DYNASTY

Dynasty Fine Wines Group Limited
王朝酒業集團有限公司

Stock Code 股份代號：828

Annual Report 2009 年報

CELEBRATING ITS UPCOMING

30th Anniversary

邁向成功三十載

CORPORATE PROFILE

Dynasty is a leading premier winemaker with a dominant presence in the PRC wine market. Our brand name, ''Dynasty'', was recognised as a well-known trademark by the State Administration for Industry and Commerce of the PRC. For twelve of the thirteen years between 1997 and 2009, Dynasty was granted ''The Certificate of Best Selling Grape Wines'' in the PRC by the China Industry and Enterprise Information Centre.

Dynasty has inherited the fine traditions and state-of-the-art expertise in winemaking from Remy Cointreau, one of the world's leading wine and spirits operators and our second largest shareholder ever since Dynasty's inception. From grape growing, harvesting, to every single step of winemaking, Dynasty believes in quality. The entire production process is under stringent quality control to ensure the highest standards of our products. In recognition of our high standards, we were accredited with certificates of ISO 9002 in 1996, ISO 14001 in 2000, ISO 9001: 2000 in 2002 and HACCP Certificate in 2006.

企業簡介

王朝是優質葡萄酒生產商，在中國葡萄酒市場具有舉足輕重的地位。本公司品牌「王朝」獲中國國家工商行政管理局定為中國馳名商標。自一九九七年至二零零九年十三年內，王朝有十二年獲得中國行業企業訊息發佈中心頒發中國「葡萄酒銷量第一證書」。

全球首屈一指的葡萄酒及烈酒營運商 Remy Cointreau，乃自王朝成立以來的第二大股東，王朝秉承了 Remy Cointreau 的優良釀酒傳統及先進技術，由種植葡萄、採收以至每一個釀酒步驟，均以品質為先，對整個生產過程實施嚴謹的品質控制，以確保本公司產品保持高水平的產品質量。本公司分別於一九九六年、二零零零年、二零零二年及二零零六年獲頒 ISO9002、ISO 14001、ISO 9001：2000證書及HACCP驗證證書，足證本公司對產品質量的堅持，得到外界充分的認同。

CONTENTS

Dynasty has a diversified product portfolio, catering to various price segments and consumer tastes and preferences. We now make and sell over 50 types of wine products in five main categories, namely red wines, white wines, sparkling wines, ice wine and brandy.

Over the years, Dynasty has sustained a strong financial performance and generated excellent returns for its shareholders. On 26 January 2005, Dynasty was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited with the stock code 828. Having strong support from our major shareholders — Tianjin Development Holdings Ltd. (882) and Remy Cointreau, Dynasty keeps on providing all consumer strata high quality and ''excellent value for money'' wines. With enhanced facilities and continual marketing efforts, Dynasty is well positioned to capture the robust growth potential of the Chinese wine market. We will build a stronger Dynasty for the future of all our stakeholders.

王朝擁有多元化的產品，以迎合不同的消費檔次及消費者的口味與喜好。本公司目前製造及銷售超過50種葡萄酒產品，產品可分為紅葡萄酒、白葡萄酒、起泡葡萄酒、冰酒、以及白蘭地五大類別。

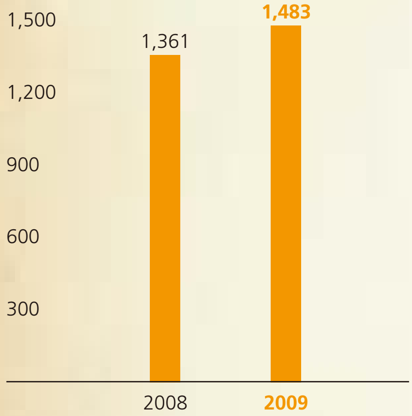
自成立以來，王朝始終保持強勁的財政表現，為本公司股東帶來豐厚回報。王朝於二零零五年一月二十六日在香港聯合交易所有限公司主板成功上市，股份代號828。在本公司主要股東天津發展控股有限公司(882)及 Remy Cointreau 的鼎力支持下，本公司持續為不同類型的消費者提供物超所值的優質葡萄酒。今後，王朝將繼續改良設備，不斷加強市場推廣，充分把握中國葡萄酒市場迅猛增長的潛力，為全體利益相關人士的未來福祉而奮鬥，創建王朝盛世。

Financial Highlights

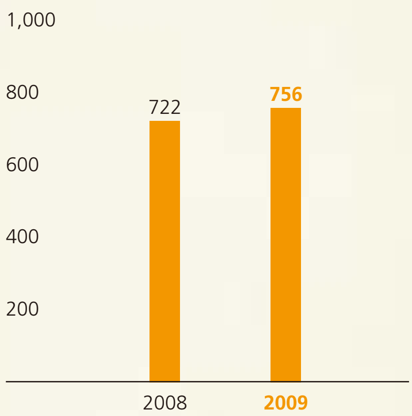
	2009 HK$'000	2008 HK$'000	Changes
Revenue	**1,482,542**	1,360,859	+9%
Gross profit	**755,501**	721,711	+5%
Profit attributable to equity holders of the Company	**156,122**	143,079	+9%

	2009	2008	Changes in percentage point
Gross profit margin	**51%**	53%	–2%
Net profit margin	**11%**	11%	—

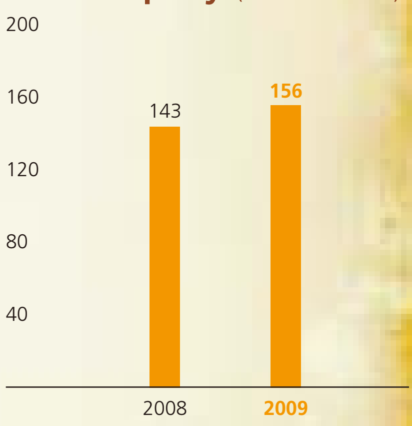
Revenue (HK$'million)



Gross profit (HK$'million)



Profit attributable to equity holders of the Company (HK$'million)



Corporate Information

Board of directors

Executive directors

Mr. BAI Zhisheng
Mr. GAO Feng
Mr. HUANG Yaqiang

Non-executive directors

Mr. HERIARD-DUBREUIL Francois
Mr. ZHENG Daoquan
Mr. Jean-Marie LABORDE
Mr. ZHANG Wenlin
Mr. WONG Ching Chung(&)
Mr. ROBERT Luc

Independent non-executive directors

Mr. LAI Ming, Joseph(#)(&)
Dr. HUI Ho Ming, Herbert(#)(&)
Mr. CHAU Ka Wah, Arthur(#)(&)

Audit committee members
& Remuneration committee members

Company secretary

Mr. YEUNG Chi Tat

Authorised representatives

Mr. ZHANG Wenlin
Mr. YEUNG Chi Tat

Legal advisers

Hong Kong
Kirkpatrick & Lockhart Preston Gates Ellis

Cayman
Conyers Dill & Pearman, Cayman

The People's Republic of China
Global Law Office

Auditor

PricewaterhouseCoopers

Registered office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business

Hong Kong Office
Suite 5506, 55/F, Central Plaza,
18 Harbour Road, Wanchai,
Hong Kong

Tianjin Office
No. 29 Jinwei Road, Bei Chen District
Tianjin City, PRC

Principal share registrar and transfer office

HSBC Trustee (Cayman) Limited
P.O. BOX 484, HSBC House
68 West Bay Road
Grand Cayman, KY1-1106
Cayman Islands

Hong Kong branch share registrar and transfer office

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

Principal bankers

Bank of China
China Construction Bank
China Everbright Bank
Commercial Bank
Industrial and Commercial Bank of China
Mizuho Corporate Bank
The Hongkong & Shanghai Banking Corporation

Investor relations consultant

Strategic Financial Relations (China) Limited

Company website

http://www.dynasty-wines.com

Share information

Listing date	26 January 2005
Stock name	Dynasty Wines
Nominal value	HK$0.1
Number of issued shares	As at 31 December 2009 1,245,000,000 shares
Board lot	2,000 shares

Stock code

The Stock Exchange of Hong Kong	00828
Reuters	0828.HK
Bloomberg	828:HK

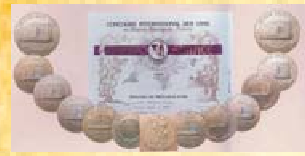
Financial year-end date

31 December

Milestones of 30 Years

1980

The origins of Dynasty dated back to 1980 when Dynasty was established as a Sino-French joint-venture between *Tianjin City Grape Garden* and *Remy Martin*. It was the first Sino-foreign joint venture in Tianjin city and one of the earliest Sino-foreign joint ventures in China.



1988-1991

Institut International Pour Les Selections De La Qualite granted Dynasty the following awards:

1988	Dynasty Dry Red Wine was granted MEDAILLE DE BRONZE Award;
1988 & 1989	Dynasty Extra Dry White Wine was granted MEDAILLE D'OR Award for 2 years;
1989–1991	Dynasty Medium Dry White Wine was granted MEDAILLE D'ARGENT (1989), MEDAILLE D'OR (1990) and GRANDE MEDAILLE D'OR (1991) Award.

2003

Dynasty Red Wine won the "Certificate for National Food Industry Technological Progress 2001–2002"; Dynasty Sparkling Wine was granted "CFIN National Scientific and Technological Progress Award (Class 2) by China National Food Industry Association.

2004

The annual production of our wines reached 30,000 tonnes.

1984

Dynasty Medium Dry Wine won the gold prize in Dem Auf Der Leipziger Fruhjahrsmesse, which was our first prize won in the international wine competitions.

1996

Dynasty was granted Technological Progress Award (Class 3) by PRC State Commision of Science and Technology.

1998

Dynasty Medium Dry White Wine, Dynasty Dry White Wine, Dynasty Dry Red Wine and Dynasty V.S.O.P Brandy won the gold prize at the first China Food Expo. It was the first time Dynasty was awarded with such prize in the PRC.

2000

"Dynasty" was recognised as a well-known trade mark for grape wine products in the PRC by the Trade Mark Office of the State Administration for Industry and Commerce of the PRC.

2001

Dynasty Red Wine won the "National Scientific and Technological Progress Award (Class 2)" granted by the State Council of the PRC.

2002

Dynasty was awarded "the top 100 enterprises in the food industry (beverage manufacturing industry) in China" by the National Bureau of Statistics of China and China National Food Industry Association.

2006

In mid-2006, the annual production capacity reached 50,000 tonnes.

1997-2009

For twelve of the thirteen years between 1997 and 2009, Dynasty was granted "The Certificate of Best Selling Grape Wines" in the PRC by the China Industry and Enterprise Information Centre.

2009

In December 2009, Dynasty opened its first wine club "Dynasty Club" in Shanghai, targeting the high-end market and nurturing a group of loyal and sophisticated customers. Located in a 3-storey western building on Heng Shan Road, Dynasty Club offers a stylish wine tasting venue as well as some spacious storage area to the top-tier customers in Shanghai. To cater different needs of our customers, Dynasty first retail shop was also opened in Huangpu District of Shanghai, selling various kinds of Dynasty wines and foreign wines under our distribution.

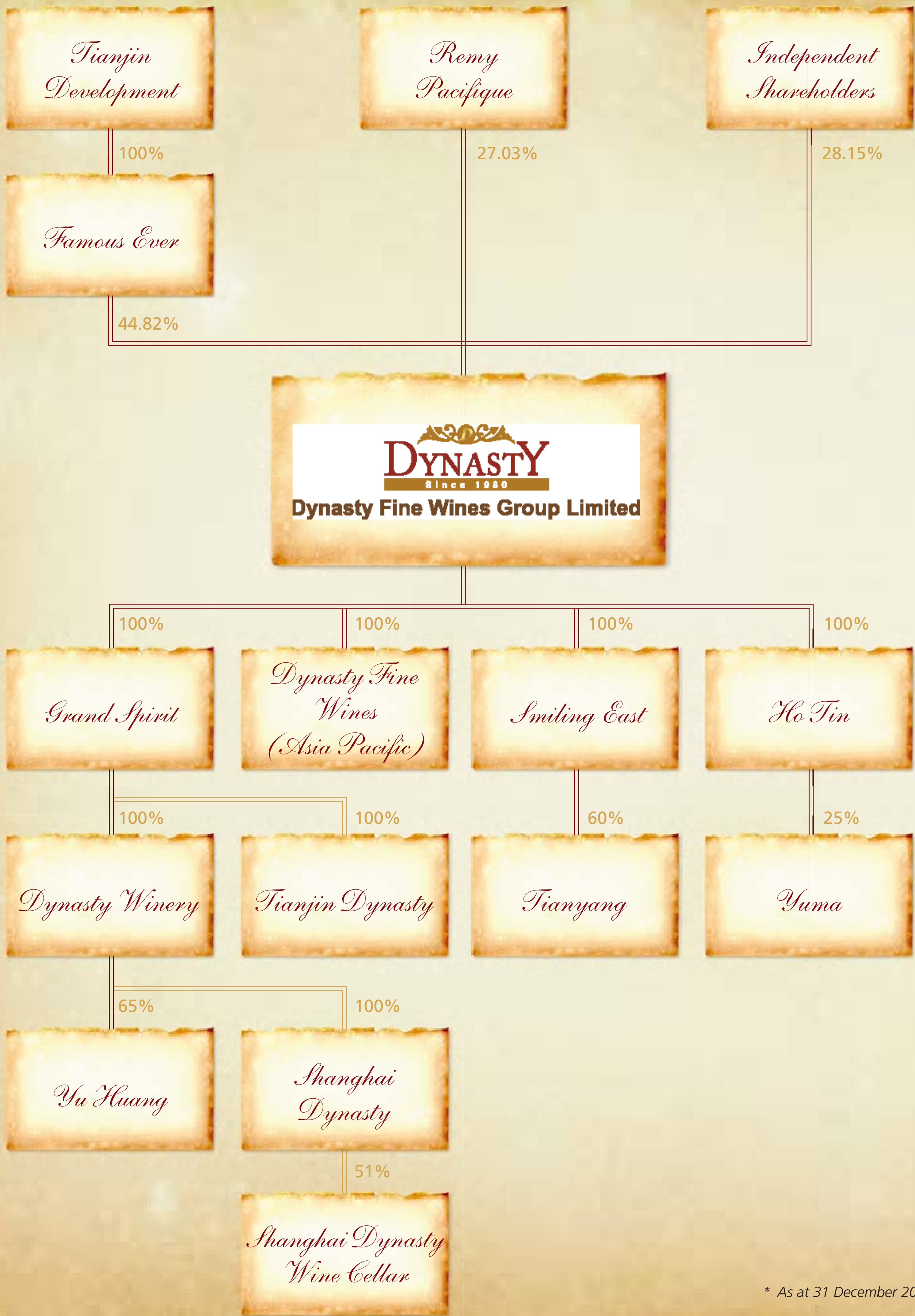
2005

In 2005 Dynasty marked a 25-year of history and was successfully listed on the Stock Exchange of Hong Kong on 26 January 2005 with the stock code 828. It was added to the Hong Kong China-Affiliated Corporations Index as a constituent stock on 5 September 2005.

2010

To celebrate Dynasty's 5th year listed on The Stock Exchange of Hong Kong, Dynasty hosted a gala celebration on 26 January 2010 aboard the aptly named luxury cruise liner 'Grand Cru'. The glittering event included tastings of Dynasty's most celebrated vintages and an official lighting-up ceremony for the brand's giant new billboard at New World Centre on the Tsim Sha Tsui waterfront.

Corporate Structure



* As at 31 December 2009

Nationwide Sales Network

Listed Company

Sales Office/
Dynasty Club/
Dynasty Retail Shop

Distribution Network

Production Facilities

Red Wine

- Dynasty Merlot Dry Red Wine Reserve
- Dynasty Dry Red Wine — Aged in Oak Barrels
- Dynasty Merlot Dry Red Wine
- Dynasty Dry Red Wine

White Wine

- Dynasty Chardonnay Dry White Wine
- Dynasty Medium Dry White Wine

Icewine

- Dynasty 5-star Icewine Reserve

Sparkling Wine

- Dynasty Sparkling Wine (Second Fermentation in bottle)
- Dynasty Muscat Sparkling Wine

Brandy

- Dynasty Fine Brandy — X.O
- Dynasty Fine Brandy — V.S.O.P.

