Notes to the Proforma Accounts

1. Group reorganisation and principal activities

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Pursuant to the reorganisation, as disclosed in the Company's prospectus dated 17 January 2005, prepared for the purpose of listing its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Reorganisation"), the Company became the holding company of the subsidiaries referred in Note 29 (collectively referred to as the "Group") on 13 January 2005.

The principal activity of the Company is investment holding and the principal activities of the subsidiaries are as stated in Note 29.

2. Principal accounting policies

The principal accounting policies adopted by the Group in the preparation of the proforma accounts are set out below.

(a) Basis of preparation

The proforma 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") except for the adoption of merger accounting which is not in compliance with Statement of Standard Accounting Practice ("SSAP") as described in Note 2(b) below.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group 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) Consolidation

The proforma accounts include the accounts of the Company and its subsidiaries made up to 31 December 2004.

The proforma accounts incorporate the effects of the Reorganisation completed on 13 January 2005. For the purpose of the proforma accounts, the Reorganisation has been accounted for on the basis of merger accounting. This treatment is not in accordance with SSAP2.127 "Accounting for group reconstruction" ("SSAP27"). This is because, although the Group's Reorganisation meets the definition of a group reconstruction under SSAP27, the SSAP specifies that accounts should not incorporate a combination which occurs after the balance sheet date being reported on.

2. Principal accounting policies (Continued)

(b) Consolidation (Continued)

Although the Group structure resulting from the Reorganisation was not legally established until 13 January 2005, the Directors consider that meaningful information is provided by treating the Group as a continuing entity as if the Group structure as at 13 January 2005 had been in existence from the beginning of the year ended 31 December 2003 except for a subsidiary, Shandong Yu Huang Grape Wine Co., Ltd ("Yu Huang"), which was acquired on 28 October 2003 by Sino-French Joint Venture Dynasty Winery Limited ("Dynasty Winery") (Note 29). For the purpose of these proforma accounts, the result of operations, cash flows and assets and liabilities of Yu Huang are accounted for using acquisition accounting from the date of acquisition.

Subsidiaries are entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on disposal of a subsidiary represents the difference between the net sale proceeds and the Group's share of its net assets together with any unamortised goodwill/negative goodwill on acquisition.

Minority interests represent the interests of outside shareholders in the operating results and net assets of the subsidiaries.

All significant intercompany transactions and balances within the Group have been eliminated on combination.

(c) Negative goodwill

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised.

Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

2. Principal accounting policies (Continued)

(d) Fixed assets and depreciation

Construction in progress is stated at cost which includes cost of construction and other direct costs capitalised during the construction less impairment losses and is not depreciated until such time the assets are completed and ready for their intended use.

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of other fixed assets is calculated to write off the cost of assets less accumulated impairment losses and estimated residual values using straight line method over their estimated useful lives as follows:

Leasehold land	Over the unexpired lease term
Buildings	20 years
Plant and machinery	10 years
Leasehold improvements, furniture and equipment	5 years
Motor vehicles	5 years

Costs incurred in restoring fixed assets to their normal working condition are expensed as incurred. Improvements are capitalised and depreciated over their expected useful lives. At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amounts of the assets are estimated and where relevant, an impairment loss is recognised in the profit and loss account to reduce the assets to their recoverable amounts.

Gain or loss on disposal of a fixed asset which is the difference between the net sale proceed and the carrying amount of the asset is charged to the profit and loss account.

(e) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a weighted average basis, comprises materials, direct labour and an appropriate portion of production overheads. 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 become obsolete.

(g) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks less bank overdrafts.

2. Principal accounting policies (Continued)

(h) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(i) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(j) Employee benefits

Employees of the Group's subsidiaries in the People's Republic of China (the "PRC") are members of the state-managed employee pension scheme which undertakes to assume the retirement benefit obligations of all existing and future retired employees. The Group's obligation is to make the required contributions under the scheme. In addition, the Company contributes to a mandatory provident fund scheme for all Hong Kong employees. All contributions are based on a certain percentage of the employee's salary and are charged to the profit and loss account as incurred.

(k) 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.

(l) 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.

2. Principal accounting policies (Continued)

(l) Contingent liabilities and contingent assets (Continued)

A contingent liability is not recognised but is disclosed in the notes to the accounts. 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.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(m) 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. All exchange differences arising are dealt with in the profit and loss account.

