Notes to the Financial Statements

1 Group reorganisation and general information

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. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1–1111, Cayman Islands. The principal address of the Company is in unit 1408, Two Pacific Place, 88 Queensway, Admiralty, Hong Kong.

Pursuant to the reorganisation, as disclosed in the Company's prospectus dated 17 January 2005, which was carried out for the purpose of the listing the Company's 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 principal activity of the Company is investment holding and the principal activities of the subsidiaries are stated in Note 30.

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

These consolidated financial statements have been approved for issue by the Board of Directors on 19 April 2007.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Dynasty Fine Wines Group Limited have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) *Standards and amendments to published standards that are not yet effective*

Following is the new standard and amendment to existing standard for accounting periods beginning on or after 1 January 2007 or later periods which is relevant to the Group but which the Group has not early adopted:

Effective from 1 January 2007:

HKFRS 7 and Amendment to HKAS 1	Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements — Capital Disclosures

The Group has already commenced an assessment of the impact of this new standard and amendment but is not yet in a position to state whether it would have a significant impact on its results of operations and financial position.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) *Interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 May 2006 or later periods and that the Group has not early adopted:

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006).

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

The Group will apply HK(IFRIC)-Int 8 and HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements.

(c) *Interpretation to existing standards that are not yet effective and not relevant for the Group's operations*

The following interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006).

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006).

(d) *Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

• HKAS 19 (Amendment)	Employee Benefits
• HKAS 21 (Amendment)	Net Investment in a Foreign Operation
• HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions; The Fair Value Option
• HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
• HKFRS 6	Exploration for and Evaluation of Mineral Resources
• HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
• HKFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources
• HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
• HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
• HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

2 Summary of significant accounting policies *(Continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2006.

The Group resulting from the Reorganisation referred to in Note 1 above is regarded as a continuity entity. Accordingly, the consolidated financial statements have been prepared on the merger basis as if the Company had been the holding company of the companies comprising the Group and the group structure as at 13 January 2005 had been in existence from the beginning of 1 January 2004. In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results, cash flows and state of affairs of the Group as a whole.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2 Summary of significant accounting policies *(Continued)*

2.4 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's presentation currency. The functional currency of the Company and all of its Group's subsidiaries in the PRC is Renminbi.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 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.

Buildings comprise mainly factories and offices. Buildings and other fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

2 Summary of significant accounting policies *(Continued)*

2.5 Fixed assets and depreciation *(Continued)*

Depreciation of buildings and other fixed assets is calculated using the straight-line method to allocate the cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Plant and machinery	10 years
Leasehold improvements, furniture and equipment	5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains — net, in the income statements. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

2.7 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 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 sales proceed less estimated cost to completion and selling expenses. Provision is made for inventories when they become obsolete.

2 Summary of significant accounting policies *(Continued)*

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

2.12 Deferred income tax

Deferred income tax 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 consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2 Summary of significant accounting policies *(Continued)*

2.13 Employee benefits

- *Retirement scheme obligation*

  Employees of the Group's subsidiaries in 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 income statement as incurred.

- *Share-based compensation*

  The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

  The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.14 Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.15 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue from sales of goods is recognised when the Group has delivered products to the customers, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Interest income is recognised on a time-proportion basis using the effective interest method.

2.16 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

2 Summary of significant accounting policies *(Continued)*

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.19 Government grants/subsidies

Government grants are recognised at fair value where there is a reasonable assurance that the Group will comply with all conditions attached to the grants and the grants will be received.

Government subsidies relating to costs are deferred and recognised in the income statement on a systemic basis to match related costs which they are intended to compensate.

3 Turnover and other gains

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

	2006 **HK$'000**	2005 HK$'000
Turnover		
Manufacturing and sale of wine products	**1,114,145**	947,489
Other gains		
Interest income	**28,691**	19,368
Government grant *(Note (i))*	**14,634**	—
	43,325	19,368
Total revenue and gains	**1,157,470**	966,857

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 (HK$14.6 million) has been recognised as other gains in the current year and the remaining balance will be recognised in 2007.

Notes to the Financial Statements *(Continued)*

4 Cost of sales

Cost of the sales comprises the following items:

	2006 HK$'000	2005 HK$'000
Cost of production	**435,682**	362,492
Consumption tax at 10% of domestic turnover	**111,218**	94,430
	546,900	456,922

5 Segment information

Manufacturing and sale of wine products is the only business segment of the Group for the year ended 31 December 2006 and 2005.