Selection

(available in Hong Kong only)

- Dynasty Cabernet Sauvignon Reserve 2006
- Dynasty Cabernet Sauvignon 2008
- Dynasty Chardonnay Reserve 2006
- Dynasty Chardonnay 2007


DYNASTY

"The year of 2010 is very special to Dynasty. It is truly a significant achievement when a company has come such a long way since its establishment 30 years ago. Like a fine bottle of wine, Dynasty is getting better with age. We have steadily grown along with the wine industry in China over the years, marked by many milestones that we are very proud of."

HERIARD-DUBREUIL Francois,
Chairman, Orpar and Director, Remy Cointreau

Chairman's Statement

Dynasty Chateau marks a significant milestone in our development, for which when the expansion of production capacity will be completed in the second half of 2010, our production capability will be increased to 70,000 tonnes

On behalf of the Board, I am pleased to report to the shareholders the annual results of Dynasty Fine Wines Group Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2009.

Financial results

Despite the considerable impact of the global economic turmoil on the first quarter of 2009 and increasingly fierce competition within the wine market in the PRC, the concerted effort of Dynasty's management team and staff supported by our solid foundation in the PRC wine market enabled the Group to attain a revenue of HK$1,482.5 million in the year under review. This represented an increase of 9% compared with HK$1,360.9 million reported for 2008. The Group's consolidated profit attributable to equity holders of the Company also increased by 9% to HK$156.1 million (2008: HK$143.1 million). The increase in profit for the year was mainly attributable to the growth in sales volume and the effective control of distribution costs of the Group.

Earnings per share for the year were HK$0.125, representing an increase of 9% compared with HK$0.115 per share in 2008.

Dividends

Taking into account the Group's strong financial position and cash flow, the Board has recommended the payment of a final dividend of HK3.1 cents per share (2008: HK1.9 cents per share) for the year ended 31 December 2009. Together with the interim dividend of HK2.8 cents per share (2008: HK3.5 cents per share) already paid in October 2009, the total dividend for the year will be HK5.9 cents per share, representing an increase of 9% compared with HK5.4 cents per share in 2008 and a dividend payout ratio of 47% (2008: 47%).

Chairman's Statement

Business review

In 2009, the Group focused on and achieved progress in the following aspects of its business:

1. The Group has set up a wholly-owned subsidiary in China, namely Tianjin Dynasty Winery Sales Co., Ltd, dedicated entirely to its sales and marketing functions in the PRC wine market. The sales and marketing teams are specifically focused on their respective sales channels, products and distributors in assigned regions. Through this specialisation, we have been able to better review our distributors' relationship and the business model with them, while striving for a better understanding of wine consumers' demographics and preferences. Through this knowledge, we can more attractively package, position and market our wines thereby more effectively supporting sales channels and targeting regions, with the aim of enlarging our market share. The subsidiary therefore strengthens our sales capability to deliver a stronger performance in the future.

2. The Group has commenced importing foreign wines from Europe for the PRC market in the second quarter of 2009. This initiative will enable us to meet the increasing demand for premium quality foreign wines in a niche market in which customers show preference for. The Group can call on its substantial experience in the PRC wine market and an extensive nationwide sales network to support development of the sales of foreign wines which have been well-received by the market.

3. In order to further promote the awareness and recognition of the "Dynasty" brand, the Group has held a grand opening for its first wine club — Dynasty Club on Heng Shan Road and its first retail shop — Dynasty Retail Shop on Beijing West Road, Shanghai. The club is designed to meet the demand of top-tier preferred customers while the shop is targeted at the mass market. The strategic and prime location of the wine club and the retail shop in Shanghai reinforces the Group's strong reputation as a winemaker of quality wines and its prestigious brand. We expect the wine club and the retail shop to attract a greater volume of consumers, and at the same time bring greater promotion effect to the brand and consolidate our leading presence in the prosperous eastern region of the PRC.

4. In September 2009, the Company was granted the Credible Enterprise of China Accreditation 2010-2012 by China Enterprise Reputation and Credibility Association (Overseas). In November 2009, the Company was named second runner-up in the food and beverages industry category within The Most Promising Companies in China Awards 2009 organised by the international finance magazine — The Asset. These honours indicate that the strategy and efforts of the management in recent years and the performance of the Company has been well received by the market.

OUTLOOK - a Year to Celebrate

2010 marks Dynasty's 30th anniversary and the 5th anniversary of the Group's listing on the Hong Kong Stock Exchange. The Group plans to invite our shareholders, business partners, media and consumers to join us in a series of unforgettable events and experiences throughout the year. Highlights of this year round programme of celebrations include:

- A gala celebration has already been held in Hong Kong on 26 January 2010 to commemorate the 5th anniversary of our Hong Kong Stock Exchange listing on 26 January 2005. The glittering event featured an official lighting-up ceremony for the brand's giant new outdoor billboard at New World Centre on the Tsim Sha Tsui waterfront in Hong Kong. The attractive design and prominent location suitably enhances the well-established image of Dynasty while continuing to draw attention of consumers not only within Hong Kong but also the large number of tourists from Mainland China.

- As part of its global marketing and promotion campaign, the Group plans to participate in "Vinexpo Asia-Pacific 2010", an internationally-renowned wine exhibition, in Hong Kong in May.

- A grand opening of a new "Dynasty Chateau" is to be held in the second half year of 2010 in Tianjin. Dynasty Chateau is a traditional European-style wine chateau which encompasses a wine museum explaining the history of wine culture and production, exhibition halls showing the world's top wines, a research and development centre, a wine tasting and dining service area, a tourism reception centre for visiting vineyard and the chateau, and a wine and related souvenir shop, Dynasty Chateau marks a significant milestone in our development.

- After the opening of the chateau, a super premium Dynasty Chateau wine will be launched in the second half year of 2010 in order to deliver the outstanding taste experience that is Dynasty to consumers.

These initiatives together with our ongoing business development efforts will build upon the solid foundation we have already laid for the long-term growth of the Group and their benefits will be eventually reflected in the Group's results and in returns to our shareholders.

Acknowledgement

On behalf of the Board, I would like to offer my sincere appreciation to our staff, management team, shareholders, customers, distributors, suppliers, business partners and all others who have worked together with us and supported us during 2009.

Bai Zhisheng
Chairman and Executive Director


DYNASTY
XO

*"Throughout all these years,
Dynasty Fine Wines Group strived to produce the finest wines in the region. Dynasty has inherited from Remy Cointreau the fine traditions and state-of-the-art expertise in winemaking, and has now become one of China's premium wineries and a leader in the Chinese wine market."*

Jean-Marie LABORDE,
Chief Executive Officer, Remy Cointreau

Our solid financial position and strong cash flow position providing a strong foundation for future growth and development; our revenue rose by 9% to HK$1,482.5 million and profit attributable to equity holders of the Company increased by 9% to HK$156.1 million

Results

For the year ended 31 December 2009, the Group's revenue increased by 9% to HK$1,482.5 million (2008 – HK$1,360.9 million) and the Group's profit attributable to equity holders of the Company rose to HK$156.1 million (2008 – HK$143.1 million), representing an increase of 9%.

Earnings per share (''Share'') of the Company was HK12.5 cents per Share (2008 – HK11.5 cents per Share) based on the weighted average number of 1,245 million (2008 – 1,245 million) Shares in issue during the year. There was no potential dilutive share for the year ended 31 December 2009.

The increase in financial results in 2009 were mainly attributable to the growth in sales volume and effective control of distribution costs.

Business Review

Sales analysis

A) Existing sales channels

For the year ended 31 December 2009, the Group experienced a growth in sales volume as compared with last year amidst poor consumption sentiment in the first quarter of the 2009 after global financial crisis hit and keen competition in the market. The total number of bottles of wine sold increased from approximately 55.1 million in 2008 to approximately 57.4 million in 2009. The Group's primary revenue sources continued to be red wine product sales which accounted for approximately 83% of the Group's revenue for the year (2008 – 88%). The Group's best selling wine product remained Dynasty Dry Red, the prototype of the Group's mass market product accounting for approximately 33% of the Group's revenue (2008 – 35%).

During the year, we continued to expand and strengthen our nationwide and extensive distribution network through the Group's distributors, which supported sales of the products of the Group in all provinces and autonomous regions and the four directly-administered municipalities under the central government of the PRC. The Huadong region (i.e. the Eastern region of the PRC), which comprises Shanghai city, Zhejiang and Jiangsu provinces remained as the Group's strongest markets. Our sales in other regional markets, such as Beijing and Tianjin cities, Anhui and Fujian provinces etc., in the PRC also grew. The Group reported export sales accounting for 0.1% (2008 – 0.2%) of its total revenue during the year.

The Group produces a wide spectrum of more than 50 products under the ''Dynasty'' brand to meet different consumer demands mainly in the medium to high end segments in the PRC wine market. With a high quality and diversified product portfolio, the Group firmly believes that Dynasty will be able to attract upper-middle to high-end consumers by offering Dynasty's premium high end products. Sales of our premium wine products, such as Dynasty Dry Red Wine – Aged in Oak Barrels, Dynasty Dry Red Wine – Reserve and Dynasty Premium Dry Red Wine – Aged in Oak Barrels, recorded encouraging growth during the year. In addition, the Group also sold foreign brand wines imported from Europe in the PRC wine market through the Group's existing distribution network in order to bring some classic "old world" varietals to cater for a niche market with customers preferring the taste of foreign premium wine products only. Although the contribution from the sales of these products was relatively insignificant to our revenue during the year of 2009, the Group believes the sales of premium Dynasty and imported products will grow and these products will become major growth drivers for our development in the future. To sustain its growth, the Group will continue to support and actively promote them to high end market.

Tianjin

Tianjin, in north-east China, beside the Bohai Gulf, lies between 38-40º'N, with distinctive seasonal climates. Its continental monsoon climate provides rich supplies of sunlight, humidity and warmth. Annual rainfall from 500-700mm sufficiently moisturizes its vineyards. Hangu, in eastern Tianjin, is a unique vine growing region. The sea saline soil contains rich and well-balanced nutrient minerals such as Potassium, Calcium, Magnesium, Manganese, Zinc and Boron. These are vital in growing the Muscat grape variety. Muscat Hamburg is the major grape variety in making Dynasty Dry White Wine and Dynasty Medium Dry White Wine, which have collected several awards at numerous international wine competitions.

Muscat in Hangu, Tianjin

B) New sales channels

To explore new sales channels and develop new customer base, the Group has collaborated with selected financial institutions (the "FI") in the PRC to produce and sell two premium red wine products to the FI's customers under the prescribed terms and format of the FI (the "Transactions") during the year. Upon maturity of the Transactions, customers can select either cash settlement with fixed rate of interest or physical delivery of the wine at a predetermined price. The consideration of the Transactions not yet reaching maturity as at the year end amounted to HK$12 million which has been received by the Group during the year. In accordance with the terms of the Transactions, the Group recognized this outstanding amount as current financial liabilities of about HK$12 million as at 31 December 2009.

Supplies of grapes or grape juice

Production of quality wine products is highly dependent upon a sufficient supply of quality grapes or grape juice. We currently have more than 10 major grape juice suppliers, mainly located in Tianjin, Shandong, Hebei, Ningxia and Xinjiang, 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 needs of our growing business and fill our expanding production capacity, the Group continues to actively work with grape growers to enlarge their existing vineyards so as to enjoy better economies of scale and improve quality by adopting state-of-the-art techniques, and also identify new suppliers who can meet our quality requirements. For new suppliers, the quality of their grape juice will be thoroughly tested before orders are placed by the Group. Such measures will enable us to secure quality grapes and grape juice supplies and lower the risk of bad harvests interrupting our production. The Group has also been looking into importing grape juice from overseas applying the same stringent quality requirements it has on suppliers in the PRC.

The average cost of grape juice in 2010 is expected to slightly increase.

Production capacity

As its existing production facilities have almost reached full capacity, the Group has begun to build new production and research and development facilities in its Tianjin winery. Related construction works are underway with completion expected in the second half of 2010. By then its annual production capacity will be increased from 50,000 tonnes (equivalent to approximately 66.7 million bottles) to 70,000 tonnes (equivalent to approximately 93.3 million bottles) to promptly respond to the surging market demand and consolidate the Group's market leading position.

Prospects

Looking forward, the Group remains optimistic about the prospects of the PRC economy and sees ample opportunities in the PRC wine market. By leveraging the competitive advantages of the Group including strong brand recognition, an extensive distribution network and comprehensive product and market knowledge, the management and staff are confident in the future business development of the Group.

As its landmark 30th anniversary in 2010 arrives, the Group promises to continue to maintain its leadership position in the wine market, and at the same time will explore appropriate acquisition opportunities and exclusive distribution partnerships with overseas companies to expand the reach and scope of our business in synergy with our business strategies to help the Group to create greater value for shareholders in the next 30 years and beyond.

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 2009 are extracted from or calculated based on our financial statements as set out on page 55 to 91 of this annual report and presented as follows:

	2009 HK$'000	2008 HK$'000
Financial results:		
Revenue	1,482,542	1,360,859
Cost of sales	(727,041)	(639,148)
Gross profit	755,501	721,711
Distribution costs	(467,965)	(442,272)
Administrative expenses	(97,831)	(90,823)
Income tax	(55,456)	(73,270)
Profit attributable to equity holders of the Company	156,122	143,079
Dividends declared in respect of the year	73,455	67,230

	2009	2008
Other financial and operating data:		
Sales volume (million bottles)	57.4	55.1
Gross profit margin (%)	51.0	53.0
Net operating margin (%)	10.5	10.5
Distribution costs as a percentage of revenue (%)	32	33
Administrative expenses as a percentage of revenue (%)	7	7
Effective tax rate (%)	26	34
Return on average equity (%)	8.8	8.7
Debtors' turnover (days)	38	23
Creditors' turnover (days)	57	64
Inventories turnover (days)	261	334
Gearing ratio – total bank borrowings to shareholders' funds (%)	–	–

Income Statement

Revenue

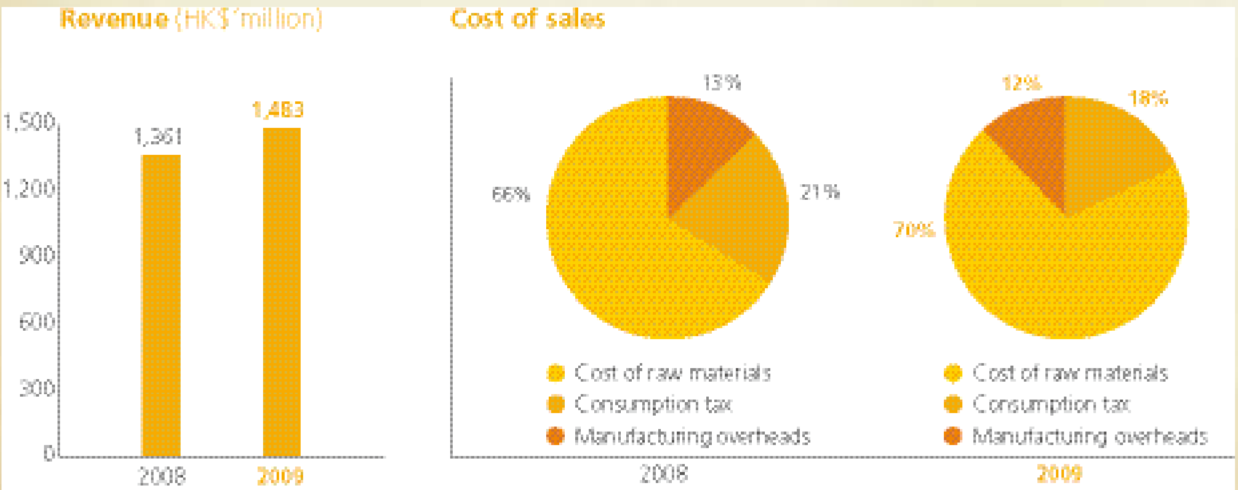
Revenue of the Group represents proceeds from sale of wine products. For the year ended 31 December 2009, our total revenue increased by 9% to approximately HK$1,482.5 million from approximately HK$1,360.9 million in 2008. The increase was due to an increase in sales volume, a slight increase in average ex-winery sales prices of products and the impact of Renminbi appreciation.