(n) Revenue recognition

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

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(o) Borrowing costs

Borrowing costs that are directly attributable to the construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(p) Government subsidies

Government subsidies represent cash assistance by the local municipal government of the PRC. Such subsidies are deferred and recognised in the profit and loss account on a systemic basis to match related costs which they are intended to compensate.

3. Turnover and other revenue

The Group is principally engaged in the manufacturing and sale of wine products. Revenue recognised during the year is as follows:

	2004 RMB'000	2003 RMB'000
Turnover		
Manufacturing and sale of wine products	**852,907**	708,571
Other revenue		
Interest income	**5,088**	6,950
Total revenue	**857,995**	715,521

4. Cost of sales

Cost of the sales comprises the following items:

	2004 RMB'000	2003 RMB'000
Cost of production	**315,266**	277,032
Consumption tax at 10% of domestic turnover	**85,095**	70,635
	400,361	347,667

5. Segment information

Manufacturing and sale of wine products is the only business segment of the Group for the year ended 31 December 2004 and 2003. All operating assets of the Group for the year ended 31 December 2004 and 2003 are located in the PRC. Accordingly, no separate business and geographical segment information is presented.

6. Operating profit

	2004 RMB'000	2003 RMB'000
Operating profit is stated after crediting:		
Net exchange gain	**236**	264
and charging:		
Employee costs include:		
— salaries	**22,579**	18,121
— contributions to retirement benefits scheme	**1,985**	1,890
— other allowance and benefits	**20,603**	19,961
— government subsidy (note i)	**(8,044)**	(4,432)
Total employee costs including directors' emoluments	**37,123**	35,540
Auditors' remuneration	**424**	60
Depreciation	**18,370**	17,280
Loss on disposal of fixed assets	**1,168**	375
Operating lease rentals in respect of:		
— storage facilities and plant and machinery	**3,600**	3,600
— transformation station	**2,160**	2,160
— office premises	**252**	—
Provision for doubtful debts	**—**	1,249

Note:

(i) Prior to 2003, one of the Group's subsidiaries, Dynasty Winery, had been making contributions to an external special purpose fund which is managed and approved by the PRC joint venture partner of Dynasty Winery as permitted under the then related PRC regulations. Pursuant to revised regulations issued by the Tianjin Finance Bureau effective 1 January 2003, Dynasty Winery ceased to make further contributions to this fund. In addition, these regulations require any remaining balance of the fund at 31 December 2007 to be transferred to Dynasty Winery. The Group's legal counsel has confirmed that the Group does not have ownership of this fund which effectively belongs to the PRC government and is to be used only for the general welfare of Dynasty Winery's employees. In 2004, Dynasty Winery received approximately RMB8,044,000 (2003: RMB4,432,000) from this fund. As at 31 December 2004, the remaining balance in this fund is approximately RMB36.0 million.

7. Finance costs

	2004 RMB'000	2003 RMB'000
Interest on bank loans wholly repayable within five years	**750**	800

8. Taxation

	2004 RMB'000	2003 RMB'000
Current taxation:		
— PRC income tax	60,079	46,735
— underprovision in previous years	539	—
— tax refund	—	(574)
Deferred tax (Note 14)	—	(155)
	60,618	46,006

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

Provision for PRC income tax has been made at the applicable rate on the estimated assessable profit for the year. The applicable rate for Dynasty Winery is 24% (2003: 24%), being the preferential rate for foreign investment production enterprises established in a coastal economic development zone. The applicable rate for Yu Huang is the statutory rate of 30% (2003: 30%).

Tax refund relate to a further preferential tax benefit, as approved by Finance Bureau of Tianjin, enjoyed by Dynasty Winery whereby the portion of its assessable profit generated from expansion in operations funded by way of its last increase in capital was exempted from income tax for two years starting from the relevant profit making year and 50% reduction for the next three years thereon. 2003 is Dynasty Winery's final year for entitlement of such tax refund. Future preferential tax benefit in respect of further increase in capital, if any, has to be approved by relevant local authorities.

