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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 2013

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 2013, together with the comparative figures for the year ended 31 December 2012 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	Notes	**2013** *HK$'000*	2012 *HK$'000*
Turnover	*3*	**336,563**	366,208
Cost of sales		**(172,635)**	(179,771)
Gross profit		**163,928**	186,437
Other revenue		**17,610**	19,249
Selling and distribution expenses		**(98,886)**	(103,535)
Administrative expenses		**(63,124)**	(56,177)
Other operating expenses		**(87,715)**	–
(Loss) profit from operating activities	*5*	**(68,187)**	45,974
Finance costs	*6*	**(3,918)**	(4,277)
(Loss) profit before taxation		**(72,105)**	41,697
Taxation	*7*	**(7,660)**	(18,346)
(Loss) profit for the year		**(79,765)**	23,351
Attributable to:			
Owners of the Company		**(81,975)**	9,832
Non-controlling interests		**2,210**	13,519
		(79,765)	23,351
(Loss) earnings per share attributable to owners of the Company			
Basic and diluted	*9*	**HK (4.91 cents)**	HK 0.59 cent

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013

	2013	2012
	HK$'000	*HK$'000*
(Loss) profit for the year	**(79,765)**	23,351
Other comprehensive income, net of income tax		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising from translation of foreign operations	**15,192**	14,100
Total comprehensive (loss) income for the year	**(64,573)**	37,451
Attributable to:		
Owners of the Company	**(68,495)**	22,485
Non-controlling interests	**3,922**	14,966
	(64,573)	37,451

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
ASSETS			
Non-current assets			
Land use rights		**29,079**	29,147
Property, plant and equipment		**300,457**	288,113
Intangible assets		**36,582**	36,117
Available-for-sale investments		**1,847**	1,800
Goodwill	*10*	**144,449**	177,959
		512,414	533,136
Current assets			
Inventories		**246,293**	301,230
Trade and bills receivables	*11*	**39,450**	40,130
Prepayments, deposits paid and other receivables		**77,609**	37,995
Cash and cash equivalents		**141,623**	132,877
		504,975	512,232
Total assets		**1,017,389**	1,045,368
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		**16,685**	16,685
Reserves		**579,375**	647,870
		596,060	664,555
Non-controlling interests		**102,004**	98,082
Total equity		**698,064**	762,637
LIABILITIES			
Non-current liabilities			
Bank borrowings – due after one year		**64,445**	–
Deferred tax liabilities		**22,736**	22,136
		87,181	22,136
Current liabilities			
Trade payables	*12*	**49,667**	51,913
Accruals, deposits received and other payables		**174,727**	126,585
Amounts due to related parties		**1,289**	8,561
Bank borrowings – due within one year		**–**	62,795
Tax payables		**6,461**	10,741
		232,144	260,595
Total liabilities		**319,325**	282,731
Total equity and liabilities		**1,017,389**	1,045,368
Net current assets		**272,831**	251,637
Total assets less current liabilities		**785,245**	784,773

Notes:

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(i) New and revised HKFRSs adopted by the Group

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2013:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009 – 2011 Cycle
HKFRS 1 (Amendments)	Government Loans
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 19 (Revised in 2011)	Employee Benefits
HKAS 27 (Revised in 2011)	Separate Financial Statements
HKAS 28 (Revised in 2011)	Investments in Associates and Joint Ventures
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

Early adoption of new and revised HKFRSs

The Group has early adopted HKAS 36 (Amendments) "Recoverable Amount Disclosures for Non-Financial Assets", which is effective for annual periods beginning on or after 1 January 2014.

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding an individual asset (including goodwill) and a CGU for which an impairment loss has been recognised or reversed during the reporting period. The early adoption of amendments to HKAS 36 removes the requirement to disclose the recoverable amounts of CGUs as there was no impairment of these intangible assets.

The adoption of the new and revised HKFRSs in the current year has no material impact on the Group's financial performance and positions for the current and prior years.