During the year, the Group's average ex-winery sales price of red and white wine products was slightly higher than the average price of HK$24.7 per bottle (750ml) in 2008 as a result of the full year effect of the rise in average ex-factory sales price of certain grape wine products in the second quarter of 2008. Because of consumers in the PRC having a prevalent preference for red wines, the Group is able to set higher prices for its red wine products and therefore the Group's average ex-winery sales price of the red wine products is in general higher than that of white wine products.

Cost of sales

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

	2009 %	2008 %
Cost of raw materials		
– Grapes and grape juice	41	36
– Yeast and additives	2	3
– Packaging materials	26	26
– Others	1	1
Total cost of raw materials	70	66
Manufacturing overheads	12	13
Consumption tax	18	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 as well as 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 41% of the Group's total cost of sales, representing an increase of 5% from approximately 36% in 2008, due to the increase in average cost of grape and grape juice and a change in the cost of sales structure due to the decrease in Group's effective consumption tax rate. The total cost of packaging materials as a percentage of the Group's revenue was relatively stable during the year as compared with 2008.

Manufacturing overheads primarily consist 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 to the Group's revenue remained stable as compared with last year.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross invoiced sales. During the year, the overall gross profit margin reached 51%, a decrease of 2 percentage points from 53% in 2008 and was primarily due to higher purchase cost of grape juice, especially that for winemaking white wine products, and increase in the overall proportion of sales of white wine products to the Group's total revenue as compared to 2008. The gross margin of red wine products and white wine products in 2009 were 53% and 40% respectively (2008 —54% and 43% respectively). The higher gross margin of red wine products was mainly because of its higher sales prices and lower raw materials cost.

Other income

During the year, other income decreased by 20% to HK$23.1 million (2008 – HK$28.7 million), mainly attributable to:

(1) Decrease in interest income as a result of the lower interest rates for bank deposits; which was offset by

(2) Increase in the government grant to HK$11.0 million (2008 — HK$5.7 million) to a subsidiary in the PRC to encourage its technology development and improvement in winemaking.

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 departments and other incidental expenses. During the year, distribution costs accounted for approximately 32% (2008 —33%) of the Group's revenue. In particular, advertising and market promotion expenses as a percentage of the Group's revenue also reduced approximately to 20% (2008 —21%). The decrease in distribution costs was primarily attributable to the effective management in monitoring and controlling sales and marketing spending.

Administrative expenses

Administrative expenses consist primarily of salaries and related personnel expenses for administrative, finance and human resources departments, depreciation and amortisation expense and other incidental administrative expenses.

During the year, administrative expenses to the Group's revenue remained stable at 7% compared with 2008.

Income tax expense

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

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the enterprise income tax rate for all the subsidiaries of the Company incorporated in the PRC had been unified at 25% effective from 1 January 2008. During the year, the effective tax rate of the Group decreased to approximately 26% (2008 —34%), mainly due to less expenses not allowed to deduct for the year.

Balance sheet

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

As at 31 December 2009, trade receivables amounted to HK$227.8 million (2008 – HK$84.1 million), increasing by approximately 171% against the previous year. The significant rise was a result of the increase in sales, especially more credit sales with bill receivable clauses made at year end. During the year, customers were given a credit period ranging from one to six months and receivables with an age of less than six months accounted for approximately 99.9% of the net trade receivables as at 31 December 2009 (2008 –97.7%) and the debtors' turnover of approximately 38 days (2008 - 23 days) was in line with the credit period granted to most customers. The longer debtors' turnover period was mainly a result of an increase in trade receivables including bill receivables at year end while customer credit control is strictly maintained during the year.

Since 1999, the Group has required larger customers, comprising mainly regional distributors, to place deposits in accordance with the targeted sales levels on entering a sales contract with the Group to enjoy certain credit terms. Generally, these credit terms range from 30 days to 90 days. Smaller customers, with whom the Group has long-term trading relationship 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 2009, the Group had received deposits from customers totalling approximately HK$77.8 million (2008 – HK$89.6 million). Such amounts are recorded in the balance sheet as "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 its purchase within the credit period granted and the same customer would have to top up the deposit if it wishes to continue purchasing products from the Group in the future. As a result, the Group's credit policy has proven effective in helping to minimize its exposure to doubtful debts.

Trade payables, payment period and creditors' turnover

As at 31 December 2009, trade payables amounted to approximately HK$97.0 million (2008 - HK$89.0 million), up by approximately 9% compared with last year. During the year, payments to most suppliers were subject to a payment period of two months. The creditors' turnover of approximately 57 days (2008 - 64 days) was in line with the credit period granted by most suppliers to the Group. The higher trade payables balance in 2009 was mainly due to the increased purchase of unprocessed wines toward the year end in preparation for the expected increase in sales in December 2009 and early 2010.

Inventories and inventory turnover

As at 31 December 2009, the Group's inventories balance amounted to approximately HK$393.4 million (2008 – HK$462.7 million), representing a decrease of approximately 15%. Inventories mainly comprised unprocessed wines worth approximately HK$197.8 million and finished goods valued at approximately HK$160.3 million. During the year, inventory turnover was approximately 261 days (2008 - 334 days). The shorter inventory turnover period during the year was mainly the result of faster sale of products.

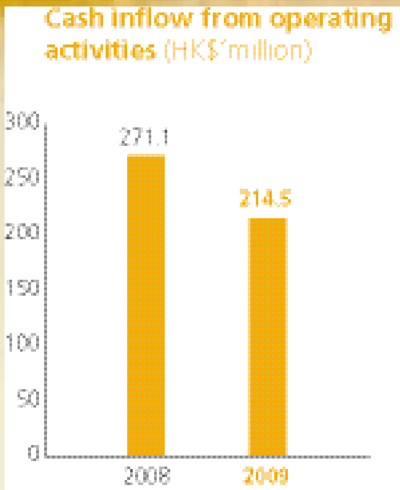
Cash flow

During the year, the Group's main source of cash flow was from its operating activities. The Group's cash has principally been used to pay for capital expenditure, and dividends to shareholders during the year.

The decrease in cash inflow from operating activities from HK$271.1 million in 2008 to HK$214.5 million in 2009 was mainly attributable to the effects of the changes in working capital in large part due to the increase in trade receivables.

Net cash used in investing activities was HK$377.9 million (2008 – HK$101.1 million), primarily related to placement of fixed deposits with maturity over 3 months and acquisition of plant and equipment and payments for construction of winery premises pursuant to our expansion plan.

Net cash outflow in financing activities consisted mainly of dividend payments to shareholders totalling approximately HK$58.5 million (2008 – HK$58.5 million).



Dividend policy

The payment and the amount of any dividends will be subject to the recommendation of the Directors in accordance with the relevant laws, rules and regulations and dependent on inter alia, the Group's operating results, cash requirements and availability, financial condition, acquisition opportunities and the provisions of relevant laws, rules and regulations. Subject to the factors described above, the Board of Directors intends to recommend at relevant shareholders' meetings to distribute to shareholders an annual dividend amount of between approximately 30% and 50% of the net profit available for distribution in the corresponding year in the future.

Financial management and treasury policy

As at 31 December 2009, except for the net proceeds from the placing and public offer, the Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB"). The Group has progressively remitted the net listing proceeds from Hong Kong to the PRC and converted them into RMB shortly after remittance. The remaining unremitted net proceeds 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. The Company also pays dividends in Hong Kong dollars when dividends are declared. The Company does not implement any hedging or other derivatives against foreign exchange risk. Although the Group's operation currently would not generate any significant foreign currency exposure, we will continue to closely monitor foreign currency movements.

Armed with sufficient financial resources and in a net cash position with no borrowing, the Group is exposed to minimal financial risk from interest rate fluctuation.

The purpose of the Group's investment policy is to ensure the investment of uncommitted funds achieves the highest practicable returns while heeding the need to preserve capital and assure liquidity.

Liquidity and financial resources

As at 31 December 2009, the Group's cash and cash equivalents, and fixed deposits amounted to HK$1,033 million. It has a strong cash position for satisfying the working capital requirements of business operations and capital expenditures. New investment opportunities, if any, will be funded by the Group's internal resources.

Capital structure

The Group had no borrowing and was in a significant net cash and liquid position as at 31 December 2009, reflecting its sound capital structure. The net proceeds raised from the placing and public offer in 2005 have strengthened the Group's capital structure, giving it sufficient cash to support operating and capital expenditure requirements in the foreseeable future.

As at 31 December 2009, the market capitalisation of the Company was approximately HK$3,137.4 million.

Gearing ratio

The Group remained financially sound with strong liquidity and had no debts with total equity before minority interests of the Group amounted to approximately HK$1,828 million as at 31 December 2009 so as to ensure solvency and the Group's ability to continue as a going concern. The Group's gearing ratio, expressed as a ratio of total debts to total equity before minority interests, as at 31 December 2009 was nil (2008 — nil).

Capital commitments, contingencies and charges on assets

As at 31 December 2009, the Group made capital expenditure commitments including approximately HK$59 million that were authorised but not contracted for and approximately HK$24 million contracted but not provided for in the financial statements. These commitments were required mainly to support the Group's production capacity expansion. The funding of such capital commitments will be paid out of the net proceeds of the placing and public offer as stated in the listing prospectus dated 17 January 2005.

As at 31 December 2009, the Group had no contingent liabilities and none of the Group's assets was pledged except for restricted cash amounting HK$12 million pledged as security for the Transactions described in the section headed "New sales channel" under Business Review above and Note 23 to the financial statements.

Material acquisitions and disposals of subsidiaries and associated companies

The Group had not made any other material acquisitions or disposal of subsidiaries and associated companies during the year ended 31 December 2009.

Use of proceeds

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2005. The net proceeds from the placing and public offer amounted to approximately HK$724 million. The planned usage and actual amounts spent are as follows:

Use	**Usage as announced** HK$ million	**Actual progress** HK$ million
Expansion of existing production facilities	200	200
Establishment of new production facilities	160	155
Expansion of sales and distribution network	20	–
Acquisition of Smiling East	47	47
Other acquisition opportunities and general working capital	297	49
Total	724	451

Unutilised net proceeds have been placed as bank deposits with authorised financial institutions.

Human resources management

Quality and dedicated staff are our most important assets and are indispensable to our success in the competitive market. We strive to ensure a strong team spirit among our employees such that they identify and contribute in unison to our corporate objectives. To this end, 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 the PRC. The Group is committed to staff training and development to support the need of the business and the individuals, so employees are encouraged to enrol in external professional and technical seminars, and other training programs and courses to update their technical knowledge and skills, enhance their market awareness and improve their business acumen. The Group reviews its human resources and remuneration policies periodically with reference to local legislations, market conditions, industry practice and assessment of the performance of the Group and individual employees.

The Group employed a work force of 455 (including Directors) in Hong Kong and the PRC as at 31 December 2009. The total salaries and related costs (including the Directors' fees) for the year ended 31 December 2009 amounted to approximately HK$123.9 million (2008 – HK$108.8 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 and the long-term growth of the Group. As at 31 December 2009, 14,400,000 share options were granted and outstanding under the scheme.

Ningxia

Ningxia in northwest China has a typical continental climate with sufficient sunlight, low humidity and large day and night temperature difference. Soil is mainly sandy and gravel. Most vineyards in the region are on the alluvial plain of Helan Mountain. Grape varieties grown include Cabernet Sauvignon, Syrah, Merlot and Chardonnay.

Cabernet Sauvignon in Ningxia

"As proud distribution partner of Dynasty Fine Wines in Hong Kong, I am delighted to congratulate the Dynasty management team on an excellent performance in 2009 with stellar financial results.

The Jebsen Group have been distributing premium global brands in Hong Kong and China for 115 years. It is very pleasing to now represent a premium wine brand from China in the Hong Kong market. This is testament to the tremendous progress Dynasty have made since establishing 30 years ago.

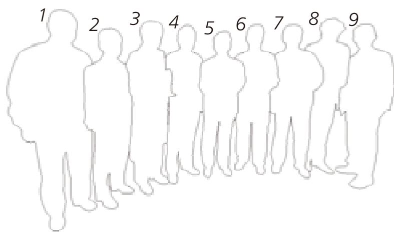
Wine is an important element of a nation's culture and this is no different I feel in China. Dynasty stands at the forefront of the winemaking arena in China and has both the foresight and commitment to ensure it leads from the front in striving for continued enhancement in quality at all levels.

At the same time, Dynasty I am sure will fully embrace the extremely important task of educating the growing numbers of wine enthusiasts about the pleasures of wine and its place in society together with fine food and art; such a wealth of enjoyment.

On behalf of the Jebsen Group, I wish Dynasty Fine Wines all the best in 2010 and am convinced the journey has only just begun, with significant growth beckoning."

Hans Michael JEBSEN,
Chairman, Jebsen & Co. Ltd.

1. *Mr. HUANG Yaqiang, Executive Director*
2. *Mr. WONG Ching Chung, Non-executive Director*
3. *Dr. HUI Ho Ming, Herbert, J.P., Independent Non-executive Director*
4. *Mr. ZHENG Daoquan, Non-executive Director*
5. *Mr. Jean-Marie LABORDE, Non-executive Director*
6. *Mr. BAI Zhisheng, Chairman & Executive Director*
7. *Mr. ZHANG Wenlin, Non-executive Director*
8. *Mr. ROBERT Luc, Non-executive Director*
9. *Mr. GAO Feng, General Manager & Executive Director*



Directors

Executive Directors

BAI Zhisheng, aged 54, was appointed as a non-executive Director of the Company in August 2004 and is an executive Director and the chairman overseeing the business development and taking up the function of formulating and managing the investment strategies of the Group. He is also an executive director of Tianjin Development Holdings Limited ("Tianjin Development"), the general manager of the Tianjin Agricultural Industrial and Commerce Company and the chairman of Tianjin Heavenly Palace Winery Co., Ltd., a subsidiary of Tianjin Development. He has been the deputy general manager of Tianjin Agricultural Cultivation Group Company since 1991 and subsequently he was the general manager in 2005. He is also a qualified senior economist. Mr. Bai graduated in 1984 from the undergraduate programme of Peking University where he studied in international politics. He completed a postgraduate course specializing in law at the School of Central Committee of the Communist Party in 1998. Mr. Bai has solid experience in corporate management for over ten years.

GAO Feng, aged 54, was appointed as an executive director of the Company in May 2009. He is also the general manager of the Company. He was an assistant to the general manager of Tianjin Agricultural Cultivation Group Company from 1995 to 2002. He has been the party committee member and the deputy general manager since 2002. Mr. Gao has been involved in the wine industry in Tianjin with solid experience in corporate management. His applied basic research in The Selection of Yeasts that Endure Low Temperature and Alcohol (耐低溫耐酒精酵母的選育) in 2003 and The Study of the Grapegrowing Characteristics of Vines (釀酒葡萄果實生長發育特性的研究) in 2004 were awarded the Municipal Technology Performance Awards (市級科技成果) by Tianjin Municipal Science and Technology Commission. Mr. Gao graduated from Tianjin Radio & TV University in 1982 specializing in Chinese. He completed a postgraduate course specializing in political economy at the School of Central Committee of the Communist Party in 1997 and a master of business administration from The University of Greenwich, Australia in 2002. Mr. Gao joined the Group in 2008.

HUANG Yaqiang, aged 36, was appointed as an executive director of the Company in January 2010. He is also a chief accountant and head of the financial department of Dynasty Winery responsible for accounting and financial matters of Dynasty Winery. Mr. Huang graduated from the undergraduate programme of Zhongnan University of Economics and Law in 1996 and earned a master's degree in economics from Tianjin University of Economics and Finance in 1999. He is also a member of Chinese Institute of Certified Public Accountants. Mr. Huang has solid experience in financial accounting and management for over ten years. Mr. Huang joined the Group in 1996.