The Group's effective tax rate differs from the applicable rates principally due to the following factors:

	2004 RMB'000	2003 RMB'000
Profit before taxation	237,084	170,380
Calculated at applicable rates	57,094	40,888
Non-tax deductible expenses	2,985	5,692
Underprovision in previous years	539	—
Tax refund	—	(574)
Taxation charge	60,618	46,006

9. Dividends

On 12 May 2004 and 8 November 2004, the directors of Dynasty Winery resolved that following dividends be paid to the then shareholders in cash:

Date of declaration	Payment date	RMB'000
12 May 2004	July 2004	78,805
8 November 2004	December 2004	66,595
8 November 2004	April 2005	78,800
		145,395
		224,200

The dividend declared on 12 May 2004 was in respect of net profit for the year ended 31 December 2003.

Of the special dividend declared on 8 November 2004, RMB66.6 million relates to retained earnings carried forward to 31 December 2003 whilst the remaining RMB78.8 million was in respect of the year ended 31 December 2004.

All of the dividends declared during 2004 are attributable to the then shareholders of Dynasty Winery prior to the Reorganisation.

10. Proforma earnings per share

The calculation of proforma basic earnings per share is based on the Group's profit attributable to shareholders for the year ended 31 December 2004 of approximately RMB175,913,000 (2003: RMB124,393,000) and on the 900,000,000 shares (2003: 900,000,000 shares) issued as if these shares have been in issue on 1 January 2003.

No diluted earnings per share has been presented as the Company has no dilutive potential shares as at 31 December 2004.

11. Emoluments for directors and highest paid individuals

(a) Directors' emoluments

	2004 RMB'000	2003 RMB'000
Fees	—	—
Salaries and allowances	699	641
Contributions to retirement benefits scheme	23	14
	722	655

11. Emoluments for directors and highest paid individuals (Continued)

(a) Directors' emoluments (Continued)

No Directors of the Company waived any emoluments paid by the Group for the year ended 31 December 2004 (2003: Nil). No emolument was paid to independent non-executive Directors for the year ended 31 December 2004 (2003: Nil).

The emoluments for each of the Directors were all below RMB1.06 million (equivalent to HK$1 million) for the year ended 31 December 2003 and 2004.

(b) Senior management's emoluments

The five highest paid individuals included two Directors for the year ended 31 December 2004 (2003: Two) whose emoluments are included in Note 11(a). The emoluments of the remaining three individuals are summarised as follows:

	2004 RMB'000	2003 RMB'000
Salaries and allowances	669	642
Contributions to retirement benefits scheme	72	25
	741	667

The emolument for each individual is below RMB1.06 million (equivalent to HK$1 million) in each of the two years 2003 and 2004.

No emolument was paid by the Group to any of the Directors or the five highest paid individuals as an inducement to join the Group or upon joining the Group or as compensation for loss of office for the year ended 31 December 2004 (2003: Nil).

12. Retirement benefit schemes

The Group has no other obligation for the payment of retirement and other post-retirement benefits of employees or retirees other than the contribution payments as disclosed in Note 6.

13. Fixed assets

	Land and buildings RMB'000	Plant and machinery RMB'000	Leasehold improvements, furniture, and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
As at 31 December 2003	80,293	118,711	34,668	22,007	10,255	265,934
Additions	6,892	2,216	1,297	4,708	72,796	87,909
Transfers	2,283	—	—	—	(2,283)	—
Disposals	(1,398)	(3,339)	(2,442)	(2,240)	—	(9,419)
As at 31 December 2004	88,070	117,588	33,523	24,475	80,768	344,424
Accumulated depreciation						
As at 31 December 2003	21,945	55,028	23,073	14,630	—	114,676
Charge for the year	3,978	9,869	2,130	2,393	—	18,370
Disposals	(231)	(3,005)	(2,096)	(2,133)	—	(7,465)
As at 31 December 2004	25,692	61,892	23,107	14,890	—	125,581
Net book value						
As at 31 December 2004	62,378	55,696	10,416	9,585	80,768	218,843
As at 31 December 2003	58,348	63,683	11,595	7,377	10,255	151,258

All of the land and buildings are located in the PRC and are held under lease terms ranging from 10 to 50 years.

For the preparation of the Company's listing, land and buildings included in fixed assets of the Group were revalued on 30 November 2004, on the basis of their open market value in existing use, by Vigers Appraisal & Consulting Limited, an independent firm of property valuer. The revaluation surplus, net of estimated related deferred taxation, of approximately RMB46.9 million, has not been recorded in the proforma accounts as the Group accounts for its property interests at cost.

