



During the year, the Group had developed a rapid momentum in the integrated operations of grape growing, wine manufacturing and distribution. Taking into consideration the disposals and acquisitions in the year and by looking at the Group's continuing winery business and compare the restated figures after acquisition of the Yunnan Shangeli-la Winery Company Limited and Shangeli-la (Qinhuangdao) Winery Limited on 17 May 2005, overall turnover of the Group had increased by HK\$42 million, representing a year-on-year increase of 65%. Profit from operations increased by HK\$19 million to HK\$21 million, representing a 20 times increase from 2005; profit attributable to shareholders of the Company increased by HK\$14.3 million to HK\$12.5 million as compared to a loss of HK\$1.8 million in 2005.

## FINANCIAL INFORMATION AND LIQUIDITY

As at 31 December 2006, the Group had total assets of HK\$226 million (2005: HK\$215 million) which was financed by current liabilities of HK\$79 million (2005: HK\$96 million), long term liability of HK\$2.7 million (2005: HK\$3.2 million), shareholders' equity of HK\$144 million (2005: HK\$116 million) and the minority interests of HK\$50 million (2005: HK\$39 million).

The Group's current ratio as at 31 December 2006 was approximately 1.70 (2005: 1.20). Gearing ratio, representing the total borrowings divided by the shareholders' equity was approximately 0.56 (2005: 0.86). The change in current ratio and the lowering in gearing ratio are attributed to the disposal of the loss making business units, increase in profitability and debt reduction.

Basic earnings per share were at HK1.08 cents in 2006 as compared to profit of HK0.27 cents on the continuing operation unit in 2005.

Trade receivables turnover period is 51 days. The Group did not experience any material bad debts that required write off in 2006.

The Group and the Company had no other material capital commitment and contingent liabilities as at 31 December 2006.

## ACQUISITION AND DISPOSAL

The Group completed the disposal of 100% equity interest in the healthcare and electronic operations in August 2006. After the disposals, the Group now focuses on the winery business.

During the year, the Group sold 5% equity interest in Yunnan Shangeli-la Winery Limited to Diqing Development Investment Company Limited for a consideration of HK\$6.94 million (RMB6.94 million).





## ACQUISITION AND DISPOSAL *(continued)*

During the year, the Group has acquired 90% equity interest in Xiamen Zanmi Winery Limited and 6.1% equity interest in Diqing Shangeli-la Economics Development Zone Tintai Winery Limited. The purchase price for the business, which was paid in cash at the closing of the transaction, was HK\$0.9 million (RMB0.9 million) and HK\$0.5 million (RMB0.5 million). The purchase price was calculated on the basis of the Acquired Companies having no indebtedness or cash and their net tangible assets. The acquisitions strengthen the Group's brand profile and distribution network in the China market.

The Group is moving forward with its integration plans to reap the synergistic benefits in manufacturing and the supply chain for its operations. Leveraging the strengths of the combined business, the Group will be able to compete more effectively in the winery industry and to further enhance its leadership position.

## INCREASE PRODUCTION CAPACITY AND COST MANAGEMENT

In 2005 annual report, the Group has already alerted the rising grape cost. The cost of grape juice and raw material were still in an increasing trend throughout 2006. In order to match with the increasing demand for quality wine and to exercise a better control over the cost and quality of grapes, the Group has invested HK\$20 million in Shangeli-la (Qinhuangdao) Winery Limited (香格里拉秦皇島葡萄酒有限公司) to improve its production capacity in Qinhuangdao and farmland development. This investment increased the total wine production by 30.3%. Further to this achievement, the Group has been successful in its ISO9000 and HACCP certifications renewal, signifying its position as a high quality, world class wine brewer.

For effective cost management, the Group has allied with other grape wine producers for the purchase of grape in China. In doing so, the Group is able to exercise greater bargaining power over the purchase of grape.

## MAJOR SUPPLIERS AND CUSTOMERS

During the period the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 32% (2005: 21%) of the Group's total purchases and the purchases attributable to the Group's largest supplier was approximately 6% (2005: 8%).

The aggregate sales attributable to the Group's five largest customers was approximately 66% (2005: 80%) and the sales attributable to the Group's largest customer was approximately 50% (2005: 34%).

None of the Directors, their associates or shareholders which, to the knowledge of the Directors, 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 2006, the Group was granted HK\$1.39 million (RMB1.39 million) as a subsidies from the local finance department in subsidizing the Group's production. Besides, the State Administration of Taxation (國家稅務總局) has approved Yunnan Shangeli-la Winery Limited's profits tax exemption application and such profits tax exemption will be effective from year 2006.

## DIVIDEND

The Directors do not recommend payment of final dividend for the year ended 31 December 2006 (2005: Nil).

## PLEDGE OF ASSETS

At 31 December 2006, the Group pledged its property, plant and equipments with net book value amounting approximately HK\$27 million (2005: HK\$31 million) to secure general banking facilities granted to the Group.

## EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

Most of the Group's revenue, expenses, assets and liabilities are denominated in Renminbi ("RMB"). The Group's major borrowings including the ones issued during the period are in RMB. As the Group's major revenues are in 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 2006, the Group employed a total of 354 (2005: 742) full-time employees, mostly at the Group's subsidiary factories for winery products and sales offices. 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 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 was granted under the Scheme since its adoption.

