Management Discussion and Analysis

Strong financial position providing a solid foundation for future growth; our turnover increased by 17.6% to HK$1,114.1 million while profit attributable to equity holders of the Company dropped by 35.9% to HK$114.8 million.

Results

The consolidated turnover for the year ended 31 December 2006 was HK$1,114.1 million (2005 — HK$947.5 million), an increase of 17.6% while our profit attributable to equity holders of the Company was HK$114.8 million (2005 — HK$179.0 million), representing a decline of 35.9% as the distribution costs increased.

Earnings per share of the Company ("Share") was HK9.2 cents per Share based on the weighted average number of 1,245,000,000 Shares in issue during the year (2005 — HK14.7 cents per Share based on the weighted average number of 1,220,630,137 Shares in issue in 2005). As there was no dilutive potential ordinary Share outstanding as at 31 December 2006, dilutive earnings per Share are not presented.

The financial results in 2006 were mainly attributable to the growth in sales volume for the year but offset by the significant increase in distribution costs.

Management Discussion and Analysis *(Continued)*

Business Review

Sales analysis

In 2006, the Group recorded a satisfactory growth in sales volume as compared to that of the last year. The number of bottles of wine sold increased from approximately 45.5 million in 2005 to approximately 49.5 million in 2006, together with increase in the average ex-winery sales price. The core revenue sources of the Group continued to be red wine product sales, accounting for approximately 93.8% of the Group's turnover for the year (2005 — 95.0%). The Group's best selling wine product was still Dynasty Dry Red, the prototype of our mass market product, accounting for approximately 45.8% of the Group's turnover (2005 — 49.1%).

The Group had a well-established nationwide distribution network and sold products in all provinces and autonomous regions and four directly-administered municipalities under the central government of the People's Republic of China (the "PRC") during the year. Huadong region, or Eastern region of the PRC, comprising Shanghai, Zhejiang and Jiangsu provinces continued to be the Group's primary markets. In addition to these primary markets, sales of our products in other markets, such as Guangdong, Jiangxi, Hunan and Hubei provinces etc., in the PRC were expanding and we were enhancing our marketing and promotion efforts in other coastal provinces in order to gain market share. Export sales remained insignificant at approximately 0.1% (2005 — 0.3%) of the Group's turnover during the year as the domestic market was our primary focus.

We produce a diversified range of over 50 products under the "Dynasty" brand to cater to the different segments of consumers in the PRC wine market and focus on medium to high end segments. During the year, sales of premium wine products, such as Dynasty Dry Red Wine-Aged in Oak Barrels, Dynasty Cabernet Sauvignon Reserve 2004 and Dynasty Chardonnay Reserve 2003, recorded encouraging growth. Although the sales contribution from these products was insignificant during the year, we believe sales generated from premium products will become an increasingly significant source of our income and a growth driver for the future.

Management Discussion and Analysis *(Continued)*

Supplies of grapes or grape juice

Having sufficient supply of quality grapes and grape juice is crucial to the production for quality wine products. 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 we have reliable and solid supplies of quality grapes and grape juice to meet the production needs of our growing business and resultant demand of production capacity expansion, the Group continues to work with our grape growing partners to enlarge their existing vineyards so as to enjoy better economies of scale and increase harvests by adopting state-of-art techniques for better quality and yield, 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 are placed. Such measures will enable us to secure quality grape and grape juice supplies and lower the risk of our production being interrupted by supply deficiency. The Group successfully established overseas sources of supply and imported grape juice at a lower cost than domestic supplies during the year.

Production capacity

The 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 was on schedule and the expansion project was completed in June 2006. During the year, an appropriate site in Tianjin was identified and prepared for the next step expansion from 50,000 tonnes to 70,000 tonnes (equivalent to approximately 93.3 million bottles), which is expected to be completed by the end of 2008. The enlarged production capacity will enable us to promptly respond to the booming market and further consolidate the Group's position and market share.

Prospects

In 2007, the Group will take measures to enhance margins, control sales and marketing spend, and improve staff motivation and measurement systems. In addition, the Group will conduct a brand strategy review to craft better and more effective brand strategies.

Looking forward, despite the intensifying market competition, the Group is confident to capitalise on the strong market demand in the PRC boosted by the strong economic growth and rising disposable income of the population. Leveraging on the competitive advantages, such as the reputable brand name, medium to high end segment portfolio and market knowledge, extensive distribution network to deepen market penetration and consistently expanding and refining product mix, the Group is determined to enhance its strong market position.

We will continue to seek acquisition opportunities that would bring synergy to the Group in order to generate greater value for our shareholders.

