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

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.

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 as if 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 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 2004 Annual Report.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual report for the year ended 31 December 2004, except that upon adoption of the new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005, certain of the Group's accounting policies were changed.

2. Basis of preparation and accounting policies (Continued)

These interim accounts have been prepared in accordance with those new HKFRSs and interpretations issued and effective as at the time of preparing this information (July 2005). The new HKFRSs and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in Note 3 below.

3. Changes in accounting policies

(a) Effect of adopting new HKFRSs

In 2005, the Group adopted the new HKFRSs below, which are relevant to its operations. The 2004 comparatives have been restated as appropriate.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

Adoption of new HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27 and 33 did not result in substantial changes to the Group's accounting policies. Related impact on presentation of the Group's financials is summarised below.

— HKAS 1 has affected the presentation of minority interest and other disclosures.

3. Changes in accounting policies (Continued)

(a) Effect of adopting new HKFRSs (Continued)

— According to HKAS 21, the functional currency of each of the consolidated entities has been re-evaluated based on guidance to the revised standard.

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

Adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to leasehold land and land use rights. The up-front prepayments made for the leasehold land and land use rights are now reclassified as operating lease and expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement in the year identified. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

Adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities. Up to 2004, no adjustment is necessary upon adoption of HKASs 32 and 39.

In accordance with the provisions of HKFRS 3 and HKAS 36, goodwill is tested annually for impairment, and also when there is indication of impairment commencing from the year ending 31 December 2005. In accordance with HKFRS 2, cost of share options are expensed in income statement.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than HKASs 16, 21, 39 and HKFRSs 2 and 3.

3. Changes in accounting policies (Continued)

(b) New accounting policies

The accounting policies used for the condensed consolidated accounts for the six months ended 30 June 2005 are the same as those set out in Note 2 to the 2004 annual report except for the following:

(i) *Acquisition of subsidiaries*

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.

(ii) *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 Hong Kong dollars, which is the Company's functional and presentation currency. The functional currency of the Group's subsidiaries in PRC is Renminbi.

(iii) *Property, plant and equipment*

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

(iv) *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 on acquisitions of subsidiaries is included in intangible assets. 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.

3. Changes in accounting policies (Continued)

(b) New accounting policies (Continued)

(v) *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).

(vi) *Share capital*

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.

(vii) *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.

4. Segment information

Manufacturing and sale of wine products is the only business segment of the Group for the periods ended 30 June 2004 and 2005. All operating assets of the Group for the periods ended 30 June 2004 and 2005 are located in the PRC. Accordingly, no separate business and geographic segment information is presented.

5. Turnover and other revenue

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

	Unaudited Six months ended 30 June 2005 HK$'000	2004 HK$'000
Turnover		
Manufacturing and sale of wine products	**511,610**	445,379
Other revenue		
Interest income	**7,738**	2,353
	519,348	447,732

6. Operating profit

Operating profit is stated after charging/(crediting):

	Unaudited Six months ended 30 June 2005 HK$'000	2004 HK$'000
Employee costs include:		
— salaries, other allowance and benefits	**28,149**	25,003
— contributions to retirement benefits scheme	**1,657**	1,466
— share-based payments	**6,610**	—
— government subsidy (Note a)	**(10,202)**	(5,706)
Total employee costs including directors' emoluments	**26,214**	20,763
Depreciation	**10,225**	8,139
Amortisation	**338**	418
Loss on disposal of fixed assets	**—**	19
Operating lease rentals in respect of		
— storage facilities and plant and machinery	**1,698**	1,698
— transformation station	**1,020**	1,020
— office premises	**747**	—

6. Operating profit (Continued)

Note:

(a) 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 2005, Dynasty Winery received HK$10,202,000 (2004: HK$5,706,000) from the fund.

7. Taxation

	Unaudited Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Current taxation:		
— PRC income tax	**42,578**	38,275
— underprovision in previous years	**—**	509
	42,578	38,784

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. The applicable rate for Dynasty Winery and Tianjin Tianyang Grape Extracting Co., Limited is 24% for the periods ended 30 June 2004 and 2005, being the preferential rate for foreign investment production enterprises established in a coastal economic development zone. The applicable rate for Yu Huang is 30% for the periods ended 30 June 2004 and 2005.