No geographic 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.

6 Operating profit

	2006 HK$'000	2005 HK$'000
Operating profit is stated after charging/(crediting):		
Employee costs:		
— salaries	**42,550**	33,745
— contributions to retirement benefits scheme	**5,931**	3,670
— other allowance and benefits	**23,237**	17,584
— share-based payments	**217**	8,847
— government subsidy *(Note i)*	**(15,193)**	(12,074)
Total employee costs including directors' emoluments	**56,742**	51,772
Auditors' remuneration	**1,018**	1,000
Depreciation	**33,396**	21,436
Amortisation	**1,140**	914
Net exchange loss	**10,590**	6,544
Loss on disposal of fixed assets	**1,231**	147
Operating lease rentals in respect of:		
— storage facilities and plant and machinery	**—**	3,143
— transformation station	**2,107**	2,057
— office premises	**1,425**	1,425

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. 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 2006, Dynasty Winery received approximately HK$15.2 million (2005: HK$12.1 million) from the fund. As at 31 December 2006, the remaining balance in this fund is approximately HK$6.8 million (2005: HK$22.0 million).

Notes to the Financial Statements *(Continued)*

7 Finance costs

	2006 HK$'000	2005 HK$'000
Interest expense:		
Bank loans wholly repayable within five years	—	346

8 Income tax expense

	2006 HK$'000	2005 HK$'000
Current income tax:		
— PRC income tax	**37,222**	51,151
— Under/(over) provision in previous years	**662**	(2,003)
— tax refund	**(190)**	(1,544)
	37,694	47,604

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 for each of the 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%).

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

	2006 HK$'000	2005 HK$'000
Profit before income tax	**151,413**	229,012
Calculated at applicable rates	**37,008**	56,049
Non-tax deductible expenses	**4,050**	457
Income not subject to tax	**(3,836)**	(2,229)
Utilisation of previously unrecognised deferred tax assets	—	(3,126)
Under/(over) provision in previous years	**662**	(2,003)
Tax refund	**(190)**	(1,544)
Income tax expense	**37,694**	47,604

9 Profit attributable to the equity holders of the Company

The profit attributable to the equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$49,850,000 (2005: HK$73,800,000).

Notes to the Financial Statements *(Continued)*

10 Dividends

	2006 HK$'000	2005 HK$'000
Interim dividend paid of HK3.0 cents (2005: HK3.7 cents) per ordinary share	**37,350**	46,065
Proposed final dividend of HK1.2 cents (2005: HK2.0 cents) per ordinary share *(Note)*	**14,940**	24,900
	52,290	70,965

Note: On 19 April 2007, the directors declared final dividend of HK1.2 cents per ordinary share. These financial statements do not reflect this dividend payable, which will be reflected as an appropriation of retained profits for the year ending 31 December 2007.

11 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$114,803,000 (2005: HK$178,991,000) and the weighted average number of 1,245,000,000 shares (2005: 1,220,630,137 shares) in issue during the year.

The exercise of share options would have no material dilutive effect of earnings per share for the year ended 31 December 2006 (2005: Nil).

12 Emoluments for directors and five highest paid individuals

- **Directors' emoluments:**

	2006 HK$'000	2005 HK$'000
Fees	**2,160**	2,016
Salaries, allowances and other benefits	**5,056**	7,091
Share-based payments	**153**	5,783
Contributions to retirement benefits scheme	**216**	245
	7,585	15,135

12 Emoluments for directors and five highest paid individuals (Continued)

The remuneration of directors for the year ended 31 December 2006 is set out below:

	Fees HK$'000	Salary HK$'000	Discretionary bonus HK$'000	Other benefits HK$'000	Share-based payments HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Executive director							
Mr. Bai Zhisheng	—	1,500	—	336	153	75	2,064
Mr. Nie Jiansheng	—	1,200	—	300	—	60	1,560
Mr. Chen Naiming	—	1,286	108	326	—	81	1,801
Non-executive director							
Mr. Heriard-Dubreuil Francois	240	—	—	—	—	—	240
Mr. Wang Guanghao	240	—	—	—	—	—	240
Mr. Cheung Wai Ying, Benny	240	—	—	—	—	—	240
Mr. Zhang Wenlin	240	—	—	—	—	—	240
Mr. Wong Ching Chung	240	—	—	—	—	—	240
Mr. Robert Luc	240	—	—	—	—	—	240
Independent non-executive director							
Mr. Lai Ming, Joseph	240	—	—	—	—	—	240
Dr. Hui Ho Ming, Herbert	240	—	—	—	—	—	240
Mr. Chau Ka Wah, Arthur	240	—	—	—	—	—	240

12 Emoluments for directors and five highest paid individuals *(Continued)*

The remuneration of directors for the year ended 31 December 2005 is set out below:

	Fees	**Salary**	**Discretionary bonus**	**Other benefits**	**Share-based payments**	**Employer's contribution to pension scheme**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive director							
Mr. He Xiuheng *(i)*	—	1,399	—	313	881	70	2,663
Mr. Gao Xiaode *(i)*	—	1,384	400	313	804	65	2,966
Mr. Nie Jiansheng	—	1,119	—	281	746	56	2,202
Mr. Bai Zhisheng	—	279	—	—	421	—	700
Mr. Chen Naiming	—	1,133	162	308	746	54	2,403
Non-executive director							
Mr. Heriard-Dubreuil Francois	224	—	—	—	460	—	684
Mr. Wang Guanghao	224	—	—	—	345	—	569
Mr. Cheung Wai Ying, Benny	224	—	—	—	345	—	569
Mr. Zhang Wenlin	224	—	—	—	345	—	569
Mr. Wong Ching Chung	224	—	—	—	345	—	569
Mr. Robert Luc	224	—	—	—	345	—	569
Independent non-executive director							
Mr. Lai Ming, Joseph	224	—	—	—	—	—	224
Mr. Hui Ho Ming, Herbert	224	—	—	—	—	—	224
Mr. Chau Ka Wah, Arthur	224	—	—	—	—	—	224

Note:

(i) Resigned on 1 January 2006

12 Emoluments for directors and five highest paid individuals *(Continued)*

- **Senior management's emoluments:**

The five highest paid individuals included three directors for the year ended 31 December 2006 (2005: four) whose emoluments are reflected above. The emoluments payable to the remaining two (2005: one) individual(s) during the year are summarised as follows:

	2006 HK$'000	2005 HK$'000
Salaries and allowances	**1,879**	975
Contributions to retirement benefits scheme	**86**	49
Share-based payments	**64**	498
	2,029	1,522

The emoluments fell within the following bands

	Number of individuals	
	2006	2005
Emolument bands		
HK$Nil–HK$1,000,000	**1**	—
HK$1,000,001–HK$1,500,000	**1**	—
HK$1,500,001–HK$2,000,000	**—**	1
	2	1

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 2006 (2005: Nil).

13 Retirement benefit obligations

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.

14 Fixed assets

The Group

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost						
As at 1 January 2005	63,949	110,932	31,625	23,091	76,195	305,792
Exchange differences	1,230	2,133	608	444	1,465	5,880
Additions	6,125	9,215	3,922	2,391	62,037	83,690
Acquisition of a subsidiary *(Note 28(b))*	8,964	27,901	122	531	—	37,518
Transfers	13,349	45,770	18,538	—	(77,657)	—
Disposals	—	(377)	(1,289)	(103)	—	(1,769)
As at 31 December 2005	93,617	195,574	53,526	26,354	62,040	431,111
Exchange differences	4,353	7,093	2,140	891	1,144	15,621
Additions	—	2,456	20,045	3,451	19,378	45,330
Transfers	54,877	15,090	480	—	(70,447)	—
Disposals	—	(3,388)	(2,192)	(2,257)	—	(7,837)
As at 31 December 2006	152,847	216,825	73,999	28,439	12,115	484,225
Accumulated depreciation						
As at 1 January 2005	21,963	58,388	21,798	14,047	—	116,196
Exchange differences	454	1,239	445	293	—	2,431
Charge for the year	3,312	12,057	3,386	2,681	—	21,436
Disposals	—	(306)	(1,124)	(103)	—	(1,533)
As at 31 December 2005	25,729	71,378	24,505	16,918	—	138,530
Exchange differences	1,020	2,802	916	573	—	5,311
Charge for the year	6,213	17,717	7,121	2,345	—	33,396
Disposals	—	(1,818)	(1,971)	(2,257)	—	(6,046)
As at 31 December 2006	32,962	90,079	30,571	17,579	—	171,191
Net book value						
As at 31 December 2006	119,885	126,746	43,428	10,860	12,115	313,034
As at 31 December 2005	67,888	124,196	29,021	9,436	62,040	292,581

