• Red wines • White wines • Sparkling wines • Brandy •

Strive to maintain
the leading market position and
grow into a stronger future.

Management Discussion and Analysis

Strong financial position providing a solid foundation for future growth; our turnover increased by 17.8% to HK$947.5 million while profit attributable to equity holders of the Company arose by 7.9% to HK$179.0 million

Results

For the year ended 31 December 2005, our turnover was HK$947.5 million (2004 – HK$804.6 million), increased by 17.8% while our profit attributable to equity holders of the Company was HK$179.0 million (2004 – HK$165.9 million), arose by 7.9% as the operating costs increased.

Earnings per share of the Company ("Share") was HK14.7 cents per Share based on the weighted average number of 1,220,630,137 Shares in issue during the year (2004 – HK18.4 cents per Share on a pro forma basis as if 900,000,000 Shares were outstanding since 1 January 2004). As there was no dilutive potential ordinary Share outstanding as at 31 December 2005, dilutive earnings per Share are not presented.

The financial results in 2005 were mainly attributable to the growth in sales volume but partially offset by the increase in purchase cost of grape juice, distribution costs and general and administrative expenses.

Initial Public Offering

Placing and Public Offer

Supported by all our dedicated staff, the Group was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 January 2005, representing a significant milestone in the Group's corporate development, laying the foundation for our further growth in the industry. The response to its placing and public offer was well received by institutional and public investors and in particular, the public offer was over subscribed by more than 600 times. Upon the completion of the placing and public offer, we issued a total of 345,000,000 new shares, including the shares issued upon the exercise of the over-allotment option. The net proceeds raised from the placing and public offer amounted to approximately HK$724 million. The satisfactory results of the placing and public offer reflected the confidence of investors in the prospects of our business as well as in the grape wine industry of the People's Republic of China (the "PRC").

Use of Proceeds

The planned usage of proceeds was as follows:

Use	Usage as announced HK$' million	Actual progress HK$' million
Expansion of existing production facilities	200	117
Establishment of new production facilities	160	–
Expansion of sales and distribution network	20	–
Acquisition of Smiling East	47	47
Other acquisition opportunities and general working capital	297	4
Total	724	168

On 23 February 2005, the acquisition of Smiling East was completed and the total investment cost amount to HK$47million was satisfied by part of the net proceeds.

In addition, to cope with the Group's long term development and to crystallise our business plan as set out in our prospectus dated 17 January 2005, we are planning to build a new production facility in Tianjin to further boost our production capacity. Moreover, we are in discussion with certain companies in complementary wine business, which we consider as possible targets of acquisition in the future. As at the date of this report, no agreement was entered into between the Group and other parties in this regard.

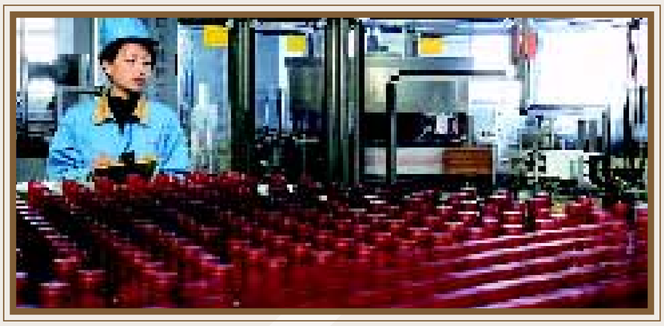
We have placed the unutilised net proceeds in short term bank deposits.

Business Review

Sales Analysis

For the year ended 31 December 2005, the Group experienced satisfactory growth in sales volume. The number of bottles of wine sold increased from approximately 38.9 million in 2004 to approximately 45.5 million in 2005, whilst the average ex-factory sale price remained relatively stable. The primary revenue sources of the Group continued to be red wine product sales which accounted for approximately 95.0% of the Group's turnover for the year (2004 – 93.9%). The Group's best selling wine product remained Dynasty Dry Red, the prototype of our mass market product, accounting for approximately 49.1% of the Group's turnover (2004 – 50.3%).