(ii) New and revised HKFRSs have been issued but are not yet effective for the financial year beginning on 1 January 2013

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

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010-2012 Cycle[3]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011-2013 Cycle[2]
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 10, HKFRS 12 and HKAS 27 (Revised in 2011) (Amendments)	Investment Entities[1]
HKFRS 14	Regulatory Deferral Accounts[4]
HKAS 19 (Amendments)	Defined Benefits Plans: Employee Contributions[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[1]
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC) – Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
4 Effective for annual periods beginning on or after 1 January 2016
5 No mandatory effective date yet determined but is available for adoption

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described below:

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

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

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

The directors of the Company do not anticipate that the investment entities amendments will have any effect on the Group's consolidated financial statements as the Company is not an investment entity.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

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

The directors of the Company do not anticipate that the application of these amendments to HKAS 32 will have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness.

The directors of the Company do not anticipate that the application of these amendments to HKAS 39 will have any effect on the Group's consolidated financial statements as the Group does not have any derivatives that are subject to novation.

HK (IFRIC) – Int 21 Levies

HK (IFRIC) – Int 21 *Levies* addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Company anticipate that the application of HK (IFRIC) – Int 21 will have no effect on the Group's consolidated financial statements as the Group does not have any levy arrangements.

Save as described above, the directors of the Company anticipate that the application of the new and revised HKFRSs will have no material effect on the Group's consolidated financial statements.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Hong Kong Companies Ordinance and by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited.

3. TURNOVER

	2013	2012
	HK$'000	*HK$'000*
Production and distribution of wine	**190,628**	194,213
Production and distribution of Chinese baijiu	**145,935**	171,995
	336,563	366,208

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 of distribution of Chinese baijiu. The segmentations are based on the information of the operation of the Group that management uses to make decisions.

Segment revenue and results

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

	Chinese Baijiu		**Wine**		**Total**	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Revenue from external customers	**145,935**	171,995	**190,628**	194,213	**336,563**	366,208
Segment results	**16,771**	55,446	**(37,211)**	(202)	**(20,440)**	55,244
Unallocated corporate income					**851**	716
Unallocated corporate expenses					**(15,088)**	(9,986)
Impairment loss of goodwill					**(33,510)**	–
Finance costs					**(3,918)**	(4,277)
(Loss) profit before taxation					**(72,105)**	41,697
Taxation					**(7,660)**	(18,346)
(Loss) profit for the year					**(79,765)**	23,351

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

Segment assets and liabilities

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

	Chinese Baijiu		**Wine**		**Total**	
	2013	2012	**2013**	2012	**2013**	2012
	HK\$'000	*HK\$'000*	***HK\$'000***	*HK\$'000*	***HK\$'000***	*HK\$'000*
Segment assets	**398,984**	334,418	**609,451**	688,220	**1,008,435**	1,022,638
Unallocated					**8,954**	22,730
					1,017,389	1,045,368
Segment liabilities	**86,137**	41,027	**142,174**	153,347	**228,311**	194,374
Unallocated					**91,014**	88,357
					319,325	282,731

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 below; and all liabilities are allocated to reportable segments except for bank borrowings, deferred tax liabilities and other financial liabilities which are managed on a group basis.

Other segment information

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

	Chinese Baijiu		**Wine**		**Total**	
	2013	2012	**2013**	2012	**2013**	2012
	HK\$'000	*HK\$'000*	***HK\$'000***	*HK\$'000*	***HK\$'000***	*HK\$'000*
Additions to non-current assets	**17,000**	23,182	**13,719**	41,603	**30,719**	64,785
Depreciation of property, plant and equipment	**7,217**	6,074	**15,966**	10,587	**23,183**	16,661
Amortisation of land use rights	**596**	581	**237**	231	**833**	812
Amortisation of intangible assets	**–**	–	**484**	477	**484**	477
Impairment losses of trade and other receivables	**82**	942	**–**	431	**82**	1,373
Write-down of obsolete inventories	**–**	–	**54,205**	–	**54,205**	–
Impairment loss of goodwill	**–**	–	**33,510**	–	**33,510**	–

Information about major customers

Included in revenue of approximately HK\$33,832,000 (2012: HK\$ 37,267,000) and HK\$ 25,639,000 (2012: HK\$36,659,000) arose from sales to the Group's largest customers for the wine segment and Chinese baijiu segment respectively. No other single customer contributed 10% or more to the Group's revenue for both 2013 and 2012.

