

Notes to Financial Statements

31 December 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Retirement scheme (continued)

The employees in subsidiaries located in the People's Republic of China (the "PRC") are members of the Central Pension Scheme operated by the Chinese government. The subsidiaries are required to contribute a certain percentage of their covered payroll to the Central Pension Scheme to fund the benefits. The only obligation of the subsidiaries with respect to the Central Pension Scheme is to meet the required contributions under the Central Pension Scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the Central Pension Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Related parties

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 operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Notes to Financial Statements

31 December 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents (continued)

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 3 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 32(a) to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

5. SEGMENT INFORMATION

Segment information is presented for the Group's primary segment reporting basis by business segment. For geographical segment, as over 90% of the Group's revenue, results, assets and liabilities are derived from customers based in PRC, therefore no further analysis is presented.

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 segments are as follows:

- (a) the wine products segment engages in the manufacture, sale and distribution of wine; and
- (b) in the prior year, the ostrich products segment engaged in ostrich farming and the processing and distribution of ostrich leather and meat.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.



Notes to Financial Statements

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5. SEGMENT INFORMATION (CONTINUED)

Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Continuing wine products For year ended 31 December		Discontinued ostrich products For year ended 31 December		Consolidated For year ended 31 December	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Turnover	<u>152,916</u>	<u>152,821</u>	<u>–</u>	<u>40,342</u>	<u>152,916</u>	<u>193,163</u>
Segment results	<u>22,993</u>	<u>27,121</u>	<u>(1,893)</u>	<u>(148,440)</u>	21,100	(121,319)
Unallocated income					279	1,540
Unallocated expenses					(26,074)	(184,879)
Loss from operating activities					(4,695)	(304,658)
Finance costs					(10,438)	(15,725)
Provision against amounts due from associates					(1,184)	(6,525)
Loss before tax					(16,317)	(326,908)
Tax					(6,697)	(6,392)
Loss before minority interests					(23,014)	(333,300)
Minority interests					(4,939)	(8,059)
Net loss from ordinary activities attributable to shareholders					<u>(27,953)</u>	<u>(341,359)</u>

Notes to Financial Statements

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5. SEGMENT INFORMATION (CONTINUED)

Business segments (continued)

	Continuing wine products		Discontinued ostrich products		Consolidated	
	For year ended 31 December		For year ended 31 December		For year ended 31 December	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	421,637	438,920	-	-	421,637	438,920
Unallocated assets					54,218	80,133
Total assets	<u>421,637</u>	<u>438,920</u>	<u>-</u>	<u>-</u>	<u>475,855</u>	<u>519,053</u>
Segment liabilities	216,265	228,771	-	-	216,265	228,771
Unallocated liabilities					3,262	2,485
Total liabilities	<u>216,265</u>	<u>228,771</u>	<u>-</u>	<u>-</u>	<u>219,527</u>	<u>231,256</u>
Other segment information:						
Depreciation	10,426	10,613	-	3,757	10,426	14,370
Unallocated amounts					844	930
Total					<u>11,270</u>	<u>15,300</u>
Impairment losses (reversed)/charged in the profit and loss account, unallocated					(691)	169,234
Capital expenditure	7,944	9,949	-	3,160	7,944	13,109
Unallocated capital expenditure					-	157
Total					<u>7,944</u>	<u>13,266</u>
Amortisation of intangible assets	<u>1,366</u>	<u>1,377</u>	<u>-</u>	<u>-</u>	<u>1,366</u>	<u>1,377</u>

Notes to Financial Statements

31 December 2002

6. TURNOVER, REVENUE AND GAINS

Turnover represents the aggregate of the invoiced value of goods sold, net of discounts and returns.

