Notes to the Interim Accounts

1. Group reorganisation

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 Grand Spirit Holdings Limited ("Grand Spirit"), Sino-French Joint-Venture Dynasty Winery Ltd. ("Dynasty Winery") and Shandong Yu Huang Grape Wine Co., Ltd ("Yu Huang") on 13 January 2005. The Company together with its subsidiaries are hereafter collectively referred to as the Group. The address of the registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, Grand Cayman, Cayman Islands.

The Group manufactures and sells wine products through a network of distributors. The Group mainly operates in the PRC and Hong Kong.

The shares of the Company were listed on the Main Board of the Stock Exchange on 26 January 2005.

The condensed consolidated interim accounts were approved for issue on 13 September 2006 by the Board of Directors.

2. Basis of preparation and accounting policies

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Group resulting from the Reorganisation referred to in Note 1 above is regarded as a continuity entity. Accordingly, the unaudited condensed consolidated accounts have been prepared on the merger basis as if the Company had been the holding company of the companies comprising the Group and as if the group structure as at 13 January 2005 had been in existence from 1 January 2005. In the opinion of the Directors, the unaudited condensed accounts prepared on the above basis present more fairly the results, cash flows and state of affairs of the Group as a whole.

These condensed accounts should be read in conjunction with the Company's 2005 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31 December 2005, except that the Group adopted HKAS 19 (Amendment) – Employee Benefits, HKAS 39 (Amendment) – The Fair Value Option, HKAS 39 & HKFRS 4 (Amendment) – Financial Guarantee Contracts and HKFRS – Int 4 – Determining whether an Arrangement contains a Lease, as at 1 January 2006. These changes in accounting policies did not have a significant impact on the Group's results and financial position.

3. Segment information

Manufacturing and sale of wine products is the only business segment of the Group for the periods ended 30 June 2006 and 2005. No geographical analysis is provided as less than 10% of the consolidated turnover, consolidated results and operating assets of the Group are attributable to markets other than the PRC.

4. Turnover and other gain

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

	Unaudited Six months ended 30 June	
	2006	2005
	HK$'000	HK$'000
Turnover		
Manufacturing and sale of wine products	**575,527**	511,610
Other gain		
Interest income	**14,093**	7,738
Government grant *(Note (i))*	**14,493**	–
	28,586	7,738
Total revenue and gain	**604,113**	519,348

Note:

(i) On 28 June 2006, Dynasty Winery was given a grant of RMB30 million by Tianjin Bei Chen District Finance Bureau in consideration of its significant development plan during the two years to 2007. There is no condition nor restriction on use attached to the grant. The Directors are of the view that recognition of the grant as income in equal proportion over the two years to 2007 is in line with the intention of the grant. Accordingly RMB15 million has been recognised as other gain in the current period and the balance will be recognised in 2007.

5. Operating profit

Operating profit is stated after charging/(crediting):

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK$'000	HK$'000
Employee costs include:		
– salaries, other allowance and benefits	**29,801**	28,149
– contributions to retirement benefits scheme	**2,059**	1,657
– share-based payments	**–**	6,610
– government subsidy *(Note i)*	**(19,270)**	(10,202)
Total employee costs including directors' emoluments	**12,590**	26,214
Depreciation	**15,766**	10,225
Amortisation	**519**	338
Operating lease rentals in respect of:		
– storage facilities and plant and machinery	**–**	1,698
– transformation station	**1,043**	1,020
– office premises	**713**	747

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. For the period ended 30 June 2006, Dynasty Winery received HK$19,270,000 (2005: HK$10,202,000) from the fund.

6. Income tax expense

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK$'000	HK$'000
Current taxation:		
– PRC income tax	**25,613**	42,578

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 period for each of Group's subsidiaries. The applicable rate is principally 24% being the preferential rate for foreign investment production enterprises established in a coastal economic development zone (2005: 24%).

7. Dividends

	Unaudited Six months ended 30 June	
	2006	2005
	HK$'000	HK$'000
Interim dividend proposed of HK3.0 cents (2005: HK3.7 cents) per ordinary share	**37,350**	46,065

8. Earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK$82,302,000 (2005: HK$116,936,000) and the weighted average number of 1,245,000,000 shares (2005: 1,195,856,354 shares) in issue during the period.

The exercise of share options would have no material dilutive effect of earnings per share for the periods ended 30 June 2005 and 2006.

9. Capital expenditure

During the six months ended 30 June 2006, the Group acquired fixed assets amounting to HK$20.9 million (30 June 2005: HK$63.2 million, including items through acquisition of subsidiaries).

10. Trade receivables

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

	Unaudited 30 June 2006 HK$'000	Audited 31 December 2005 HK$'000
Below 30 days	**46,162**	87,648
30 to 90 days	**29,170**	19,025
91 to 180 days	**11,106**	2,797
Over 180 days	**268**	2,235
	86,706	111,705

11. Share capital

	Number of shares	Share capital
		HK$'000
Proforma share capital as at 1 January 2005	900,000,000	90,000
Issue of shares *(Note b)*	345,000,000	34,500
As at 30 June 2005 and 30 June 2006	1,245,000,000	124,500

Note:

(a) The total authorised number of ordinary shares is 3,000 million shares (31 December 2005: 3,000 million shares) with a par value of HK$0.10 per share (31 December 2005: HK$0.10 per share). All issued shares are fully paid.

(b) 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 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.