Geographical information

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

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

5. (LOSS) PROFIT FROM OPERATING ACTIVITIES

	2013	2012
	HK$'000	*HK$'000*
(Loss) profit from operating activities has been arrived at after charging:		
Staff costs, including directors' emoluments		
– Salaries and allowances	**46,619**	47,720
– Retirement benefits scheme contributions	**11,022**	11,948
Total staff costs	**57,641**	59,668
Auditors' remuneration	**1,094**	1,114
Amortisation of intangible assets	**484**	477
Amortisation of land use rights	**833**	812
Cost of inventories recognised as expenses	**142,340**	143,860
Loss on disposal of property, plant and equipment	**2,757**	159
Write-down of obsolete inventories*	**54,205**	–
Impairment losses of trade and other receivables	**82**	1,373
Impairment loss of goodwill* (note 10)	**33,510**	–
Depreciation of property, plant and equipment	**23,183**	16,661
Research and development costs	**28**	21
Minimum lease payments under operating leases:		
Land and building	**1,414**	1,728

* These items are included in "Other operating expenses" in the consolidated income statements.

6. FINANCE COSTS

	2013	2012
	HK$'000	*HK$'000*
Interest on bank borrowings	**3,857**	4,120
Bank charges	**61**	157
	3,918	4,277

7. TAXATION

	2013	2012
	HK$'000	*HK$'000*
Income tax recognised in profit or loss		
The charge comprises:		
Current tax:		
The PRC Corporate Income Tax		
– current year	**7,575**	17,272
– under-provision in prior year	**85**	1,074
	7,660	18,346

Hong Kong Profits Tax

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 both years.

As at 31 December 2013, the Group had estimated unused tax losses of approximately HK$75 million (2012: approximately HK$ 64 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The PRC Corporate Income Tax

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

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

Shangri-la (Qinhuangdao) Winery Limited, a subsidiary of the Company which is a foreign investment enterprise established in the Coastal Open Economics Region of Qinhuangdao, the PRC, is subject to corporate income tax rate of 25% and is entitled to full exemption from the PRC corporate income tax for two years starting from its first profit-making year and a 50% reduction for the next consecutive three years (the "Tax Exemption Period") under the relevant tax rules applicable to foreign investment enterprise in the PRC. Shangri-la (Qinhuangdao) Winery Limited has reported its fourth year profit since its establishment. The Tax Exemption Period has expired in 2013.

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

The tax rate applicable for all other subsidiaries established in the PRC is 25% (2012: 25%).

8. DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2013 (2012: Nil).

9. (LOSS) EARNINGS PER SHARE

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

	2013	2012
	HK$'000	*HK$'000*
(Loss) profit for the year attributable to the owners of the Company for the purpose of basic and diluted (loss) earnings per ordinary share	**(81,975)**	9,832

	Number of shares	
	2013	2012
Weighted average number of shares for the purpose of basic and diluted (loss) earnings per ordinary share	**1,668,532,146**	1,668,532,146

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

10. GOODWILL

	HK$'000
Cost	
At 1 January 2012, 31 December 2012 and 31 December 2013	177,959
Accumulated impairment losses	
At 1 January 2012, 31 December 2012 and 1 January 2013	–
Impairment loss recognised for the year	33,510
At 31 December 2013	33,510
Carrying amounts	
At 31 December 2013	**144,449**
At 31 December 2012	177,959

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

	2013	2012
	HK$'000	*HK$'000*
Wine business	**96,918**	130,428
Chinese baijiu business	**47,531**	47,531
	144,449	177,959

11. TRADE AND BILLS RECEIVABLES

The Group generally allows an average credit period ranging from 30 to 90 days (2012: 30 to 90 days) to its trade customers.

	2013	2012
	HK$'000	*HK$'000*
Trade and bills receivables	**39,707**	40,301
Less: Impairment loss of trade and bills receivables	**(257)**	(171)
	39,450	40,130

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 follows:

	2013	2012
	HK$'000	*HK$'000*
Within 30 days	**37,740**	39,844
More than 30 days and within 60 days	**1,710**	266
More than 60 days and within 90 days	**–**	–
More than 90 days and within 180 days	**–**	–
More than 180 days and within 360 days	**–**	20
At 31 December	**39,450**	40,130
Represented by:		
Receivables from related parties	**29,811**	12,343
Receivables from third parties	**9,639**	27,787
	39,450	40,130

All trade and bills receivables were denominated in Renminbi ("RMB").

