1. GENERAL

The Company is an exempted company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Macro-Link Sdn. Bhd., a company incorporated in Malaysia.

The address of the register office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and interpretation ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities, which are carried at fair value.

The preparation of financial statements requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

The Company has adopted the following new HKFRSs which are relevant to its operation.

HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS – Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new HKFRSs has no material impact on the accounting policies and the results and financial position of the Group.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – Int 8	Scope of HKFRS 2[3]
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC) – Int 11	HKFRS2 – Group and Treasury Share Transactions[6]
HKFRS 8	Operating Segment[7]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 March 2006
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006
[6] Effective for annual periods beginning on or after 1 March 2007
[7] Effective for annual periods beginning on or after 1 January 2009

The directors of the Company anticipate that the application of these standards or amendments will have no material impact on the financial statements of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

(c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

In prior years, goodwill arising on acquisitions prior to 1 July 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired. Goodwill arising on acquisitions after 1 July 2001 is capitalised and amortised on a straight-line basis over its estimated useful life and is presented separately in the consolidated balance sheet.

On disposal of investments in subsidiaries, the attributable amount of unamortised goodwill previously eliminated against reserves is included in the determination of the profit or loss on disposal.

Following the adoption of HKFRS 3 Business Combination, the Group ceased amortisation of goodwill from 1 January 2005. All accumulated amortisation of goodwill would be eliminated with a corresponding decrease in the cost of goodwill. From the year ended 31 December 2005 onwards, goodwill is tested annually of impairment. Any goodwill raised prior to 1 July 2001 recognised in goodwill reserve would be transferred to goodwill following the change in accounting policy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Excess of the Group's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisition")

Discount on acquisition arising on an acquisition of a subsidiary or an associate represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in income statement. A discount on acquisition arising on an acquisition of an associate is included as income in the determination of the Group's share of results of the associate in which the investment is acquired.

(e) Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

(f) Turnover

Turnover represents the net amounts received and receivable for goods sold to outside customers.

(g) Revenue recognition

Sale of goods is recognised on the transfer of risks and rewards of ownership, which generally considers with the time when the goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation or amortisation and any identified impairment loss.

The cost of leasehold land is amortised over the period of the relevant leases using the straight-line method.

The cost of buildings is depreciated using straight-line method over their estimated useful lives of fifty years or, where shorter, the period of the relevant leases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Property, plant and equipment *(continued)*

Properties held for development are carried at cost, less any identified impairment losses. Cost included land cost, construction and other incidental costs. Depreciation of these properties, on the same basis as other properties, commences when the assets are put into use.

Depreciation is provided to write off the cost of property, plant and equipment, other than properties held for development, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	20% or over the period of the relevant lease
Building	over the period of the relevant lease
Plant and machinery	10% – 25%
Tools, equipment and moulds	10% – 50%
Furniture and fixtures	10% – 25%
Motor vehicles	10% – $33^1/_3$%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets or, where shorter, the period of the relevant leases.

(i) Financial instruments

The Group classifies its investments in the following categories depending on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables included loan receivables, convertible notes receivables and trade receivables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risk and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sale proceeds less estimated cost to completion and selling expenses. Provision is made for inventories when they became obsolete.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Inventories *(continued)*

For wine products, cost is calculated on a weighted average basis comprises materials, direct labour and an appropriate portion of production overheads. For electronics products and health care products, cost is calculated using the first-in, first-out method.

(k) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the lessees. Assets held under finance leases are capitalised at their fair values at the date of inception. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the original outstanding principal at the inception of the leases, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the rental expenses and income are charged and credited respectively to the income statement on a straight-line basis over the period of the relevant leases.

(l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be recognised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(m) Land use rights

Land use rights at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various warehouses, office premises and processing factories are situated. Amortisation of land use rights are calculated on a straight-line basis over the period of the land use rights of 50 years.

(n) Government subsidy

Government subsidies represent cash assistance by the local municipal government of the PRC. Such subsidies received or became receivables as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised as income of the period in which it becomes receivables.

(o) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Foreign currencies *(continued)*

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges. Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follow:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) all resulting exchange differences are recognised as a separate component of equity. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Employee benefits

(i) Retirement benefits scheme

Payments to defined contribution retirement benefits scheme and mandatory provident fund scheme are charged as an expense as they fall due.

(ii) Share-based compensation

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity in the balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts when the share options are exercised and when the restricted share awards are vested.

(q) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Intangible assets

Farmland Development

Deferred expenditures included farmland expenditures, preparation work and cost capitalised in relation to planting of grapes for wine production purpose. Deferred expenditure has been capitalised as assets where the costs are identifiable and the ability to use the asset will generate probable future economic benefits.

Deferred expenditures are amortised over the period in which the related benefits are expected to be realised. Deferred expenditures is reviewed annually to determine the amount, if any, that is no longer recoverable and any such amount is written off to the income statement in the year of determination.

Trademark

Acquired trademarks are shown at historical cost. Acquired trademarks have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives.

Technical Know-how

Technical know-how is recognised only if it is anticipated that the technical know-how incurred on a clear-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life of 10 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

i. Calculation of recoverable amount

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of any asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

ii. Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates the reversal effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(u) Provision

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

(v) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economics benefits is probable. When inflow is virtually certain, an asset is recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Segment reporting

A segment is a distinguishable component of the Group that is either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has determined that business segments as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables, and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(x) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they subject to common control or common significant influences.

A transaction is considered to be a related party transaction where there is a transfer of resources or obligations between related parties.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in HK and the PRC and is exposed to foreign exchange risk arising from respective currency exposures, primarily with respect to the HK dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

(ii) Price risk

The Group is not exposed to commodity price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash. Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(d) *Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

3.2 Fair value estimation

The carrying value of trade receivables (net of impairment provision) and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equate the related actual results. Estimates and assumptions that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

The Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in note 2(s). The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(continued)*

(b) Trade debtors

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect our results of operations.

(c) Useful lives of fixed assets

In accordance with HKAS 16, the Group estimates the useful lives of fixed assets in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

(d) Impairment of non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgment from management with respect to whether such an event has occurred. Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus the assets residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(continued)*

(e) Impairment of inventories

The management of the Group reviews an aging analysis at each balance sheet date, and identify the slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. In addition, the Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

(f) Current taxation and deferred taxation

The Group is subject to enterprise income taxes in the PRC. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred assets and income tax expenses in the periods in which such estimate is changed.