Non-executive Directors

HERIARD-DUBREUIL Francois, aged 61, was appointed as the vice-chairman and a non-executive Director of the Company in August 2004. He has been the vice-chairman of Dynasty Winery since May 1980. He has also been the chairman of the supervisory board of Remy Cointreau S.A., a company listed on the Euronext Stock Exchange, from December 2000 to September 2004, chairman of Orpar S.A. since December 1997 and director of Oeneo S.A. Mr. Heriard-Dubreuil joined Remy Martin & Co. S.A. in 1977 prior to its merger with Cointreau & Cie. He was appointed as the director of the Remy Cointreau Group in 1990. He has around 30 years of experience in the wines industry and has held various senior positions, including chairman of the Remy Martin Group from September 1984 to July 1990. He is also a director of Shanghai Shenma Winery Co., Ltd. ("Shenma") and chairman of the Fondation INSEAD, France. He graduated from Université de Paris with a degree of Maîtrise Es Sciences in 1970 and a master of business administration from INSEAD, France in 1975.

ZHENG Daoquan, aged 59, was appointed as a non-executive Director of the Company in February 2009. He was appointed as an executive director of Tianjin Development in December 2006. Mr. Zheng is a senior economist and possesses tertiary academic qualification. From 1982 to 1998, he was the official, deputy head and head of administration section of Tianjin Engineering and Industrial Bureau. Besides, he was also the general manager of Tianjin Tai Guang Industrial and Trade Company during the same period. From 1998 to March 2006, he was the head of Tianjin's office of Tsinlien. Mr. Zheng is a director and deputy general manager of Tsinlien and the head of Tianjin's office of Tsinlien. Mr. Zheng has solid experience in management for over 20 years.

Jean-Marie LABORDE, aged 61, was appointed as a non-executive Director of the Company in February 2009. He joined the Remy Cointreau S.A., a substantial shareholder of the Company, as a chief executive officer in September 2004. Mr. Laborde holds a master's degree in economics from the University of Bordeaux and a master degree in business administration from the Institut Supérieur des Affaires (HEC/ISA). He held various senior positions at Pernod Ricard from 1979 to 1996 and chairman and chief executive officer of Moët et Chandon (LVMH Group) from 1996 to 2003. Mr. Laborde is a member of a number of professional organizations. He was directors of Maxxium Worldwide BV, an associate of Remy Cointreau Group and Antonin Rodet, Burgundy Wines, a wholly owned subsidiary of Sequana Capital, a company listed on the Euronext Stock Exchange (stock code: VOR). He is also a director of Finadvance S.A., a private equity firm.

ZHANG Wenlin, aged 59, was appointed as a non-executive Director of the Company in August 2004. He has been the chief accountant of Tianjin Agricultural Cultivation Group Company since 2000. He is also a qualified senior accountant. Mr. Zhang graduated from the undergraduate programme of Jilin Agricultural University in 1985 where he majored in agricultural economics and earned a master's degree in business administration from Macao University of Science and Technology in 2004.

WONG Ching Chung, aged 70, was appointed as a non-executive Director of the Company in August 2004. He has been a director of Dynasty Winery since December 1985. He is also a censeur (監事) of Orpar S.A. and the chairman of Shenma. Prior to joining Orpar S.A. in 2003, he was a director of Remy Cointreau S.A. between 1999 and 2002 and the regional managing director of Remy Associes and Maxxium Worldwide B.V. between 1986 and 2002. He graduated from The University of Hong Kong with a bachelor's degree in 1964 and from Arthur D. Little Management Institute, USA with a master of science in management degree in 1981. Mr. Wong has extensive experience in the wines industry for over 20 years. He was also awarded the Officier de l'Ordre du Merite Agricole by the French government in 1994 in recognition of his accomplishment in the wines and spirits industry.

ROBERT Luc, aged 53, was appointed as a non-executive Director of the Company in August 2004. He is also the director of Orpar S.A. for the Greater China region. He has held various management positions in the Orpar S.A. – Remy Cointreau Group since 1987, including the deputy group controller, regional finance director for the America, finance director of the champagne division and the regional finance director of Asia Pacific. Prior to joining the Remy Cointreau Group in 1987, he worked with the Ernst & Whinney in Montreal and Paris. He graduated from University of Sherbrooke, Canada with a bachelor's degree in business administration (accounting) in 1979. He is a Canadian Chartered Accountant. Mr. Robert has extensive experience in the wines and spirits industry for over 20 years.

Independent non-executive Directors

LAI Ming, Joseph, aged 65, was appointed as an independent non-executive Director of the Company in August 2004. Mr. Lai is a fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), CPA Australia and the Chartered Institute of Management Accountants ("CIMA") and the Hong Kong Institute of Directors. He co-founded the HK Centre of CIMA (then known as the Institute of Cost and Management Accountants) in 1973 and was the president in 1974/75 and 1979/80. He was the president of the HKICPA in 1986. He is also an adviser to the Corporate Governance Committee of CPA Australia Hong Kong China Division. Until retirement in 2004, Mr. Lai served several Hong Kong listed companies in key management positions with particular emphasis on corporate finance and organization and management information. He is an independent non-executive director of Jolimark Holdings Limited, Shinhint Acoustic Link Holdings Limited, Guangzhou R&F Properties Co., Limited, Country Garden Holdings Limited, Chen's Holdings Limited and Sheng Fung Company, Limited. Mr. Lai is also a director of Hong Kong University of Science and Technology R and D Corporation Limited.

Dr. HUI Ho Ming Herbert, J.P. aged 51, was appointed as an independent non-executive Director of the Company in August 2004. He is the executive director of Hong Kong Resources Holdings Company Limited and vice chairman of the First Vanguard Private Equity Ltd. He has extensive commercial and regulatory experience and serves on the boards of a number of public and private companies, including Citic 21 Company Limited and Ocean Grand Holdings Company Limited (Provisional liquidators appointed), both of which are listed on the Hong Kong Stock Exchange. He was appointed a Justice of the Peace in Hong Kong in 2004.

CHAU Ka Wah, Arthur, aged 64, was appointed as an independent non-executive Director of the Company in August 2004. Mr. Chau has substantial knowledge and experience in commercial and corporate industry. Prior to joining the Company in August 2004, he was the managing director of Otis Elevator Company (Hong Kong) Ltd. and the regional director of Otis Elevator International, Inc. in China. He graduated with a bachelor's degree from The University of Hong Kong and a master's degree in business administration from Chinese University of Hong Kong.

Senior Management

YEUNG Chi Tat, aged 40, is the financial controller and company secretary of the Company. He holds a bachelor's degree in business administration and a master's degree in professional accounting. Mr. Yeung possesses experience in auditing, corporate restructuring and corporate financial services. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in England and Wales and a senior international finance manager of International Financial Management Association.

WANG Shusheng, aged 54, is a deputy general manager of Dynasty Winery, technical director of the Company and chief senior food engineer responsible for production engineering, infrastructure management, vineyard construction and purchase of grape juice. Mr. Wang has more than 30 years of experience in research and development, quality control and production management. He is a profession accredited by Tianjin government. Mr. Wang is currently the head of the China Brewing Association (中國釀酒協會) and the Grape Wine Expert Committee (葡萄酒專家委員會) and the deputy head of the expert committee of China Food Association (中國食品協會專家委員會). He is also the state and international level appraisal judge of the China Brewing Association and the expert committee of China National Food Industry Association, and the distinguished appraisal judge of the China Wine Examination Centre (中國葡萄酒檢測中心), as well as being a visiting professor at the food college of China Agriculture University. He graduated from Tianjin Municipal Party Committee Party School in 2002 with a diploma in economic management. Mr. Wang joined the Group in 1991.

LIU Jianhua, aged 56, is a deputy general manager of Dynasty Winery and chief senior food engineer responsible for production planning, purchase of other raw materials, and import and export operations. Mr. Liu has more than 20 years of experience in research and development of brewing technology. He graduated from Tianjin Municipal Party Committee Party School in 2002 with a diploma in economic management. Mr. Liu joined the Group in 1985.

TIAN Fengying, aged 52, is a deputy general manager of Dynasty Winery, sales director of the Company and senior economist responsible for sales and marketing. Ms. Tian has more than 20 years experience in market planning as well as public relations. She is the legal adviser of Tianjin Government Economic Committee and an analyst at the China Management Science Research Institute. She graduated from International East-West University of the United States in 2000 with a master's degree in business administration. Ms. Tian joined the Group in 1980.

LIU Kejing, aged 47, is a deputy general manager of Dynasty Winery responsible for the management of production facilities and has over 10 years' experience in the wines industry. He graduated from University of Zhengzhou with a bachelor's degree in Chinese in 1986. He then obtained a bachelor's degree in law from Nan Kai University in 1992. Mr. Liu joined the Group in 1992.

LI Zhanbiao, aged 54, is head of the human resources department, secretary of disciplinary examination committee, supervisor of the Communist Party Committee and chairman of the Trade Union of Dynasty Winery. Mr. Li is qualified as senior professional manager (高級職業經理人), registered senior human resources supervisor (註冊高級人力資源管理師) and registered senior corporate operator (註冊高級企業運營師). Prior to joining the Group, Mr. Li was the deputy general manager of Tianjin Jinying Foods Ltd. He graduated from Tianjin Agriculture College in 1982 with a bachelor's degree and was a graduate student at China Agriculture University in 2002. He completed the business administration and management course at the Business Administration and Management Research Centre of Remin University of China in 2003. Mr. Li joined the Group in 1997.

YIN Jitai, aged 46, is a deputy general manager and chief senior engineer of Dynasty Winery responsible for quality control. He has more than 10 years' experience in the wines industry and is a member of China Brewing Association, China Food Industry Association and China National Wine Appraisal Committee. Mr. Yin has also been appointed onto the board of the state grape and fruit wines appraisal judges. He graduated from Tianjin Industrial College in 1985 with a bachelor degree in food engineering where he majored in food fermentation. Mr. Yin joined the Group in 1992.

LI Wei, aged 52, is a chief economist and researcher of agricultural promotion of Dynasty Winery responsible for matters related to production safety and winery security. He graduated from the undergraduate programme of Northwest Agriculture Institution of China (formerly known as Northwest Agriculture Institution of China) in 1983 and studied grape cultivation at Bordeaux Wine School in France in 1996. Mr. Li has over 20 years' experience in the wines industry. Mr. Li joined the Group in 1986.

ZHANG Chunya, aged 56, is a vice chief engineer and head of technology department of Dynasty Winery and chief senior engineer. She has been involved in the production of Dynasty Winery for over 18 years. Ms. Zhang graduated from Jiangxi Medical College in 1975. She was recognised as a state-level wine appraisal judge by the China Brewing Industry Association in 2000. In 2000, she also received from the Tianjin Government the first class technology improvement prize for the development of high end dry red wines. In 2001, the "Research and Development of Dynasty High end Dry Red Wines Production Techniques and Raw Material Equipment Protection System" obtained the second class national technology improvement prize. Ms. Zhang joined the Group in 1992.

The Board and senior management of Dynasty Fine Wines Group Limited (the "Company") are committed to maintaining high standards of corporate governance and believe that high standards of corporate governance are essential to the sustainable growth and success of the Company and provide a practice enhancing greater accountability and transparency and meeting the expectations of all of the Group's various stakeholders.

During the year, the Company has complied with the Code on Corporate Governance Practices (the "Code"). The Directors are not aware of any information that would reasonably indicate that the Company is not in compliance with the Code of Corporate Governance Practices set out in Appendix 14 of the Listing Rules as effective during the year. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

The following sections set out how the principles in the Code have been complied with by the Company during the financial year ended 31 December 2009.

Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the code for directors' securities transactions (the "Model Code"). The Company has made specific enquiry of all Directors and that all the Directors have confirmed their compliance with the required standards set out in the Model Code regarding directors' securities transactions throughout the financial year ended 31 December 2009.

Board of directors

Composition of the Board

As at 31 December 2009, the Board comprised two executive Directors, namely Mr. Bai Zhisheng (Chairman) and Mr. Gao Feng (General Manager), six non-executive Directors, namely Mr. Heriard-Dubreuil Francois, Mr. Zheng Daoquan, Mr. Jean-Marie Laborde, Mr. Zhang Wenlin, Mr. Wong Ching Chung and Mr. Robert Luc, and three independent non-executive Directors, namely Mr. Lai Ming, Joseph, Dr. Hui Ho Ming, Herbert and Mr. Chau Ka Wah, Arthur. The biographies of the Directors are set out in "Biography of Directors and Senior Management" section, which demonstrate a diversity of knowledge, skills, experience and qualifications.

The Company has complied with rules 3.10(1) and 3.10(2) of the Listing Rules regarding the appointment of sufficient independent non-executive Directors and at least one of the independent non-executive Directors has appropriate professional qualifications or accounting or relating financial management expertise. Pursuant to the requirement of Rule 3.13 of the Listing Rules, the Company has also received annual confirmation of independence to the Company from the three independent non-executive Directors. The Board has assessed their independence and considered that all the independent non-executive Directors are independent within the definition of the Listing Rules.

Mr. Heriard-Dubreuil Francois, Mr. Jean-Marie Laborde, Mr. Wong Ching Chung and Mr. Robert Luc held or continue to hold directorships or other management positions within the group comprising Andromede S.A. (the ultimate controlling shareholder of Remy Pacifique Limited, a substantial shareholder of the Company), its subsidiaries and joint venture companies. Other than as described above, there is no other relationship (including financial, business, family or other material/ relevant relationship(s)) among the Directors and in particular, between Mr. Bai Zhisheng, the chairman and Mr. Gao Feng, the general manager as at 31 December 2009.

The Board

The Board oversees the Group's overall strategic directions, businesses and financial performance. It assumes responsibilities for strategy formulation, corporate governance and performance monitoring. Daily operations and administration are delegated to the management with divisional heads responsible for different aspects of the business. Moreover, the Board has also delegated day-to-day responsibility to the executive management and various responsibilities to the Remuneration Committee and the Audit Committee. Further details of role and duties of these committees are set out in this report.

The Board has four scheduled meetings a year and meets more frequently as and when required. During the year, full board meetings were held. Their individual attendance records, on a named basis, during the year ended 31 December 2009 are set out in the table below.

Board Members	Meetings attended/held
Executive Director	
Bai Zhisheng	4/4
Gao Feng (appointed on 9 May 2009)	1/1
Non-executive Director	
Heriard-Dubreuil Francois	4/4
Zheng Daoquan (appointed on 10 February 2009)	3/4
Jean-Marie Laborde (appointed on 10 February 2009)	4/4
Zhang Wenlin	4/4
Wong Ching Chung	4/4
Robert Luc	4/4
Cheung Wai Ying, Benny (resigned on 10 February 2009)	0/1
Hu Chengli (appointed on 10 February 2009 and resigned on 1 May 2009)	3/3
Independent non-executive Director	
Lai Ming, Joseph	4/4
Hui Ho Ming, Herbert	4/4
Chau Ka Wah, Arthur	4/4

Board minutes prepared and kept by the company secretary are sent to the Directors for records and are open for inspection at any reasonable time on reasonable notice by any Director.

All Directors are supplied with comprehensive board papers and relevant materials within a reasonable period of time in advance of the intended meeting date (in any event no less than 2 days before the Board meeting), including business and financial reports covering the Group's principal business activities, financial highlights and operational review.

If so required, the Directors are free to have access to the management for enquiries and to obtain further information so as to facilitate the decision-making process.

Every Director member has unrestricted access to the advice and services of the company secretary.

The Directors are continually updated with legal and regulatory developments, business and market changes and development of the Company to facilitate the discharge of their responsibilities. In addition, the Directors can obtain independent professional advice at the Company's expense in discharging their duties to the Company.

Non-executive Directors and independent non-executive Directors have the same fiduciary duties and duties of care as executive Directors. Non-executive Directors provide the Group with a wide range of knowledge and expertise in the wine industry. The independent non-executive Directors also participate actively in board meetings, contribute to the development of strategies and policies and make sound judgement in various aspects. They will take lead when potential conflicts of interest arise. They are also members of various board committees and devote sufficient amount of time and attention to the affairs of the Company.

Directors' appointment, re-election and removal

Pursuant to the Articles of Association of the Company, every Director shall be subject to retirement by rotation at least once every three years and Director appointed to fill a casual vacancy shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that general meeting. The new Director shall not be taken into account in determining the number of Directors who are to retire by rotation at that meeting.

All non-executive Directors and the independent non-executive Directors of the Company are appointed for a term of three years, but they are subject to retirement by rotation and re-election at the annual general meeting ("AGM") of the Company pursuant to Article 87 of the Company's Articles of Association.