The movements in impairment losses of trade and bills receivables were as follows:

	2013	2012
	HK$'000	*HK$'000*
At 1 January	**171**	206
Exchange alignment	**6**	6
Impairment losses recognised	**82**	171
Reversal of impairment losses	**(2)**	(212)
At 31 December	**257**	171

The Group does not hold any collateral over these balances.

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

	2013	2012
	HK$'000	*HK$'000*
Neither past due nor impaired	**39,450**	40,110
One to six month past due	**–**	20
Six months to one year past due	**–**	–
	39,450	40,130

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

At 31 December 2012, receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

12. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date is as follows:

	2013	2012
	HK$'000	*HK$'000*
Within 90 days	**36,730**	34,497
More than 90 days and within 180 days	**3,394**	7,558
More than 180 days and within 360 days	**9,543**	9,858
	49,667	51,913

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL INFORMATION

Turnover

As a result of the slowdown in the industry and the central government's restriction on ostentatious spending, the Group recorded a decrease in turnover of 8.1% to HK$336.6 million for the year 2013 (2012: HK$366.2 million). Turnover of wine and baijiu segments dropped by 1.8% and 15.2% to HK$190.6 million (2012: HK$194.2 million) and HK$145.9 million (2012: HK$172.0 million) respectively. The baijiu segment, which accounted for 43.4% of the Group's total turnover, has experienced a sharp fall mainly due to the decline in the sales of high-end products. The wine segment, which accounted for 56.6% of total turnover, remained relatively stable as a result of enhanced marketing effort and improved product mix by focusing on middle to low-end wine for general consumption.

Cost of Sales

Cost of sales for wine and baijiu segments decreased by 3.1% to HK$114.1 million and 5.7% to HK$58.5 million respectively. Gross production costs decreased by 4.0% to HK$172.6 million (2012: HK$179.8 million) as turnover declined. In terms of percentage of turnover, the cost of sales increased from 49.1% to 51.3% due to rising materials costs and manufacturing overheads.

Gross Profit

Gross profit decreased by 12.1% to HK$163.9 million (2012: HK$186.4 million). Wine and baijiu segments each accounted for HK$76.5 million and HK$87.4 million respectively. Gross profit margin of wine increased slightly to 40.1% (2012: 39.4%) whereas baijiu reduced by 4.0% to 59.9% (2012: 63.9%) leading to a reduction in the Group's gross profit margin by 2.2% to 48.7% (2012: 50.9%). The decrease was mainly due to the drop in gross profit margin of baijiu segment.

The Group was able to uphold a reasonable gross profit amid a highly competitive operating environment.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 4.5% to HK$98.9 million (2012: HK$103.5 million). The decrease was mainly because of the drop in sales commission as turnover reduced. As the Group maintained the same level of marketing effort, selling and distribution expenses as a percentage of turnover for the year increased slightly by 1.1% to 29.4% (2012: 28.3%).

Administrative Expenses

During the year, administrative expenses increased by 12.4% to HK$63.1 million (2012: HK$56.2 million). The increase was mainly due to the increase in staff costs. The rise in staff costs during the year was largely in line with the market and general inflation. Administrative expenses as a percentage of turnover increased by 3.5% to 18.8% (2012: 15.3%).

Other Operating Expenses

Other operating expenses increased significantly as a result of the provision for slow-moving inventories and the impairment of goodwill. As certain discount was offered to the market in order to improve the turnover of inventories, certain winery products were written down, resulting in a provision amounted to HK$54.2 million (2012: Nil). Goodwill in relation to the wine business amounted to HK$33.5 million (2012: Nil) was impaired.

Loss Before Tax

The combined effect of the decline in turnover and gross profit and the increase of operating expenses led to a loss before tax of HK$72.1 million (2012: profit of HK$41.7 million).

Income Tax

Due to the loss position, the overall income tax was reduced by 58.2% to HK$7.7 million (2012: HK$18.3 million).