5. SEGMENT INFORMATION

Segment information is presented by way of two segments: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business are as follow:

– production and distribution of wine;
– manufacturing and distribution of electronic products;
– manufacturing of health care products.

During the year, the Group operates in production and distribution of wine after discontinuing the operation of manufacturing and distribution of electronics products and manufacturing of health care products.

Segment information about these businesses is presented below.

5. SEGMENT INFORMATION *(continued)*

(a) Business segments

Business segment information for the year ended 31 December 2006 is presented below:

For the year ended 31 December 2006	Continuing operation: Production and distribution of wine HK$'000	Discontinued operations: Manufacturing and distribution of electronics products HK$'000	Discontinued operations: Manufacturing of health care products HK$'000	Discontinued operations: Sub-total HK$'000	Consolidated HK$'000
Turnover	109,288	–	–	–	109,288
Results					
Segment results	17,674	–	–	–	
Profit from operations					17,674
Finance costs					(1,419)
Discount on acquisition of additional interests in a subsidiary					456
Discount on acquisition of a subsidiary					37
Gain on disposal of partial equity interests in a subsidiary					297
Gain on disposal of subsidiaries					3,684
Profit before taxation					20,729
Taxation					(7)
Profit for the year					20,722

5. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

At 31 December 2006	Continuing operation	Discontinued operations				
	Production and distribution of wine HK$'000	Manufacturing and distribution of electronics products HK$'000	Manufacturing of health care products HK$'000	Other HK$'000	Sub-total HK$'000	Consolidated HK$'000
Assets						
Segment assets	225,804	–	–	–	–	225,804
Consolidated total assets	225,804	–	–	–	–	225,804
Liabilities						
Segment liabilities	81,355	–	–	–	–	81,355
Consolidated total liabilities	81,355	–	–	–	–	81,355
Other information						
Capital expenditure	1,454	–	–	–	–	1,454
Depreciation of property, plant and equipment	7,050	–	–	–	–	7,050
Amortisation of land use rights	178	–	–	–	–	178
Amortisation of intangible assets	364	–	–	–	–	364

5. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Business segment information for the year ended 31 December 2005 is presented below:

For the year ended 31 December 2005 (Restated)	Continuing operation	Discontinued operations			
	Production and distribution of wine	Manufacturing and distribution of electronics products	Manufacturing of health care products	Sub-total	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	66,410	74,896	290	75,186	141,596
Results					
Segment results	11,700	(2,418)	(6,810)	(9,228)	2,472
Unallocated corporate income					10,207
Unallocated corporate expense					(9,453)
Profit from operations					3,226
Finance costs					(2,245)
Profit before taxation					981
Taxation					–
Profit for the year					981

5. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

At 31 December 2005	Continuing operation: Production and distribution of wine HK$'000 (Restated)	Continuing operation: Other HK$'000 (Restated)	Continuing operation: Sub-total HK$'000 (Restated)	Discontinued operations: Manufacturing and distribution of electronics products HK$'000 (Restated)	Discontinued operations: Manufacturing of health care products HK$'000 (Restated)	Discontinued operations: Other HK$'000 (Restated)	Discontinued operations: Sub-total HK$'000 (Restated)	Consolidated HK$'000 (Restated)
Assets								
Segment assets	165,815	–	165,815	38,768	2,014	–	40,782	206,597
Unallocated corporate assets	–	8,480	8,480	–	–	3	–	8,483
Consolidated total assets	165,815	8,480	174,295	38,768	2,014	3	40,782	215,080
Liabilities								
Segment liabilities	(55,308)	–	(55,308)	(40,702)	(105)	–	(40,807)	(96,115)
Unallocated corporate liabilities	–	(3,355)	(3,355)	–	–	–	–	(3,355)
Consolidated total liabilities	(55,308)	(3,355)	(58,663)	(40,702)	(105)	–	(40,807)	(99,470)
Other information								
Capital expenditure	13,491	–	13,491	1,219	–	–	1,219	14,710
Depreciation of property, plant and equipment	3,246	44	3,290	2,079	–	–	2,079	5,369
Provision for impairment loss of trade receivable	–	–	–	–	6,655	–	6,655	6,655
Impairment of goodwill	–	–	–	2,177	–	–	2,177	2,177
Amortisation of land use rights	90	–	90	–	–	–	–	90
Amortisation of intangible assets	232	–	232	–	–	–	–	232

5. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

For the year ended 31 December 2006, the Group's operations are located in Hong Kong.

For the year ended 31 December 2005, the Group's operations are located in Hong Kong, United States of America, Europe, the People's Republic of China (the "PRC") and other Asian countries.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods or services:

	2006	2005
	HK$'000	HK'$000
		(restated)
Continuing operation		
– The PRC	**109,288**	66,410
Discontinued operations		
– Hong Kong	–	61,970
– United States of America	–	188
– The PRC	–	9,782
– Other Asian countries	–	3,230
– Europe	–	17
	–	75,187

No geographical segment analysis on assets and liabilities has been disclosed as of 31 December 2006 and 2005 as over 90% of the Group's assets and liabilities were located in the PRC for both years.

6. DISCONTINUED OPERATIONS

On 8 August 2006, the Group disposed of its interests in certain subsidiaries ("Disposed Subsidiaries") as per note 36 to the financial statements at a total consideration of US$3 (approximately equivalent to HK$24). Upon disposal of the Disposed Subsidiaries, the Group discontinued its manufacturing and distribution of electronic products and manufacturing of health care products and their results which has been included in the Group's consolidated income statement is analysed as follow:

	2006 HK$'000	2005 HK$'000 (Restated)
Revenue	–	75,187
Expenses	–	(82,306)
Loss before taxation	–	(7,119)
Taxation	–	–
Loss for the year from discontinued operations	–	(7,119)
Attributable to:		
Equity holders of the Company	–	(5,001)
Minority interests	–	(2,118)
	–	(7,119)

The cash flows of the discontinued operations were as follow:

	2006 HK$'000	2005 HK$'000 (Restated)
Net cash used in operating activities	–	(2,903)
Net cash used in investing activities	–	(2,412)
Net cash generated from financing activities	–	3,159
Total net cash outflow	–	(2,156)
Loss per share:		
Basic and diluted, from the discontinued operations	N/A	(0.43 cent)

In 2005, the calculation of the basic loss per share is based on the loss attributable to the Company's equity shareholders of HK$ 5,001,000 and on 1,149,263,455 shares in issue during the year.

There were no potential shares in existence for the year ended 31 December 2006 and 2005, and accordingly, no diluted loss per share has been presented.