During the year, we sold our products in all provinces and autonomous regions and four directly-administered municipalities under the central government of the PRC. Huadong region, or Eastern region of the PRC, comprising Shanghai, Zhejiang and Jiangsu provinces still remained to be the Group's primary market. In addition to the primary market, sales of our products made in other markets, such as Guangdong, Jiangxi, Hunan and Hubei provinces etc., in the PRC are expanding as well as to enhance our marketing and promotion efforts in other coastal provinces in order to increase market share in those markets. In respect of the export of the Group's products to overseas, sales remained insignificant at 0.3% (2004 – 0.2%) of our turnover during the year as the domestic market was our primary focus.



We produce a wider spectrum of over 50 products under the "Dynasty" brand name to meet different consumer demands in the PRC grape wine market and focus on medium to high end segments. With a high quality and diversified product portfolio, we believe we will be able to attract higher end consumers by introducing premium higher end products. During the year, sales of premium wine products, such as Dynasty Dry Red Wine-Aged in Oak Barrels and Dynasty Cabernet Sauvignon Reserve 2003 and Dynasty Chardonnay Reserve 2002, saw encouraging growth. Although the contribution from the sales of these products to our turnover was insignificant during the year, we believe these premium product sales will become an increasingly significant source of our growth in the future.

In 2006, we will continue to explore acquisition opportunities of grape wine producers in the PRC and overseas so as to realize our vision to enlarge our market share and high quality product range.

Supplies of Grapes or Grape Juice

Production for quality of wine products is highly dependent upon sufficient supply of quality grapes or grape juice. We currently have over 10 major grape juice suppliers, mainly located in Tianjin, Shandong, Hebei and Ningxia, with whom we have established good, long term and stable relationships. To ensure reliable and solid supplies of quality grapes and grape juice to meet the production needs of the growing business and our expected increasing demand generated from the production capacity expansion plan, we are working with our grape growing partners on enlarging their existing vineyards to increase harvests and also identify new suppliers who can meet our quality requirements. For new suppliers, the quality of their products will be fully tested before orders will be placed by the Group. Such measures will enable us to secure grape supplies and lower the risk of our production being interrupted by effects of weather, affecting the quality of our grapes or grape juice. We will also explore opportunities of acquiring grape juice suppliers in the PRC or overseas.

Production Capacity

The progress of production capacity expansion from 30,000 tonnes (equivalent to approximately 40.0 million bottles) to 50,000 tonnes (equivalent to approximately 66.7 million bottles) per annum is in accordance with our schedule and is expected to be completed around mid-2006. As at 31 December 2005, the actual production reached 35,000 tonnes per annum (equivalent to approximately 46.7 million bottles). The management will put all its efforts into ensuring the timely, or even early, completion of the remaining portion. During the year, we commenced a feasibility study on the establishment of a new production facility and identified an appropriate site in Tianjin for that purpose. The new production facility, expected to be completed by the end of 2008, will further increase our production capacity to 70,000 tonnes (equivalent to approximately 93.3 million bottles) per annum. The enlarged production capacity will enable us to promptly respond to the surge of market demand.

Prospects

Looking ahead, despite the intensifying market competition, the Group has confidence in its ability in capitalising on the robust market demand of grape wine products in the PRC to maximise business growth and managing the rapid development. By leveraging the advantages of the Group in a wide range of areas, such as our reputable brand name, comprehensive product and market knowledge, extensive distribution network and further upgrading our product mix, we will further strengthen our leading position and grow our business in the grape wine market in the PRC.

To stay in line with our future organic growth in the market, we will also explore appropriate acquisition opportunities in synergy with our business strategies to help us generating greater value for our shareholders in the year ahead.