14. Deferred tax assets

	2004 RMB'000	2003 RMB'000
At the beginning of the year	1,285	1,130
Transfer to profit and loss account (Note 8)	—	155
At the end of the year	1,285	1,285

Deferred tax assets relate to provision for doubtful debts.

15. Trade receivables

In general, the Group grants a credit period of 30 to 90 days to its customers. The aging analysis of the trade receivables is as follows:

	2004 RMB'000	2003 RMB'000
Below 30 days	**80,815**	75,431
30 to 90 days	**22,326**	15,929
91 to 180 days	**12,528**	—
Over 180 days	**916**	—
	116,585	91,360
Less: Provision for doubtful debts	**(4,122)**	(4,832)
	112,463	86,528

16. Other receivables, deposits and prepayments

During the year ended 31 December 2004, the Group advanced approximately RMB2.8 million to a third party. The advance carried interest at 0.6% per month and was settled in June 2004. The maximum of the amount advanced during the year is approximately RMB2.8 million.

17. Inventories

	2004 RMB'000	2003 RMB'000
At cost:		
Unprocessed wines	**99,159**	72,068
Finished goods	**127,881**	113,326
Consumables	**21,451**	17,546
	248,491	202,940

18. Cash and bank balances

	2004 RMB'000	2003 RMB'000
Balances with banks	**241,470**	316,682
Balances with other financial institutions	**102**	1,494
	241,572	318,176

All of the cash and bank balances were deposited with banks and other financial institutions in the PRC principally denominated in Renminbi. The conversion of these Renminbi denominated balances into foreign currencies and remittance out of the PRC is subject to the rules and regulations of foreign exchange controls promulgated by the PRC government.

19. Trade payables

The aging analysis of the trade payables is as follows:

	2004 RMB'000	2003 RMB'000
Below 30 days	**44,069**	26,639
30 to 90 days	**357**	1,195
91 to 180 days	**1,983**	—
Over 180 days	**1,511**	2,327
	47,920	30,161

Trade payables include the following amount due to Tianjin Tianyang Grape Extracting Co., Ltd., a fellow subsidiary, in respect of purchases of unprocessed wines:

	2004 RMB'000	2003 RMB'000
Amount due below 30 days	**5,956**	14,577

20. Amounts due to intermediate holding companies and a fellow subsidiary

	2004 RMB'000	2003 RMB'000
Intermediate holding companies	**—**	44,044
A fellow subsidiary	**1,840**	—
	1,840	44,044

The amounts payable are non-trade in nature, unsecured, interest free and have no fixed term of repayment.

21. Amounts due to related companies

The amounts due to related companies are trade in nature. They are unsecured, interest free and have settlement terms within three months.

22. Short term bank loan

The short term bank loan of RMB15 million at 31 December 2004 is unsecured (2003: Security against certain of the Group's properties in Tianjin was released in October 2004).

23. Share capital

The share capital as presented in the balance sheets as at 31 December 2003 and 2004 represents the paid up capital of Dynasty Winery which was the then holding company of the Group.

The Company's share capital upon completion of the Reorganisation is as follows:

	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
As at 31 December 2004	3,000,000,000	300,000,000
Issued and paid up		
On 9 August 2004 (note ii)	1	0.1
On 10 August 2004 (note iii)	99	9.9
On 13 January 2005 (note v)	899,999,900	89,999,990
Proforma share capital at 31 December 2004 and 2003	900,000,000	90,000,000
Issued and paid up subsequent to year end		
New issue on 26 January 2005 (note vi)	300,000,000	30,000,000
As at 26 January 2005, date of listing	1,200,000,000	120,000,000
On 1 February 2005 (note vi)	45,000,000	4,500,000
As at 1 February 2005, completion of placing and public offer	1,245,000,000	124,500,000

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 new share of HK$0.1 was allotted and issued at par for cash.

23. Share capital (Continued)

Notes: (Continued)

(iii) On 10 August 2004, an aggregate of 99 new 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.

Subsequent to year end, in line with the Reorganisation, the following share issues were made:

(v) On 13 January 2005, the shareholders of Grand Spirit (Note 29) transferred their respective shareholdings in Grand Spirit to the Company in return of the issue and allotment of 899,999,000 shares by the Company to them, credited as fully paid.

(vi) On 1 February 2005, the Company completed its placing and public offering 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.

(vii) Share Option Scheme

Pursuant to the resolution of the shareholders of the Company on 6 December 2004, a share option scheme (the "Scheme") was approved and adopted.