7. TURNOVER

An analysis of Group's turnover is as follow:

	The Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Continuing operation:		
Production and distribution of wine	**109,288**	66,410
Discontinued operations:		
Manufacturing and distribution of electronics products	**–**	74,896
Manufacturing and distribution of health care products	**–**	291
	–	75,187

8. OTHER REVENUE

	The Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Bank interest income	**222**	148
Government subsidies	**1,389**	1,734
Others	**640**	2,778
	2,251	4,660

9. OTHER INCOME

	The Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Others	–	24
	–	24

10. EXPENSES BY NATURE

	The Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analysed as follow:		
Staff costs, including directors' remuneration		
– Basic salaries and allowances	**4,704**	5,317
– Retirement benefits scheme contributions	**27**	4
Total staff costs	**4,731**	5,321
Auditors' remuneration	**780**	750
Amortisation of intangible assets	**364**	232
Amortisation of land use rights	**178**	90
Cost of inventories recognised as expenses	**67,051**	34,503
Depreciation	**7,050**	3,290

11. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

For the year ended 31 December 2006, the emoluments paid or payable to each of the nine (2005: nine) directors were as follow:

For the year ended 31 December 2006 and 2005:

	Fees		Salaries and other benefits		Performance related incentive payments		Retirement benefits scheme contributions		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fu Kwan	–	–	1,220	1,200	–	–	–	4	1,220	1,204
Wu Xiang Dong	–	–	20	–	–	–	–	–	20	–
Shu Shi Ping	–	–	380	360	–	–	–	–	380	360
Chan Yeuk	–	–	20	–	–	–	–	–	20	–
Zhang Jian	–	–	20	–	–	–	–	–	20	–
Hung Kin Sang, Raymond (resigned on 26 May 2006)	50	120	–	–	–	–	–	–	50	120
Cao Kuangyu	120	120	–	–	–	–	–	–	120	120
Ting Leung Huel, Stephen	150	145	–	–	–	–	–	–	150	145
E Meng	120	120	–	–	–	–	–	–	120	120
	440	505	1,660	1,560	–	–	–	4	2,100	2,069

The performance related incentive payments is determined as a percentage of the turnover of the Group for the year ended 31 December 2006 and 2005.

11. DIRECTORS' AND EMPLOYEES' REMUNERATION *(continued)*

(b) Employees' emoluments

The five highest paid individuals for the year included three directors (2005: one director) whose emoluments are set out in (a) above. The emoluments of the remaining two (2005: four) individuals are as follow:

	2006 **HK$'000**	2005 HK$'000
Salaries, performance related incentive payments and other benefits	**2,680**	3,083
Retirement benefits scheme contribution	**32**	57
	2,712	3,140

Their remuneration is within the following bands:

	2006 **Number of employees**	2005 Number of employees
Up to HK$1,000,000	**4**	4
HK$1,000,000 to HK$1,500,000	**1**	1
	5	5

12. FINANCE COSTS

	The Group	
	2006 **HK$'000**	2005 HK$'000 (Restated)
Interest on		
– Bank borrowings wholly repayable within five years	**1,419**	590

13. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group and the Company has no assessable profit for the year.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and majority of its subsidiaries are domiciled to the tax expense/(income) at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follow:

The Group – 2006

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
(Loss)/Profit before taxation	(2,392)		23,121		20,729	
Tax at the statutory tax rate	(419)	(17.50)	7,630	33.00	7,211	34.79
Tax effect of tax losses not recognised	445	18.60	–	–	445	2.15
Tax effect of income not taxable for tax purpose	(26)	(1.10)	–	–	(26)	(0.13)
Effect of tax exemptions granted to the PRC company	–	–	(7,623)	(33.00)	(7,623)	(36.77)
Tax charge for the year	–	–	7	–	7	0.04

The Group – 2005 (Restated)

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
(Loss)/Profit before taxation	(14,678)		15,659		981	
Tax at the statutory tax rate	(2,569)	(17.50)	5,167	33.00	2,598	264.92
Expenses not deductible for tax	339	2.31	–	–	339	34.56
Tax effect of tax not recognised	2,213	15.07	–	–	2,213	225.54
Tax effect of income not taxable for tax purpose	17	0.12	–	–	17	1.75
Effect of tax exemptions granted to the PRC company	–	–	(5,167)	(33.00)	(5,167)	(526.77)
Tax charge for the year	–	–	–	–	–	–

13. TAXATION *(continued)*

Hong Kong Profits Tax

As at 31 December 2006, the Group had unused tax losses of approximately HK$26 million (2005 (Restated): HK$22 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The PRC Income Tax

Pursuant to 開國税發 2006 27 號文件 issued by the PRC tax bureau, the Yunnan Shangeli-la Winery Company Limited is 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") under the relevant tax rules and regulations in the PRC.

Shangeli-la (Qinghuangdao) Winery Limited being a foreign investment enterprise established in the Coastal Open Economics Region of Qinghuangdao, the PRC, which is 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 applicable to foreign investment enterprise in the PRC. Guangzhou Zangji Trading Company Limited is subject to the PRC enterprise income tax rate of 33% based on the assessable profit arising for the year. Both Shangeli-la (Qinghuangdao) Winery Limited and Guangzhou Zangji Trading Company Limited have been reported loss since their establishment. Xiamen Zanmi Winery Limited (廈門藏秘酒業有限公司) is subject to the PRC enterprise income tax rate of 14% based on the assessable profit arising for the year.

14. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$2,185,000 (2005: loss of HK$6,518,000) which has been dealt with in the financial statements of the Company.

15. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2006. (2005: Nil).

16. EARNINGS/(LOSS) PER SHARE

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

(a) Basic earnings/(loss) per share

From continuing and discontinued operations:

	2006 HK$'000	2005 HK$'000 (Restated)
Profit/(Loss) for the year attributable to the equity holders of the Company for the purpose of basic earnings/(loss) per ordinary share	**12,499**	(1,844)
Weighted average number of shares for the purpose of basic earnings/(loss) per ordinary share	**1,149,263,455**	1,149,263,455

From continuing operation:

	HK$'000	HK$'000
Profit/(Loss) for the year attributable to the equity holders of the Company for the purpose of basic earnings/(loss) per ordinary share	**12,499**	(1,844)
Less: Loss for the year attributable to the equity holders of the Company from discontinued operations	**–**	5,001
Profit for the year attributable to the equity holders of the Company for the purpose of basic earnings per ordinary share from continuing operation	**12,499**	3,157

The denominators used are same as those detailed above.