14 Fixed assets *(Continued)*

The Company

	Leasehold improvements, furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost			
As at 1 January 2005	30	—	30
Additions	2,497	1,441	3,938
As at 31 December 2005	2,527	1,441	3,968
Exchange differences	89	50	139
Additions	20	—	20
As at 31 December 2006	2,636	1,491	4,127
Accumulated depreciation			
As at 1 January 2005	1	—	1
Charge for the year	717	272	989
As at 31 December 2005	718	272	990
Exchange differences	52	20	72
Charge for the year	774	288	1,062
As at 31 December 2006	1,544	580	2,124
Net book value			
As at 31 December 2006	1,092	911	2,003
As at 31 December 2005	1,809	1,169	2,978

15 Land use rights

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
Cost	**63,651**	22,048
Accumulated amortisation and impairment	**(4,465)**	(3,191)
	59,186	18,857
As at 1 January	**18,857**	16,860
Additions	**40,039**	—
Acquisition of a subsidiary *(Note 28(b))*	**—**	2,343
Amortisation of prepaid operating lease payment	**(1,140)**	(914)
Exchange differences	**1,430**	568
As at 31 December	**59,186**	18,857

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

16 Goodwill

	Group HK$'000
As at 31 December 2005 and 2006 *(Note 28(b))*	9,421

Impairment tests for goodwill

Goodwill relates to the Group's only segment: manufacturing and sale of wine products.

The recoverable amount of goodwill is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets prepared by management covering a ten-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the winery business.

The key assumptions used for value-in-use calculations are as follows:

Production capacity	Remains constant
Growth rate	3%
Discount rate	7%

Management determined budgeted sales based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant operation.

No impairment is recognised during the year.

17 Interests in subsidiaries

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**456,233**	440,879
Amounts due from subsidiaries	**266,372**	257,407
	722,605	698,286

Amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. Details of principal subsidiaries are set out in Note 30.

18 Deferred income tax assets

	Group	
	2006	2005
	HK$'000	HK$'000
At 1 January	**1,236**	1,212
Exchange differences	**43**	24
At 31 December	**1,279**	1,236

Deferred income tax assets relate to provision for doubtful debts.

19 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:

	Group	
	2006	2005
	HK$'000	HK$'000
Below 30 days	**78,504**	87,648
30 to 90 days	**10,141**	19,025
91 to 180 days	**3,793**	2,797
Over 180 days	**5,907**	2,235
	98,345	111,705
Less: Provision for doubtful debts	**(824)**	—
	97,521	111,705

20 Inventories

	Group	
	2006	2005
	HK$'000	HK$'000
At cost:		
Unprocessed wines	**172,034**	199,259
Finished goods	**191,634**	142,571
Consumables	**22,367**	13,042
	386,035	354,872

21 Cash and bank balances

	2006 HK$'000	2005 HK$'000
The Group		
Balances with banks	**764,232**	762,839
Balances with other financial institutions	**162**	412
	764,394	763,251
The Company		
Balances with banks	**429,728**	406,553

Cash and bank balances deposited with banks and other financial institutions in the PRC were 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.

The effective interest rate on bank balances deposited with banks and other financial institutions were 3.3% (2005: 2.6%) respectively; these deposits have an average maturity of 30 days (2005: 30 days).