Under the Scheme, the Directors may, at their discretion, grant to any eligible person as defined under the Scheme to take up options to subscribe for shares of the Company at a subscription price to be determined by the Directors pursuant to the relevant listing rules. The total number of shares in respect of which options may be granted under the Scheme and any other share options schemes of the Company shall not exceed 120 million shares, being 10% of the total number of shares in issue as at the date of listing of the Company's shares, or 30% of the Group's issued share capital from time to time as approved by the shareholders.

On 27 January 2005, 15.1 million share options were granted to Directors, other than the independent non-executive Directors, of the Company and 8.0 million share options were granted to employees of the Group. The options are exercisable at a price of HK$3 per share at any time between 17 August 2005 and 26 January 2015.

24. Reserves

	Reserve fund RMB'000	Enterprise expansion reserve RMB'000	Retained profit RMB'000	Total RMB'000
As at 1 January 2003	34,928	86,618	149,602	271,148
Profit for the year	—	—	124,393	124,393
Transfers	5,483	6,047	(11,530)	—
Dividends	—	—	(76,142)	(76,142)
As at 31 December 2003	40,411	92,665	186,323	319,399
Profit for the year	—	—	175,913	175,913
Transfers	7,195	7,022	(14,217)	—
Dividends (Note 9)	—	—	(224,200)	(224,200)
As at 31 December 2004	47,606	99,687	123,819	271,112

According to the Articles of Association of the Group's subsidiaries established in the PRC, a percentage of net profit as reported in the PRC statutory accounts should be transferred to reserve fund and enterprise expansion reserve. The percentage of appropriation may be determined at the discretion of the board of directors of the respective subsidiaries. The reserve fund can be used to set off accumulated losses whilst the enterprise expansion reserve can be used for expansion of production facilities or increase in registered capital.

25. Commitments

(a) Capital commitments

Capital expenditure commitments are related to intended purchase of fixed assets and production facilities:

	2004 RMB'000	2003 RMB'000
Authorised but not contracted for	**14,407**	3,033
Contracted but not provided for	**8,716**	24,318
	23,123	27,351

25. Commitments (Continued)

(b) Operating lease commitments

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2004 RMB'000	2003 RMB'000
Storage facilities and plant and machinery		
— Not later than one year	3,600	3,600
— Later than one year but not later than five years	—	3,600
	3,600	7,200
Transformation station		
— Not later than one year	2,160	—
— Later than one year but not later than five years	3,420	—
	5,580	—
Office premises		
— Not later than one year	1,511	—
— Later than one year but not later than five years	2,770	—
	4,281	—

26. Contingent liabilities

	2004 RMB'000	2003 RMB'000
Letter of credit issued in favour of a supplier of manufacturing equipment	—	16,273

27. Notes to proforma consolidated cash flow statements

(a) Cash generated from operations:

	2004 RMB'000	2003 RMB'000
Profit before taxation	**237,084**	170,380
Interest expense	**750**	800
Interest income	**(5,088)**	(6,950)
Depreciation	**18,370**	17,280
Negative goodwill written off (Note 27(b))	**—**	(591)
Loss on disposal of fixed assets	**1,168**	375
Operating profit before working capital changes	**252,284**	181,294
(Increase)/decrease in trade receivables	**(25,935)**	16,575
(Increase)/decrease in other receivables, deposits and prepayments	**(4,822)**	413
Increase in inventories	**(45,551)**	(14,888)
Increase/(decrease) in trade payables	**17,759**	(19,047)
Increase in other payables and accruals	**53,265**	3,326
(Decrease)/increase in amounts due to intermediate holding companies and a fellow subsidiary	**(860)**	2,111
(Decrease)/increase in amounts due to related companies	**(2,122)**	2,082
Net cash generated from operations	**244,018**	171,866

(b) Purchase of a subsidiary, Yu Huang (Note 28 (iii))

	2004 RMB'000	2003 RMB'000
Net assets acquired:		
Fixed assets	**—**	6,380
Other receivables, deposits and prepayments	**—**	1,567
Inventories	**—**	4,449
Cash and bank balances	**—**	748
Other payables and accruals	**—**	(5,367)
Minority interests (Note 27(c))	**—**	(2,722)
	—	5,055
Negative goodwill written off on acquisition	**—**	(591)
Consideration satisfied by cash	**—**	4,464

27. Notes to proforma consolidated cash flow statements (Continued)

(b) Purchase of a subsidiary, Yu Huang (Note 28 (iii)) (Continued)

The turnover and net loss contributed by Yu Huang for the period from 28 October 2003 (date of acquisition) to 31 December 2003 were approximately RMB115,000 and RMB53,000, respectively.