(b) Diluted earnings/(loss) per share

There were no potential shares in existence for the year ended 31 December 2006 and 2005, and accordingly, no diluted earnings/(loss) per share has been presented.

17. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and its net book value are analysed as follow:

	2006 HK$'000	2005 HK$'000
Outside Hong Kong, held on:		
Lease period between 10 to 50 years	**4,991**	4,799
Cost		
As at 1 January	**4,799**	–
Exchange alignment	**192**	–
Acquisition of subsidiaries	**–**	4,799
As at 31 December	**4,991**	4,799
Amortisation		
As at 1 January	**90**	–
Charge for the year	**178**	90
As at 31 December	**268**	90
Carrying amount		
As at 31 December	**4,723**	4,709

Land use rights comprise cost of acquiring rights to use certain land which are all located in the PRC over fixed periods. Cost of prepaid lease for land use rights is amortised on a straight-line basis over the unexpired period of rights.

18. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold Improvement HK$'000	Building HK$'000	Plant and machinery HK$'000	Tools, equipment and moulds HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:							
At 1 January 2005	1,073	–	9,266	11,294	8,735	1,656	32,024
Additions	934	5,498	3,482	162	1,845	–	11,921
Acquisition of subsidiaries	–	35,572	32,187	–	377	761	68,897
Disposals	–	–	(219)	(7,254)	(655)	–	(8,128)
At 31 December 2005 and 1 January 2006	2,007	41,070	44,716	4,202	10,302	2,417	104,714
Exchange alignment	–	1,643	1,381	–	20	30	3,074
Additions	–	179	642	165	39	429	1,454
Acquisition of a subsidiary	–	–	–	–	–	566	566
Disposal of subsidiaries	(2,007)	–	(10,198)	(4,123)	(9,639)	(1,656)	(27,623)
Disposals	–	–	(233)	–	(166)	–	(399)
At 31 December 2006	–	42,892	36,308	244	556	1,786	81,786
Depreciation and impairment:							
At 1 January 2005	1,073	–	9,076	10,546	6,365	604	27,664
Charge for the year	–	1,141	2,148	553	1,002	525	5,369
Elimination upon disposals	–	–	(100)	(7,256)	(650)	–	(8,006)
At 31 December 2005 and 1 January 2006	1,073	1,141	11,124	3,843	6,717	1,129	25,027
Exchange alignment	–	46	70	–	5	4	125
Charge for the year	–	1,452	5,001	149	171	277	7,050
Disposal of subsidiaries	(1,073)	–	(9,334)	(3,818)	(6,559)	(1,027)	(21,811)
Elimination upon disposals	–	–	(95)	–	(96)	–	(191)
At 31 December 2006	–	2,639	6,766	174	238	383	10,200
Net book value:							
At 31 December 2006	**–**	**40,253**	**29,542**	**70**	**318**	**1,403**	**71,586**
At 31 December 2005	934	39,929	33,592	359	3,585	1,288	79,687

18. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Company

	Tools, equipment and moulds HK$'000
Cost	
At 1 January 2005	7,446
Additions	38
Disposals	(7,240)
At 31 December 2005, 1 January 2006 and 31 December 2006	244
Depreciation	
At 1 January 2005	7,266
Charge for the year	44
Elimination upon disposals	(7,240)
At 31 December 2005 and 1 January 2006	70
Charge for the year	104
At 31 December 2006	174
Net book value	
At 31 December 2006	**70**
At 31 December 2005	174

The net book value of property, plant and equipment of the Group in respect of assets held under finance leases comprises the following:

	2006 HK$'000	2005 HK$'000
Motor vehicles	–	843

18. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The directors have reviewed the carrying amount of property, plant and equipment at 31 December 2006. All of the assets were used in the Group's manufacturing and distribution of wine segment. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 7% per annum. No impairment loss was recognised in the consolidated income statement for the year ended 31 December 2006 (2005: Nil).

As at 31 December 2006, the Group's property, plant and equipment with the carrying amount of approximately HK$26,592,000 (2005: HK$31,260,000) was pledged as security for the Group's short term borrowing.

The buildings located in the PRC with a lease term of 30 years.

19. INTANGIBLE ASSETS

	Farmland Development HK$'000	Technical Know-how HK$'000	Trademark HK$'000	Total HK$'000
Cost				
At 1 January 2005	–	–	–	–
Acquisition of subsidiaries	2,562	1,466	541	4,569
At 31 December 2005 and 1 January 2006	2,562	1,466	541	4,569
Exchange alignment	102	59	22	183
Additions	603	–	–	603
At 31 December 2006	3,267	1,525	563	5,355
Amortisation				
At 1 January 2005	–	–	–	–
Amortisation for the year	–	191	41	232
At 31 December 2005 and 1 January 2006	–	191	41	232
Exchange alignment	–	8	3	11
Amortisation for the year	–	300	64	364
At 31 December 2006	–	499	108	607
Net carrying amount				
At 31 December 2006	**3,267**	**1,026**	**455**	**4,748**
At 31 December 2005	2,562	1,275	500	4,337

19. INTANGIBLE ASSETS *(continued)*

Farmland development represented farmland expenditure, preparation cost capitalised in relation to planting of grapes for production of wine thereafter.

Farmland development, technical know-how and trademark are measured initially at cost and amortised on a straight-line basis over their estimated useful lives as follow:

Farmland development	18 years
Technical know-how	5 years
Trademark	10 years

Amortisation expenses of HK$364,000 (2005: HK$232,000) is included in the administrative expenses in the consolidated income statement.

No amortisation of farmland development has been provided as the farmland was still in the preparation stage and the grapes has not been ready for wine production.

20. GOODWILL

	HK$'000
Cost	
At 1 January 2005	–
Transfer from goodwill reserve upon adoption of HKFRS 3	2,177
Acquisition of subsidiaries	11,764
At 31 December 2005 and 1 January 2006	13,941
Disposal of subsidiaries	(2,177)
Disposal of partial equity interests in a subsidiary	(840)
At 31 December 2006	10,924
Impairment	
At 1 January 2005	–
Impairment loss recognised for the year	2,177
At 31 December 2005 and 1 January 2006	2,177
Disposal of subsidiaries	(2,177)
At 31 December 2006	–
Net carrying amount	
At 31 December 2006	**10,924**
At 31 December 2005	11,764

20. GOODWILL *(continued)*

Following the adoption of HKFRS 3 with effect from 1 January 2005, the Group no longer amortised goodwill. In accordance to the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 1 January 2005 has been eliminated against the cost of goodwill as at that date.