22 Share capital

The Company's share capital is as follows:

	Number of ordinary shares of HK$0.1 each	**HK$**
Authorised		
As at 31 December 2005 and 2006	3,000,000,000	300,000,000

Issued and paid up

	Number of shares	**Share capital** HK$'000
Issue of shares on 9 August 2004 *(Note i)*	1	—
Issue of shares on 10 August 2004 *(Note ii)*	99	—
Acquisition of subsidiary *(Note iii)*	899,999,900	90,000
Proforma share capital as at 1 January 2005	900,000,000	90,000
Issue of shares *(Note iv)*	345,000,000	34,500
As at 31 December 2005 and 2006	1,245,000,000	124,500

Notes:

(i) *On 9 August 2004, one share of HK$0.1 was allotted and issued at par for cash.*

(ii) *On 10 August 2004, an aggregate of 99 shares of HK$0.1 each were allotted and issued at par for cash.*

(iii) *The Company issued 899,999,900 shares of HK$0.1 each on 13 January 2005 to acquire the entire equity interest of Grand Spirit Holdings Limited ("Grand Spirit") which owns the entire equity interest of Sino French Joint-Venture Dynasty Winery Ltd.*

(iv) *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.*

22 Share capital *(Continued)*

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.

On 1 November 2006, 1,200,000 share options were granted to a director (other than the independent non-executive director) and 500,000 share options were granted to an employee of the Group. The options are exercisable at a price of HK$3 per share at any time between 22 May 2007 and 31 October 2016. During 2006, no share options were exercised, lapsed or cancelled by the directors or employees except for 4,400,000 cancelled options.

Particulars and movements of the option schemes are as follows:

	Date of grant	Expiry date	Exercise price HK$	Outstanding as at 1 January 2006	Options granted	Options cancelled	Outstanding as at 31 December 2006
(i) Options granted to directors, other than the independent non-executive directors							
	27 Jan 2005	26 Jan 2015	3	15,100,000	—	(4,400,000)	10,700,000
	1 Nov 2006	31 Oct 2016	3	—	1,200,000	—	1,200,000
				15,100,000	1,200,000	(4,400,000)	11,900,000
(ii) Options granted to employees							
	27 Jan 2005	26 Jan 2015	3	7,500,000	—	—	7,500,000
	1 Nov 2006	31 Oct 2016	3	—	500,000	—	500,000
				7,500,000	500,000	—	8,000,000
Total				22,600,000	1,700,000	(4,400,000)	19,900,000

The fair market value of options granted during the year ended 31 December 2006 determined using the Binominal valuation model was approximately HK$0.38 per option. The vesting period of the share options scheme is 6 months from date of grant. The significant inputs into the model were share price of HK$3 per share, at the grant date, exercise price of HK$3 per option, standard deviation of expected share price returns of 26%, expected life of options of 2 years, expected dividend pay out rate of 50% and annual risk-free interest rate of 3.644%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last several months.

Notes to the Financial Statements *(Continued)*

23 Other reserves

The Group

	Share premium	Merger reserve *(Note i)*	Employee share-based compensation reserve	Reserve fund *(Note ii)*	Enterprise expansion reserve *(Note ii)*	Exchange reserve	Total
	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	—	213,475
Issue of shares	689,518	—	—	—	—	—	689,518
Share-based payments	—	—	8,847	—	—	—	8,847
Transfer	—	—	(192)	19,016	248	—	19,072
Currency translation differences	—	—	—	—	—	20,069	20,069
As at 31 December 2005	689,518	74,519	8,655	63,927	94,293	20,069	950,981
Share-based payments	—	—	217	—	—	—	217
Transfer	—	—	(1,685)	15,000	82	—	13,397
Currency translation differences	—	—	—	—	—	40,886	40,886
As at 31 December 2006	689,518	74,519	7,187	78,927	94,375	60,955	1,005,481

Notes:

(i) *The merger reserves of the Group represents the difference between the nominal value of the shares of the subsidiaries that were 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 financial statements 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.*

23 Other reserves *(Continued)*

The Company

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Capital reserve *(Note (i))* HK$'000	Exchange reserve HK$'000	Total HK$'000
As at 1 January 2005	—	—	—	—	—
Issue of shares	689,518	—	—	—	689,518
Reserve arising from Reorganisation	—	—	331,286	—	331,286
Share-based payments	—	8,847	—	—	8,847
Transfer	—	(192)	—	—	(192)
As at 31 December 2005	689,518	8,655	331,286	—	1,029,459
Share-based payments	—	217	—	—	217
Transfer	—	(1,685)	—	—	(1,685)
Currency translation differences	—	—	—	34,886	34,886
As at 31 December 2006	689,518	7,187	331,286	34,886	1,062,877

Note:

(i) The capital reserve of the Company represents the excess of consolidated values of subsidiaries acquired, over the nominal value of the share of the Company issued in exchange thereof as a result of the Reorganisation.

