# 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 2010
年報

# 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 thirteen of the fourteen years between 1997 and 2010, 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.

Dynasty has a diversified product portfolio, catering to various price segments and consumer tastes and preferences. We now make and sell over 100 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.

# 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。自一九九七年至二零一零年十四年內，王朝有十三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」。

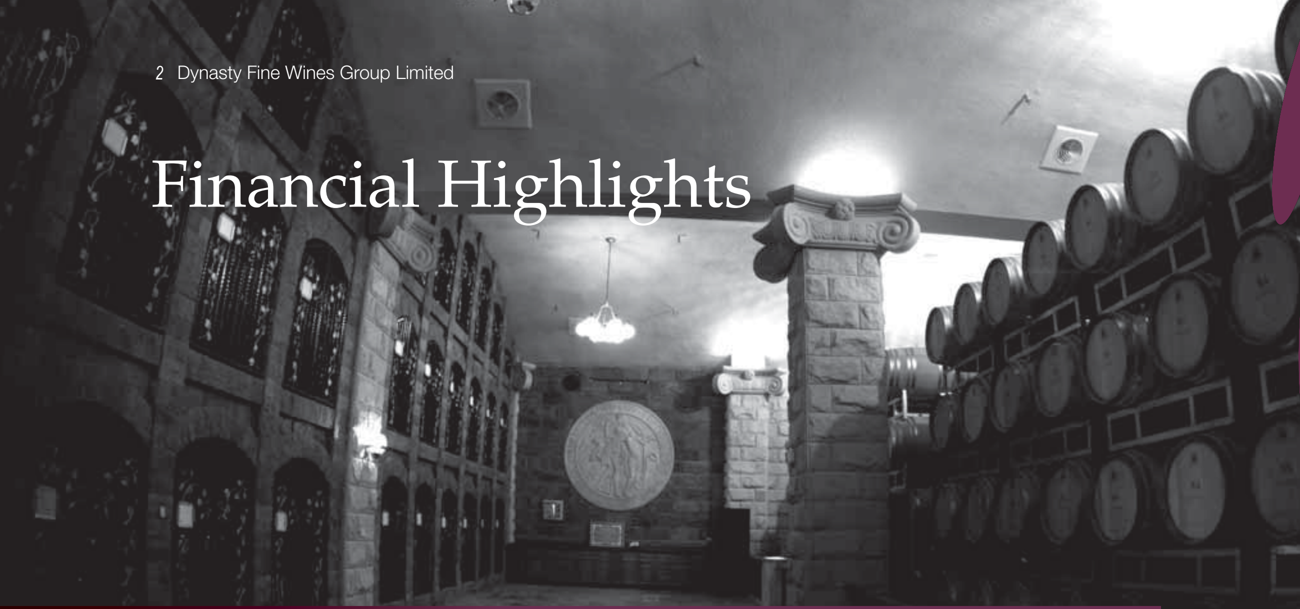
全球首屈一指的葡萄酒及烈酒營運商Remy Cointreau，乃自王朝成立以來的第二大股東，王朝秉承了Remy Cointreau的優良釀酒傳統及先進技術，由種植葡萄、採收以至每一個釀酒步驟，均以品質為先，對整個生產過程實施嚴謹的品質控制，以確保本公司產品保持高水平的產品質量。本公司分別於一九九六年、二零零零年、二零零二年及二零零六年獲頒ISO9002、ISO 14001、ISO 9001：2000證書及HACCP驗證證書，足證本公司對產品質量的堅持，得到外界充分的認同。

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100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。

# CONTENTS

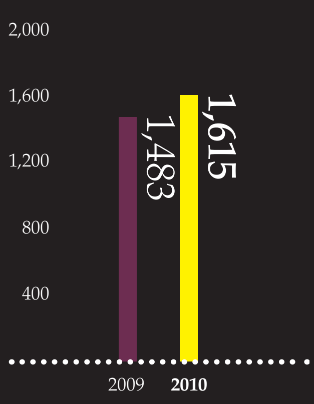
# Financial Highlights



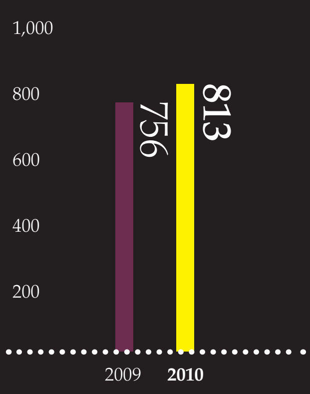
| | 2010 HK$'000 | 2009 HK$'000 | Changes |
|---|---|---|---|
| Revenue | **1,614,610** | 1,482,542 | +9% |
| Gross Profit | **812,703** | 755,501 | +8% |
| Profit attributable to equity holders of the Company | **158,808** | 156,122 | +2% |

| | 2010 | 2009 | Changes in percentage point |
|---|---|---|---|
| Gross profit margin | **50%** | 51% | -1% |
| Net profit margin | **10%** | 11% | -1% |