As at 31 December 2005, the goodwill was recognised on acquisition of 70% equity interest in Yunnan Shangeli-la Winery Company Limited ("Yunnan Shangeli-la"). During the year, 5% of equity interest in Yunnan Shangeli-la has been disposed and the goodwill was decreased by approximately HK$840,000 accordingly.

Goodwill is allocated to the Group's cash generating unit ("CGU") identified according to country of operation a business segment as follows:

	2006	2005
	HK$'000	HK$'000
Production and distribution of wine	**10,924**	11,764

The Group tests goodwill annually for impairment, or more frequently as if there are no indications that the goodwill might be impaired.

The recoverable amount of the production and distribution of wine is determined based on a value in use calculation. The key assumptions for the value in use calculation included the discount rate, growth rate and expected change to selling price and direct costs during the period.

The Group uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 7% per annum (2005: 7% per annum). The Group estimates the discount rate using the rate that reflects current market assessment of the time value of money and the risks specific to the operation. Cash flows beyond that five year period have been extrapolated using a steady 23% per annum growth rate. The growth rate is based on the industry forecast made by 中國釀酒工業協會 and it does not exceed the long-term average growth rate for the market in which the production and distribution of wine operate.

The results of the reviews undertaken as at 31 December 2006 indicated that no impairment charge was necessary for current year (2005: HK$ 2,177,000) as management believes that any reasonably possible further change in the key assumptions in which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

21. INTERESTS IN SUBSIDIARIES

	2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	**71,689**	74,269
Add: Increase in investment in a subsidiary	**4,859**	–
Less: Disposal of partial equity interests in a subsidiary	**(4,767)**	–
Disposal of subsidiaries	**(421)**	–
Impairment loss recognised	**–**	(2,580)
	71,360	71,689
Amounts due from subsidiaries	**10,039**	10,039
Less: Elimination upon disposal of subsidiaries	**(10,039)**	–
Provision of amounts due from subsidiaries	**–**	(10,039)
	–	–
	71,360	71,689

The carrying amount of the investments in subsidiaries is reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows expected to be generated from the respective subsidiaries.

The amounts due from subsidiaries, which have been disposed in the year, are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable and therefore full impairment loss has been provided.

Particulars of the Company's principal subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company: Directly 2006 %	Directly 2005 %	Indirectly 2006 %	Indirectly 2005 %	Principal activities
Yunnan Shangeli-la Winery Company Limited *(Note i)*	The PRC	Registered capital RMB56,560,000	**65**	70	**–**	–	Production and distribution of wine and investment holding
Shangeli-la (Qinhuangdao) Winery Limited *(Note i)*	The PRC	Registered capital RMB40,000,000	**25**	25	**48**	52.5	Production of wine

21. INTERESTS IN SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company				Principal activities
			Directly		Indirectly		
			2006 %	2005 %	**2006** %	2005 %	
Guangzhou Zangji Trading Company Limited *(Note ii)*	The PRC	Registered capital RMB3,010,000	**–**	–	**58**	63	Distribution of wine products
Diqing Shangeli-la Economics Development Zone Tinlai Winery Company Limited	The PRC	Registered capital RMB82,000,000	**–**	–	**65**	65.7	Distribution of wine products
Xiamen Zanmi Winery Limited	The PRC	Registered capital RMB1,000,000	**–**	–	**58**	–	Distribution of wine products

Notes:

(i) Yunnan Shangeli-la Winery Company Limited and Shangeli-la (Qinhuangdao) Winery Limited were formed as a Chinese foreign equity joint venture company in the People's Republic of China under joint venture agreement dated 17 May 2005 and 3 June 2005 respectively.

(ii) Guangzhou Zangji Trading Company Limited was a sino-foreign joint venture subsidiary established in the PRC

(iii) The investments in Panorama Limited, Workplace Logistics Limited, Sharp Win (Holdings) Limited, Sharp Win Industrial Limited, 天健生物(深圳)有限公司 were disposed of during the year.

(iv) The above table listed the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

(v) None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

22. INVENTORIES

	The Group	
	2006 HK$'000	2005 HK$'000
Raw materials	**22,870**	18,066
Work in progress	**13,824**	20,572
Finished goods	**10,555**	4,493
	47,249	43,131

At 31 December 2006 and 2005, all inventories were carried at cost.

23. TRADE RECEIVABLES

The Group generally allows an average credit period ranging from 30 to 90 days (2005: 30 to 90 days) to its trade customers which major customers with whom specific terms have agreed.

	The Group	
	2006	2005
	HK$'000	HK$'000
Within 90 days	**15,236**	9,482
90 days to 180 days	**2**	2,019
More than 180 days and within 360 days	**77**	10,457
	15,315	21,958
Less: Provision of impairment losses of trade receivables	**(36)**	(12,206)
	15,279	9,752

Notes:

i The carrying amounts of trade receivables approximate their fair values.

ii The movements in provision for impairment losses of trade receivables were as follow:

	The Group	
	2006	2005
	HK$'000	HK$'000
At 1 January	**12,206**	8,400
Disposal of subsidiaries	**(12,170)**	–
Reversal of provision for impairment losses of trade receivables	**–**	(2,849)
Provision for impairment losses for the year	**–**	6,655
At 31 December	**36**	12,206

24. PREPAYMENT, DEPOSIT AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayment	**1,883**	2,704	**254**	263
Deposit	**1,975**	1,496	**155**	148
Other receivables	**3,208**	599	**–**	–
	7,066	4,799	**409**	411

The carrying amounts of other receivables approximate their fair values.

25. AMOUNTS DUE FROM RELATED PARTIES

	Maximum debit balance	The Group	
		2006	2005
	HK$'000	**HK$'000**	HK$'000
雲南香格里拉金六福酒業銷售有限公司 *(Note i)*	32,102	**32,102**	19,833
北京金六福酒有限公司 *(Note i)*	3,361	**295**	3,361
Sharp Win Manufacturing Limited *(Note ii)*	6	**–**	6
Sharp Win Investment Limited *(Note ii)*	7	**–**	7
Hung Kin Nam, Ricky *(Note iii)*	743	**–**	743
		32,397	23,950

Notes:

(i) 雲南香格里拉金六福酒業銷售有限公司 and 北京金六福酒有限公司 are related parties of the Group as Mr. Wu Xiang Dong, being an executive director of the Company, is a common director in both companies.

