

Notes to Financial Statements

31 December 2002

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on The Stock Exchange of Hong Kong Limited since 8 October 1992. The registered office of the Company is located at Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda. The principal place of business of the Group is located at Room 808 Guardforce Centre, 3 Hok Yuen Street East, Hung Hom, Hong Kong.

During the year, the Group was engaged in the production and distribution of wine. In the prior year, the group was also engaged in the processing and trading of ostrich leather and meat but subsequently ceased this activity in 2001 following the creditors' liquidation of certain subsidiaries of the Group as detailed in the note 2 below.

2. BASIS OF PRESENTATION FOR THE YEAR ENDED 31 DECEMBER 2001

The financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, in the prior year, the books and records in respect of the subsidiaries incorporated and operating in South Africa, were not fully available due to the reasons further detailed below. In particular:

(a) *Oryx Tanning Company (Proprietary) Limited ("Oryx Tanning")*

Oryx Tanning was an indirect wholly-owned subsidiary of the Company incorporated in South Africa, which was engaged in the business of processing and trading of ostrich leather and meat. Oryx Tanning had an overdraft facility with Nedcor Bank Limited ("Nedcor"). On 21 December 2001, Nedcor served notice to Oryx Tanning for the immediate repayment of all amounts under the overdraft facility amounting to approximately Rand35.7 million (approximately HK\$23.5 million) and Oryx Tanning defaulted in repayment of the overdraft facility due to an insufficiency of funds when Nedcor called the loan. Accordingly, Nedcor applied for and obtained a provisional order for a creditors' liquidation of Oryx Tanning in the High Court of South Africa on the date when the operations of Oryx Tanning were taken over by the provisional liquidator. Subsequent to 31 December 2001, on 29 January 2002, an order was granted by the High Court of South Africa to wind up Oryx Tanning.

(b) *Kenwell Cape Farm (Proprietary) Ltd. ("Kenwell Cape Farm"), Kenwell Farm (Proprietary) Ltd. ("Kenwell Farm") and Oryx Abattoir Property (Proprietary) Limited ("Oryx Abattoir")*

Kenwell Cape Farm, Kenwell Farm and Oryx Abattoir were indirect wholly-owned subsidiaries of the Company incorporated in South Africa. Kenwell Cape Farm and Kenwell Farm were engaged in the business of ostrich farming. Oryx Abattoir was engaged in the business of property

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2. BASIS OF PRESENTATION FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

(B) *Kenwell Cape Farm (Proprietary) Ltd. ("Kenwell Cape Farm"), Kenwell Farm (Proprietary) Ltd. ("Kenwell Farm") and Oryx Abattoir Property (Proprietary) Limited ("Oryx Abattoir") (continued)*

holding, which included a factory for ostrich skin tanning. Since the bank overdraft facility of Oryx Tanning owing to Nedcor was secured by cross guarantees among Oryx Tanning, Kenwell Cape Farm, Kenwell Farm and Oryx Abattoir, the operations of these companies were also foreclosed by the provisional liquidator on 21 December 2001. Subsequent to 31 December 2001, separate court orders were granted by the High Court of South Africa on 30 January 2002 to wind up these subsidiaries as a consequence of the liquidation of Oryx Tanning.

The assets and underlying books and records in respect of Oryx Tanning, Kenwell Cape Farm, Kenwell Farm and Oryx Abattoir (collectively referred to as the "South African Subsidiaries") were seized under the court orders as security for any unsettled claims of Nedcor found against the South African Subsidiaries. Due to the restrictions imposed by the liquidators, the directors were unable to obtain access to the books and records of the South African Subsidiaries.

In view of the foregoing, no representations as to the completeness of the books and records of the South African Subsidiaries could be given by the directors in preparing the Group's financial statements for the year ended 31 December 2001. Although care was taken in the preparation of the 2001 financial statements to mitigate the effect of the incomplete records, the directors were unable to represent that all transactions entered into in the name of the South African Subsidiaries were included in the financial statements. To the extent possible, the directors took such steps as they considered practicable to ascertain the accuracy of the account balances as at 31 December 2001 and made provisions, adjustments and disclosures as they considered appropriate in the preparation of the prior year financial statements. Details of the operating results of the South African Subsidiaries up to the date of the issue of the provisional liquidation order and their financial position as at 31 December 2001 are set out in notes 11 and 23 to the financial statements.

