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods.

HKFRS 3 (Revised 2008) "Business Combination"

HKFRS 3 (Revised 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. It introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKFRS 3 (Revised 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as "minority interests") either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

HKFRS 3 (Revised 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition 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 the contingent consideration classified as an asset or a liability are recognised in profit or loss.

HKFRS 3 (Revised 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

HKAS 27 (Revised 2008) "Consolidated and Separate Financial Statements"

The revised standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (Revised 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. The resulting difference is recognised as a gain or loss in the consolidated income statements. The changes introduced in respect of adoption of HKAS 27 (Revised 2008) had been applied prospectively from 1 January 2010.

Amendment to HKAS 17 "Leases"

HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Land use rights", and amortised over the lease term.

HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases, and considered the application of the amendment to HKAS 17 has had no impact on the consolidated financial statements.

HK Interpretation 5 "Classification by the Borrower of a term loan that contains a Repayment on Demand Clause"

The interpretation requires a term loan that contains a repayment on demand clause that gives the lender the unconditional right to call the loan at any time shall be classified in total by the borrower as current in the statement of financial position. As the Group's term loan did not include such repayment on demand clause, the interpretation has had no impact on the financial position or results of operations of the Group.

(ii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted

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

HKFRS (Amendments)	Improvement to HKFRSs issued in 2010[2]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopter[3]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopter
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets[3]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24	Related party Disclosures[6]
HKAS 32 Amendments	Financial Instruments: Presentation – Classification of Rights Issues[4]
HK(IFRIC) – Int 14 (Amendment)	Prepayment of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application and is not yet in a position to state whether these would have a significant impact on the results of operations and financial position.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis 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.

3. TURNOVER

	2010	2009
	HK$'000	*HK$'000*
Production and distribution of wine	**209,034**	165,567
Production and distribution of Chinese liquor	**128,099**	94,083
	337,133	259,650

4. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, 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, (i) production and distribution of wine and (ii) production and distribution of Chinese Liquor. The segmentations are based on the information about the operation of the Group that management uses to make decisions.

Segment revenue and results

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

	Chinese liquor		Wine		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Revenue from external customers	**128,099**	94,083	**209,034**	165,567	**337,133**	259,650
Segment results	**28,630**	20,201	**47,894**	38,939	**76,524**	59,140
Unallocated corporate income					**158**	163
Unallocated corporate expenses					**(9,951)**	(8,641)
Finance cost					**(4,522)**	(4,694)
Profit before taxation					**62,209**	45,968
Taxation					**(16,621)**	(10,707)
					45,588	35,261

The accounting policies on segment reporting 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 represented the profits earned by each segment without allocation of central administration costs, directors salaries, finance cost and taxation.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment for the current and prior years:

	Chinese liquor		Wine		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**270,288**	236,462	**562,033**	384,469	**832,321**	616,540
Unallocated					**58,238**	24,081
					890,559	640,621
Segment liabilities	**33,022**	14,774	**85,072**	58,766	**118,094**	73,540
Unallocated					**105,492**	118,230
					223,586	191,770

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 10 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.

Other information

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

	Chinese liquor		Wine		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Capital expenditure	**36,594**	13,207	**13,032**	10,254	**49,626**	23,461
Depreciation of property, plant and equipment	**6,853**	2,861	**5,166**	6,596	**12,019**	9,457
Amortisation of land use rights	**544**	498	**217**	210	**761**	708
Amortisation of intangible assets	**11**	11	**941**	1,110	**952**	1,121
Provision on impairment loss of trade and other receivables	**8,716**	2,841	**384**	25	**9,100**	2,866
Provision for obsolete inventories	**–**	–	**–**	147	**–**	147

Information about major customers

The following is an analysis of revenue from customers contributing over 10% of the total sales of the Group for the current and prior years:

	2010	2009
	HK$'000	*HK$'000*
Customer A	**99,418**	32,164

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 year.