The Company has not established a nomination committee. Directors will identify and nominate qualified individuals, subject to the approval of the Board, to be additional directors or to fill vacancy in the Board as and when they arise. In evaluating whether the individuals are suitable to be new directors. The work performed by the Board in relation to nomination of new directors during the year ended 31 December 2009 includes:–

- review the experience of the individuals;
- review the qualifications of the individuals; and
- review the skill of the individuals.

Division of responsibilities

Chairman is responsible for the leadership to and effective running of the Board in terms of establishing policies and business directions. The Chairman ensures that the Board functions effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. The Board also comprises three independent non-executive Directors who bring in strong independent judgement, knowledge and experience to the Board. In addition, each executive Director is delegated individual responsibility to monitor and oversee the operations of a specific area, and to implement the strategies and policies set by the Board. As noted below, all the Audit Committee members and a majority of the Remuneration Committee members are independent non-executive Directors. This structure ensures that a sufficient balance of power and authority exists within the Group. During the financial year ended 31 December 2009, Mr. Bai Zhisheng as the Chairman led the Board and ensured all Directors were properly briefed on issues to be discussed at board meetings. Mr. Gao Feng as the general manager provided leadership for effective running of the Company's business and implementation of the approved strategies in achieving the overall commercial objectives.

Remuneration of directors

Remuneration committee

The Remuneration Committee has been formed in 2005. As at 31 December 2009, the chairman of the Remuneration Committee was Mr. Chau Ka Wah, Arthur, an independent non-executive Director and the other members comprised Mr. Wong Ching Chung, a non-executive Director and Mr. Lai Ming, Joseph and Dr. Hui Ho Ming, Herbert, both being independent non-executive Directors of the Company. The independent non-executive Directors constitute the majority of the committee. Its terms of reference are summarised as follows:–

1. To make recommendations to the Board on the Company's policy and structure for all remuneration of the Directors of the Company and senior management of the Group and on the establishment of a formal and transparent procedure for developing policy on such remuneration for the Company;

2. To have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors and independent non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration in determining the specific remuneration packages of such executive Directors and senior management;

3. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

4. To review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

5. To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

6. To ensure that no Director or any of his associates is involved in deciding his own remuneration.

During the year ended 31 December 2009, one meeting was held. The Remuneration Committee has reviewed and recommended to the Board on the payment of bonuses to staff in the PRC and Hong Kong in respect of the financial year ended 31 December 2008. The Board has approved the recommendations of the Remuneration Committee during the year. The attendance record of individual committee members is set out in the table below.

Name of member	Meeting attended/held
Chau Ka Wah, Arthur	1/1
Wong Ching Chung	1/1
Lai Ming, Joseph	1/1
Hui Ho Ming, Herbert	0/1

The terms of reference of the Remuneration Committee are available from the company secretary at any time.

Remuneration package for directors

The remuneration for the executive Director comprises basic salary, annual bonus, housing allowances and pensions.

Salary adjustments are made where the Remuneration Committee takes into account the performance, contribution and increased responsibilities of the individual during the year, the inflation price index and/or by reference to market/sector trends.

Apart from basic salary, executive Directors and employees are eligible to receive a discretionary bonus taking into account factors such as market conditions as well as corporate and individual's performance during the year.

In order to attract, retain and motivate talented eligible staff and officers, including the Directors, the Company has adopted a Share Option Scheme. The scheme enables the eligible persons to obtain an ownership interest in the Company and thus will motivate them to optimize their continuing contributions to the Group.

Details of the amount of Directors' emoluments during the year ended 31 December 2009 are set out in note 10 to the financial statements and details of the Share Option Scheme and grant / cancellation of options by the Company during the year are set out in Directors' Report and note 21 to the financial statements.

Accountability and audit

The Board is responsible for the preparation of the financial statements for the financial year ended 31 December 2009 which give a true and fair view of the state of affairs of the Company and of the Group and of the results and cash flows for that year. In preparing the financial statements for the year ended 31 December 2009, Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards have been adopted, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

The Directors had reviewed the financial projections of the Group in respect of the year ending 31 December 2010. On the basis of this review, the Directors consider the Group has adequate resource to continue in operational existence for the foreseeable future and is not aware of any material uncertainties relating to conditions or events which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

Internal controls

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The internal control system is designed to provide reasonable, though not absolute, assurance against material misstatement or loss, and manage rather than eliminate risks of failure to achieve business strategies. The Group's internal control framework covers (i) the setting of a defined management structure with limits of authority and clear lines of accountability; and (ii) the establishment of regular reporting of financial information, in particular, the tracking of deviations from budgets and targets.

The relevant executive Directors and senior management are delegated with respective level of authorities. Yearly budgets of the Company are reviewed and approved by the Board. The relevant executive Directors and senior management have specific responsibilities for monitoring the performance, conduct and operations of each subsidiary within the Group by the review of the disparity between actual results and yearly budgets.

Monthly financial reporting is provided to the executive Directors, non-executive Directors and Group's management. This helps the Board and the Group's management to monitor the Group's business operations and to plan on a prudent and timely basis. Other regular and ad hoc reports will also be prepared for the Board and its committees, to ensure that Directors are supplied with all the information they require in a timely and appropriate manner.

Although the Company has no longer been required to retain a post of "Qualified Accountant" as defined in the Listing Rules since 1 January 2009, the Company continues to maintain a team of qualified accountants to oversee its accounting and financial reporting function in accordance with the relevant laws, rules and regulations.

In addition to the above, the Board and Audit Committee have reviewed the effectiveness of its internal control systems on all major operations of the Group on a rotational basis by appointing a professional accounting firm on their behalf. The scope of review by the professional accounting firm has been determined and approved by the Audit Committee. The professional accounting firm has reported major internal control review findings to the Board and the Audit Committee. No major issue but areas for improvement have been identified. All recommendations from the professional accounting firm will be properly followed up to ensure that they are implemented within a reasonable period of time. The Board and Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented and the Group has fully complied with the Code provisions regarding internal control systems in general.

Audit committee

The Audit Committee comprises three independent non-executive Directors of the Company namely, Mr. Lai Ming, Joseph, Dr. Hui Ho Ming, Herbert and Mr. Chau Ka Wah, Arthur. One of these Directors, Mr. Lai Ming, Joseph, has appropriate professional qualifications and experience in financial matters and is the chairman of the Audit Committee. The Audit Committee of the Company has written terms of reference. The Audit Committee is responsible for assisting the Board in discharging its responsibilities in monitoring the integrity of the Group's financial reporting process, the financial statements and reports of the Company, consideration of the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function and their training programmes and budget, the effectiveness of the Group's system of internal controls, as well as the arrangements with external auditors. The Audit Committee reports its findings and makes recommendations to the Board in board meetings.

In fulfilling its responsibilities, the work of the Audit Committee during the year ended 31 December 2009 includes the following:–

(i) a review of the draft annual financial statements for the year ended 31 December 2008 and interim financial statements for the period ended 30 June 2009 of the Group, focusing on main areas of judgement, consistency of and changes in accounting policies (if any) and adequacy of information disclosure prior to recommending them to the Board for approval;

(ii) a review of the results of external audit, and discussion with the external auditors on any significant findings on internal control and audit issues;

(iii) met with the external auditors to discuss the general scope of their audit works;

(iv) a review of the developments of accounting standards in conjunction with the external auditors;

(v) a review of the external auditors' report thereon;

(vi) a review of the internal control review report covering the evaluation of internal controls; and

(vii) a review of the independence, performance and remuneration of the external auditors.

During the year ended 31 December 2009, the Audit Committee met three times together with an executive Director, general manager and financial controller as well as with the external auditors. Please refer to the below table for the attendance record of individual Audit Committee members.

Name of member	Meeting attended/held
Lai Ming, Joseph	3/3
Hui Ho Ming, Herbert	2/3
Chau Ka Wah, Arthur	3/3

The terms of reference of the Audit Committee are available from the company secretary at any time.

Auditors' Remuneration

During the year ended 31 December 2009, the remuneration paid/payable to the auditors in respect of audit and non-audit services provided by the auditors to the Group were set out as below:–

Nature of services	Amount (HK$'000)
Audit services	1,169
Non-audit services	
(i) Tax services	24
(ii) Internal control review	862

Communication with shareholders

Channels

Communication with shareholders is given high priority. In order to develop and maintain a continuing investors' relationship with the Company's shareholders ("Shareholders"), the Company has established various channels of communication with its shareholders:–

(1) The Company regards the annual general meeting ("AGM") as one of the important event in the corporate year. The members of the board and external auditors will attend the AGM. The Group encourages all Shareholders to attend. Shareholders can raise any comments on the performance and future directions of the Company and exchange views with the Directors, the management and the external auditors at the AGM;

(2) Press conferences and analysts presentations are held at least twice a year subsequent to the interim and final results announcements at which the executive Directors and senior management are available to answer questions regarding the Group's operational and financial performances;

(3) The Company has regularly met with financial analysts, fund managers and potential investors, and has participated in a number of investors' conferences and roadshows organised by various investment banks during 2009 in order to enhance the Group's relationship with equity research analysts, fund managers, institutional investors and Shareholders and their understanding of the Group's strategies, operations and developments. During 2009, senior management visited several major international investment centres to meet with institutional investors. All their discussions were limited to explanations of previously published material and general discussion of non-price sensitive information. In addition, the Company has organized several winery visits in Tianjin for media, financial analysts and fund managers. In the future, the Group plans to continue to strengthen its investors' relationship by participating in future roadshows and conferences;

(4) The Company's website at www.dynasty–wines.com provides regularly updated information of interest to shareholders, including corporate information, biographical details of Directors, shareholding structure, annual and interim reports, major historical developments with comprehensive and user-friendly information about the Group, as well as announcements issued by the Company, and a channel for enquiries and feedback;

(5) Information relating to Company's financial results, corporate details, notifiable transactions and other major events are timely disseminated through publication of interim and annual reports, announcements, circulars and press releases.

The Company is delighted to report that the abovementioned efforts have been rewarded and was named an awardee for second runner-up in the food and beverages industry category of "The Most Promising Companies in China Awards 2009" organized by the international finance magazine *The Asset*, indicating the continuous efforts of the Group over the years in growing its business highly recognized by the investors. The award has a judging panel made up of professional investors and financial analysts to select enterprises with the best prospects among about 300 Chinese enterprises listed in various stock exchanges worldwide.

Meetings

The Board and senior management recognise the importance of their responsibility to represent the interests of all shareholders and to maximise Shareholder value. AGM is a valuable forum for the Board to communicate directly with the Shareholders. An AGM circular is distributed which accompanies the despatch of this Annual Report to shareholders at least 20 clear business days before the AGM and is included with the notice to Shareholders of any future AGM. It sets out the procedures for conducting a poll and other relevant information of the proposed resolutions. The most recent Shareholders' meeting was the AGM held on 2 June 2009.

Market capitalisation

The market capitalisation of the Company as at 31 December 2009, the last trading day in 2009, was HK$3,137 million (issued share capital: 1,245,000,000 shares at closing market price: HK$2.52 per share).

Xinjiang

Xinjiang is the oldest and most influential vine growing region in China. Its geographical conditions and complicated climate formulate two grape growing regions: the south for raisin and north for fresh grapes. Vineyards in northern Xinjiang are concentrated around Changji, Hutubi, Manas and Shihezi, forming the vine growing region of Changshi, between 43-45°38´N, at the northern foot of Tian Mountain, with altitude of 430-450m. Thick soil with high permeability produces grapes with high sugar, dark coloured and reasonable sugar-to-acidity ratio. The region is perfect for growing Cabernet Sauvignon, Syrah, Merlot, Zinfandel, Chardonnay, Sauvignon Blanc and Riesling.

Chardonnay in Xinjiang

Financial Section

The Directors are pleased to present the annual report together with the audited financial statements of Dynasty Fine Wines Group Limited (the ''Company'') and its subsidiaries (hereinafter collectively referred to as the ''Group'') for the year ended 31 December 2009.

Principal activities

The principal activities of the Company are investment holding and sale of grape wine products. The principal activities of the Company's principal subsidiaries are production and sale of grape wine products. Particulars of the Company's subsidiaries are set out in Note 29 to the financial statements. The nature of the principal activities of the Group has not changed during the year.

Results and appropriations

The financial results of the Group for the year are set out in the section headed "Consolidated Income Statement" of the annual report.

The Directors have declared an interim dividend of HK2.8 cents per Share. The total interim dividend of HK$ 34.9 million has been paid in October 2009. The Directors recommend the payment of a final dividend of HK3.1 cents per Share to shareholders whose names appear on the register of members of the Company at the close of business on 26 May 2010.

Reserves

The movements in reserves of the Group and the Company during the year and distributable reserves of the Company as at 31 December 2009 are set out in Note 22 to the financial statements and balance sheet of the Company respectively.

Group financial summary

The results and position of the Group for the last five financial years are summarized in the section headed "Five Years Summary" of the annual report.

Property, plant and equipment

Particulars of the movements in property, plant and equipment of the Group and the Company during the year are set out in Note 12 to the financial statements.

Charitable donations

Charitable donations made by the Group during the year amounted to HK$50,000.

Share capital

The movements in the share capital of the Company during the year are set out in Note 21 to the financial statements.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Articles of Association which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company ("Shareholders").

Directors

The Directors of the Company who held office during the year and up to the date of this report are as follows:

Executive Directors:
Mr. Bai Zhisheng
Mr. Gao Feng (appointed on 9 May 2009)
Mr. Huang Yaqiang (appointed on 26 January 2010)

Non-executive Directors:
Mr. Heriard-Dubreuil Francois
Mr. Zheng Daoquan (appointed on 10 February 2009)
Mr. Jean-Marie Laborde (appointed on 10 February 2009)
Mr. Zhang Wenlin
Mr. Wong Ching Chung
Mr. Robert Luc
Mr. Cheung Wai Ying, Benny (resigned on 10 February 2009)
Mr. Hu Chengli (appointed on 10 February 2009 and resigned on 1 May 2009)

Independent non-executive Directors:
Mr. Lai Ming, Joseph
Dr. Hui Ho Ming, Herbert
Mr. Chau Ka Wah, Arthur

In accordance with Article 86 of the Company's Articles of Association, the office of directorship of Mr. Huang Yaqiang will end at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' service contracts

Each of the executive Directors and non-executive Directors of the Company has entered into a service contract with the Company for a term of three years. Each of these contracts may be terminated by either party giving not less than two months' notice in writing.

The independent non-executive Directors are appointed for a period of three years in accordance with their respective appointment letters.

Save as disclosed above, none of the Directors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Biography of directors and senior management

Biographical details of the Directors and senior management of the Group are set out in the section headed "Biography of Directors and Senior Management" of the annual report.

Directors' interests in contracts

No Director of the Company had a material interest, either directly or indirectly, in any contract of significance to the Group's business to which the Company, its holding company, or any of its subsidiaries or related companies was a party during the year.

Relationship with Shenma

During the year and up to the date of this report, the following Directors are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules as set out below:

Name of Director	Name of entity with competing business	Business activities of the entity with competing business	Nature of interest in the entity with competing business
Mr. Heriard-Dubreuil Francois	Shanghai Shenma Winery Co., Ltd. ("Shenma")	Manufacturing and sale of grape wine products in greater Shanghai region	Being a director of Shenma and together with his spouse hold approximately 7.4% indirect beneficial interest in Shenma
Mr. Wong Ching Chung	Shenma	Manufacturing and sale of grape wine products in greater Shanghai region	Being a director of Shenma and together with his spouse hold approximately 34.2% indirect beneficial interest in Shenma

Except for Mr. Heriard-Dubreuil and Mr. Wong, all the other directors of the board of Shenma are independent of the Group. Although the Group and Shenma are engaged in the production and sale of grape wine products, they operate under different brand names. The Board of Directors of the Company is independent from the board of Shenma and none of the directors of Shenma can control the Board of the Company. On this basis, the Board of Directors believes that the Group is capable of operating its business independently of, and at arm's length with the business of Shenma. There is currently no plan for the Group and Shenma to enter into any business relationship or transaction in the foreseeable future.