The aforesaid subsidiaries of the Group are still in the process of liquidation at the date of this report.

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3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following new and revised SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 1 (Revised): “Presentation of financial statements”
- SSAP 11 (Revised): “Foreign currency translation”
- SSAP 15 (Revised): “Cash flow statements”
- SSAP 33: “Discontinuing operations”
- SSAP 34: “Employee benefits”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated summary statement of changes in equity is now presented on page 21 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and associates are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. No restatement of the prior year comparative amounts has been made because there is no material impact on the prior year financial statements which were arisen from the change of accounting policy. Accordingly, these changes in policy are applied only to current and future financial statements and the effect on the results of the current period is not significant. Further details of this change are included in the accounting policy for “Foreign currencies” in note 4 to the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the cash flow, or, if appropriate, at the weighted average exchange rates, whereas previously they were translated at the exchange rates ruling at the balance sheet date, and the definition of cash equivalents for the purpose of the

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3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (CONTINUED)

consolidated cash flow statement has been revised. The consolidated cash flow statement for the current year and comparative figures have been presented in accordance with the revised SSAP 15. Further details of these changes are included in the accounting policies for “Cash and cash equivalents” and “Foreign currencies” in note 4 to the financial statements.

SSAP 33 replaces the existing disclosure requirements for discontinuing operations, which were previously included in SSAP 2. The SSAP defines a discontinuing operation and prescribes when an enterprise should commence including discontinuing operations disclosures in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group’s discontinuing operations are now included in the consolidated profit and loss account, consolidated cash flow statement and notes to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits, except that additional disclosures are now required in respect of the Company’s share option scheme, as detailed in note 30 to the financial statements. These share option scheme disclosures are similar to those required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the SSAP.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with the Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company’s subsidiaries.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Medium term land use right	Over the term of the relevant land use right
Leasehold land and buildings	2% – 5%
Machinery and equipment	9% – 25%
Furniture and fixtures	9% – 25%
Motor vehicles	18% – 20%



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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Construction in progress is stated at cost less any impairment losses, and includes all construction costs and other direct costs attributable to such projects, including borrowing costs capitalised in accordance with the Group's accounting policy. It is not depreciated until the completion of construction. Construction in progress is reclassified to the appropriate categories of property, plant and equipment when completed and ready for use.

The gain or loss on disposal or retirement of an asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Company or other members of the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and their estimated useful lives. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets represent the production technology and knowhow in setting up new manufacturing facilities of a subsidiary, Dong Feng Shao Xing Wine Co., Ltd. ("Dong Feng") in 1994. The value of the intangible assets represents the excess of the agreed contribution by the other joint venture partner pursuant to the joint venture agreement over the actual fair value of tangible assets contributed by the joint venture partner into Dong Feng and is amortised on the straight-line basis over the 20 year tenure of Dong Feng.

Long term investments

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

The fair values of such unlisted securities are estimated by the directors.

The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit or loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Cost includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Also included in inventories were live ostriches for slaughtering. A relevant portion of direct and overhead costs incurred prior to slaughtering was absorbed to the cost of these live ostriches. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.



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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditure expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental and leasing income, on the straight-line basis over the terms of the relevant lease;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and effective interest rates applicable; and
- (d) dividend income, when the shareholders' right to receive payment has been established

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates ruling at the dates of the cash flow. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 3 to the financial statements, the profit and loss accounts of overseas subsidiaries and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. No restatement of the prior year comparative amounts as the effect was not significant. While the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 32(a) to the financial statements, but no material change to the previously reported cash flows for the prior year.

Employee benefits

Retirement scheme

Retirement benefits are provided to certain Hong Kong staff employed by the Group. In accordance with the Mandatory Provident Fund Schemes Ordinance and the Occupational Retirement Schemes Ordinance, the Group's Hong Kong employees enjoy retirement benefits under either the Mandatory Provident Fund Exempted ORSO scheme ("ORSO Scheme"), or the Mandatory Provident Fund Scheme ("MPF Scheme") under which employer contributions are made. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employee when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with rules of the MPF Scheme.