(ii) Sharp Win Manufacturing Limited and Sharp Win Investment Limited are related parties of the Group as Mr. Hung Kin Nam, Ricky, being a director of certain subsidiaries of the Company as at 31 December 2005, is a common director in both companies.

(iii) Mr. Hung Kin Nam, Ricky is a director of the Company's subsidiaries namely Sharp Win (Holdings) Limited and Sharp Win Industrial Limited as at 31 December 2005 in which both subsidiaries have been disposed of during the year.

(iv) The amount due is unsecured, interest free and repayable on demand.

26. BANK BALANCES AND CASH

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**31,832**	29,547	**1,610**	5,970

Cash and bank overdrafts include the following for the purposes of the cash flow statements:

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalent	**31,832**	29,547	**1,610**	5,970
Bank overdraft	**–**	(3,991)	**–**	–
	31,832	25,556	**1,610**	5,970

27. SHARE CAPITAL

	Number of ordinary shares	Amount HK$'000
Shares of HK$0.01 each		
Authorised:		
At 31 December 2005 and 31 December 2006	16,000,000,000	160,000
Issued and fully paid:		
At 31 December 2005 and 31 December 2006	1,149,263,455	11,493

28. RESERVES

The Group

	Share premium HK$'000	Special reserve HK$'000	Translation reserve HK$'000	Statutory reserve HK$'000	Goodwill reserve HK$'000	Accumulated deficit HK$'000	Total HK$'000
At 1 January 2005	34,621	604,497	–	–	(2,177)	(571,930)	65,011
Effect on adoption of new accounting policy – HKFRS 3	–	–	–	–	2,177	–	2,177
Acquisition of subsidiaries	–	–	–	14	–	–	14
Exchange difference	–	–	(216)	–	–	–	(216)
Profit for the year	–	–	–	–	–	(1,844)	(1,844)
At 31 December 2005 and 1 January 2006	34,621	604,497	(216)	14	–	(573,774)	65,142
Exchange difference	–	–	5,026	–	–	–	5,026
Profit for the year	–	–	–	–	–	12,499	12,499
Appropriation to the PRC statutory reserve	–	–	–	3,024	–	(3,024)	–
At 31 December 2006	**34,621**	**604,497**	**4,810**	**3,038**	**–**	**(564,299)**	**82,667**

The Company

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated deficit HK$'000	Total HK$'000
At 1 January 2005	34,621	260,227	(229,968)	64,880
Loss for the year	–	–	(6,518)	(6,518)
At 31 December 2005 and 1 January 2006	34,621	260,227	(236,486)	58,362
Profit for the year	–	–	2,185	2,185
At 31 December 2006	**34,621**	**260,227**	**(234,301)**	**60,547**

28. RESERVES *(continued)*

Special reserve

Special reserve of the Group represents (i) the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the Company's share issued in exchange thereof, and (ii) the difference between the nominal value of the share capital and share premium of a group of subsidiaries acquired pursuant to the Group reorganisation effective on 20 December 2001, over the nominal value of the Company's shares issued in exchange thereof.

The Company proposes to set off the special reserve against the accumulated deficit, which is subject to approval from the board of directors. Details of the offset are set out in Note 43.

Contributed surplus

Contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the Company's share issued in exchange thereof. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

In the opinion of the directors, the Company's reserves available for distribution to shareholders at the balance sheet date were as follow:

	2006	2005
	HK$'000	HK$'000
Contributed surplus	**260,227**	260,227
Accumulated deficit	**(234,301)**	(236,486)
	25,926	23,741

Statutory reserve

Statutory reserve comprises of statutory surplus reserve and statutory public welfare fund reserve.

28. RESERVES *(continued)*

Statutory surplus reserve

In accordance with the Group's articles of association, each entity shall appropriate 10% of its annual statutory net profit (after net off against any prior years' losses), prepared in accordance with the accounting principles and financial regulations applicable to companies established in the PRC (the "PRC GAAP"), to the statutory surplus reserve. When the balance of such statutory surplus reserve reaches 50% of the entity's share capital, any further appropriation is optional.

Statutory public welfare fund reserve

In accordance with the Group's articles of association, each entity shall appropriate 5% to 10% of its annual statutory net profit (after offset against any prior years' losses), prepared in accordance with the PRC GAAP, to the statutory public welfare fund reserve.

Goodwill reserve

Goodwill reserve arising from acquisition of subsidiaries prior to 1 July 2001 and would only be charged to income statement at the time of disposal of the relevant subsidiary, or as the goodwill is determined as impaired. Following the adoption of HKFRS 3, the goodwill reserve has been reclassified and tested annually of impairment.

29. OBLIGATIONS UNDER FINANCE LEASES

The Group

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
The maturity of obligations under finance leases is as follow:				
Within one year	–	683	–	628
More than one year, but not exceeding two years	–	473	–	432
More than two years, but not exceeding five years	–	195	–	178
	–	1,351	–	1,238
Less: Future finance charges	–	(113)	–	–
Present value of lease obligations	–	1,238	–	1,238
Less: Amounts due within one year shown under current liabilities			–	(628)
Amount due after one year			–	610

It is the Group's policy to lease certain of its plant and equipment under finance leases. The average lease term is 3 years. For the year ended 31 December 2005, the average effective borrowing rate was 7% per annum. Interest rates were fixed at the contract date. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The obligations under finance leases of the Group and are secured by the lessor's charge over the relevant leased assets.

30. DEFERRED TAX LIABILITIES

The deferred tax liabilities of the Group recognised in the consolidated balance sheet and the movements during the year are as follow:

	The Group HK$'000
Deferred tax arising from revaluation of properties as follow:	
At 1 January 2005	–
Acquisition of subsidiaries	2,600
At 31 December 2005 and 1 January 2006	2,600
Exchange alignment	104
At 31 December 2006	**2,704**

The deferred tax liabilities of the Group recognised in the consolidated balance sheet raised from revaluation of land and buildings of newly acquired subsidiaries.

In prior years, the deferred tax effects in respect of revalued properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale. HK Int 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" now removes the aforesaid presumption and requires deferred tax effects arising from the revaluation of properties be measured on the basis of tax consequence that would follow from recovery of the carrying amount through use, at the profits tax rate. Accordingly, within the Group's overall deferred tax provisions, a provision for deferred tax liabilities with regard to revaluation of the Group's properties in the PRC amounting to HK$2,704,000 (2005: HK$2,600,000) has been made.