Save as disclosed above, none of the Directors is interested in any businesses which compete or are likely to compete, either directly or indirectly, with the Group's business during the year and up to the date of this report.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Share option scheme

Pursuant to the resolution passed by the shareholders ("Shareholders") of the Company on 6 December 2004, a share option scheme (the "Scheme") was approved and adopted. Relevant information relating to the Scheme is set out as follows:

(a) Purpose of the scheme

The purpose of the Scheme is to provide incentive and/or reward to eligible persons for their contribution to, and continuing efforts to promote the interest of, the Group.

(b) Participants of the scheme

The Board of Directors may offer any employee or former employee, Directors or former Directors of the Company or any of its subsidiaries or any person or entity acting in their capacities as advisers or consultants or former advisers or consultants that provides research, development or other technological support to the Group and their bona fide wife, husband, widow or widower or child or stepchild under the age of 18 years.

(c) Maximum number of shares available for issue under the scheme

Except with the approval of the Company's independent Shareholders at general meeting, the total number of Shares which may be issued upon exercise of all options to be granted under the Scheme must not in aggregate exceed 10% of the issued share capital of the Company as at 26 January 2005, the date on which shares of the Company ("Share") commenced trading on the Stock Exchange, or 30% of the issued share capital of the Company from time to time. No options may be granted under the Scheme if this will result in such limit being exceeded. As at 31 December 2009, the Company has granted share options representing the right to subscribe for 26,450,000 Shares under the Scheme of which share options representing the right to subscribe for 12,050,000 Shares have been cancelled. The Company may further grant share options to subscribe for 93,550,000 Shares, representing approximately 7.5% of the total number of Shares in issue as at the date of this report.

(d) Maximum entitlement of each participant under the scheme

Except with the approval of the Company's independent shareholders at general meeting, no option shall be granted to any participant if any further grant of options would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including such further grant would exceed 1% of the total number of Shares in issue as at the date of this report.

(e) Period and payment on acceptance of options

An offer of grant of an option may be accepted by a grantee within the date as specified in the offer letter issued by the Company, being a date not later than 21 days after (i) the date on which the offer letter was issued, or (ii) the date on which the conditions (if any) for the offer are satisfied. A consideration of HK$1.00 is payable on acceptance of the offer of grant of an option.

(f) Basis of determining the exercise price

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price determined by the Board of Directors and notified to the participants and shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

(g) Period of the scheme

Subject to earlier termination by the Company in general meeting or by the Board of Directors, the Scheme shall be valid and effective for a period of ten years from 6 December 2004, after which period no further option shall be granted.

Details of the share options granted, exercised, lapsed and cancelled under the Scheme during the year are as follows:

	Outstanding options held at 1 January 2009 (Note 1)	Granted/ exercised	Cancelled	Lapsed	Outstanding options held at 31 December 2009 (Note 1)	Approximate percentage of issued share capital of the Company
Executive Directors:						
Mr. Bai Zhisheng	2,300,000	—	—	—	2,300,000	0.18%
Mr. Gao Feng (appointed on 9 May 2009)	—	—	—	—	—	—
Mr. Chen Naiming (passed away on 23 January 2008) (Note 2)	2,100,000	—	—	(2,100,000)	—	—
Non-executive Directors:						
Mr. Heriard-Dubreuil Francois	1,200,000	—	—	—	1,200,000	0.10%
Mr. Cheung Wai Ying, Benny (resigned on 10 February 2009)	900,000	—	—	(900,000)	—	—
Mr. Zhang Wenlin	900,000	—	—	—	900,000	0.07%
Mr. Wong Ching Chung	900,000	—	—	—	900,000	0.07%
Mr. Robert Luc	900,000	—	—	—	900,000	0.07%
Independent Non-executive Directors:						
Mr. Lai Ming, Joseph	500,000	—	—	—	500,000	0.04%
Dr. Hui Ho Ming, Herbert	500,000	—	—	—	500,000	0.04%
Mr. Chau Ka Wah, Arthur	500,000	—	—	—	500,000	0.04%
Other employees	6,700,000	—	—	—	6,700,000	0.54%
Total	17,400,000	—	—	(3,000,000)	14,400,000	1.15%

Note 1: These share options (except for the 1,200,000 share options granted to Mr. Bai Zhisheng and 1,500,000 share options granted to the independent non-executive directors) were granted on 27 January 2005, with an exercise price of HK$3.00 and are exercisable from 17 August 2005 to 26 January 2015. 1,200,000 share options were granted to Mr. Bai Zhisheng on 1 November 2006 with an exercise price of HK$3.00 and are exercisable from 22 May 2007 to 31 October 2016. 1,500,000 share options were granted to the independent non-executive directors on 16 January 2008 with an exercise price of HK$2.91 and are exercisable from 6 August 2008 to 15 January 2018.

Note 2: Mr. Chen Naiming passed away on 23 January 2008 and his personal representatives may exercise the share options within 12 months of the date of his death in accordance with the Scheme. Share options were not exercised and finally lapsed.

Directors' interests and short positions in the shares, underlying shares and debentures of the company

As at 31 December 2009, the interests and short positions of the Directors, chief executives and their associates of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Rights to acquire Shares

The interests of the Directors in the share options of the Company as beneficial owner are set out in the section headed "Share Option Scheme" above.

Save as aforesaid, as at 31 December 2009, none of the Directors, chief executive and their respective associates has any interest and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as disclosed in this report, at no time during the year ended 31 December 2009 was the Company, its subsidiaries, its fellow subsidiaries or its holding company, a party to any arrangements to enable the Directors or any of their spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial shareholders' interests and short positions in the shares and underlying shares of the Company

As at 31 December 2009, so far as was known to the Directors or chief executive of the Company, the interests or short positions of those persons, other than Directors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO are as follows:

Long position in Shares

Name	Nature of interest	Number of Shares held	Approximate percentage of the Company's issued share capital
Famous Ever Group Limited (Note 1)	Beneficial owner	558,000,000	44.82%
Tianjin Development Holdings Limited (Note 1)	Interest of a controlled corporation	558,000,000	44.82%
Tianjin Investment Holdings Limited (Note 2)	Interest of a controlled corporation	558,000,000	44.82%
Tsinlien Group Company Limited (Note 3)	Interest of a controlled corporation	558,000,000	44.82%
Remy Pacifique Limited (Note 4)	Beneficial owner	336,528,000	27.03%
Remy Concord Limited (Note 4)	Interest of a controlled corporation	336,528,000	27.03%
Remy Cointreau Services S.A.S. (Note 4)	Interest of a controlled corporation	336,528,000	27.03%
Remy Cointreau S.A. (Note 4)	Interest of a controlled corporation	336,528,000	27.03%
Orpar S.A. (Note 4)	Interest of a controlled corporation	336,528,000	27.03%
Andromede S.A. (Note 4)	Interest of a controlled corporation	336,528,000	27.03%

Notes:

(1) Famous Ever Group Limited is a wholly owned subsidiary of Tianjin Development Holdings Limited ("Tianjin Development"). By virtue of the SFO, Tianjin Development is deemed to be interested in the Shares held by Famous Ever Group Limited.

(2) Tianjin Investment Holdings Limited ("Tianjin Investment") owns 53.21% shareholdings in Tianjin Development. By virtue of the SFO, Tianjin Investment is deemed to be interested in the interest of Tianjin Development in the Shares.

(3) Tianjin Investment is a wholly owned subsidiary of Tsinlien Group Company Limited, the ultimate holding company of Tianjin Development. By virtue of the SFO, Tsinlien Group Company Limited is deemed to be interested in the interest of Tianjin Investment in the Shares.

(4) Remy Concord Limited is entitled to exercise or control the exercise of all the voting power at general meetings of Remy Pacifique Limited. Remy Cointreau Services S.A.S. is entitled to exercise or control the exercise of all the voting power at general meetings of Remy Concord Limited. Remy Cointreau S.A. is entitled to exercise or control the exercise of all the voting power at general meetings of Remy Cointreau Services S.A.S.. Orpar S.A. is entitled to exercise or control the exercise of approximately 52.36% of the voting power at general meetings of Remy Cointreau S.A.. Andromede S.A. is entitled to exercise or control the exercise of approximately 78.11% of the voting power at general meetings of Orpar S.A.. By virtue of Part XV of the SFO, each of Remy Concord Limited, Remy Cointreau Services S.A.S., Remy Cointreau S.A., Orpar S.A. and Andromede S.A. is deemed to be interested in the Shares held by Remy Pacifique Limited.

Apart from the aforesaid, as at 31 December 2009, no person, not being a Director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Major customers and suppliers

The percentages of sales and purchase for the year attributable to the Group's major customers and suppliers are as follows:

Sales

— the largest customer	9.1%
— five largest customers combined	35.5%

Purchases

— the largest supplier	8.0%
— five largest suppliers combined	29.0%

None of the Directors of the Company or any of their associates or any shareholders (which to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers. During the year, the Group purchased unprocessed wines from Dynasty Yuma Vineyard (Ning Xia) Co. Ltd., an associated company of the Group, and those purchases accounted for approximately 4.9% of the consolidated purchases of the Group.

Connected transaction

Purchase of Oak Barrels

Pursuant to the Oak barrel purchase contracts dated 25 February 2009, Sino-French Joint-Venture Dynasty Winery Limited, an indirect wholly-owned subsidiary of the Company, has agreed to purchase certain oak barrels from Tonnellerie Radoux, Tonnellerie Seguin Moreau and Seguin Moreau Napa Cooperage ("the Vendors") at a total consideration of Euro 271,860 and US$123,200 (totalling equivalent to approximately HK$3,619,028) (the "Purchases").

The Vendors are wholly-owned subsidiaries of Oeneo S.A., an associate (within the meaning ascribed to it in the Listing Rules) of Andromede S.A., which is a substantial shareholder (within the meaning ascribed to it in the Listing Rules) of the Company. Accordingly, the Vendors are connected persons of the Company within the meaning of the Listing Rules and the Purchases therefore constitute connected transactions for the Company. Pursuant to Rule 14A.25 of the Listing Rules, the Purchases pursuant to each of the oak barrel purchase contracts are aggregated. Such aggregation would result in each of the applicable ratios being less than 2.5%. Accordingly, the Purchases are only subject to reporting and announcement requirements and are exempt from independent Shareholders' approval requirements under the Listing Rules. For details of the Purchases, please also refer to Company's announcement dated 25 February 2009.

Purchase, Sale or Redemption of Shares of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any Shares of the Company during the year.

Minimum Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this report, there was a sufficiency of public float of the Company's Shares as required under the Listing Rules.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who retires and, being eligible, offers itself for re-appointment.

On behalf of the Board
Mr. Bai Zhisheng
Chairman

Hong Kong, 31 March 2010

Independent Auditor's Report

TO THE SHAREHOLDERS OF DYNASTY FINE WINES GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Dynasty Fine Wines Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 55 to 91, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Revenue	3	**1,482,542**	1,360,859
Cost of sales	5	**(727,041)**	(639,148)
Gross profit		**755,501**	721,711
Other income	3	**23,073**	28,660
Distribution costs	5	**(467,965)**	(442,272)
Administrative expenses	5	**(97,831)**	(90,823)
Operating profit		**212,778**	217,276
Share of loss of an associate	16	**(451)**	(65)
Profit before income tax		**212,327**	217,211
Income tax expense	6	**(55,456)**	(73,270)
Profit for the year		**156,871**	143,941
Attributable to:			
Equity holders of the Company	7	**156,122**	143,079
Minority interests		**749**	862
		156,871	143,941
Dividends	8	**73,455**	67,230
Earnings per share of profit attributable to the equity holders of the Company		**HK cents**	HK cents
– Basic and diluted earnings per share	9	**12.5**	11.5

The Notes on pages 61 to 91 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
Profit for the year	**156,871**	143,941
Other comprehensive income		
Currency translation differences	**1,869**	85,122
Total comprehensive income for the year	**158,740**	229,063
Total comprehensive income attributable to:		
Equity holders of the Company	**157,991**	226,178
Minority interests	**749**	2,885
	158,740	229,063

The Notes on pages 61 to 91 are an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**499,140**	440,302
Land use rights	13	**62,570**	63,787
Goodwill	14	**9,421**	9,421
Investment in an associate	16	**12,801**	13,237
Deferred income tax assets	17	**26,090**	–
		610,022	526,747
Current assets			
Trade receivables	18	**227,819**	84,093
Other receivables, deposits and prepayments		**65,039**	80,692
Inventories	19	**393,412**	462,655
Short-term deposits with maturity over three months		**254,664**	–
Restricted cash	23	**11,759**	–
Cash and cash equivalents	20	**778,277**	999,006
		1,730,970	1,626,446
Total assets		**2,340,992**	2,153,193
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	21	**124,500**	124,500
Other reserves	22	**1,134,459**	1,172,589
Retained earnings		**569,388**	431,782
		1,828,347	1,728,871
Minority interests in equity		**27,781**	35,501
Total equity		**1,856,128**	1,764,372
LIABILITIES			
Current liabilities			
Trade payables	24	**96,977**	89,015
Other payables and accruals		**344,462**	274,905
Financial liabilities at fair value through profit or loss	23	**11,759**	–
Current income tax liabilities		**31,666**	24,901
Total liabilities		**484,864**	388,821
Total equity and liabilities		**2,340,992**	2,153,193
Net current assets		**1,246,106**	1,237,625
Total assets less current liabilities		**1,856,128**	1,764,372

BAI Zhisheng
Director

GAO Feng
Director

The Notes on pages 61 to 91 are an integral part of these financial statements.

Balance Sheet

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**919**	2,204
Investments in subsidiaries	15	**932,556**	960,352
		933,475	962,556
Current assets			
Trade receivables	18	**286**	310
Other receivables, deposits and prepayments		**1,874**	2,162
Inventories	19	**350**	353
Dividend receivable		**175,020**	205,000
Short-term deposits with maturity over three months		**140,022**	–
Cash and cash equivalents	20	**21,206**	163,813
		338,758	371,638
Total assets		**1,272,233**	1,334,194
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	21	**124,500**	124,500
Other reserves	22	**1,033,269**	1,092,932
Retained earnings		**76,471**	84,446
Total equity		**1,234,240**	1,301,878
LIABILITIES			
Current liabilities			
Trade payable		**175**	–
Other payables and accruals		**27,108**	22,230
Amount due to subsidiaries	25	**10,710**	10,086
Total liabilities		**37,993**	32,316
Total equity and liabilities		**1,272,233**	1,334,194
Net current assets		**300,765**	339,322
Total assets less current liabilities		**1,234,240**	1,301,878

BAI Zhisheng
Director

GAO Feng
Director

The Notes on pages 61 to 91 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Note	Attributable to equity holders of the Company				
		Share capital	**Other reserves**	**Retained earnings**	**Minority interests**	**Total**
	Note	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2008		124,500	1,115,891	320,225	32,616	1,593,232
Comprehensive income						
Profit for the year		–	–	143,079	862	143,941
Other comprehensive income						
Currency translation differences	22	–	83,099	–	2,023	85,122
Total comprehensive income		–	83,099	143,079	2,885	229,063
Transactions with owners						
Share options scheme	22	–	592	–	–	592
Transfers	22	–	16,582	(16,582)	–	–
Dividends		–	(43,575)	(14,940)	–	(58,515)
Total transactions with owners		–	(26,401)	(31,522)	–	(57,923)
Balance at 31 December 2008		124,500	1,172,589	431,782	35,501	1,764,372
Comprehensive income						
Profit for the year		–	–	156,122	749	156,871
Other comprehensive income						
Currency translation differences	22	–	1,869	–	–	1,869
Total comprehensive income		–	1,869	156,122	749	158,740
Transactions with owners						
Share options scheme	22	–	(1,149)	1,149	–	–
Transfers	22	–	19,665	(19,665)	–	–
Contribution by a minority shareholder of a non-wholly owned new subsidiary		–	–	–	3,337	3,337
Reduction of capital of non-wholly owned subsidiary (Note 29 (i))		–	–	–	(11,806)	(11,806)
Dividends		–	(58,515)	–	–	(58,515)
Total transactions with owners		–	(39,999)	(18,516)	(8,469)	(66,984)
Balance at 31 December 2009		124,500	1,134,459	569,388	27,781	1,856,128

The Notes on pages 61 to 91 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Cash flows from operating activities			
Cash generated from operations	27	**278,103**	308,020
Income tax paid		**(74,781)**	(58,709)
Interest received		**11,174**	21,739
Net cash generated from operating activities		**214,496**	271,050
Cash flows from investing activities			
Purchase of property, plant and equipment		**(103,028)**	(101,482)
Increase in short-term deposits with maturity over three months		**(254,664)**	–
Increase in restricted cash		**(11,759)**	–
Reduction of capital of a non-wholly owned subsidiary		**(11,806)**	–
Contribution by a minority shareholder		**3,337**	–
Proceeds from disposal of equipment		**–**	357
Net cash used in investing activities		**(377,920)**	(101,125)
Cash flows from financing activities			
Dividends paid to the Company's equity holders		**(58,515)**	(58,515)
Net cash used in financing activities		**(58,515)**	(58,515)
Net (decrease)/increase in cash and cash equivalents		**(221,939)**	111,410
Cash and cash equivalents at the beginning of the year		**999,006**	830,346
Change in exchange rate		**1,210**	57,250
Cash and cash equivalents at the end of the year		**778,277**	999,006

The Notes on pages 61 to 91 are an integral part of these financial statements.