Loss Attributable to Owners

The loss attributable to owners of the Company rose substantially to HK$82.0 million (2012: profit of HK$9.8 million).

Basic loss per share attributable to the owners of the Company for the year ended 31 December 2013 was HK4.91 cents (2012: earnings of HK0.59 cent).

LIQUIDITY AND FINANCIAL RESOURCES

Cash and bank borrowings

We generally finance our operation and capital expenditure by internally generated cash flows as well as banking facilities provided by our principal bankers. As at 31 December 2013, the Group had cash and cash equivalents of HK$141.6 million (2012: HK$132.9 million), representing an increase of 6.6%. The Group's cash position has improved slightly over the year as a result of net cash inflow from operation. About 93.8% (2012: 83.7%) of our cash was denominated in RMB.

As at 31 December 2013, our total bank borrowings increased by 2.6% to HK$64.4 million (2012: HK$62.8 million). All of our bank borrowings are denominated in RMB. In view of the Group's cash and bank balances, funds generated internally from our operation and the unutilized banking facilities available, we are confident that the Group will have sufficient resources to meet its debt commitment and working capital requirements in the foreseeable future.

Capital expenditure

During the year, our total capital expenditure amounted to HK$30.7 million (2012: HK$64.8 million) which was mainly used for the purchase of machineries and the construction of Shangri-la Masang Château. For the year 2014, we have budgeted HK$36.1 million for capital expenditure.

Inventories

Our inventories primarily consisted of finished goods, goods in transit, work in progress as well as raw materials. As a result of the inventories provision, the Group's inventories reduced by 18.2% to HK$246.3 million (2012: HK$301.2 million). The finished goods turnover ratio (being average closing finished goods divided by cost of sales) was 199 days for the year ended 31 December 2013 (2012: 227 days).

Balance sheet analysis

As at 31 December 2013, the Group had total assets of HK$1,017.4 million (2012: HK$1,045.4 million) of which current assets amounted to HK$505.0 million (2012: HK$512.3 million) and non-current assets amounted to HK$512.4 million (2012: HK$533.1 million). Total liabilities of the Group included current liabilities of HK$232.1 million (2012: HK$260.6 million) and non-current liabilities of HK$87.2 million (2012: HK$22.1 million). Our total equity was composed of shareholders' equity of HK$596.1 million (2012: HK$664.6 million) and non-controlling interests of HK$102.0 million (2012: HK$98.1 million).

The Group's current ratio as at 31 December 2013 was 2.2 (2012: 2.0). Gearing ratio, representing total borrowings divided by total equity, was 9.2% (2012: 8.2%). Both ratios are at healthy level indicating that the Group is able to meet its short-term and long-term debts.

Trade receivables turnover (being average trade receivables divided by turnover) was 20 days (2012: 29 days). The Group did not experience any material bad debts that required to be written off in 2013.

The Group had capital commitments amounted to HK$55.2 million (2012: HK$60.4 million). The Group had no material contingent liabilities as at 31 December 2013.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2013, save as the related parties transactions, major suppliers and customers of the Group are as follows:

The Group's five largest suppliers accounted for 39.2% (2012: 27.2%) of the Group's total purchases and the purchases attributable to the Group's largest supplier was 14.9% (2012: 9.0%).

The Group's five largest customers accounted for 32.9% (2012: 40.0%) of the Group's total turnover and the sales attributable to the Group's largest customer was 7.6% (2012: 10.0%).

None of the directors, their associates or shareholders of the Company which, to the knowledge of the directors of the Company, owned more than 5% of the Company's issued share capital had any beneficial interest in the five largest suppliers or customers of the Group.

GOVERNMENT SUBSIDIES

During the year, the Group has been granted an aggregate amount of HK$14.2 million (2012: HK$16.8 million) from the local finance department in subsidising the Group's technical development.

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2013 (2012: Nil).

PLEDGE OF ASSETS

At 31 December 2013, the Group pledged its land, property, plant and equipments with net book value amounted to HK$44.6 million (2012: HK$48.3 million) to secure general banking facilities granted.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

As most of the Group's revenue, expenses, assets and liabilities are denominated in RMB, there is natural hedge mechanism in place and currency exposure is relatively low. As such, no material exchange rate risk is anticipated and no financial instruments for hedging purposes are employed.