Financial Review

Selected Financial Information

Key components of our financial results as well as other financial and operating data as at and for the year ended 31 December 2005 are extracted or calculated from our accounts as set out on page 57 to 93 of this annual report and presented as follows:

	2005 HK$'000	2004 HK$'000
Financial results:		
Turnover	**947,489**	804,629
Cost of sales	**(456,922)**	(377,699)
Gross profit	**490,567**	426,930
Distribution costs	**(221,515)**	(169,210)
General and administrative expenses	**(59,062)**	(38,148)
Taxation	**(47,604)**	(57,187)
Profit attributable to equity holders of the Company	**178,991**	165,955
Dividends declared in respect of the year	**70,965**	74,340

	2005	2004
Other financial and operating data:		
Sales volume (million bottles)	**45.5**	38.9
Gross profit margin (%)	**51.8**	53.1
Net operating margin (%)	**18.9**	20.6
Return on average equity (%)	**20.7**	37.5
Debtors' turnover (days)	**43**	48
Creditors' turnover (days)	**51**	55
Inventories turnover (days)	**357**	288
Gearing ratio – total bank borrowings to shareholders' funds (%)	**-**	3.4

Income Statement

Turnover

For the year ended 31 December 2005, we achieved satisfactory growth in turnover due to increase in sales volume. The Group's turnover increased from approximately HK$804.6 million in 2004 to approximately HK$947.5 million in 2005. This increase was attributable to the sales and marketing effort and the organic growth of the overall grape wine market in the PRC.

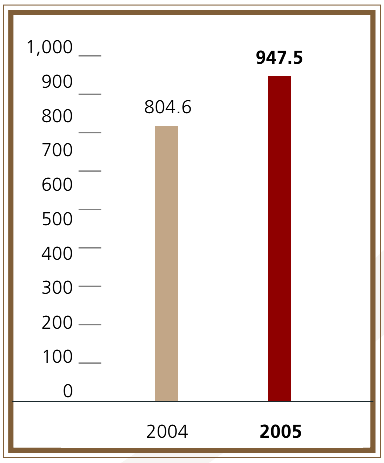
The Group's average ex-factory sales prices during the year for red and white wine products had been relatively stable compared to average price of HK$20.8 per bottle (750ml) in 2004. The average ex-factory sales prices of the Group's red wine products are, however, in general higher than the Group's white wine products. Based on consumers in the PRC having a prevalent preference in favour of red wine products, the Group is able to set higher prices for its red wine products.

Cost of Sales

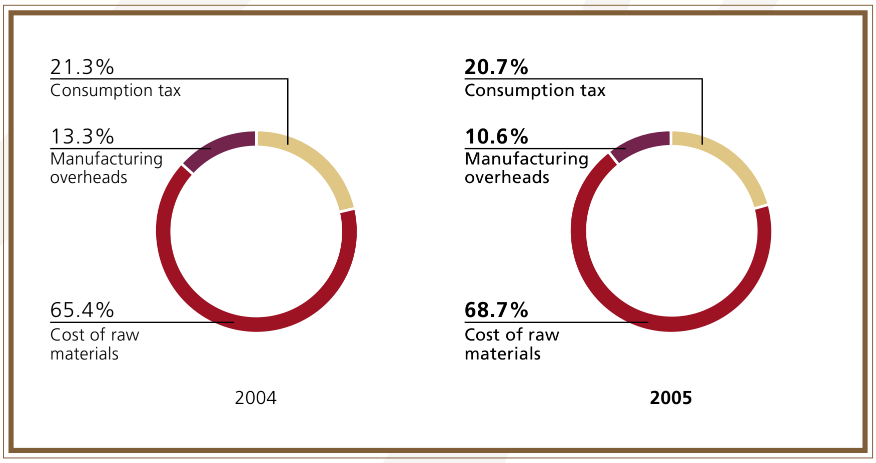
The following table sets forth the major components of our cost of sales for the year:

	2005	2004
	%	%
Cost of raw materials		
Grapes and grape juice	**39.0**	35.8
Yeast and additives	**1.6**	1.9
Packaging materials	**26.1**	26.2
Others	**2.0**	1.5
Total cost of raw materials	**68.7**	65.4
Manufacturing overheads	**10.6**	13.3
Consumption tax	**20.7**	21.3
Total cost of sales	**100.0**	100.0

Turnover (HK$'million)