1 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. Its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, whilst the principal office is Suite 5506, 55/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The principal activity of the Company is investment holding and trading of wine products. The principal activities of the subsidiaries are stated in Note 29.

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 31 March 2010.

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. The area involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 31.

(a) New and amended standards adopted by the Group

The group has adopted the following new and amended HKFRS as of 1 January 2009:

- HKFRS 7 'Financial Instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- HKAS 1 (revised). 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- HKFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The group and the company has adopted HKFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the group's or company's financial statements.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) New and amended standards adopted by the Group (Continued)

- HKFRS 8, 'Operating segments' (effective 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2010 or later periods, but the group has not early adopted them:

- HKAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The group will apply HKAS 27 (revised) prospectively to transactions with minority interest from 1 January 2010.

- HKFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The group will apply HKFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

- HKAS 38 (amendment), 'Intangible assets' (effective from 1 July 2009). The amendment is part of the HKICPA's annual improvements project published in April/May 2009 and the group and company will apply HKAS 38 (amendment) from the date HKFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the group's or company's financial statements.

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the HKICPA's annual improvements project published in April/May 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The group and company will apply HKAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the group's or company's financial statements.

- HKFRS 2 (amendments), 'group cash-settled share-based payment transactions' (effective from 1 January 2010). In addition to incorporating HK(IFRIC)-Int 8, 'Scope of HKFRS 2', and HK(IFRIC)-Int 11, 'HKFRS 2 – group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by the interpretation. The new guidance is not expected to have a material impact on the group's financial statements.

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 2009.

(a) Subsidiaries

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 consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. 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.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interest result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(c) Associates (Continued)

Dilution gains and losses in investments in associates are recognised in the consolidated income statement.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses if any. The results of associated companies are accounted for 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.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the key management team that makes strategic decisions.

2.4 Foreign currency translation

(a) 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 and functional currency. The functional currency of the Group's subsidiaries in the PRC is Renminbi.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 consolidated income statement.

Translation differences on non-monetary items, such as equities 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, are included in the fair value reserve in equity.

(c) 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 consolidated 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.

2 Summary of significant accounting policies (Continued)

2.4 Foreign currency translation (Continued)

(c) Group companies (Continued)

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 entity is sold, exchange differences that were recorded in equity are recognised in the consolidated 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 Property, plant and equipment

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 property, plant and equipment 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.

Depreciation of buildings and other property, plant and equipment is calculated using the straight-line method to allocate the cost 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 consolidated income statement.

2.6 Land use rights

The upfront prepayments made for such right are treated as prepayment for operating lease and recorded as land use rights, which are expensed in the consolidated income statement on a straight-line basis over the period of the rights or when there is impairment, the impairment is expensed in the consolidated income statement.

2.7 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 at least annually for impairment or more frequently if there is indication of impairment and carried at cost less accumulated impairment losses. Impairment loss on goodwill is not reversed. 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 Summary of significant accounting policies (Continued)

2.8 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, and are at least tested annually for impairment. Assets 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

The Group classifies loans and receivables as its financial assets. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables are classified as 'trade and other receivables' and 'cash and cash equivalents' in the consolidated balance sheet. The Company's receivables from subsidiaries are included in "loan to" and "amount due from subsidiaries".

2.10 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. 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 original effective interest rate. 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 consolidated 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 consolidated income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.12 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 estimated sales price less estimated cost to completion and selling expenses.

2.13 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.

2.14 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 Summary of significant accounting policies (Continued)

2.15 Current and deferred income tax (Continued)

Deferred income tax is recognised, 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, the deferred income tax is not accounted for if it 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. 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 only 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 and associates, 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.

2.16 Provisions

Provisions 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. Provisions are not recognised for future operating losses.

2.17 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 is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. 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.

2.18 Employee benefits

(a) 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.

(b) 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 vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

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 Summary of significant accounting policies (Continued)

2.19 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 consolidated income statement on a straight-line basis over the period of the lease.

2.20 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.

2.21 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 Revenue and other income

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

	2009 **HK$'000**	2008 HK$'000
Revenue		
Manufacturing and sale of wine products	**1,482,542**	1,360,859
Other income		
Interest income	**10,496**	22,939
Government grant	**11,024**	5,721
Others	**1,553**	–
	23,073	28,660
Total revenue and other income	**1,505,615**	1,389,519

4 Segment information

In accordance with the Group's internal reporting, management has determined the operating segments to be red wines and white wines.

Other products sold by the Group include sparkling wines, brandy and icewine. These sales have not been included within the reportable operating segments, as they are not included within the reports provided to the key management team.

The key management team assesses the performance of the operating segments based on gross profit, which excludes the effects of tax, depreciation and amortisation and non-recurring expenditure from the operating segments. Other income, distribution costs and administrative expenses are also not included in management's assessment of the performance of the operating segments.

All revenue of the Group are from external customers.

4 Segment information (Continued)

	Red wines HK$'000	White wines HK$'000	All other products HK$'000	Total Group HK$'000
For the year ended 31 December 2009				
Revenue	**1,234,804**	**243,060**	**4,678**	**1,482,542**
Gross profit	**654,894**	**98,200**	**2,407**	**755,501**
Unallocated items:				
Depreciation and amortisation	**–**	**–**	**–**	**(43,776)**
Interest income	**–**	**–**	**–**	**10,496**
Share of loss of an associate	**–**	**–**	**–**	**(451)**
Income tax expense	**–**	**–**	**–**	**(55,456)**
For the year ended 31 December 2008				
Revenue	1,199,115	159,188	2,556	1,360,859
Gross profit	652,645	68,566	500	721,711
Unallocated items:				
Depreciation and amortisation	–	–	–	(47,319)
Interest income	–	–	–	22,939
Share of loss of an associate	–	–	–	(65)
Income tax expense	–	–	–	(73,270)

Information on segment assets is not disclosed as key management team does not assess performance of reportable segments using information on assets.

A reconciliation of total segment gross profit to total profit before income tax is provided as follows:

	2009 HK$'000	2008 HK$'000
Gross profit for reportable segments	**755,501**	721,711
Other income	**23,073**	28,660
Distribution costs	**(467,965)**	(442,272)
Administrative expenses	**(97,831)**	(90,823)
Operating profit	**212,778**	217,276
Share of loss of an associate	**(451)**	(65)
Profit before income tax	**212,327**	217,211

5 Expenses by nature

	2009 HK$'000	2008 HK$'000
Cost of unprocessed wines, consumables and other materials recognised as expenses included in cost of sales	549,488	456,085
Advertising, marketing, and other incidental promotion expenses	313,249	307,585
Consumption tax of domestic sales	127,538	132,811
Employee costs:		
– salaries, other allowance and benefits	116,946	100,300
– contributions to retirement benefits scheme	6,907	7,907
– share-based payments	–	592
Total employee costs including directors' emoluments	123,853	108,799
Transportation and logistics expenses	76,971	83,014
Depreciation	42,487	45,681
Consultancy and professional fee	3,487	2,868
Operating lease rentals in respect of:		
– transformation station	2,450	2,376
– office premises	2,262	2,262
Amortisation	1,289	1,638
Auditors' remuneration	1,169	1,265
Net exchange loss	40	337
Other expenses	48,554	27,522
Total of cost of sales, distribution costs and administrative expenses	1,292,837	1,172,243

6 Income tax expense

	2009 HK$'000	2008 HK$'000
Current income tax:		
– PRC income tax for the year	87,422	69,952
– (Over)/under provision in previous year	(5,876)	1,904
	81,546	71,856
Deferred income tax:		
– (Recognition)/reversal of temporary difference	(26,090)	1,414
	55,456	73,270

6 Income tax expense (Continued)

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 25% (2008: 25%).

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

	2009 **HK$'000**	2008 HK$'000
Profit before income tax	**212,327**	217,211
Calculated at applicable rates	**54,458**	54,735
Expenses not allowed to deduct for the year	**4,404**	17,870
Income not subject to tax	**(203)**	(1,239)
Tax losses for which no deferred income tax asset was recognized	**2,673**	–
(Over)/under provision in previous year	**(5,876)**	1,904
Income tax for the year	**55,456**	73,270

7 Profit or loss attributable to the equity holders of the Company

The loss attributable to the equity holders of the Company is dealt with in the financial statements of the Company to the extent of about HK$9,124,000 (2008: profit of HK$45,636,000 million).

8 Dividends

	2009 **HK$'000**	2008 HK$'000
Interim dividend paid of HK2.8 cents (2008: HK3.5 cents) per ordinary share	**34,860**	43,575
Proposed final dividend of HK3.1 cents (2008: HK1.9 cents) per ordinary share (note)	**38,595**	23,655
	73,455	67,230

Note: On 31 March 2010, the board of directors declared a final dividend of HK3.1 cents per ordinary share. This declared dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of share premium for the year ending 31 December 2010.

9 Basic and diluted earnings per share

The calculation of the basic and diluted earnings per share was based on the following data:

	2009 HK$'000	2008 HK$'000
Earnings		
Profit attributable to equity holders of the Company	**156,122**	143,079
	Number of shares (thousand)	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,245,000**	1,245,000
Effect of dilutive potential ordinary shares: – Share options	**–**	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,245,000**	1,245,000

10 Emoluments for directors and five highest paid individuals

- Directors' emoluments

	2009 HK$'000	2008 HK$'000
Fees	**3,280**	2,888
Salaries, allowances and other benefits	**2,956**	1,996
Share-based payments	**–**	592
Contributions to retirement benefits scheme	**120**	81
	6,356	5,557

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

- Directors' emoluments (Continued)

Each of the directors' remuneration is set out as below:

	For the year ended 31 December 2009						
	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	–	75	1,911
Mr. Gao Feng (i)	–	903	–	217	–	45	1,165
Non-executive director							
Mr. Heriard-Dubreuil Francois	360	–	–	–	–	–	360
Mr. Cheung Wai Ying, Benny (ii)	40	–	–	–	–	–	40
Mr. Zheng Daoquan (iii)	320	–	–	–	–	–	320
Mr. Jean-Marie Laborde (iii)	320	–	–	–	–	–	320
Mr. Hu Chengli (iv)	80						80
Mr. Zhang Wenlin	360	–	–	–	–	–	360
Mr. Wong Ching Chung	360	–	–	–	–	–	360
Mr. Robert Luc	360	–	–	–	–	–	360
Independent non-executive director							
Mr. Lai Ming, Joseph	360	–	–	–	–	–	360
Dr. Hui Ho Ming, Herbert	360	–	–	–	–	–	360
Mr. Chau Ka Wah, Arthur	360	–	–	–	–	–	360
	3,280	2,403	–	553	–	120	6,356

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

- Directors' emoluments (Continued)

	For the year ended 31 December 2008						
	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	–	75	1,911
Mr. Nie Jiansheng (v)	–	42	–	10	–	2	54
Mr. Chen Naiming (vi)	–	87	–	21	16	4	128
Non-executive director							
Mr. Heriard-Dubreuil Francois	360	–	–	–	–	–	360
Mr. Wang Guanghao (v)	8	–	–	–	–	–	8
Mr. Cheung Wai Ying, Benny (ii)	360	–	–	–	–	–	360
Mr. Zhang Wenlin	360	–	–	–	–	–	360
Mr. Wong Ching Chung	360	–	–	–	–	–	360
Mr. Robert Luc	360	–	–	–	–	–	360
Independent non-executive director							
Mr. Lai Ming, Joseph	360	–	–	–	192	–	552
Dr. Hui Ho Ming, Herbert	360	–	–	–	192	–	552
Mr. Chau Ka Wah, Arthur	360	–	–	–	192	–	552
	2,888	1,629	–	367	592	81	5,557

Note:

(i) Appointed on 9 May 2009

(ii) Resigned on 10 February 2009

(iii) Appointed on 10 February 2009

(iv) Appointed on 10 February 2009 and resigned on 1 May 2009

(v) Resigned on 14 January 2008

(vi) Deceased on 23 January 2008

10 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 2009 (2008: three) whose emoluments are reflected above. The emoluments payable to the remaining two (2008: two) individuals during the year are summarised as follows:

	2009 HK$'000	2008 HK$'000
Salaries and allowances	2,090	2,639
Contributions to retirement benefits scheme	105	132
	2,195	2,771

The emoluments fell within the following bands

	Number of individuals 2009	2008
Emolument bands		
Nil – HK$1,000,000	1	–
HK$1,000,001 – HK$1,500,000	–	2
HK$1,500,001 – HK$2,000,000	1	–
	2	2

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 2009 (2008: Nil).

11 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 5.

12 Property, plant and equipment
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 2008	172,747	268,590	92,688	31,300	13,274	578,599
Exchange differences	9,963	16,195	6,101	2,121	3,318	37,698
Additions	639	5,497	955	1,859	92,532	101,482
Transfers	–	2,476	4,834	–	(7,310)	–
Disposals	–	(127)	(239)	(1,344)	–	(1,710)
As at 31 December 2008	183,349	292,631	104,339	33,936	101,814	716,069
Exchange differences	208	337	118	37	163	863
Additions	45	7,875	9,481	1,491	84,136	103,028
Disposals	–	(135)	(1,920)	(1,259)	(405)	(3,719)
As at 31 December 2009	183,602	300,708	112,018	34,205	185,708	816,241
Accumulated depreciation						
As at 1 January 2008	43,319	116,369	36,027	20,956	–	216,671
Exchange differences	3,021	7,808	2,499	1,356	–	14,684
Charge for the year	7,790	22,393	12,400	3,098	–	45,681
Disposals	–	(77)	(180)	(1,012)	–	(1,269)
As at 31 December 2008	54,130	146,493	50,746	24,398	–	275,767
Exchange differences	66	178	61	26	–	331
Charge for the year	7,355	20,378	12,136	2,618	–	42,487
Disposals	–	(121)	(230)	(1,133)	–	(1,484)
As at 31 December 2009	61,551	166,928	62,713	25,909	–	317,101
Net book value						
As at 31 December 2009	122,051	133,780	49,305	8,296	185,708	499,140
As at 31 December 2008	129,219	146,138	53,593	9,538	101,814	440,302

12 Property, plant and equipment (Continued)

The Company

	Leasehold improvements, furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost			
As at 1 January 2008	3,859	1,601	5,460
Additions	106	–	106
Disposals	(64)	–	(64)
As at 31 December 2008	3,901	1,601	5,502
Additions	12	–	12
As at 31 December 2009	3,913	1,601	5,514
Accumulated depreciation			
As at 1 January 2008	1,069	932	2,001
Charge for the year	1,024	288	1,312
Disposals	(15)	–	(15)
As at 31 December 2008	2,078	1,220	3,298
Charge for the year	1,009	288	1,297
As at 31 December 2009	3,087	1,508	4,595
Net book value			
As at 31 December 2009	826	93	919
As at 31 December 2008	1,823	381	2,204

13 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	
	2009	2008
	HK$'000	HK$'000
Cost	**72,611**	72,528
Accumulated amortisation	**(10,041)**	(8,741)
	62,570	63,787
As at 1 January	**63,787**	61,698
Amortisation	**(1,289)**	(1,638)
Exchange differences	**72**	3,727
As at 31 December	**62,570**	63,787

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

14 Goodwill

	Group
	HK$'000
As at 31 December 2008 and 2009	9,421

Goodwill relates to a subsidiary which manufactures raw wines.