31. TRADE PAYABLES

	The Group	
	2006 HK$'000	2005 HK$'000
Within 90 days	**14,768**	15,366
90 days to 180 days	**525**	3,512
More than 180 days and within 360 days	**2,379**	4,192
	17,672	23,070

The carrying amounts of trade payables approximate their fair values.

32. ACCRUALS, DEPOSIT RECEIVED AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**10,862**	6,525	**1,409**	1,449
Deposit received	**2,648**	1,506	**–**	–
Other payables	**2,489**	5,956	**–**	–
	15,999	13,987	**1,409**	1,449

The carrying amounts of accruals, deposit received and other payables approximate their fair values.

33. AMOUNTS DUE TO AN IMMEDIATE HOLDINGS COMPANY/ DIRECTORS/RELATED PARTIES

The amounts due approximate their fair value which were unsecured, interest free and repayable on demand.

34 . BANK BORROWINGS AND OVERDRAFTS – SECURED

	The Group	
	2006	2005
	HK$'000	HK$'000
Secured bank borrowings comprises:		
Import loans – secured	**30,000**	36,495
Bank overdrafts	**–**	3,991
	30,000	40,486
The borrowings are repayable as follow:		
Within one year or on demand	**30,000**	40,486
Less: Amounts due within one year or on demand shown under current liabilities	**(30,000)**	(40,486)
Amounts due after one year	**–**	–

Bank borrowings and overdrafts are secured by the Group's property, plant and equipment and pledged bank deposits.

34 . BANK BORROWINGS AND OVERDRAFTS – SECURED *(continued)*

The effective interest rate on bank borrowings denominated in Hong Kong dollars is based on Hong Kong Inter Bank Offered Rate plus a specified margin. The effective interest rates on bank borrowings are denominated in Renminbi at 5.85% (2005: 5.85%) per annum.

The Group's borrowings are denominated in the following currencies:

	The Group	
	2006	2005
	HK$'000	HK$'000
Renminbi	**30,000**	17,308
Hong Kong dollars	**–**	23,178
	30,000	40,486

35. BUSINESS COMBINATION

(a) On 31 July 2006, the Group acquired 90% equity interest in 廈門藏秘酒業有限公司.

The fair value of the identifiable assets and liabilities of 廈門藏秘酒業有限公司 as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follow:

	Carrying amount HK$'000	Fair value HK$'000
Property, plant and equipment	566	566
Prepayment, deposit and other receivables	13	13
Cash and bank balance	506	506
Accruals and other payables	(44)	(44)
Net assets	1,041	1,041
Minority interest		(104)
Net assets acquired		937
Discount on acquisition		(37)
		900
Total consideration satisfied by:		
Cash		900
Net cash outflow in respect of the acquisition of subsidiaries:		
Cash consideration paid		900
Cash and bank balance acquired		(506)
		394

The subsidiary acquired during the year contributed approximately HK$683,000 to the Group's turnover and profit after taxation and minority interests of approximately HK$77,000 to the Group's profit for the year.

As the revenue and results of the acquired subsidiaries before the acquisition were not significant to the Group, the total group revenue and result, as if the acquisition had been completed on 1 January 2006, are not disclosed as the information does not give additional value.

35. BUSINESS COMBINATION *(continued)*

(b) On 20 March 2006, Yunnan Shangeli-la, a direct-owned subsidiary of the Company, further acquired 6.1% equity interest in Diqing Shangeli-la Economics Development Zone Tinlai Winery Company Limited at a consideration of approximately Hk$500,000. The fair value of the 6.1% net assets in Diqing Shangeli-la Economics Development Zone Tinlai Winery Company Limited at the date of disposal was approximately HK$956,000. As a result, the Group recognised a discount on acquisition of additional interest in a subsidiary amounted to HK$456,000 for the year ended 31 December 2006.

(c) On 17 May 2005, the Group acquired 70% of equity interest in Yunnan Shangeli-la and its subsidiaries ("Shangeli-la Group"). The acquisition therefore indirectly acquired 90% equity interest in Guangzhou Zangji Trading Co., Ltd, 93.9% equity interest in Diqing Shangeli-la Economics Development Zone Tinlai Winery Co., Ltd and 75% equity interest in Shangeli-la (Qinhuangdao) Winery Ltd ("Qinhuangdao Shangeli-la"). On 31 May 2005, the Group further acquired 25% of equity interest in Qinhuangdao Shangeli-la. The whole acquired business contributed turnover of HK$ 66,409,000 and net profit of HK$ 15,659,000 to the Group for the period from 17 May 2005 to 31 December 2005.

The fair value of the identifiable assets and liabilities of Yunnan Shangeli-la Group and Qinhuangdao Shangeli-la as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follow:

	Carrying amount HK$'000	Fair value HK$'000
Land use rights	4,799	4,799
Property, plant and equipment	68,897	68,897
Intangible assets	3,536	3,536
Inventories	35,959	36,460
Trade receivables	16,603	16,603
Prepayment, deposit and other receivables	10,835	10,835
Cash and bank balance	4,196	4,696
Trade payables	(12,876)	(12,876)
Deferred tax liabilities	(2,600)	(2,600)
Accruals and other payables	(16,632)	(16,632)
Bank interest bearing borrowings	(19,421)	(19,231)
Net assets	93,296	94,487
Minority interest		(34,983)
Net assets acquired		59,504
Goodwill *(note 20)*		11,764
		69,408
Total consideration satisfied by:		
Cash		62,908
Consideration payable		6,500
		69,408
Net cash outflow in respect of the acquisition of subsidiaries:		
Cash consideration paid		62,908
Cash and bank balance acquired		(4,696)
		58,212

35. BUSINESS COMBINATION *(continued)*

(c) *(continued)*

The subsidiaries acquired during the year contributed approximately HK$66,410,000 to the Group's turnover and approximately HK$10,715,000 to the Group's profit after taxation and minority interests in the year of 31 December 2005.