Management Discussion and Analysis *(Continued)*

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 2006 are extracted or calculated from our financial statements as set out on page 44 to 77 of this annual report and presented as follows:

	2006 **HK$'000**	2005 HK$'000
Financial results:		
Turnover	**1,114,145**	947,489
Cost of sales	**(546,900)**	(456,922)
Gross profit	**567,245**	490,567
Distribution costs	**(387,896)**	(221,515)
General and administrative expenses	**(71,261)**	(59,062)
Taxation	**(37,694)**	(47,604)
Profit attributable to equity holders of the Company	**114,803**	178,991
Dividends declared in respect of the year	**52,290**	70,965

	2006	2005
Other financial and operating data:		
Sales volume (million bottles)	**49.5**	45.5
Gross profit margin (%)	**50.9**	51.8
Net operating margin (%)	**10.3**	18.9
Return on average equity (%)	**8.5**	20.7
Debtors' turnover (days)	**32**	43
Creditors' turnover (days)	**37**	51
Inventories turnover (days)	**323**	357
Gearing ratio — total bank borrowings to shareholders' funds (%)	**–**	–

Income Statement

Turnover

For the year ended 31 December 2006, we achieved satisfactory growth in turnover due to increase in sales volume and improving average ex-winery sales price. The Group's turnover increased from approximately HK$947.5 million in 2005 to approximately HK$1,114.1 million in 2006. The growth was primarily attributable to the ongoing sales and marketing effort and organic growth of the overall grape wine market in the PRC.

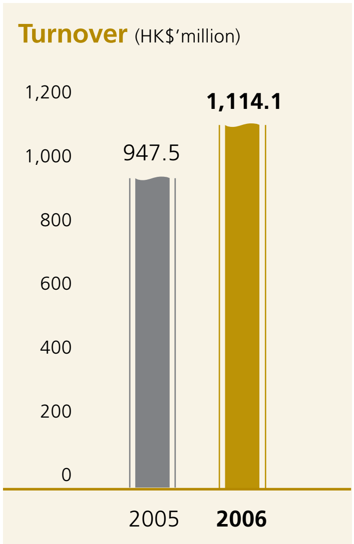
The Group's average ex-winery sales prices during the year for red and white wine products had increased from 2005 average price of HK$20.8 per bottle (750ml) to HK$22.5 per bottle (750ml) in 2006 due to refining of product mix. The average ex-winery sales prices of the Group's red wine products are in general higher than the Group's white wine products. Since consumers in the PRC have a prevalent preference for red wines, the Group is able to set higher prices for its red wine products.

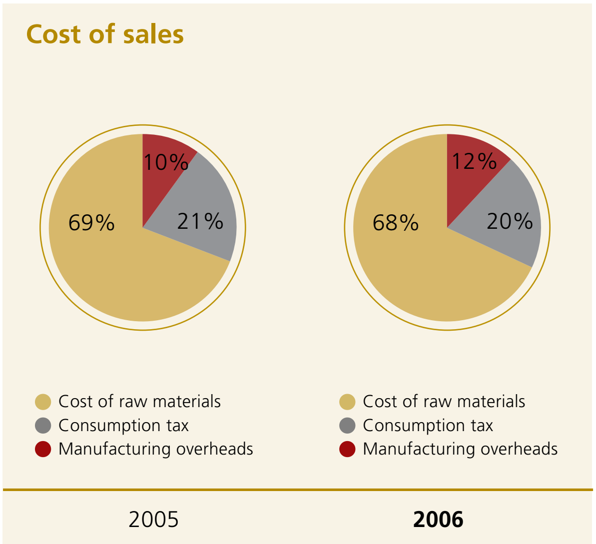
Management Discussion and Analysis *(Continued)*

Cost of sales

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

	2006	2005
	%	%
Cost of raw materials		
– Grapes and grape juice	**39**	39
– Yeast and additives	**1**	2
– Packaging materials	**26**	26
– Others	**2**	2
Total cost of raw materials	**68**	69
Manufacturing overheads	**12**	10
Consumption tax	**20**	21
Total cost of sales	**100**	100





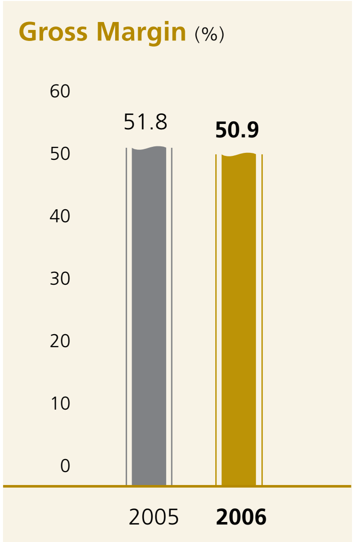
The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives and packaging materials including bottles, bottle caps, labels, corks and packing boxes. During the year, the cost of grapes and grape juice was the key component of cost of sales and accounted for approximately 39% (2005 — 39%) of the Group's total cost of sales. The total cost of packaging materials to turnover was relatively stable during the year.