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 five-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:

	2009	2008
Growth rate	**2%**	2%
Discount rate	**6%**	6%
Gross margin	**7%**	3%

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 (2008: Nil).

15 Investments in subsidiaries

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**489,866**	489,866
Loan to a subsidiary	**137,214**	161,309
Amount due from subsidiaries	**305,476**	309,177
	932,556	960,352

The loan to a subsidiary is unsecured, interest bearing at HIBOR plus 0.5%, denominated in US$ and is rolled over every twelve months. The fair value of the loan approximates its carrying value.

Amount due from subsidiaries are unsecured, interest free and have no fixed repayment terms. Details of principal subsidiaries are set out in Note 29.

16 Investment in an associate

	Group	
	2009	2008
	HK$'000	HK$'000
Share of net assets	**12,801**	13,237

At 31 December 2009, the Group held a 25% equity interest in Dynasty Yuma Vineyard (Ning Xia) Co. Ltd. ("Yuma"), an unlisted company established and operating in the PRC as manufacturer and distributor of unprocessed wines with a paid up capital of Rmb40 million.

The Group's share of the result of its associate is as follows:

	2009	2008
	HK$'000	HK$'000
Assets	**28,763**	21,940
Liabilities	**15,962**	8,704
Revenue	**5,597**	7,414
Loss	**(451)**	(65)

17 Deferred income tax

(a) The movement on the deferred income tax asset is as follows:

	2009 HK$'000	2008 HK$'000
The Group		
At 1 January	–	1,373
Accrual of expenses	18,708	–
Unrealised profits on intercompany transactions	8,763	–
Write off of provisions and others	(1,381)	(1,373)
At 31 December	26,090	–

(b) On 16 March 2007, the National People's Congress approved the China's new Corporate Income Tax Law (the "new CIT Law"). Under the new CIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation of about HK$32.3 million has not been provided in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$323 million as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

18 Trade receivables

The Group grants a credit period of 30 to 180 days to its customers. The aging analysis of the trade receivables is as follows:

	2009 HK$'000	2008 HK$'000
The Group		
Below 30 days	154,416	58,283
30 to 90 days	59,228	17,085
91 to 180 days	14,086	6,800
Over 180 days	89	2,247
	227,819	84,415
Less: Provision for impairment	–	(322)
	227,819	84,093
The Company		
30 to 90 days	286	310

The carrying amounts of the Group's trade receivables were principally denominated in Renminbi. The balance included bill receivables amounting to about HK$98 million (2008: HK$21 million).

18 Trade receivables (Continued)

Trade receivables that are impaired are past due over 12 months (2008:12 months).

Aging for trade receivables that are past due but not impaired are as below:

	2009 HK$'000	2008 HK$'000
The Group		
Over 180 days	89	1,925

19 Inventories

	2009 HK$'000	2008 HK$'000
The Group		
At cost:		
Unprocessed wines	197,762	191,363
Finished goods	160,257	227,764
Consumables	35,393	43,528
	393,412	462,655
The Company		
Finished goods	350	353

20 Cash and cash equivalents

	2009 HK$'000	2008 HK$'000
The Group		
Balances with banks	778,277	998,467
Balances with other financial institutions	–	539
	778,277	999,006
The Company		
Balances with banks	21,206	163,813

Cash and bank balances were primarily deposited with banks and other financial institutions in the PRC and denominated in Renminbi ("RMB"). The conversion of these RMB 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.

20 Cash and cash equivalents (Continued)

Cash and bank balances denominated in original currency are as below:

	2009 HK$'000	2008 HK$'000
The Group		
Renminbi	751,423	830,535
HK dollars	9,188	14,943
US dollars	17,666	153,528
	778,277	999,006

	2009 HK$'000	2008 HK$'000
The Company		
HK dollars	9,056	14,134
US dollars	12,150	149,679
	21,206	163,813

21 Share capital

The Company's share capital is as follows:

	Number of ordinary shares of HK$0.1 each	HK$'000
Authorised:		
As at 31 December 2008 and 2009	3,000,000,000	300,000

Issued and paid up:

	Number of shares	Share capital HK$'000
As at 31 December 2008 and 2009	1,245,000,000	124,500

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.

21 Share capital (Continued)

Share options scheme (Continued)

Under the Scheme, the directors may, at their discretion, grant to any eligible person as defined under the Scheme to take up options to subscribe for shares of the Company at a subscription price to be determined by the directors pursuant to the relevant listing rules. The maximum number of shares issuable upon the exercise of all outstanding options to be granted under the Scheme must not, in aggregate, exceed 30% of the total number of shares in issue from time to time. The total number of shares in respect of which options may be granted under the Scheme and any other share options schemes of the Company shall not exceed 120 million shares, being 10% of the total number of shares in issue as at the date of listing of the Company's shares unless separate approval is obtained.

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

Particulars and movements of the options granted are as follows:

Date of grant	Exercisable date	Expiry date	Exercise price	Outstanding as at 1 January 2009	Options lapsed	Outstanding as at 31 December 2009
			HK$			
Options granted to directors, other than the independent non-executive directors						
27 January 2005	17 August 2005	26 January 2015	3	7,850,000	(3,000,000)	4,850,000
1 November 2006	22 May 2007	31 October 2016	3	1,200,000	–	1,200,000
27 August 2007	17 March 2008	26 August 2017	3	150,000	–	150,000
				9,200,000	(3,000,000)	6,200,000
Options granted to independent non-executive directors						
16 January 2008	6 August 2008	15 January 2018	2.91	1,500,000	–	1,500,000
Options granted to employees						
27 January 2005	17 August 2005	26 January 2015	3	6,200,000	–	6,200,000
1 November 2006	22 May 2007	31 October 2016	3	500,000	–	500,000
				6,700,000	–	6,700,000
Total				17,400,000	(3,000,000)	14,400,000

22 Other reserves

The Group

	Share premium HK$'000 (Note i)	Merger reserve HK$'000 (Note ii)	Employee share-based compensation reserve HK$'000	Reserve fund HK$'000 (Note iii)	Enterprise expansion reserve HK$'000 (Note iii)	Exchange reserve HK$'000	Total HK$'000
As at 1 January 2008	689,518	74,519	7,661	95,087	94,375	154,731	1,115,891
Share-based payments	–	–	592	–	–	–	592
Transfer from/(to) retained earnings	–	–	(1,589)	18,171	–	–	16,582
Currency translation differences	–	–	–	–	–	83,099	83,099
Dividend for the year	(43,575)	–	–	–	–	–	(43,575)
As at 31 December 2008	645,943	74,519	6,664	113,258	94,375	237,830	1,172,589
Transfer from/(to) retained earnings	–	–	(1,149)	19,623	42	–	18,516
Currency translation differences	–	–	–	–	–	1,869	1,869
Dividend for the year	(58,515)	–	–	–	–	–	(58,515)
As at 31 December 2009	587,428	74,519	5,515	132,881	94,417	239,699	1,134,459

Notes:

(i) **Share premium**

Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

(ii) **Merger reserve**

The merger reserve 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.

(iii) **Reserve fund and enterprise expansion reserve**

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.

22 Other reserves (Continued)

The Company

	Share premium HK$'000 (Note i)	Employee share-based compensation reserve HK$'000	Capital reserve HK$'000 (Note ii)	Exchange reserve HK$'000	Total HK$'000
As at 1 January 2008	689,518	7,661	331,286	109,039	1,137,504
Share-based payments	–	592	–	–	592
Transfer to retained earnings	–	(1,589)	–	–	(1,589)
Dividend for the year	(43,575)	–	–	–	(43,575)
As at 31 December 2008	645,943	6,664	331,286	109,039	1,092,932
Transfer to retained earnings	–	(1,149)	–	–	(1,149)
Dividend for the year	(58,515)	–	–	–	(58,515)
As at 31 December 2009	587,428	5,515	331,286	109,039	1,033,268

Notes:

(i) Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

(ii) 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.

23 Financial liabilities at fair value through profit or loss and related restricted cash

On 9 April 2009, Sino-French Joint-Venture Dynasty Winery Ltd ("Dynasty Tianjin"), a wholly owned subsidiary of the Company, entered into two contracts whereby Dynasty Tianjin transferred its income receiving right attached to some specially made wine aged in oak barrels to a state owned trust company ("Trust Company") for a consideration of about Rmb42 million (maturity of 182 days) and Rmb10 million (maturity of 547 days), respectively. Upon maturity of the contracts, the Trust Company on behalf of its underlying customers can select either cash settlement with fixed rate of interest or physical delivery of the wine at a predetermined price. As at 31 December 2009, the financial liabilities at fair value through profit or loss amounted to Rmb10 million.

Since these contracts have cash settlement option and have underlying values which changes in response to market interest rate and price of the wine, they are accounted for as financial liabilities carried at fair value through profit or loss.

As part of the arrangement above, Dynasty Tianjin is required to pledge the total consideration received of Rmb52 million to the Trust Company as security to the two contracts. The amounts are restricted until the respective maturity of the contracts. In October 2009, the contract with consideration of Rmb42 million was expired. As at 31 December 2009, the related restricted cash amounted to Rmb10 million.

24 Trade payables

The aging analysis of the trade payables is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Below 30 days	**88,888**	77,545
30 to 90 days	**–**	2,003
91 to 180 days	**4,197**	7,582
Over 180 days	**3,892**	1,885
	96,977	89,015

25 Amount due to subsidiaries

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

26 Commitments

(a) Capital commitments

As at 31 December 2009, the Group had capital expenditure commitments related to purchase of equipment and production facilities as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Authorised but not contracted for	**59,407**	109,383
Contracted but not provided for	**23,898**	22,237
	83,305	131,620

(b) Operating lease commitments

At 31 December 2009, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Transformation station		
– Not later than one year	**1,429**	2,376
– Later than one year but not later than five years	**–**	1,386
	1,429	3,762

26 Commitments (Continued)

(b) Operating lease commitment (Continued)

	Group and Company	
	2009	2008
	HK$'000	HK$'000
Office premises		
- Not later than one year	**1,319**	2,262
- Later than one year but not later than five years	**–**	1,319
	1,319	3,581

27 Notes to consolidated cash flow statements

Cash generated from operations:

	2009	2008
	HK$'000	HK$'000
Profit before income tax	**212,327**	217,211
Adjustment for:		
Interest income	**(10,496)**	(22,939)
Depreciation	**42,487**	45,681
Amortisation	**1,289**	1,638
Net exchange loss	**40**	337
Loss on disposal of equipment	**2,235**	84
Share-based payments	**–**	592
Share of loss of an associate	**451**	65
Changes in working capital:		
(Increase)/decrease in trade receivables	**(143,726)**	22,411
Decrease/(increase) in other receivables, deposits and prepayments	**14,975**	(18,064)
Decrease/(increase) in inventories	**69,243**	(40,091)
Increase in trade payables	**7,962**	44,894
Increase in other payables and accruals	**69,557**	56,201
Increase in financial liabilities at fair value through profit or loss	**11,759**	–
Cash generated from operations	**278,103**	308,020

28 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 in the normal course of the Group's business.

	2009 HK$'000	2008 HK$'000
• Purchase of unprocessed wine from an associate (Note (16))	**24,529**	33,469
• Key management compensation		
Salaries and other short-term employee benefits	**9,985**	8,748
Other long-term benefits	**520**	487
Share-based payments	**–**	16
	10,505	9,251

	As at December 31 2009 HK$'000	 2008 HK$'000
• Balance of advance for unprocessed wine due to an associate (Note (i))	**16,708**	15,884

Note:

(i) The advance for purchase of unprocessed wine was trade in nature, non-interest bearing and had no fixed repayment terms, the balance is included in other receivables, deposits and prepayments.

29 Principal subsidiaries

The following are the Group's principal subsidiaries at 31 December 2009:

	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 wine products

29 Principal subsidiaries (Continued)

	Issued and fully paid up share capital	Attributable interests (%)	Principal activities
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 unprocessed wine
Tianjin Tianyang Grape Winery Co. Ltd. (Note i)	RMB41,532,000	60	Manufacturing and sale of unprocessed wine
Shanghai Dynasty Grape Winery Sales Co., Ltd.	RMB1,000,000	100	Sale of wine products
Tianjin Dynasty Winery Sales Co., Ltd.	HK$50,000,000	100	Sale of wine products
Shanghai Dynasty Wine Cellar Co., Ltd.	RMB6,000,000	51	Sale of wine products

\# Shares held directly by the Company

Note:

(i) The board of directors of Tianjin Tianyang Grape Winery Co., Ltd. approved the decrease of paid in capital from RMB66,532,000 to RMB41,532,000 on 17 October 2008. The capital reduction was finalised in May 2009.

30 Financial risk management

30.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk), credit risk, and liquidity risk. The Group's financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. As at 31 December 2009, the Group does not use any derivative financial instruments to hedge against its financial risk exposures.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

There is no material foreign exchange risk noted for the Group as:

– the transactions of the Company are mainly denominated in HK$, which is the functional currency of the Company, and

– the operations and customers of the Group's subsidiaries are located in the PRC with most of the operating assets and transactions denominated and settled in Renminbi, which is the functional currency of the Group's subsidiaries.

30 Financial risk management (Continued)

30.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Fair value interest rate risk

As the Group has no significant interest-bearing assets and liabilities, other than bank deposits, 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 2009.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of cash and cash equivalents, trade receivables, other 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 no significant provision for uncollectible trade receivables as at 31 December 2009.

The Group mitigates its exposure to credit risk by placing deposits with stated-owned banks in the PRC and other financial institutions with established credit rating.

(c) Liquidity risk

The Group has minimal liquidity risk as the Group maintains sufficient cash in banks in the PRC and liquid assets to meet its liquid liabilities.

Management monitors the Group's liquidity reserve which comprises cash and cash equivalents.

The Group's financial liabilities are analysed into relevant maturity groupings based on the remaining period at the respective balance sheet dates to the contractual maturity dates, using the contractual undiscounted cash flows, as follows:

	Less than one year or on demand	
	2009	2008
	HK$'000	HK$'000
The Group		
Trade payables	**96,977**	89,015
Other payables and accruals	**251,988**	169,976
	348,965	258,991
The Company		
Trade payables	**175**	–
Other payables and accruals	**27,108**	22,230
Amount due to subsidiaries	**10,710**	10,086
	37,993	32,316

30 Financial risk management (Continued)

30.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders and issue new shares.

The Group has minimal capital risk.

30.3 Fair value estimation

The carrying values of the Group's financial assets including cash and cash equivalents, trade receivables, other receivables; and financial liabilities including trade payables, other payables and financial liabilities at fair value through profit and loss, approximate their fair values.

HKFRS 7 requires disclosure for financial instruments that are measured at fair value by level of the following fair value measurement hierarchy:

Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 — inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 — inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The appropriate quoted market price for financial liabilities at fair value through profit and loss is the current market price. The instrument is included in level 2.

The fair value of financial instruments that are not traded in an active market is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period.

31 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 2.7. 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 14.

Five Years Summary

Following is a summary of the consolidated results and of the consolidated assets, liabilities and minority interests in equity of the Group for the last five financial years.

Consolidated Results

	Year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**1,482,542**	1,360,859	1,123,327	1,114,145	947,489
Profit before income tax	**212,327**	217,211	181,283	151,413	229,012
Income tax expense	**(55,456)**	(73,270)	(54,668)	(37,694)	(47,604)
Profit after income tax	**156,871**	143,941	126,615	113,719	181,408
Minority interests	**(749)**	(862)	(289)	1,084	(2,417)
Profit attributable to equity holders of the Company	**156,122**	143,079	126,326	114,803	178,991
Dividends	**73,455**	67,230	59,760	52,290	70,965

Consolidated Assets, Liabilities and Minority Interests in Equity

	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**610,022**	526,747	446,956	382,920	322,095
Current assets	**1,730,970**	1,626,446	1,420,842	1,290,534	1,270,277
Current liabilities	**(484,864)**	(388,821)	(274,566)	(243,556)	(255,121)
Minority interests in equity	**(27,781)**	(35,501)	(32,616)	(30,098)	(31,107)
Shareholder's equity	**1,828,347**	1,728,871	1,560,616	1,399,800	1,306,144

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