

Notes to the Accounts

1. Company's background

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability under the Companies Law of Cayman Islands. Pursuant to a shareholders' resolution on 27 September 2004, the Company changed from its former name of Dynasty Wines Group Limited to its present name.

The principal activity of the Company is investment holding. As stated in Note 13 to the accounts, subsequent to the balance sheet date, the Company acquired the entire interest in Grand Spirit Holdings Limited ("Grand Spirit") by the issue and allotment of 899,999,900 shares of the Company. The shares of the Company were subsequently listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 January 2005.

2. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Company has not early adopted these new HKFRSs in the financial statements for the period ended 31 December 2004. The Company has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of fixed assets is calculated to write off the cost of assets less accumulated impairment losses using straight line method over their estimated useful lives of 3 years.

Gain or loss on disposal of a fixed asset is the difference between the net sales proceed and the carrying amount of the asset and is recognised in the profit and loss account.

(c) Employee benefits

The Company contributes to a mandatory provident fund scheme for all Hong Kong employees. These contributions are based on a certain percentage of the employee's salary and are charged to the profit and loss account as incurred.

2. Principal accounting policies (Continued)

(d) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at rates of exchange ruling at that date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The books and records of the Company are stated in Hong Kong dollars ("HK\$") whilst those of all of the Company's major operating subsidiaries established in the People's Republic of China are kept in Renminbi ("RMB") following their respective functional currency. The accounts are converted into Renminbi from HK\$ at a conversion rate of HK\$1.00 to RMB1.06.

(e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing companies are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing companies are charged to the profit and loss account on a straight line basis over the lease periods.

3. Turnover

The Company is principally engaged in investment holding and did not derive any income during the period.

4. Loss for the period

| | From 29 July 2004 (date of incorporation) to 31 December 2004 RMB'000 |
|---|--|
| Loss for the period is stated after charging the following: | |
| Auditors' remuneration | 424 |
| Depreciation | 1 |
| Employee costs | |
| — Wages and salaries | 346 |
| — Retirement benefit scheme contributions | 12 |
| Operating lease rental for office premises | 252 |

5. Taxation

No provision for Hong Kong profits tax has been made as the Company has no assessable profit in Hong Kong.

6. Dividends

The Directors do not recommend any dividend for the period from 29 July 2004 (date of incorporation) to 31 December 2004.

7. Loss per share

Basic loss per share is calculated based on the loss for the period of RMB1,063,000 and a weighted average total of 94 ordinary shares issued during the period.

Diluted loss per share is not presented as the Company has no dilutive potential ordinary shares during the period ended 31 December 2004.

8. Directors' and senior management's emoluments

(a) Directors' emoluments

No emoluments were paid to the executive Directors, non-executive Directors or independent non-executive Directors of the Company during the period.

No share options have been granted to the Directors during the period under the share option scheme approved and adopted pursuant to the resolution passed by the shareholders of the Company on 6 December 2004.

(b) Senior management's emoluments

During the period, in addition to the Directors, the Company had two employees. The emolument received by each of them was below RMB1.06 million (equivalent to HK\$1 million). The total remuneration is as follows:

| | From 29 July 2004 (date of incorporation) to 31 December 2004 RMB'000 |
|--|--|
| Salaries and allowances | 346 |
| Contributions to retirement benefit scheme | 12 |
| | 358 |

During the period, no emolument was paid by the Company to any of the Directors or employees as an inducement to join or upon joining the Company or as compensation for loss of office.

9. Fixed assets

| | Office equipment RMB'000 |
|---|------------------------------------|
| Cost | |
| Additions and at 31 December 2004 | 32 |
| Accumulated depreciation | |
| Charge for the period and at 31 December 2004 | 1 |
| Net book value | |
| At 31 December 2004 | 31 |

10. Amount due to a fellow subsidiary

The amount payable is unsecured, interest free and has no fixed repayment term.

11. Share capital

| | Number of shares of HK\$0.1 each | HK\$ |
|--|---|-------------|
| Authorised | | |
| Upon incorporation on 29 July 2004 (note i) | 3,900,000 | 390,000 |
| Increase on 6 December 2004 (note iv) | 2,996,100,000 | 299,610,000 |
| At 31 December 2004 | 3,000,000,000 | 300,000,000 |
| Issued and paid up | | |
| Allotted and issued on 9 August 2004 (note ii) | 1 | 0.1 |
| Allotted and issued on 10 August 2004 (note iii) | 99 | 9.9 |
| At 31 December 2004 | 100 | 10 |

Notes:

- (i) The Company was incorporated in the Cayman Islands on 29 July 2004 with an authorised share capital of HK\$390,000 divided into 3,900,000 shares of HK\$0.1 each.
- (ii) On 9 August 2004, one share of HK\$0.1 was allotted and issued at par for cash.
- (iii) On 10 August 2004, 99 shares of HK\$0.1 each were allotted and issued at par for cash.
- (iv) On 6 December 2004, the shareholders resolved that the authorised share capital of the Company be increased from HK\$390,000 to HK\$300,000,000 by the creation of additional 2,996,100,000 shares.
- (v) The change in share capital of the Company subsequent to the year end is described in Note 13.

12. Commitment

(a) Capital commitments

Capital commitments for fixed assets as at 31 December 2004 are as follows:

| | RMB'000 |
|---------------------------------|---------|
| Contracted but not provided for | 1,272 |

(b) Operating lease commitments

As at 31 December 2004, the Company had future minimum lease payments and non-cancellable operating leases in respect of office premises as follows:

| | RMB'000 |
|---|---------|
| Not later than one year | 1,511 |
| Later than one year but not later than five years | 2,770 |
| | 4,281 |

13. Subsequent events

- (a) On 10 January 2005, the Company entered into a conditional agreement with Tianjin Development Holdings Limited to acquire the entire share capital and shareholder's loan of Smiling East Resources Limited, a fellow subsidiary, for a consideration of HK\$47.0 million. The terms and conditions of the acquisition have been fulfilled and the transaction was completed on 23 February 2005.
- (b) On 13 January 2005, 899,999,900 shares were issued by the Company as consideration for acquisition of the entire equity interest in Grand Spirit. Grand Spirit is an investment holding company owning the entire equity interest in Sino-French Joint Venture Dynasty Winery Limited which is established in the People's Republic of China and engaged in manufacturing and sales of winery products.
- (c) On 1 February 2005, the Company completed its placing and public offer of 345,000,000 shares whereupon 300,000,000 shares were issued on the Main Board of the Stock Exchange on 26 January 2005 and the remaining 45,000,000 shares were issued on 1 February 2005 following the exercise of the over-allotment option pursuant to the underwriting agreement.

14. Ultimate holding company

As at 31 December 2004, the Directors of the Company regard Tianjin Development Holdings Limited to be the holding company and Tsinlien Group Company Limited as the ultimate holding company. Both of the companies are incorporated in Hong Kong.

15. Approval of accounts

The accounts were approved by the Board of Directors on 21 April 2005.