Share options scheme

Pursuant to the resolutions 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 maximum number of shares issuable upon the exercise of all outstanding options to be granted under the Scheme must not, in aggregate, exceed 30% of the total number of shares in issue from time to time. 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 unless separate approval is obtained.

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Particulars and movements of the option schemes are as follows:

Option granted	Date of grant	Exercise price	Outstanding as at 1 January 2006	Options cancelled	Outstanding as at 30 June 2006
		HK$			
Directors, other than the independent non-executive directors	27 Jan 2005	3	15,100,000	(4,400,000)	10,700,000
Employees	27 Jan 2005	3	7,500,000	–	7,500,000

12. Reserves

	Unaudited							
	Share premium	**Merger reserve** *(Note i)*	**Employee share-based compensation reserve**	**Reserve fund** *(Note ii)*	**Enterprise expansion reserve** *(Note ii)*	**Exchange reserves**	**Retained profits**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2005	–	74,519	–	44,911	94,045	–	116,809	330,284
Issue of shares	689,518	–	–	–	–	–	–	689,518
Profit attributable to equity holders of the Company for the period	–	–	–	–	–	–	116,936	116,936
Transfer	–	–	–	146	146	–	(292)	–
Share-based payments	–	–	6,610	–	–	–	–	6,610
Currency translation differences	–	–	–	–	–	604	–	604
As at 30 June 2005	689,518	74,519	6,610	45,057	94,191	604	233,453	1,143,952
As at 1 January 2006	**689,518**	**74,519**	**8,655**	**63,927**	**94,293**	**20,069**	**230,663**	**1,181,644**
Profit attributable to equity holders of the Company for the period	**–**	**–**	**–**	**–**	**–**	**–**	**82,302**	**82,302**
Transfer	**–**	**–**	**(1,685)**	**–**	**–**	**–**	**1,685**	**–**
Dividend	**–**	**–**	**–**	**–**	**–**	**–**	**(24,900)**	**(24,900)**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**12,194**	**–**	**12,194**
As at 30 June 2006	**689,518**	**74,519**	**6,970**	**63,927**	**94,293**	**32,263**	**289,750**	**1,251,240**

Note:

(i) The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries that had been acquired and the nominal value of the Company's shares issued in exchange therefore pursuant to the Reorganisation.

(ii) 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.

13. Trade payables

The aging analysis of the trade payables is as follows:

	Unaudited 30 June 2006 HK$'000	Audited 31 December 2005 HK$'000
Below 30 days	**21,868**	48,183
30 to 90 days	**9,071**	–
Over 180 days	**2,187**	2,836
	33,126	51,019

14. Operating lease commitments

At 30 June 2006, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited 30 June 2006 HK$'000	Audited 31 December 2005 HK$'000
Transformation station		
– Not later than one year	**2,097**	2,077
– Later than one year but not later than five years	**175**	1,211
	2,272	3,288
Office premises		
– Not later than one year	**1,425**	1,425
– Later than one year but not later than five years	**475**	1,188
	1,900	2,613

15. Capital commitments

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

	Unaudited 30 June 2006 HK$'000	Audited 31 December 2005 HK$'000
Authorised but not contracted	**76,279**	79,482
Contracted but not provided for	**38,051**	9,804
	114,330	89,286

16. Related party transactions

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

	Unaudited Six months ended 30 June 2006 HK$'000	Unaudited Six months ended 30 June 2005 HK$'000
(a) Purchase of goods and services		
Tianjin Heavenly Palace Winery Co., Ltd ("Heavenly Palace")		
Rental paid *(Note i)*	**–**	1,698
Ning Xia Heavenly Palace Yuma Winery Co., Ltd ("Yuma")		
Purchase of unprocessed wine *(Note (d))*	**20,604**	24,705
Tianjin Tianyang Grape Extracting Co., Ltd. ("Tianyang')		
Purchase of unprocessed wine *(Note ii)*	**–**	2,655
(b) Acquisition of interest in subsidiaries from:		
Tianjin Development Holdings Limited ("Tianjin Development") *(Note iii)*	**–**	47,000
(c) Key management compensation		
Salaries and other short-term employee benefits	**4,666**	4,838
Other long-term benefits	**200**	147
Share-based payments	**–**	6,610
	4,866	11,595

	As at Unaudited 30 June 2006 HK$'000	As at Audited 31 December 2005 HK$'000
(d) (Payable)/advance for unprocessed wine		
Yuma *(Note a)*	**(3,874)**	9,850

Heavenly Palace is a subsidiary of Tianjin Development. Yuma is an associate of Heavenly Palace.

16. Related party transactions *(Continued)*

Notes:

(i) Up to 28 November 2005, rental for storage facilities, plant and machinery was paid at contracted terms of RMB300,000 per month (approximately HK$283,000 per month). On 28 November 2005, the Group acquired the aforesaid storage facilities, plant and machinery from Heavenly Palace for HK$3 million.

(ii) As detailed in Note (iii) below, Tianyang became a subsidiary of the Group after the acquisition of Smiling East Resources Limited ("Smiling East") on 23 February 2005 and ceased to be a fellow subsidiary of the Group.

(iii) On 10 January 2005, the Company entered into a conditional agreement with Tianjin Development, the intermediate holding company, to acquire the entire share capital and to assume the shareholder's loan of Smiling East for a consideration of HK$47 million. The terms and conditions of the acquisition were fulfilled and the transaction completed on 23 February 2005. Smiling East holds 60% equity interest in Tianyang which is engaged in manufacturing of unprocessed wines and is a supplier to Dynasty Winery.