The slow and moderate appreciation of the RMB against the United States dollar has a positive but negligible impact on the Group. To enhance overall risk management for its expansion, the Group has already strengthened its treasury management capability and will closely monitor its currency and interest rate exposures.

MATERIAL ACQUISITION AND DISPOSAL

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

EMPLOYEE INFORMATION AND EMOLUMENT POLICY

As at 31 December 2013, the Group employed a total of 1,057 (2012: 1,145) full-time employees mostly at the Group's factories and sales offices, in which 307 staff related to sales and marketing, 471 staff related to production, 108 staff related to management and 171 staff related to administration. 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 schemes (as the case may be) to its employees in compliance with the applicable laws and regulation.

ECONOMY OUTLOOK

It has been more than five years since the worldwide financial crisis in 2008, and the world economy is starting to show signs of recovery in 2013. However, challenges still remain as Europe's debt crisis persisted and the US Federal Reserve's unwinding of quantitative easing all brought uncertainties to the global financial market. While there has been a shift in global economic power from the developed world to the developing world, China, being the economic driver in Asia, dangled by a shift in its fiscal policies, has led deceleration throughout the region. With the Chinese government's calibration of the country's economy from export and investment centric to domestic consumption, China is now under a course of economic rebalancing which may see better and healthier development in the future.

MARKET OVERVIEW

Deteriorating conditions in China's wine and baijiu market exerted pressure on our performance during the year. As a result of changes in domestic consumption and China's new administration's policy to restrict ostentatious spending, sales of high-end wine and baijiu products experienced a downturn. Industry players and competitors were struggling to destock, resulting in pervasive discounts and intensifying price pressures. Combined with structural changes in the market – the growth of e-commerce and a more value-conscious consumer base – the industry was fraught with difficulties.

Nevertheless, the shift in the high-end luxurious wine and baijiu market has created development opportunities for regional brands as well as medium to low price wine and baijiu products. Rapid modernisation and rising dispensable incomes in China have created growth momentum for better value wine and baijiu products. With the drinking habits shifting from business entertainment to personal leisure, and with greater awareness of health and safety concerns, the outlook for the industry, especially on wine and baijiu for daily consumption and those targeting provincial markets, remains rosy and is on a rising trend.

In spite of this backdrop, we have proceeded to mitigate the ongoing challenges of the current economic climate by realigning our product offerings to adapt to the shifts in the market and to exercise greater focus on promoting and enhancing our brand value, targeting our products for general consumption. By delivering a clear and simple product image to the market and enhancing the timeliness and efficiency of our supply chain, we are simultaneously improving productivity and performance to retain our competitive edge.

Our strong capacity for innovation and our prompt adaptation to changes continue to further differentiate us from our competitors and help us extend our leading position in the market. With the aim of standing out from our peers, we remain focused on our regional market and strive to further enhance our brand equity to gain greater recognition and creditability for our brand and our products. During the year, we rolled out Shangri-la's A series winery products and YuQuan's Harmonious Elegant Series targeting mid to lower price range. The launches of these affordable and good value-for-money products have impressed the mass consumer market. As a result of our strong product differentiation and effective pricing strategy, we have seen faster recovery in the first quarter of 2014.

FINANCIAL HIGHLIGHTS

Faced with erratic macroeconomic challenges and a turbulent retail environment, the Group experienced its first operating loss since 2007. As a result of the decline in the Group's sales of high-end products, the turnover declined by 8.1% to HK$336.6 million for the year ended 31 December 2013. Despite destocking and intense competition in the industry, we still managed to achieve solid performance during the year. Our comprehensive marketing measures have made good progress and are bearing fruit, which enabled us and our channel networks to minimise inventory risks and to enhance profitability. Our differentiated value-for-money products received an excellent response from the market which allowed us to record a gross profit of HK$163.9 million and a healthy gross profit margin of 48.7%. We made a one off provision of HK$54.2 million on Shangri-la's inventories and an impairment of Shangri-la's goodwill of HK$33.5 million for the year. The provision was made in accordance with the Group's plan to offer discounts on certain products and the impairment was mainly a reflection of Shangri-la's current year loss. After making such provision, we recorded an aggregate loss of HK$79.8 million for the year 2013 (2012: profit of HK$23.4 million). Loss attributable to equity shareholders amounted to HK$82.0 million (2012: profit of HK$9.8 million) and basic loss per share amounted to HK4.91 cents (2012: earnings per share of HK0.59 cent). Despite the unfavourable factors mentioned above, our financial position remains healthy with a gearing ratio at a reasonable level. Should we exclude the effects of the provision and the impairment which are non-cash in nature, our operational and financial results would have been profitable.