Cost of Sales



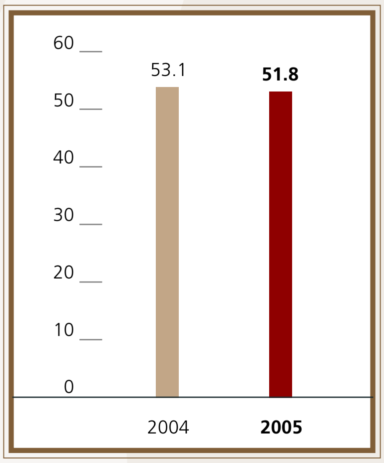
The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives and packaging materials comprising bottles, bottle caps, labels, corks and packing boxes. During the year, the cost of grapes and grape juice accounted for approximately 39.0% of the Group's total cost of sales, an increase of 3.2 percentage points from approximately 35.8% in 2004 and was due to the unfavorable demand and supply situation of grapes or grape juice. The total cost of packaging materials as a percentage of turnover was relatively stable during the year as compared with last year.

Manufacturing overheads consist primarily of depreciation or rental of fixed assets, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses for production. During the year, manufacturing overheads did not fluctuate significantly as a percentage of turnover.

Gross Profit Margin

During the year, the gross margin was calculated based on cost of sales inclusive of consumption tax over gross invoiced sales. Overall gross profit margin reached 51.8% in 2005, a decline of 1.3 percentage points from 53.1% in 2004 and was primarily due to higher purchase cost of grape juice as compared to 2004. The gross margin of red wine products and white wine products were 52.3% and 42.2% respectively (2004 – 53.9% and 40.1% respectively). The higher gross margin of the red wine products was mainly due to their higher sales prices.

Gross Margin (%)



Distribution Costs

Distribution costs include principally advertising and market promotion expenses, transportation and delivery charges in connection with the sales of grape wine products, salaries and related personnel expenses for the sales and marketing department and other incidental expenses. During the year, distribution costs increased and accounted for approximately 23.4% (2004 – 21.0%) of the Group's turnover. In particular, advertising and market promotion expenses accounted for approximately 14.9% (2004 – 13.2%) of the Group's turnover. The modest increase in distribution costs as a percentage was due to the increase in advertising and promotion fees incurred to boost market demand. In order to allow the Group to maintain consumer awareness of our brand name – "Dynasty", to increase the market share and also to facilitate the launch of new products, we expect advertising and market promotion expenses to increase with the growth in turnover of the Group in the foreseeable future.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and related personnel expenses for administrative, finance and human resources departments, provision for doubtful debts and write off for obsolete inventories, depreciation and amortisation expense and other incidental administrative expenses.

In 2005, general and administrative expenses rose and accounted for approximately 6.2% (2004 – 4.7%) of the Group's turnover. The increase in general and administrative expenses was attributable to i) share-based payment of $8.8 million regarding share option granted to the Directors and employees during the year under the new requirements of adopting new Hong Kong Financial Reporting Standard 2 – Share-based Payments; and ii) additional costs in relation to Directors' emoluments . Apart from the aforesaid factors, the general and administrative expenses as a percentage of turnover remained relatively stable during the year.

Taxation Expense

Under the current laws of the Cayman Islands and the British Virgin Islands ("BVI"), neither the Company nor its subsidiaries incorporated in BVI is subject to tax on its income or capital gains. In addition, payment of dividends by them is not subject to withholding tax in those jurisdictions.

Pursuant to the relevant income tax rules and regulations of the PRC, the applicable tax rate for Sino-French Joint-Venture Dynasty Winery Limited, our major operating subsidiary, and for Tianjin Tianyang Grape Extracting Co. Ltd, another subsidiary of the Group, is 24%, being the preferential income tax rate for foreign investment production enterprises established in a coastal economic development zone. The applicable rate for Shandong Yu Huang Grape Wine Co., Ltd., another subsidiary of the Group, is 30%. During the year, the effective tax rate of the Group was slightly lowered to approximately 20.8% (2004 – 25.6%) due to over-provision in previous years and tax refund in the PRC.