An analysis of the Group's turnover, other revenue and gains is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover		
Sale of wine – continuing operations	152,916	152,821
Sale of ostrich leather and meat – discontinued operations	–	40,342
	<u>152,916</u>	<u>193,163</u>
Other revenue		
Interest income	162	244
Rental income from leasing of property, plant and equipment	101	320
Others	325	1,142
	<u>588</u>	<u>1,706</u>
Gains		
Gain on disposal of property, plant and equipment	–	2,553
Other revenue and gains	<u>588</u>	<u>4,259</u>

Notes to Financial Statements

31 December 2002

7. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cost of inventories sold		97,611	126,322
Auditors' remuneration		755	1,213
Depreciation	14	11,270	15,300
Amortisation of intangible assets*	15	1,366	1,377
Staff costs (excluding directors' remuneration, note 9):			
Wages and salaries		18,962	22,921
Retirement scheme contributions		149	117
Forfeited contributions		–	–
		<hr/>	<hr/>
Net contributions**		149	117
		<hr/>	<hr/>
		19,111	23,038
		<hr/>	<hr/>
Loss on disposal of property, plant and equipment		154	–
Minimum lease payments under operating leases on land and buildings		811	582
		<hr/> <hr/>	<hr/> <hr/>

* The amortisation of intangible assets for the year is included in "Administrative expenses" on the face of the consolidated profit and loss account.

** There were no forfeited retirement scheme contributions available at the balance sheet date to reduce contributions in future years (2001: Nil).



Notes to Financial Statements

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8. FINANCE COSTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	9,096	14,725
Interest on other loans wholly repayable within five years	1,319	904
Interest on finance leases	23	96
	<u>10,438</u>	<u>15,725</u>

9. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

Details of the directors' remuneration charged to the Group's profit and loss account are set out below:

	2002 HK\$'000	2001 HK\$'000
Fees	466	–
Other emoluments:		
Salaries, allowance and benefits in kind	4,798	3,962
Retirement scheme contributions	73	39
	<u>5,337</u>	<u>4,001</u>

The number of directors whose remuneration fell within the bands set out below is as follows:

	2002 Number of directors	2001 Number of directors
Nil – HK\$1,000,000	6	8
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$2,000,001 – HK\$2,500,000	1	–
	<u>7</u>	<u>9</u>

Notes to Financial Statements

31 December 2002

9. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (CONTINUED)

Fees include HK\$106,000 (2001: Nil) payable to the independent non-executive directors. There were no other emoluments to the independent non-executive directors for the years ended 31 December 2002 and 2001.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Five highest paid employees

The five highest paid employees during the year comprised five executive directors (2001: four executive directors and one employee). Further details of the remuneration of the remaining highest paid employee for the year ended 31 December 2001 are set out below:

	Group	
	2002 HK\$'000	2001 HK\$'000
Salary, allowances and benefits in kind	–	390
Retirement scheme contributions	–	13
	<u>–</u>	<u>403</u>

10. TAX

No Hong Kong profits tax has been provided as the Company, its subsidiaries and associates either had no assessable profits arising in Hong Kong, or had available tax losses brought forward from prior years to offset assessable profits arising in Hong Kong for the year (2001: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Notes to Financial Statements

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10. TAX (CONTINUED)

	Group	
	2002 HK\$'000	2001 HK\$'000
Provision for the year:		
Company and subsidiaries		
Hong Kong	–	–
Elsewhere	6,697	6,392
	<hr/>	<hr/>
	6,697	6,392
Share of tax attributable to associates	–	–
	<hr/>	<hr/>
Tax charge for the year	<u>6,697</u>	<u>6,392</u>

The principal components of the Group's unprovided net deferred tax asset position not recognised in the financial statements at the balance sheet date are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Accelerated depreciation allowances	105	251
Tax losses	(7,303)	(9,050)
Others	–	(5)
	<hr/>	<hr/>
	<u>(7,198)</u>	<u>(8,804)</u>

No provision has been made for taxes which would arise on the remittance to Hong Kong of retained profits of overseas companies as it is not anticipated that these amounts will be remitted in the foreseeable future.

The Company did not have any significant deferred tax as at the balance sheet date (2001: Nil).

Notes to Financial Statements

31 December 2002

11. DISCONTINUED OPERATIONS

In the prior year, as fully explained in note 2 to the financial statements, the Group's ostrich product operations were discontinued since the granting of a court order for the provisional liquidation of the South African Subsidiaries. The consolidated profit and loss account for the year ended 31 December 2001 had consolidated the results of the South African Subsidiaries up to 21 December 2001, based on the South African Subsidiaries' unaudited management accounts. During the year, further losses were incurred representing legal and other related expenses in connection with the aforesaid liquidation.