As at the end of 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. EXPENSES BY NATURE

	2010	2009
	HK$'000	*HK$'000*
Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analysed as follows:		
Staff costs, including directors' remuneration		
– Basic salaries and allowances	**34,426**	21,462
– Retirement benefits scheme contributions	**51**	58
Total staff costs	**34,477**	21,520
Auditors' remuneration**	**954**	965
Amortisation of intangible assets**	**952**	1,121
Amortisation of land use rights**	**761**	708
Cost of inventories recognised as expenses*	**130,352**	98,118
Provision for obsolete inventories**	**–**	147
Provision on impairment loss of trade and other receivables**	**9,100**	2,866
Depreciation**	**12,019**	9,457
Research and development cost**	**314**	549
Minimum lease payments under operating leases:		
Land and building**	**1,895**	2,273

* Included in "Cost of sales" of the consolidated income statement.

** Included in "Administrative expenses" of the consolidated income statement.

6. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**4,407**	4,529
Bank charges	**115**	165
	4,522	4,694

7. TAXATION

	2010	2009
	HK$'000	*HK$'000*
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**–**	–
The PRC Enterprise Income Tax		
– current year	**16,741**	10,688
– (over)/under-provision	**(120)**	19
	16,621	10,707

Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 16.5% (2009: 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 and the Company has no assessable profit derived from Hong Kong for the year.

As at 31 December 2010, the Group had unused tax losses of approximately HK$48 million (2009: HK$43 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The PRC Enterprise Income Tax

Pursuant to the relevant rules and regulations in the PRC, Shangri-La Winery Company Limited and Diqing Shangri-La Economics Development Zone Tinlai Winery Company Limited, subsidiaries of the Company, are entitled to an exemption from the PRC enterprise income tax for the period from 1 January 2006 to 31 December 2007 and a 50% reduction for the next consecutive three years (the "Tax Exemption Period"). The Tax Exemption Period has expired in 2010.

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, subject to preferential enterprise income tax rate of 24% and is entitled to full exemption from the PRC enterprise income tax for two years starting from its first profit-making year and a 50% reduction for the next consecutive three years under the relevant tax rules applicable to foreign investment enterprise in the PRC. Shangri-La (Qinhuangdao) Winery Limited has been reported its second year profit since its establishment.

The tax rate applicable for all other subsidiaries established in the PRC is 25% (2009: 25%).

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

Pursuant to the transitional arrangements under the New Tax Law, the above mentioned PRC subsidiaries which is in the Tax Exemption Period will continue to enjoy the tax-exemption or 50% reduction in the applicable income tax rate until the expiry of the Tax Exemption Period previously granted under the FEIT Law, and thereafter it will be subject to the unified rate of 25%.

8. DIVIDEND

A final dividend of HK one cent per share for the year ended 31 December 2010, amounted to approximately HK$16,685,000, is proposed by the Board and subject to approval by the shareholders at the forthcoming Annual General Meeting.

9. EARNINGS PER SHARE

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

	2010	2009
	HK$'000	*HK$'000*
Profit for the year attributable to the owners of the Company for the purpose of basic earnings per share	**38,314**	29,500

	Number of shares	
	2010	2009
		(Restated)
Weighted average number of shares for the purpose of basic earnings per share	**1,653,446,787**	1,668,532,146

The weighted average number of shares for the purposes of calculating basis and diluted earnings per share for both years has been adjusted to reflect the open offer effective in January 2010.

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

10. GOODWILL

	HK$'000
Cost	
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	177,959
Impairment	
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	–
Carrying amount	
At 31 December 2010	177,959
At 31 December 2009	177,959

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

	2010	2009
	HK$'000	*HK$'000*
Wine business	**130,428**	130,428
Chinese liquor business	**47,531**	47,531
	177,959	177,959

Impairment test of goodwill

The recoverable amount of the above CGU of wine business and Chinese liquor business 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, and at discount rate of 8% per annum (2009 8% per annum). Another key assumption for the value in use calculations 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 is no impairment of goodwill at 31 December 2010 and 2009.