Manufacturing overheads consist primarily of depreciation, 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 as a percentage of turnover increased slightly because of the increase in depreciation after the completion of the capacity expansion.

Management Discussion and Analysis *(Continued)*

Gross profit margin

Calculated based on cost of sales inclusive of consumption tax over gross invoiced sales, the overall gross profit margin declined to 50.9% in 2006 from 51.8% in 2005, which was primarily due to rising purchase cost of grape juice and increase in depreciation as a result of capacity expansion as compared to 2005. The gross margin of red wine products and white wine products in 2006 were 51.4% and 43.2% respectively (2005 — 52.3% and 42.2% respectively). The higher gross margin of the red wine products was mainly due to higher sales prices.



Other gains

Other gains in 2006 rose by 123.2% to HK$43.3 million (2005 — HK$19.4 million), mainly attributable to:

(1) a government subsidy of HK$14.6 million for a subsidiary to encourage its technology development and winemaking improvement; and

(2) increase in interest income from higher bank deposit's interest rates.

Distribution costs

Distribution costs mainly comprise 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. For the year ended 31 December 2006, distribution costs increased significantly and accounted for approximately 34.8% (2005 — 23.4%) of the Group's turnover. In particular, advertising and market promotion expenses accounted for approximately 20.6% (2005 — 14.9%) of the Group's turnover. The surge in distribution costs was primarily the result of increase in advertising and promotion fees incurred to maintain market position, to boost market demand, to expand the market shares outside Eastern Region of the PRC and also to facilitate market penetration of new products.

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, write off for obsolete inventories, exchange loss, depreciation and amortisation expense and other incidental administrative expenses.

General and administrative expenses for the year ended 31 December 2006 remained relatively stable and accounted for approximately 6.4% (2005 — 6.2%) of the Group's turnover.

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, any payment of dividends 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 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 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 increased to approximately 24.9% (2005 — 20.8%) due to the over-provision in previous years and tax refund in the PRC in 2005 but no over-provision and less tax refund in 2006.

Management Discussion and Analysis *(Continued)*

Balance sheet

Trade receivables, credit period, debtors' turnover and credit policy

Trade receivables decreased by approximately 12.7% for the year ended 31 December 2006 and amounted to HK$97.5 million (2005 — HK$111.7 million). The decrease was as a result of the settlement and more cash sales at year end. During the year, customers normally were given a credit period ranging from one to three months and receivables with an age of less than three months accounted for approximately 90.9% of the net trade receivables as at 31 December 2006 (2005 — 95.5%). During the year, debtors' turnover of approximately 32 days (2005 — 43 days) was in line with the credit period granted to most customers.

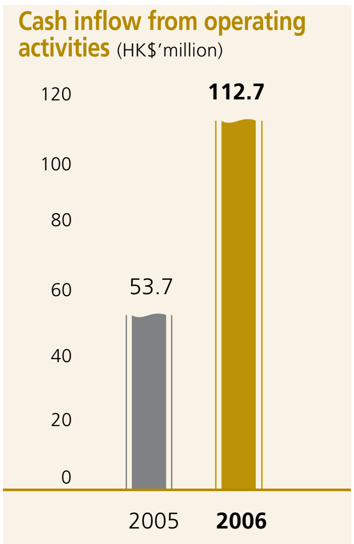
Since 1999, the Group has implemented a policy under which the larger customers, comprising mainly regional distributors, are required to place deposits in accordance with the targeted sales levels upon entering into a sales contract with the Group to enjoy certain credit terms, in general ranging from 30 days to 90 days. Smaller customers, with whom the Group has long-term trading relationships and who have good payment history, are also given, in general, credit terms of 30 days. All other customers are required to pay cash on delivery. Up to 31 December 2006, the Group has received deposits from its customers of approximately HK$83.4 million (2005 — HK$83.6 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 wine products from the Group. As a result, the Group's credit policy has minimized its exposure to doubtful debts.

Trade payables, payment period and creditors' turnover

Trade payables decreased by approximately 13.7% for the year ended 31 December 2006 and amounted to approximately HK$44.0 million (2005 — HK$51.0 million). During the year, payments to most suppliers were subject to a payment period of one to two months. Creditors' turnover of approximately 37 days (2005 — 51 days) was in line with the credit period granted by most suppliers. The lower trade payable balance in 2006 was mainly because more trade payables were settled before the financial year end as purchases were made an earlier time than that in the previous year.

Inventories and inventory turnover

The Group's overall inventories increased by approximately 8.8% for the year ended 31 December 2006 and amounted to approximately HK$386.0 million (2005 — HK$354.9 million). Inventories mainly comprise unprocessed wines of approximately HK$172.0 million and finished goods of approximately HK$191.6 million. During the year, inventory turnover was approximately 323 days (2005 — 357 days). The shorter inventory turnover period during the year was primarily the result of the faster sale of products.