The profit and loss account of the discontinued operations represents:

	Group	
	2002 HK\$'000	2001 HK\$'000
Turnover	–	40,342
Cost of sales	–	(37,110)
Gross profit	–	3,232
Other revenue and gains	–	2,876
Selling and distribution costs	–	(3,236)
Administrative expenses	–	(10,433)
Loss on liquidation and disposal of the discontinued operations*	(1,893)	(140,790)
Loss from operating activities	(1,893)	(148,351)
Finance costs	–	(3,237)
LOSS BEFORE TAX	(1,893)	(151,588)
Tax	–	–
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(1,893)</u>	<u>(151,588)</u>

Notes to Financial Statements

31 December 2002

11. DISCONTINUED OPERATIONS (CONTINUED)

- * The above loss on liquidation and disposal of the discontinued operations for the year ended 31 December 2001, included in the consolidated profit and loss account comprised the following:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Legal and professional fees	1,893	–
Impairment of subsidiaries under liquidation (including impairment of goodwill and translation reserves) (note 23)	–	71,166
Provision against amounts due from subsidiaries under liquidation (note 23)	–	69,624
	<hr/>	<hr/>
Loss on liquidation and disposal of discontinued operations	<u>1,893</u>	<u>140,790</u>

The carrying amounts of the total assets and liabilities relating to the discontinued operations at 31 December 2001 are disclosed in note 23 to the financial statements.

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company amounted to HK\$92,681,000 (2001: HK\$321,909,000).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders of HK\$27,953,000 (2001: loss of HK\$341,359,000) and the weighted average number of 3,993,409,113 shares (2001: 3,993,409,113 shares) in issue during the year.

Diluted loss per share for the years ended 31 December 2002 and 2001 have not been shown because there were no potential ordinary shares in existence during the year ended 31 December 2002 and the share options outstanding during the prior year had an anti-dilutive effect on the basic loss per share for that year.

Notes to Financial Statements

31 December 2002

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:						
At 1 January 2002	170,724	88,414	9,712	5,257	1,617	275,724
Additions	46	–	2	297	7,599	7,944
Transfers	1,886	6,434	47	843	(9,210)	–
Disposals	(9,382)	(28)	(100)	(89)	–	(9,599)
Exchange realignment	(1,162)	(537)	(40)	(35)	(6)	(1,780)
At 31 December 2002	162,112	94,283	9,621	6,273	–	272,289
Accumulated depreciation and impairment:						
At 1 January 2002	44,344	51,557	9,087	4,098	–	109,086
Depreciation provided during the year	5,899	4,336	308	727	–	11,270
Impairment, net of amount written back during the year	(2,091)	580	–	–	–	(1,511)
Disposals	(5,266)	(16)	(68)	(86)	–	(5,436)
Exchange realignment	(255)	(260)	(36)	(28)	–	(579)
At 31 December 2002	42,631	56,197	9,291	4,711	–	112,830
Net book value:						
At 31 December 2002	<u>119,481</u>	<u>38,086</u>	<u>330</u>	<u>1,562</u>	<u>–</u>	<u>159,459</u>
At 31 December 2001	<u>126,380</u>	<u>36,857</u>	<u>625</u>	<u>1,159</u>	<u>1,617</u>	<u>166,638</u>

Notes to Financial Statements

31 December 2002

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The lease terms of the land and buildings are as follows:

	Hong Kong <i>HK\$'000</i>	Overseas <i>HK\$'000</i>	Total <i>HK\$'000</i>
Medium term leases	<u>11,432</u>	<u>150,680</u>	<u>162,112</u>

At 31 December 2002, certain of the Group's land and buildings with a net book value of HK\$7,800,000 (2001: HK\$9,000,000) were pledged to secure general banking facilities granted to the Group.

Company

	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At beginning and end of year	204	1,566	1,770
Accumulated depreciation:			
At 1 January 2002	122	466	588
Depreciation provided during the year	34	313	347
At 31 December 2002	<u>156</u>	<u>779</u>	<u>935</u>
Net book value:			
At 31 December 2002	<u>48</u>	<u>787</u>	<u>835</u>
At 31 December 2001	<u>82</u>	<u>1,100</u>	<u>1,182</u>

The net book value of the Company's and the Group's motor vehicles at 31 December 2002 included an amount of HK\$566,000 (2001: HK\$793,000) in respect of assets held under finance leases.