Analysis of the net cash used in purchase of a subsidiary:

	2004 RMB'000	2003 RMB'000
Cash and bank balances acquired	—	748
Cash paid	—	(4,464)
	—	(3,716)

(c) Analysis of changes in financing

	Amount due to an intermediate holding company RMB'000	Dividend payable RMB'000	Minority interests RMB'000	Short term bank loan RMB'000	Total RMB'000
As at 1 January 2003	41,344	—	—	15,000	56,344
Net cash outflow from financing	—	(76,142)	—	—	(76,142)
Dividends	—	76,142	—	—	76,142
Acquisition of subsidiary (Note 27(b))	—	—	2,722	—	2,722
Share of results attributable to minority interests	—	—	(19)	—	(19)
As at 31 December 2003	41,344	—	2,703	15,000	59,047
Net cash outflow from financing	(41,344)	(145,400)	—	—	(186,744)
Dividends	—	224,200	—	—	224,200
Share of results attributable to minority interests	—	—	553	—	553
As at 31 December 2004	—	78,800	3,256	15,000	97,056

28. Related party transactions

The following is a summary of significant related party transactions during the year which in the opinion of the Directors were conducted under commercial terms and in the normal course of the Group's business.

	2004 RMB'000	2003 RMB'000
Tianjin Heavenly Palace Winery Co., Ltd ("Heavenly Palace")		
Rental paid (note i)	**3,600**	3,600
Tianjin Tianyang Grape Extracting Co., Ltd. ("Tianyang")		
Purchase of unprocessed wine	**23,032**	36,865
Tianjin Agricultural Cultivation Group Company's associates ("Agricultural Group's associates")		
Packaging service	**25,503**	24,355
Rental for transformation station (note ii)	**2,160**	2,160
Purchase of packaging materials	**23,421**	17,865
Ning Xia Heavenly Palace Yuma Winery Co., Ltd ("Yuma")		
Purchase of unprocessed wine	**45,275**	20,972
Consideration for acquisition of interest in a subsidiary from: (note iii)		
Heavenly Palace	**—**	2,747
Minority shareholders of a subsidiary	**—**	1,717

Tianjin Development Holdings Limited ("Tianjin Development") is the intermediate holding company of the Company. Heavenly Palace and Tianyang are subsidiaries of Tianjin Development. An executive Director of the Group, Mr. Gao Xiaode, is also the director of the associates of Agricultural Group. Yuma is an associate of Heavenly Palace.

Notes:

(i) Rental for storage facilities and plant and machinery was paid at contracted terms of RMB300,000 per month. The rental period is three years commencing from 1 January 2003.

(ii) Rental for the use of transformation station was paid at contracted terms of RMB180,000 per month. The arrangement was renewed in August 2004 for 3 years under the same terms.

(iii) In 2003, the Group acquired 40% and 25% equity interests in a subsidiary, Yu Huang, from Heavenly Palace and two minority shareholders of Dynasty Winery respectively. The acquisition cost was with reference to Yu Huang's paid up capital.

29. Principal subsidiaries

Details of the subsidiaries at 31 December 2004, on the assumption that the Reorganisation was completed on 31 December 2004, are as follows:

	Date of incorporation/ establishment	Issued and fully paid up share capital	Attributable interests (%)	Principal activities
Incorporated in the British Virgin Islands and directly held:				
Grand Spirit Holdings Limited ("Grand Spirit")	30 March 2004	US$200	100	Investment holding
Established and operating in the PRC and indirectly held:				
Sino-French Joint-Venture Dynasty Winery Ltd. ("Dynasty Winery")	25 March 1980	RMB174,389,000	100	Manufacturing and sales of winery products
Shandong Yu Huang Grape Wine Co., Ltd. ("Yu Huang")	26 October 1992	RMB6,866,812	65	Manufacturing and sales of winery products

30. Ultimate holding company

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

31. Subsequent events

In addition to subsequent events disclosed elsewhere in the proforma accounts, on 10 January 2005, the Company entered into a conditional agreement with Tianjin Development 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.

32. Approval of accounts

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