8. Dividends

	Unaudited Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Interim dividend proposed of HK3.7 cents per ordinary share	46,065	—

Note: On 13 September 2005, the directors declared an interim dividend of HK3.7 cents per ordinary share. This declared dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2005.

9. 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$116,936,000 and the weighted average number of 1,195,856,354 shares in issue during the period.

The comparative basic earnings per share is calculated based on profit attributable to equity holders of the Company of HK$101,218,000 and an aggregate of 900,000,000 shares comprising 100 shares issued immediately after incorporation of the Company and 899,999,900 shares issued upon the Reorganisation, which were deemed to have been in issue since 1 January 2004.

The exercise of share options would have no material dilutive effect of earnings per share for the periods ended 30 June 2004 and 2005.

10. Capital expenditure

(a) Acquisitions

During the six months ended 30 June 2005, the Group acquired fixed assets, leasehold land and land use rights including items through acquisition of subsidiaries amounting to HK$63,226,000 (six months ended 30 June 2004: HK$27,968,000).

10. Capital expenditure (Continued)

(b) Goodwill arising from acquisition of subsidiaries

	HK$'000
As at 1 January 2005	—
Acquisition of subsidiaries	9,421
As at 30 June 2005	9,421

11. 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 2005 HK$'000	Audited 31 December 2004 HK$'000
Below 30 days	38,666	76,241
30 to 90 days	24,671	21,062
91 to 180 days	17,806	11,819
Over 180 days	5,641	864
	86,784	109,986
Less: Provision for doubtful debts	(3,889)	(3,889)
	82,895	106,097

12. Share capital

	Number of shares	Share capital	Share premium	Total
		HK$'000	HK$'000	HK$'000
As at 1 January 2004 and 30 June 2004	—	—	—	—
Issue of share on 9 August 2004 (Note b)	1	—	—	—
Issue of shares on 10 August 2004 (Note c)	99	—	—	—
Acquisition of subsidiary (Note d)	899,999,900	90,000	—	90,000
Proforma share capital as at 31 December 2004	900,000,000	90,000	—	90,000
Issue of shares (Note e)	345,000,000	34,500	689,518	724,018
As at 30 June 2005	1,245,000,000	124,500	689,518	814,018

Notes:

(a) The total authorised number of ordinary shares is 3,000 million shares (31 December 2004: 3,000 million shares) with a par value of HK$0.10 per share (31 December 2004: HK$0.10 per share). All issued shares are fully paid.

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

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

(d) The Company issued 899,999,900 shares of HK$0.1 each on 13 January 2005 to acquire for the entire equity interest of Grand Spirit. Grand Spirit is an investment holding company owning the entire interest in Dynasty Winery which is established in the PRC and engages in manufacturing and sales of wine products.

(e) 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.

12. 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.

On 27 January 2005, 15,100,000 share options were granted to directors, other than the independent non-executive directors, of the Company and 8,000,000 share options were granted to employees of the Group. The options are exercisable at a price of HK$3 per share at anytime between 17 August 2005 and 26 January 2015. None of these share options have been exercised, lapsed or cancelled by the directors or employees during the period ended 30 June 2005.

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

Based on the share option valuation report prepared by Vigers Appraisal & Consulting Limited ("Vigers") on 1 September 2005, the fair market value of options granted during the six months ended 30 June 2005 determined using the Binomial valuation model was HK$0.38 per option. 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 23%, expected life of options of 2 years, expected dividend paid out rate of 50% and annual risk-free interest rate of 1.478%. According to the Vigers' report, 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 since listing on the Stock Exchange.

13. Reserves

	Unaudited							
	Share premium HK$'000	Merger reserve (Note) HK$'000	Employee share-based compensation reserve HK$'000	Reserve fund HK$'000	Enterprise expansion reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
As at 1 January 2004	—	74,519	—	38,124	87,420	—	175,775	375,838
Profit attributable to equity holders of the Company for the period	—	—	—	—	—	—	101,218	101,218
Dividends	—	—	—	—	—	—	(74,344)	(74,344)
As at 30 June 2004	—	74,519	—	38,124	87,420	—	202,649	402,712
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

Note: 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.