Balance sheet

Trade Receivables, Credit Period, Debtors' Turnover and Credit Policy

Trade receivables increased by approximately 5.3% during the year ended 31 December 2005 and amounted to HK$111.7 million

(2004 – HK$106.1 million). The increase was as a result of the growth in turnover primarily. During the year, most customers were given a credit period ranging from one to three months and receivables with an age of less than three months accounted for approximately 95.5% of the net trade receivables as at 31 December 2005 (2004 – 91.7%). During the year, debtors' turnover remained relatively stable at approximately 43 days (2004 - 48 days).

Since 1999, the Group has implemented a policy under which the larger customers, comprising mainly regional distributors, are required to place deposits in accordance with the targeted sales levels upon entering into a sales contract with the Group to enjoy certain credit terms, in general ranging from 30 days to 90 days. Smaller customers, with whom the Group has long-term trading relationships and who have good payment history, are also entitled to, in general, credit terms of 30 days. All other customers are required to pay cash on delivery. Up to 31 December 2005, the Group has received deposits from its customers of approximately HK$83.6 million (2004 – HK$85.1 million). Such amounts are recorded in the balance sheet as the "Other payables and accruals" and are only refundable upon termination of the sales contracts. In addition, the Group may deduct from the deposit if the customer does not pay for the purchase within the credit period granted and the same customer would have to top up the deposit if it wishes to continue purchasing grape wine products from the Group. As a result of the Group's credit policy, our exposure to doubtful debt is minimal.

Trade Payables, Payment Period and Creditors' Turnover

Trade payables increased by approximately 12.8% during the year ended 31 December 2005 and amounted to approximately HK$51.0 million (2004 - HK$45.2 million). During the year, payments to most suppliers were subject to a payment period of one to two months. Creditors' turnover of approximately 51 days (2004 - 55 days) was in line with the credit period granted by most suppliers. The higher trade payable balance in 2005 was primarily because of increased purchases of unprocessed wines towards the year end in preparation of the expected increase in sales demand and, to a certain extent, reducing the impact on increasing purchase costs of grape juice in 2006.

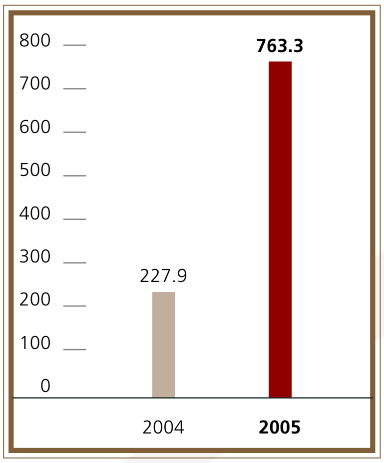
Inventories and Inventory Turnover

The Group's overall inventories increased by approximately 51.4% during the year ended 31 December 2005 and amounted to approximately HK$354.9 million (2004 – HK$234.4 million). Inventories mainly comprise unprocessed wines of approximately HK$199.3 million and finished goods of approximately HK$142.6 million. During the year, inventory turnover was approximately 357 days (2004 - 288 days). The longer inventory turnover period during the year was primarily the result of the stocking up of unprocessed wines in preparation of the increase in sales demand and, to a certain extent, reducing the impact on increasing purchase costs of grape juice in 2006.

Cash Flow

In 2005, the Group's source of cash flow was mainly from its financing activities. The Group's cash has principally been applied to pay the consideration for acquisition of Smiling East Resources Limited ("Smiling East"), 2004 special dividends to shareholders and listing expenses.

Cash and Cash Equivalents (HK$'million)



The decrease in cash inflow from operating activities from HK$181.3 million in 2004 to HK$53.7 million in 2005 was primarily attributable to the effects of the changes in working capital, mainly purchase of inventories and decrease in other payables and accruals.

Net cash used in investing activities was primarily attributable to the acquisition of Smiling East pursuant to the plan disclosed in the prospectus dated 17 January 2005 and amounting to approximately HK$47.0 million (2004 – HK$Nil). It was also attributable to the acquisition of fixed assets pursuant to our expansion plan and amounted to approximately HK$83.7 million (2004:HK$82.9 million).