11. TRADE AND BILLS RECEIVABLES

The Group generally allows an average credit period ranging from 30 to 90 days (2009: 30 to 90 days) to its trade customers which major customers with whom specific terms have agreed.

	2010	2009
	HK$'000	*HK$'000*
Trade and bills receivables	**27,873**	27,365
Less: Impairment loss of trade and bills receivables	**(115)**	(111)
	27,758	27,254

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

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**23,357**	27,073
More than 30 days and within 60 days	**–**	–
More than 60 days and within 90 days	**4,180**	98
More than 90 days and within 180 days	**221**	83
More than 180 days and within 360 days	**–**	–
At 31 December	**27,758**	27,254
Represented by:		
Receivables from related parties	**–**	7,218
Receivables from third parties	**27,758**	20,036
	27,758	27,254

All trade and bills receivables were denominated in RMB.

12. TRADE PAYABLES

	2010	2009
	HK$'000	*HK$'000*
Within 90 days	**28,000**	25,767
More than 90 days and within 180 days	**291**	2,750
More than 180 days and within 360 days	**1,881**	1,021
	30,172	29,538

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL INFORMATION

Turnover

Our Group attained a turnover of HK$337 million for 2010 (2009: HK$260 million), representing an increase of 29.8% over previous year. Wine and Chinese liquor segments accounted for HK$209 million and HK$128 million respectively with growth rates of 26.2% and 36.1% respectively.

Cost of Production

Cost of sales increased by 28.57% from HK$122 million in 2009 to HK$156 million in 2010. The increase was in line with the increase in turnover for the year.

Gross Profit

Gross profit increased by 31% from HK$138 million in 2009 to HK$181 million in 2010 due to growth in turnover. Wine and Chinese liquor segments each accounted for HK$109 million and HK$29 million respectively. Gross profit margin increased slightly by 0.4 percentage point from 53.2% in 2009 to 53.6% in 2010.

Selling and Distribution Expenses

Selling and distribution expenses increased by 33.3% from HK$61.3 million in 2009 to HK$81.7 million in 2010. Selling and distribution expenses as a percentage of our turnover for the year increased marginally by 0.6% to 24.2%. The increase was in line with the increase in turnover.

Administrative Expenses

Administrative expenses of our Group increased by 51.8% from HK$30.3 million in 2009 to HK$46.0 million in 2010. Administrative expenses as a percentage of our turnover increased by 2% to 13.7% in 2010. This is mainly due to provisions made to YuQuan's supplier in the year.

Operating Profit

Our operating profit increased by 31.7% from HK$50.7 million in 2009 to HK$66.7 million in 2010. Operating profit margin increase slightly from 19.5% in 2009 to 19.8% in 2010.

Income Tax Expenses

Our income tax expenses increased from HK$10.70 million in 2009 to HK$16.62 million in 2010, primarily as a result of increase in turnover and profit before tax.

Profit Attributable to Our Owners

As a result of the above, the profit attributable to our owners in 2010 increased by 29.9% from HK$29.5 million in 2009 to HK$38.31 million in 2010. The margin of profit attributable to our owners marginally stands at 11.4% for both 2009 and 2010.

Liquidity and Capital Resources

Cash and bank borrowings

We generally finance our operations and capital expenditure by internally generated cash flows as well as banking facilities provided by our principal bankers. As at 31 December 2010, our bank balances and deposits amounted to HK$263 million (31 December 2009: HK$90.5 million) representing an increase of 191%. The substantial increase was as a result of the proceed from the Open Offer. About 78.2% of our cash was denominated in Renminbi.

Our total borrowings as at 31 December 2010 decreased by 14.75% to HK$82.35 million (31 December 2009: HK$96.60 million) due to a repayment of bank facilities by YuQuan. All of our borrowings are denominated in Renminbi. We maintain sufficient cash and available banking facilities for our working capital requirements in future.