YUQUAN BAIJIU OPERATION

Being the leading baijiu brand in Harbin and northeast China, YuQuan is unique in its brand features and distinctive positioning. The downturn in the general baijiu market did have a certain effect on YuQuan. Being a leading regional brand, YuQuan has a solid local foundation. After realigning our marketing strategy, we turned the situation into an opportunity for development. Though sales of YuQuan for the period has declined by 15.2% to HK$145.9 million due to the reduction in high-end product sales and profit reduced by 71.2% to HK$11.6 million, our performance was already much better than the same peer in the industry.

BAIJIU MARKETING

Over the years, the Group has maintained its focus on brand promotion and consolidating market share. The "YuQuan" brand has been well-embraced by consumers, especially its core products "YuQuan Harmonious Elegant Series (玉泉和諧清雅系列)" and the "YuQuan Vintage Series (玉泉年份酒系列)". It has developed into a premium proprietary brand and has earned the designations of "China's famous brand" and "National Products of Geographical Indication". As the leading enterprise in Heilongjiang's baijiu industry, YuQuan has long maintained its good reputation over the past 60 years.

In 2013, the Group spared no effort in marketing campaigns for its baijiu products and achieved remarkable success. In June 2013, YuQuan was appointed as the special cooperative partner of the 24th China Harbin International Economic and Trade Fair for the 4th consecutive year since 2010. The partnership symbolises not just a marketing activity of our expansion strategy, but also a sense of social responsibility in support of local economic development in Heilongjiang Province. In addition, YuQuan was invited by the Harbin Commerce Bureau to participate in the 21st Guangzhou Fair from 23rd to 26th August 2013 as a representative of the province's "China Time Honoured Brand", further improving our brand awareness and competitiveness.

SHANGRI-LA WINERY

Shangri-la Winery has experienced a difficult year under the adverse market condition which affected the overall business performance of the Group. Rising raw materials, labour, logistics and marketing costs resulted in higher operating and administrative expenses. These coupled with a heavy destocking exercise by wine importers and local brands led to severe price competition. Though we were able to maintain turnover and gross profit similar to last year at HK$190.6 million and HK$76.5 million respectively, after making provision for inventory and goodwill impairment, Shangri-la recorded a significant segment loss of HK$77.1 million (2012: loss of HK$7.7 million).

MARKETING FOR SHANGRI-LA WINERY

China's wine market has become subdued. To combat this, we decided to streamline our product offerings and focus our resources to promote the mid-low price range Plateau A series and Dai Zang Mi (大藏秘) Tibetan barley series. By strengthening our product differentiation and optimising the flexibility and efficiency of our logistics, we helped our channel distributors minimise their inventory risks and improve their operational performance, which in turn regained their confidence in future ordering and replenishment arrangements.

To achieve our core objective of becoming a brand for the general public and to adhere to our mission of giving back to society, Shangri-la Winery has combined its product promotion campaigns with charity events. Much effort has been spent in implementing marketing strategies to strengthen Shangri-la's brand awareness, which in turn support long-term growth. During the year, Shangri-la Winery has organised a charitable traditional mid-autumn celebrating activity in Xiamen, the "Xiamen Community Charitable Moon-cake Contest" from 15th August to 30th September 2013. All proceeds from the contest were donated to the Xiamen Children's Welfare House. Furthermore, for each bottle of Shangri-la Winery Dai Zang Mi (大藏秘) White Golden Tibetan Dry sold during the contest, Shangri-la Winery donated RMB3 to the Xiamen Children Welfare House.