If the acquisition had been completed on 1 January 2005, total restated group turnover for the year 2005 would have been HK$ 88,006,000 and restated profit for the year 2005 would have been HK$ 14,146,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

36. DISPOSAL OF SUBSIDIARIES/PARTIAL EQUITY INTEREST IN A SUBSIDIARY

(a) On 8 August 2006, the Company entered into sale and purchase agreements to dispose of its subsidiaries to individual third party for a total consideration of US$3 (approximately equivalent to HK$24). The operations of the disposed subsidiaries are reported in the financial statements as discontinued operations. Summary of the effects of the disposal of subsidiaries are as follow:

	2006 HK$'000
Property, plant and equipment	5,812
Inventories	10,129
Trade receivables	9,548
Prepayment, deposit and other receivables	1,611
Amount due from related parties	14
Pledged time deposits	3,354
Cash and bank balance	484
Trade payables	(9,665)
Accruals and other payables	(1,692)
Obligation under finance leases	(1,239)
Bank borrowings and overdrafts – secured due within one year	(23,178)
Net liabilities	(4,822)
Minority interests	1,137
Net liabilities disposed of	(3,685)
Gain on disposal	3,684
	(1)
Total consideration satisfied by:	
Cash	1
Net cash outflow in respect of the disposal of subsidiaries:	
Cash consideration received	1
Bank overdrafts	3,991
Cash and bank balance disposal of	(484)
	3,508

During the year ended 31 December 2006, the above subsidiaries were engaged in manufacture and distribution of electronic products and manufacture of health care products and had not contributed turnover and profit before taxation to the Group.

36. DISPOSAL OF SUBSIDIARIES/PARTIAL EQUITY INTERESTS IN A SUBSIDIARY *(continued)*

(b) During the year, the Group disposed its 5% equity interests in Yunnan Shangeli-la to Diqing Development Investment Company Limited at a consideration of HK$6,943,000. The fair value of the 5% net assets in Yunnan Shangeli-la and its subsidiaries at the date of disposal, together with the goodwill, was approximately HK$6,646,000. As a result of the disposal, the Group recognised a gain on disposal of partial equity interests in a subsidiary amounted to approximately HK$297,000 for the year ended 31 December 2006.

37. PLEDGE OF ASSETS

At balance sheet date, the Group pledged the following assets to secure the banking facilities granted to the Group:

	2006	2005
	HK$'000	HK$'000
Time deposits	**–**	3,354
Property, plant and equipment	**26,592**	31,260

38. OPERATING LEASES

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating lease in respect of rented premises which fall due as follow:

	2006	2005
	HK$'000	HK$'000
Within one year	**1,197**	1,602
In the second to fifth year inclusive	**2,210**	1,516
Over five years	**17,267**	16,999
	20,674	20,117

Operating lease payments represent rentals payable by the Group for certain of its office properties. The average lease term is 1 – 2 years. Rentals are fixed and no arrangement has been entered into for contingent rental payments.

39. EMPLOYEE BENEFITS

Retirement Benefit Scheme

The Group operates a defined contribution retirement scheme (the "Defined Contribution Scheme") for certain qualifying employees. The assets of the Defined Contribution Scheme are held separately from those of the Group in funds under the control of trustees.

The retirement benefits cost of the Defined Contribution Scheme charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contribution, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet date, there was no significant forfeited contributions which arose upon employees leaving the Defined Contribution Scheme and which was available to reduce the contributions payable in future years.

With effective from 1 December 2001, the Group has jointed a mandatory provident fund scheme (the "MPF Scheme") for all other qualifying employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contributions payable in future years.

The retirement benefits cost of the MPF Scheme charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme.

The employees of the Company's subsidiary in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the basis salary of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represent for the entire pension obligations payable to retired employees.

40. SHARE OPTION SCHEMES

On 16 September 2002, the Company adopted a share option scheme (the "2002 Scheme") for the primary purpose of providing incentives to its directors and eligible employees. The 2002 Scheme will expire on 15 September 2012. Under the 2002 Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed the higher of 10% of the shares of the Company in issue as at the date of adoption of the 2002 Scheme. The number of shares in respect of which options may be granted to any individual is not permitted to exceed the higher of 1% of the number of shares issued and issuable under the 2002 Scheme or any other limit as may be permitted under the Listing Rules.

Options granted must be taken up within 30 days of the date of grant, upon payment of HK$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board of Directors may at their discretion determine the specific exercise period. The exercise price is determined by the directors of the Company, and will be not less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's share for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares.

No option has been granted under the 2002 Scheme since its adoption.

41. RELATED PARTY TRANSACTIONS

(a) In addition to the balances with related parties disclosed under notes 25 and 33 to the financial statements, during the year, the Group has entered into the following significant related party transactions for the year ended 31 December 2006 which, in the opinion of the Directors, were conducted under commercial terms and in the normal course of the Group's business.

	2006	2005
	HK$'000	HK$'000
Sales of goods		
– 雲南香格里拉金六福酒業銷售有限公司		
– Received	**28,801**	28,417
– Receivable	**26,336**	19,833
– 北京金六福酒有限公司		
– Receivable	**–**	149
Purchases of goods		
– 雲南香格里拉金六福酒業銷售有限公司		
– Paid	**408**	–

The above transactions were carried out at cost plus mark-up basis.

雲南香格里拉金六福酒業銷售有限公司 and 雲南香格里拉金六福酒業銷售有限公司 are related parties of the Group as M Wu Xiang Dong, being an executive director of the Company, is a common director of both companies.

(b) Key management personnel

Remuneration for key personnel management, including amount paid to the Company's directors and certain of the highest paid employee, as disclosed in note 11, is as follow:

	The Group	
	2006	2005
	HK$'000	HK$'000
Salaries	**1,780**	2,905
Short term employee benefit	**12**	1,195
	1,792	4,100

41. RELATED PARTY TRANSACTIONS *(continued)*

(c) On 17 May 2005, the Group acquired 70% of equity interest in Yunnan Shangeli-la from MACRO-LINK Sdn. Bhd, the immediate holding company of the Company, and 25% equity interest in Qinhuangdao Shangeli-la from 北京金六福酒有限公司, a related company with a common director, at a consideration of approximately HK$71,268,000. Details were set out in the Company's announcement and circular dated 23 February 2005 and 31 March 2005 respectively. The consideration was paid in cash with outstanding balance of approximately HK$4,900,000 which included in the amount due to related parties as at 31 December 2006.

42. GOVERNMENT SUBSIDIES

During the year, the Group received government subsidies of HK$1,389,000 (2005: HK$1,734,000) for the contribution towards the business in Yunnan, the PRC. The amount has been included in other revenue for the year.

43. POST BALANCE SHEET EVENTS

On 16 April 2007, the Board of Directors of the Company has resolved to set off the special reserve account of the Group and contributed surplus account of the Company against its accumulated deficit ("Proposed Set-Off"), subject to obtaining a legal opinion from a Bermudan lawyer. The Company has received the said legal opinion on 17 April 2007, confirming such Proposed Set-Off is legitimate under the Bermudan Law. As a result, the Proposed Set-Off become effective on the same day.

44. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 17 April 2007.