Cash flow

In 2010, our net cash flow increased from HK$90.5 million to HK$263 million, representing an increase of 1.91 times. This is mainly due to cash received from the Open Offer.

Capital expenditure

During the year 2010, our total capital expenditure amounted to HK$49.6 million (2009: HK$23.5 million) which mainly used in the construction of bottling facilities in YuQuan. For the year 2011, we have budgeted HK$70 million for capital expenditure of which HK$50million is allocated to the development of the Masang Chateau in Yantai and HK$20 million for the relocating of our production facilities in Kunming.

Inventory analysis

Our inventory primarily consists of finished goods, goods in transit, work in progress for winery products as well as raw materials and packaging materials. The finished goods turnover ratio (average closing finished goods divided by cost of sales) was 126 days for the year ended 31 December 2010 (2009: 88 days). The increase was due to a higher end of stock figure as a result of greater stock held in preparation for the Chinese New Year sales.

Balance sheet analysis

As at 31 December 2010, the Group had total assets of HK$891 million (2009: HK$641 million) which was financed by current liabilities of HK$164 million (2009: HK$149 million), non-current liabilities of HK$59.51 million (2009: HK$42.7 million), shareholders' equity of HK$598 million (2009: HK$389 million) and non-controlling interests of HK$69.33 million (2009: HK$60 million).

The Group's current ratio as at 31 December 2010 was approximately 2.91 (2009: 1.79). Gearing ratio, representing the total borrowings divided by total equity, was approximately 12.4 % (2009: 21.5%). The reduction in gearing ratio is due to the increase in total cash level as a result of the Open Offer.

Basic earnings per share attributable to the owners of the Company for the year ended 31 December 2010 were at HK 2.32 cents (2009: HK1.77 cents (Restated)), increased by 31.1%.

Trade receivables turnover period (average trade receivables divided by turnover) was 30 days (2009: 38 days). The Group did not experience any material bad debts that required write off in 2010.

The Group has capital commitment amounted to HK$15 million (2009: HK$7 million). The Group and the Company had no other material contingent liabilities as at 31 December 2010.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2010, the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 15.24% (2009: 29%) of the Group's total purchases and the purchases attributable to the Group's largest supplier was approximately 3.6% (2009: 7%).

The aggregate sales attributable to the Group's five largest customers for the year ended 31 December 2010 were approximately amounting to 46.15% (2009: 26%) and the sales attributable to the Group's largest customer was approximately 29.49% (2009: 10.9%).

None of the directors of the Company, their associates or shareholders 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 2010, the Group was granted HK$8.1 million (2009: HK$3.5 million) as subsidies from the local finance department in subsidizing the Group's technical development. Since 2006 the State Administration of Taxation (國家稅務總局) has approved Shangri-la Winery's profits tax exemption application allowing first 2 years tax exemption and the following three years half the normal rate at 12.5%. Year 2010 was the final year Shangri-la Winery is subject to 12.5% profits tax. YuQuan is subject to normal profits tax rate of 25%. The Hong Kong company is subject to a profits tax rate of 16.5%.

DIVIDENDS

The Board recommended a final dividend of HK 1 cent per share for the year ended 31 December 2010 (2009: Nil) to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at 29 April 2011, subject to the approval by the Company's shareholders at the forthcoming Annual General Meeting.

PLEDGE OF ASSETS

At 31 December 2010, the Group pledged its land, property, plant and equipments with net book value amounting approximately HK$51 million (2009: HK$58 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 Renminbi ("RMB"). There is natural hedge mechanism in place and currency exposure is relatively low. As such it does not anticipate material exchange risk and had not employed any financial instruments for hedging purposes.

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 exposure.