24 Trade payables

The aging analysis of the trade payables is as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Below 30 days	**41,821**	48,183
91 to 180 days	**1,890**	—
Over 180 days	**289**	2,836
	44,000	51,019

25 Amount due to a subsidiary

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

26 Amount due to a related company

The amount due to a related company was trade in nature, unsecured, interest free and had settlement terms within three months.

27 Commitments

(a) Capital commitments

As at 31 December 2006, the Group had capital expenditure commitments related to purchase of fixed assets and production facilities as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Authorised but not contracted for	**43,059**	79,482
Contracted but not provided for	**1,008**	9,804
	44,067	89,286

(b) Operating lease commitments

At 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Transformation station		
— Not later than one year	**1,254**	2,077
— Later than one year but not later than five years	**—**	1,211
	1,254	3,288
	Group and Company	
Office premises		
— Not later than one year	**1,188**	1,425
— Later than one year but not later than five years	**—**	1,188
	1,188	2,613

28 Notes to consolidated cash flow statements

(a) Cash generated from operations:

	2006 HK$'000	2005 HK$'000
Profit before taxation	**151,413**	229,012
Interest expense	**—**	346
Interest income	**(28,691)**	(19,368)
Depreciation	**33,396**	21,436
Amortisation	**1,140**	914
Loss on disposal of fixed assets	**1,231**	147
Share-based payments	**217**	8,847
Decrease/(increase) in trade receivables	**14,184**	(5,608)
Decrease/(increase) in other receivables, deposits and prepayments	**9,852**	(14,851)
Increase in inventories	**(31,163)**	(95,450)
(Decrease)/increase in trade payables	**(7,019)**	5,812
Increase/(decrease) in other payables and accruals	**247**	(23,236)
Decrease in amount due to a fellow subsidiary	**—**	(1,735)
Decrease in amounts due to related companies	**(10,104)**	(1,890)
Currency translation differences	**16,763**	12,210
Cash generated from operations	**151,466**	116,586

28 Notes to consolidated cash flow statements *(Continued)*

(b) Purchase of a subsidiary

The assets and liabilities of Smiling East Resources Limited ("Smiling East") acquired by the Group in the year ended 31 December 2005 (Note 29(i)) are as follows:

	Fair value 2005 HK$'000
Net assets acquired:	
Fixed assets	37,518
Land use rights	2,343
Other receivables, deposits and prepayments	206
Inventories	24,997
Cash and bank balances	4,144
Other payables and accruals	(128)
Current income tax liabilities	(2,123)
Amount due to holding company	(37,407)
Dividend payable	(2,595)
Minority interest	(26,783)
	172
Goodwill arising on acquisition	9,421
	9,593
Consideration satisfied by cash	47,000
Less: Assumption of shareholder's loan	(37,407)
	9,593

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

	HK$'000
Cash and bank balances acquired	4,144
Cash paid	(47,000)
	(42,856)

29 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.

	2006 **HK$'000**	2005 HK$'000
• Acquisition of interest in subsidiaries from:		
Tianjin Development Holdings Limited ("Tianjin Development") *(Note i)*	—	47,000
• Purchase of goods and services		
Tianjin Heavenly Palace Winery Co., Ltd ("Heavenly Palace") *(Note ii)*		
Rental paid	—	3,429
Acquisition of storage facilities, plant and machinery	—	2,977
Dynasty Yuma Vineyard (Ning Xia) Co. Ltd.		
(formerly known as Ning Xia Heavenly Palace Yuma Winery Co., Ltd.) ("Yuma")		
Purchase of unprocessed wine	**22,292**	29,571
Tianyang		
Purchase of unprocessed wine *(Note iii)*	—	2,655
• Key management compensation		
Salaries and other short-term employee benefits	**10,994**	12,762
Other long-term benefits	**522**	623
Share-based payments	**217**	8,847
	11,733	22,232

	As at December 31 **2006** **HK$'000**	2005 HK$'000
• Advance for unprocessed wine		
Yuma *(Note iv)*	**230**	9,850

Heavenly Palace is a subsidiary of Tianjin Development. Yuma is an associate of Heavenly Palace as at 31 December 2006.