PRODUCTS AND ACHIEVEMENT

Shangri-la Winery's new products and branding strategies earned considerable recognition in the industry. We have participated in the International Wine Challenge during HOFEX 2013 held in Hong Kong in May 2013. We were awarded eight medals: Shangri-la Plateau A2 Chardonnay has won silver award in the cool climate selection and a bronze medal in the Chardonnay category. Shangri-la Plateau A3 has 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) 9º Tibetan Dry has won the seal of approval. Apart from the above, Shangri-la Plateau A3 Cabernet Sauvignon was awarded the gold medal at the 7th Yantai International Wine Competition, and Plateau A3 Chardonnay was awarded the silver medal at the 2013 Vinalies Internationales China.

We also participated in the China Competition for Good Value International Wines from Famous Regions, which was co-organised by the China National Food Industry Association, Chinese Society for Horticultural Science, Vigobles Célèbres de France and Wines of South Africa in August 2013. The results were encouraging, with Shangri-la Plateau A8 and 2800 winning the premium award and special award respectively.

The numerous international awards we have won demonstrate the wide recognition of our product quality. With this in mind, our team will continue its efforts to bring out the best of Shangri-la in return for the market's appreciation of our products.

ACQUISITIONS AND EXPANSION

Over the past few years, we have been proactive in searching acquisition opportunities to expand our business with the aims to enrich our product offerings and to increase future sales and profitabilities. Facing the challenges in the market, we believe a multi-brand strategy would be the best approach for achieving our future growth.

The YuQuan acquisition in 2008 is an example that showcase the success of our acquisition strategy and in enhancing the Company's business coverage. Through YuQuan we have captured a distinct market position in northeast China, laying a solid foundation for our development in the baijiu industry.

In July 2013, the Company announced its intention to enter into an agreement for the proposed acquisition of a group of companies principally engaged in the sale and distribution of baijiu in China. The acquisition is in line with our strategical plan to develop our business through merger and acquisition, and is believed to be in the interests of the Company and the shareholders as a whole. Nevertheless, the structure and the terms of the acquisition are still being finalised and there is no guarantee that the acquisition will be materialised. In this regard, we shall make the requisite announcement(s) as soon as practicable.

PROSPECTS

China's biggest challenge is the facing of a wide range of economic reforms. It is through the implementation of such reforms where opportunities are unlocked. Following the restructuring of China's economy, the improvement of the consumption structure, the advancement of urbanization and the development of e-commerce, China's retail industry will continue its growth momentum, which all in all will help to improve domestic consumption sentiment, including the demand for wine and baijiu products.

China's wine and baijiu industry is undergoing an in-depth transition change. Despite the challenging conditions for the high-end products, we see the demand for mid-to-low-end and regional products on the rise. With the increasing purchasing power of the Chinese in general and growing popularity of wine and baijiu culture, we believe that the business environment of the wine and baijiu market will eventually turnaround and pick up. To capture the opportunity, we will continue to implement retail-oriented measures by providing value-for-money products that fit market preferences and needs.

We are cautiously optimistic about the long-term development of the market and intend to capture the opportunities that will arise with the turnaround in the industry. We will be proactive in adjusting our marketing strategy in response to changes in customer demand, strengthen our efforts to manage profitability, diversify our product offerings, further expand our sales channel and enhance our production efficiency, all with the same purpose to consolidate and strengthen our market position and competitiveness.

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.

AUDIT COMMITTEE

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

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited financial statements and report of the Group for the year ended 31 December 2013. The Audit Committee was content that the accounting policies of the Group are in accordance with the current best practice in Hong Kong.

CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2013, the Company has complied with all the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules, except for code provision A.6.7 of the CG Code which stipulates that independent non-executive directors and non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. During the year, 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 3 June 2013 due to their overseas business engagement.

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

Hong Kong, 24 March 2014

As at the date of this announcement, the Board comprises six executive directors, namely Mr. Wu Xiang Dong, Mr. Yan Tao, Mr. Shu Shi Ping, Mr. Sun Jian Xin, Mr. Ng Kwong Chue, Paul and Mr. Zhang Jian and three independent non-executive directors, namely Mr. Ting Leung Huel, Stephen, Mr. E Meng and Mr. Cao Kuangyu.

* *for identification purpose only*