14. Trade payables

The aging analysis of the trade payables is as follows:

	Unaudited 30 June 2005 HK$'000	Audited 31 December 2004 HK$'000
Below 30 days	29,977	41,574
30 to 90 days	—	337
91 to 180 days	—	1,871
Over 180 days	2,176	1,425
	32,153	45,207

15. Short-term bank loan

The short-term bank loan in 2004 of HK$14.2 million was secured by certain of the Group's properties in Tianjin and the security was released in October 2004.

16. Operating lease commitments

At 30 June 2005, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited 30 June 2005 HK$'000	Audited 31 December 2004 HK$'000
Storage facilities and plant and machinery		
— Not later than one year	**1,698**	3,396
Transformation station		
— Not later than one year	**2,038**	2,038
— Later than one year but not later than five years	**2,206**	3,226
	4,244	5,264
Office premises		
— Not later than one year	**1,425**	1,425
— Later than one year but not later than five years	**1,901**	2,613
	3,326	4,038

17. Capital commitments

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

	Unaudited 30 June 2005 HK$'000	Audited 31 December 2004 HK$'000
Authorised but not contracted for	**144,570**	13,592
Contracted but not provided for	**7,161**	8,222
	151,731	21,814

18. Business combination

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

The acquired business contributed net profit of HK$878,000 to the Group for the period from 23 February 2005 to 30 June 2005.

The details of the net assets acquired and goodwill are as follows:

	HK$'000
Cash consideration	47,000
Less: Assumption of shareholder's loan	37,407
	9,593
Less: Fair value of net assets acquired	172
Goodwill	9,421

The goodwill is attributable to the significant synergies expected to arise after the Group's acquisition of Smiling East.

19. Related party transactions

The following is a summary of significant related party transactions during the period which in the opinion of the directors are carried out in the normal course of the Group's business:

		Unaudited Six months ended 30 June	
		2005 HK$'000	2004 HK$'000
(a)	Purchase of goods and services		
	Tianjin Heavenly Palace Winery Co., Ltd ("Heavenly Palace")		
	Rental paid (Note i)	1,698	1,698
	Ning Xia Heavenly Palace Yuma Winery Co., Ltd ("Yuma")		
	Purchase of unprocessed wine	24,705	17,131
	Tianyang		
	Purchase of unprocessed wine (Note ii)	2,655	5,747
(b)	Acquisition of interest in subsidiaries from:		
	Tianjin Development (Note 18)	47,000	—
(c)	Key management compensation		
	Salaries and other short-term employee benefits	4,838	72
	Other long-term benefits	147	—
	Share-based payments	6,610	—
		11,595	72

19. Related party transactions (Continued)

	As at	
	Unaudited 30 June 2005	Audited 31 December 2004
(d) Period end balances arising from purchase of goods and services		
Tianyang (Note ii)	—	5,618

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

Notes:

(i) Rental for storage facilities and plant and machinery was paid at contracted terms of HK$283,000 per month. The rental period is three years commencing from 1 January 2003.

(ii) As detailed in Note 18, 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. Total purchase from Tianyang during the period from 1 January 2005 to 23 February 2005 amounted to HK$2,655,000.

20. 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

(i) *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 periods ended 30 June 2004 and 2005.

20. Financial risk management (Continued)

(a) Financial risk factors (Continued)

(ii) *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 accounts.

(iii) *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 borrowings. As at 30 June 2005, the Group's short-term bank loan was fully repaid. The Group did not use any interest rate swaps to hedge its exposure to interest rate risk during the period ended 30 June 2005.

(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, short-term borrowings, other payables and accruals, approximate their fair values due to their short maturities.

21. Comparative figures

Comparative figures have been translated into Hong Kong dollars to conform with the current period's presentation.

22. Approval of interim financial reports

The interim financial reports were approved by the Board on 13 September 2005.