EMPLOYEE INFORMATION

As at 31 December 2010, the Group employed a total of 846 (2009: 875) full-time employees mostly at the Group's subsidiary factories and sales offices. Out of total employment, 192. staff related to sales and marketing, 587 staff related to production, 32 staff related to management and 35 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 such employees. The Company adopted a share option scheme (the "Scheme") on 16 September 2002 for the primary purpose of providing incentives to the directors and eligible employees. No options were granted under the Scheme since its adoption.

BUSINESS ENVIRONMENT

During this time of the post-global financial crisis era, global economy rises and falls albeit a positive trend as the market finds its way to recovery. Various countries had implemented massive stimulative fiscal and monetary policies. The results were remarkable as the economy continues to demonstrate exceptional rebounce. As those stimulus started to fade, the fragile economy resumed its shakiness, especially during the outburst of Europe's sovereign-debt crisis towards the second half of the year. The outlook of the economic for the coming year is still uncertain. China seemed immune from the global financial crisis. The Country's gross domestic product in 2010 amounted to approximately RMB39,800 billion, signifying an annual growth of 11.2%. However, the influence of the uncertainties on China's economic growth is yet to be determined.

During the year, the Group has taken advantage of its brand awareness and solid financial foundation, actively responded to the complicated and buoyant market by promptly launching new products, building up new client base and exploring new markets to increase its market share. Leveraging on the synergistic effect, the Group has implemented streamline management methodology and reinforced the awareness of quality service to support a rapid growth of its businesses, securing its position as the market leader and achieving its targeted objectives.

PROSPECT

Over the past year, although the global market has been recovering from the global financial crisis, recent turmoil in the Middle East and North Africa together with recent disasters that hit Japan have all casted uncertainties to the on-going recovery of the global market. The effects of which will not be limited to the supply of crude oil, but via production costs spread across to other areas including food prices. Aided by the low interest environment and excessive capital flow, inflation expectation and the formation of asset bubble might not be too far away. The Chinese government recently took measures to combat inflation, especially on the continuous rise of property prices and to set a lower growth target for the coming year, yet the steady growth of income and the government's incentive to boost personal spending through "the twelve five-year plan" are more than enough to maintain strong domestic consumption. Certainly the wine industry will adjust to favorable market sentiment and capture the turnarounds in order to expedite growth. This will no doubt intensify competition in the industry.

No matter which way the economy goes, the Group will continue to focus on its core brand value to expand the business further. Although the market condition is uncertain, we have the competitive edge to pioneer the wine market. The Group will take advantage of its brand recognition, intimate market knowledge and extensive servicing channels in seizing and realizing future opportunities. With our solid foundation, we have the determination to achieve new milestones and keep up with new achievements.

Looking forward, as Chinese economy further develops, the Group will back on the nation's growth and accommodate into the macro reform. With the Group's responsive product development skills and excellent implementation capability, we will continue to bring good quality products to the market.

Under suitable conditions and with the support of our major shareholder, the VATS Group, we will look for opportunities of internal or external merging and acquisition so as to explore more sizeable and influential projects and to further optimise our capital structure with the view to establish a significant platform for the China wine and liquor industry. By strengthening and reinforcing the market position, we plan to achieve rapid growth and to return the greatest value to shareholders.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 April 2011 to 29 April 2011 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend for the year ended 31 December 2010 and for attending the forthcoming Annual General Meeting of the Company to be held, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tricor Progressive Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 26 April 2011.

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 ended 31 December 2010.

AUDIT COMMITTEE

As of the date of this announcement, 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 2010. The Audit Committee was content that the accounting policies of the Group are in accordance with current best practice in Hong Kong.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2010 with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules.

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

Hong Kong, 25 March 2011

As at date of this announcement, the Board comprised Mr. Wu Xiang Dong, Mr. Yan Tao, Mr. Lu Tong, Mr. Sun Jian Xian, Mr. Shu Shi Ping and Mr. Zhang Jian as executive Directors, and Mr. Ting Leung Huel, Stephen, Mr. Cao Kuangyu and Mr. E Meng as independent non-executive Directors.

* *For identification purpose only*