Notes to Financial Statements

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15. INTANGIBLE ASSETS

Group

	Production technology and knowhow <i>HK\$'000</i>
Cost:	
At 1 January 2002	27,540
Exchange realignment	(213)
	<hr/>
At 31 December 2002	27,327
	<hr/>
Accumulated amortisation:	
At 1 January 2002	11,016
Provided during the year	1,366
Exchange realignment	(85)
	<hr/>
At 31 December 2002	12,297
	<hr/>
Net book value:	
At 31 December 2002	<u>15,030</u>
At 31 December 2001	<u>16,524</u>

16. INTERESTS IN SUBSIDIARIES

	Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted shares, at cost	69,321	69,321
Due from subsidiaries	415,701	428,775
	<hr/>	<hr/>
	485,022	498,096
Provisions for impairment	(396,831)	(327,466)
	<hr/>	<hr/>
	<u>88,191</u>	<u>170,630</u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.



Notes to Financial Statements

31 December 2002

16. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China Shaoxing Wine Holdings (Hong Kong) Limited	Hong Kong	HK\$5,000,000 ordinary shares	–	100	Trading of wine
Dong Feng Shao Xing Wine Co., Ltd. – Note (ii)	PRC	US\$19,980,000 registered capital	–	49 Note (i)	Production and trading of Shaoxing wine
Firststone Corporate Limited	Hong Kong	HK\$10,000 ordinary shares	–	100	Trading of wine
Firststone Enterprises Limited	British Virgin Islands	HK\$67,349,601 ordinary shares	100	–	Investment holding
Firststone Holdings Co. Limited	Hong Kong	HK\$300,000 ordinary shares	–	100	Property holding
First Top Development Limited	British Virgin Islands/ Hong Kong	US\$1 ordinary share	–	100	Trading of wine
Metrostar Hong Kong Limited	Hong Kong	HK\$10,000 ordinary shares	90	–	Dormant
Multigerm (Shaoguan) Limited – Note (ii)/(iii)	PRC	HK\$1,680,000 registered capital	–	70	Manufacturing and trading of multigerm

Notes to Financial Statements

31 December 2002

16. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Oryx (H.K.) Limited	Hong Kong	HK\$2 ordinary shares	-	100	Dormant
Ostrindo Enterprises Development (Shaoguan) Limited – <i>Note (ii)/(iii)</i>	PRC	US\$996,000 registered capital	-	75	Dormant

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes:

- (i) Pursuant to an agreement (the "Voting Agreement") entered into between Firststone Food & Beverage Industry Company Limited ("FFB"), a wholly-owned subsidiary of the Company and the other joint venture partner of Dong Feng, the other joint venture partner agreed to vote unconditionally in favour of FFB in any future shareholders' meetings of Dong Feng. Accordingly, Dong Feng has been treated as a subsidiary of the Company. Dong Feng is registered as contractual joint venture under the PRC Law.
- (ii) Subsidiaries not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.
- (iii) Subsidiaries are foreign enterprises registered in the PRC.



Notes to Financial Statements

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17. INTERESTS IN ASSOCIATES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	–	–
Amounts due from associates	52,046	52,044
Provision for impairment	(51,646)	(50,462)
	<u>400</u>	<u>1,582</u>

The balances with associates are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, they will not be repayable within 12 months of the balance sheet date and accordingly, the amounts have been classified as non-current assets.

Particulars of the Group's associates are as follows:

Name of associate	Business structure	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group	Principal activities
Centra Intertraco Limited	Corporate	Hong Kong	35	Investment holding
Shenzhen Capstone Food and Beverage Co., Ltd.	Corporate	PRC	24.5	Inactive
Shaoguan Quan Tong Industrial Ltd.	Corporate	PRC	25	Inactive

In the prior year, the Group had a 44% interest in the issued share capital of Veloso Game (Proprietary) Limited ("Veloso"), a company incorporated in South Africa, which was engaged in the ostrich abattoir business. Veloso is directly owned by Oryx Tanning, a subsidiary of the Company which is under provisional liquidation as at 31 December 2001. Accordingly, the operating results of Veloso have been equity-accounted for in the profit and loss account of the Group up to 21 December 2001, the date when Oryx Tanning was put into provisional liquidation, further details of which are also set out in note 11 to the financial statements.