29 Related party transactions *(Continued)*

Notes:

(i) During 31 December 2005, the Company acquired the entire share capital and to assume the shareholder's loan of Smiling East from Tianjin Development, the intermediate holding company, for a consideration of HK$47 million. Smiling East holds 60% equity interest in Tianjin Tianyang Grape Extracting Co. Ltd. ("Tianyang") which is engaged in manufacturing of unprocessed wines and is a supplier to Dynasty Winery.

(ii) Rental for storage facilities and plant and machinery was paid at contracted terms of RMB300,000 per month (approximately HK$286,000 per month). The rental period is three years commencing from 1 January 2003 and terminated on 31 December 2005. Dynasty Winery (Note 30) signed purchase agreements on 28 November 2005 to acquire the aforesaid storage facilities, plant and machinery from Heavenly Palace at approximately HK$2,977,000 on normal commercial terms.

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

(iv) The advance for purchase of unprocessed wine was trade in nature, non-interest bearing and had no fixed repayment terms. In 2005, the advance was trade in nature, bear interest at 6% per annum and had no fixed repayment terms.

30 Principal subsidiaries

The following is a list of the principal subsidiaries at 31 December 2006:

	Issued and fully paid up share capital	Attributable interests (%)	Principal activities
Incorporated in the British Virgin Islands			
Grand Spirit Holdings Limited	US$200	#100	Investment holding
Smiling East Resources Limited	US$1	#100	Investment holding
Ho Tin International Co., Ltd.	US$1	#100	Investment holding
Established and operating in Hong Kong			
Dynasty Fine Wines (Asia Pacific) Limited	HK$10,000,000	#100	Trading of winery products
Established and operating in the PRC			
Sino-French Joint-Venture Dynasty Winery Ltd.(*)	RMB407,499,000	100	Manufacturing and sale of winery products
Shandong Yu Huang Grape Wine Co., Ltd.(&)	RMB6,866,812	65	Manufacturing and sale of winery products
Tianjin Tianyang Grape Extracting Co. Ltd.(^)	RMB66,532,000	60	Manufacturing and sale of unprocessed wine

\# Shares held directly by the Company
(*) wholly foreign-owned enterprise
(&) Limited company established in the PRC
(^) Sino-foreign equity joint venture

31 Financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates, credit risk and cash flow interest rates risk.

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk.

Majority of the Group's revenues and operating expenses are denominated in Renminbi, a currency not freely convertible into other currencies, except under certain circumstances. The value of the Renminbi against other foreign currencies is subject to amendment by the PRC government. From 1994 until 21 July 2005, the rate at which the Renminbi was convertible into US dollars was fixed by the People's Bank of China at a stable rate of approximately RMB8.3 per US dollar. From 21 July 2005, the Renminbi was pegged to a basket of currencies instead. This revaluation of the exchange rate resulted in the Renminbi appreciating against the HK dollar by approximately two per cent. To the extent that the Renminbi appreciates further against HK dollars, results of the Group's operations, which are presented in HK dollars, will increase, and to the extent that the Renminbi depreciates in value the results of the Group's operations, will decrease.

- *Foreign exchange risk*
  The Group mainly operates in the PRC with most of the transactions settled in Renminbi and did not have significant exposure to foreign exchange risk for the year ended 31 December 2006.

- *Price risk*
  The Group has minimal price risk.

- *Credit risk*
  The Group has no significant concentrations of credit risk. The carrying amount of trade receivables included in the consolidated balance sheets represented the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible trade receivables has been made in the consolidated financial statements.

- *Liquidity risk*
  The Group has minimal liquidity risk.

- *Cash flow and fair value interest rate risk*
  As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to changes in interest rates is mainly attributable to its short-term deposits. The Group did not use any interest rate swaps to hedge its exposure to interest rate risk during the year ended 31 December 2006.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, time deposits, trade receivables, other receivables, deposits and prepayments; and financial liabilities including trade payables, other payables and accruals, approximate their fair values due to their short maturities.

32 Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.6. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as set out in Note 16.

Note 22 contains information about the assumptions and their risk factors relating to fair value of share options granted.

33 Events after the balance sheet date

On 18 January 2007, the Group completed the acquisition of 25% equity interest of Yuma from Heavenly Palace, for a consideration of HK$11.49 million pursuant to the sale and purchase agreement dated 21 April 2006.