Net cash inflow in financing activities was primarily attributable to the net proceeds from the placing and public offer approximately HK$724 million (2004 – HK$Nil) and offset by the payment of dividends to shareholders of approximately HK$124.7 million (2004 – HK$137.2 million).

Dividend Policy

We intend to declare and pay dividends in the future. The payment and the amount of any dividends will be recommended by the Directors in accordance with the relevant rules and regulations and dependent on the Group's results of operations, cash requirements and availability, financial condition, acquisition opportunities, the provisions of relevant laws, among others. Subject to the factors described above, the Board of Directors currently intends to recommend at the relevant shareholders' meetings an annual dividend amount at approximately 30% to 50% of the net profit available for distribution to the shareholders in the future.

Financial Management and Treasury Policy

As at 31 December 2005, except for the net proceeds from the placing and public offer, and the revenue and expenses of the Company in Hong Kong, the Group's revenues, expenses, assets and liabilities are mainly denominated in RMB. Accordingly, the Group does not anticipate significant exposure to foreign currency fluctuation. The Group has maintained sufficient financial resources and is in a net cash position, thus we are exposed to minimal financial risk on interest rate fluctuation. The Group will continue monitoring the market conditions and its financial exposure to determine if any hedging is required.

As at the date of this report, almost all of our cash and bank balances are denominated either in RMB, Hong Kong dollars or United States dollars. The net proceeds from the placing and public offer that were not already used for the intended purposes have been placed on short term deposits with authorised financial institutions in Hong Kong. The Group has established an investment policy with the objective of monitoring the investments of the Group's uncommitted funds to ensure the achievement of the highest practicable return on the investments with priority on capital preservation and liquidity.

Capital Structure

Upon the completion of the placing and public offer, the net proceeds from our listing on the Stock Exchange further strengthen our capital structure and we expect our cash to be sufficient for meeting our operating and capital expenditure requirements in the foreseeable future.

The market capitalisation of the Company as at 31 December 2005 was approximately HK$3,579 million.

Capital Commitments, Contingencies and Charges on Assets

The Group has made capital expenditure commitments mainly for machineries of approximately HK$79.5 million which are authorised but not contracted for and approximately HK$9.8 million which are contracted but not provided for in the accounts as at 31 December 2005. These commitments were mainly related to the expansion of the Group's production capacity. The funding of such capital commitments will be out of the proceeds of the new issue as stated in the prospectus dated 17 January 2005.

As at 31 December 2005, none of the Group's assets were charged or subject to any encumbrance and the Group had no material contingent liabilities.

Acquisition

The Group completed the acquisition of Smiling East on 23 February 2005 by acquiring its entire issued share capital and shareholder's loan according to the sales and purchase agreement entered into between Tianjin Development Holdings Limited and the Group on 10 January 2005. Accordingly, Tianjin Tianyang Grape Extracting Company Limited, an unprocessed wine producer held by Smiling East, became a 60% owned subsidiary of the Group. We believe the acquisition will enable us to secure stable sources of unprocessed wine for our production.

Human Resources Management

People are our most important assets and are indispensable to our success in the competitive marketplace. As part of our corporate culture, we strive to ensure a strong team spirit among our employees for them to contribute towards our corporate objectives. In achieving that goal, we offer competitive remuneration packages commensurate with industry level and provide various fringe benefits, including trainings, medical, insurance coverage as well as retirement benefits to all employees in Hong Kong and in the PRC. Staff have enrolled in external professional and technical seminars, and other training courses in order to update their technical knowledge and skills, to enhance their awareness of the markets and to improve their business acumen.

As at 31 December 2005, the Group employed a work force of 395 staff (including Directors) in Hong Kong and the PRC. The increase in manpower occurred mainly due to the acquisition of Smiling East. The total salaries and related costs amounted to approximately HK$51.8 million for the year ended 31 December 2005 (2004 – HK$35.0 million).

The Company also adopted a share option scheme on 6 December 2004 for the purposes of providing incentives and rewards to eligible participants who have contributed to the success of our operations. As at 31 December 2005, 22,600,000 share options were granted under the scheme.