Cash flow

In 2006, the Group's source of cash flow was mainly from its operating activities. The Group's cash has principally been used to pay for the acquisition of fixed assets, land use rights and dividends to shareholders.

The increase in cash inflow from operating activities from HK$53.7 million in 2005 to HK$112.7 million in 2006 was primarily attributable to the decrease in income tax paid and changes in working capital, mainly the decrease in trade receivables.

Net cash used in investing activities was primarily attributable to the acquisition of fixed assets and land use rights amounting to HK$78.9 million (2005 — HK$83.7 million) pursuant to our expansion plan less interest income of HK$28.7 million (2005 — HK$18.6 million). In 2006, the Company has prepaid investment in an associated company of HK$12.0 million (2005 — Acquisition of subsidiaries of HK$47 million).

Net cash outflow in financing activities was primarily attributable to the payment of dividends to shareholders of approximately HK$62.3 million. In 2005, the net cash inflow was primarily attributable to the net proceeds from the placing and public offer approximately HK$724.0 million and offset by the payment of dividends to shareholders of approximately HK$124.7 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 2006, except for the net proceeds from the placing and public offer, and the Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB"). The net proceeds from the placing and public offer in 2005 that were not used for the intended purposes have been placed on short-term deposits (denominated in US dollars or Hong Kong dollars) with authorised financial institutions in Hong Kong. The Company also pays dividends in Hong Kong dollars. No hedging or other alternatives have been implemented as it is the policy not to enter into any derivative products for speculative activities. The Group has maintained sufficient financial resources and is in a net cash position, thus we are exposed to minimal financial risk from interest rate fluctuation.

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 returns with capital preservation and liquidity as priority focus.

Liquidity and financial resources

The Group's cash and bank balances as at 31 December 2006 amounted to HK$764.4 million and net cash inflow from operating activities are ample to satisfy the working capital requirement for the business operations and capital expenditures. New investment will be funded by the Group's internal resources.

Capital structure

As at 31 December 2006, the Group had no borrowing and the significant net cash position, reflects the Group's sound capital structure. The net proceeds raised from the placing and public offer in 2005 had further strengthened our capital structure and we expect our cash to be sufficient to support our operating and capital expenditure requirements in the foreseeable future.

The market capitalisation of the Company as at 31 December 2006 was approximately HK$3,511 million.

Gearing ratio

As at 31 December 2006, the Group had no long-term debts and the shareholders' fund of the Group was approximately HK$1,399.8 million. The Group's gearing ratio, expressed as a ratio of total long-term debts to shareholders' fund, as at 31 December 2006 was nil (2005 — nil).

Management Discussion and Analysis *(Continued)*

Capital commitments, contingencies and charges on assets

The Group made capital expenditure commitments mainly for machineries of approximately HK$43.1 million which were authorised but not contracted for and approximately HK$1.0 million which were contracted but not provided for in the financial statements as at 31 December 2006. These commitments were mainly related to the expansion of the Group's production capacity. The funding of such capital commitments will be paid out of the proceeds of the new issue as stated in the prospectus dated 17 January 2005.

As at 31 December 2006, the Group had no material contingent liabilities and the Group's assets were free from any charge.

Material acquisitions and disposals of subsidiaries and associated companies

The Group signed a sale and purchase agreement to acquire 25% equity interest of Dynasty Yuma Vineyard (Ning Xia) Co. Ltd. (formerly known as Ning Xia Heavenly Palace Yuma Winery Co., Ltd.)* (王朝御馬酒莊(寧夏)有限公司, 前稱為寧夏天宮御馬葡萄釀酒有限公司) at a consideration of HK$11.49 million on 21 April 2006. The Group considers the acquisition represents a good opportunity for the Group to secure a stable and high quality grape juice supply of grape wine business. The transaction was completed on 18 January 2007. Save for disclosed above, the Group had no material acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2006.

Use of proceeds

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 January 2005. The net proceeds raised from the successful 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 in the PRC. The planned usage and the actual use of proceeds were as follows:

Use	**Usage as announced** HK$ million	**Actual progress** HK$ million
Expansion of existing production facilities	200	192
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	16
Total	724	255

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

* *for identification purpose*

Management Discussion and Analysis *(Continued)*

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 such that they all contribute towards our corporate objectives. Committed to 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. The Group review its human resource and remuneration policies regularly with reference to local legislation, market conditions, industry practice and the performance of both the Group and individual employees.

As at 31 December 2006, the Group employed a work force of 418 staff (including Directors) in Hong Kong and the PRC. The total salaries and related costs for the year ended 31 December 2006 amounted to approximately HK$56.7 million (2005 — HK$51.8 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 2006, 19,900,000 share options were granted and outstanding under the scheme.