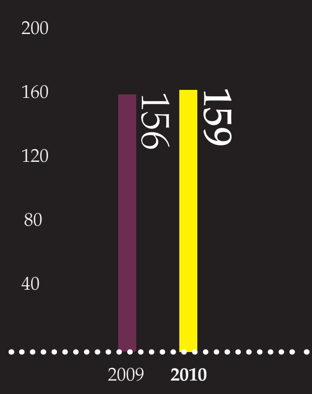
**Revenue**
(HK$'million)




**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. WU Xuemin
Mr. Jean-Marie LABORDE
Mr. Dong Jingrui(&)
Mr. WONG Ching Chung(&)
Mr. ROBERT Luc

**Independent non-executive directors**
Dr. HUI Ho Ming, Herbert(#)(&)
Mr. CHAU Ka Wah, Arthur(#)(&)
Mr. YEUNG Ting Lap Derek Emory(#)(&)

# Audit committee members
& Remuneration committee members

## Company secretary

Mr. YEUNG Chi Tat

## Authorised representatives

Mr. HUANG Yaqiang
Mr. YEUNG Chi Tat

## Legal advisers

*Hong Kong*
K&L Gates

*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 & Chateau Dynasty*
No. 29 Jinwei Road, Bei Chen District
Tianjin City, PRC

## Retail shops

Dynasty Club
273 Heng Shan Road, Xu Hui District,
Shanghai

Shanghai Retail Shop
61 A Beijing West Road, Huangpu
District, Shanghai

Tianjin Retail Shops
1) 1-7, Ground Floor Store of Haitu Apartment, 12 Hebei Road, Tanggu District, Tianjin
2) 18 Shiying Road, Nankai District, Tianjin

## 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
Industrial and Commercial Bank of China
The Hongkong & Shanghai Banking Corporation

## Investor relations consultant

Strategic Financial Relations (China) Limited

## Company website

http://www.dynasty-wines.com

## Direct sales website

http://www.i9wang.com (王朝爱酒網)

## Share information

| | |
|---|---|
| Listing date | 26 January 2005 |
| Stock name | Dynasty Wines |
| Nominal value | HK$0.1 |
| Number of issued shares | As at 31 December 2010 1,248,200,000 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.

## 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.

## 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. |

## 1996

Dynasty was granted Technological Progress Award (Class 3) by PRC State Commission 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.

## 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.

## 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.

## 2006

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

## 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.

## 1997-2010

For thirteen of the fourteen years between 1997 and 2010, Dynasty was granted "The Certificate of Best Selling Grape Wines" in the PRC by the China Industry and Enterprise Information Centre.

## 2010

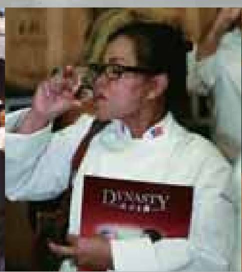
In the fourth quarter of 2010, the annual production capacity reached 70,000 tonnes. Grand opening of Chateau Dynasty.

# Milestones of 30 years


# Key Events in 2010


Jan

May




Aug

Aug

# Key Events in 2010

## Jan

**Grand Cru**

Dynasty official activities celebrating the 5th anniversary of the Group's listing in Hong Kong aboard the aptly named cruise liner "Grand Cru"

## May

**Vinexpo Asia-Pacific 2010**

Dynasty participated in "Vinexpo Asia-Pacific 2010" as part of a global marketing and promotion campaign

## Aug

**Delegates of World Association of Chefs' Societies**

Dynasty hosted delegates of World Association of Chefs' Societies, and included Ms. Cristeta Pasia Comerford, the Executive Chef of the White House

## Sep

**(I) Delegates of World Economic Forum**

**(II) Hainan Airline**

Dynasty collaborated with Hainan Airlines in arranging the maiden voyage of the "Dynasty" aircraft, which is the first of its kind in the industry

## Oct

**Opening of Chateau Dynasty**

Chateau Dynasty marks 30th anniversary with Asia's largest wine chateau

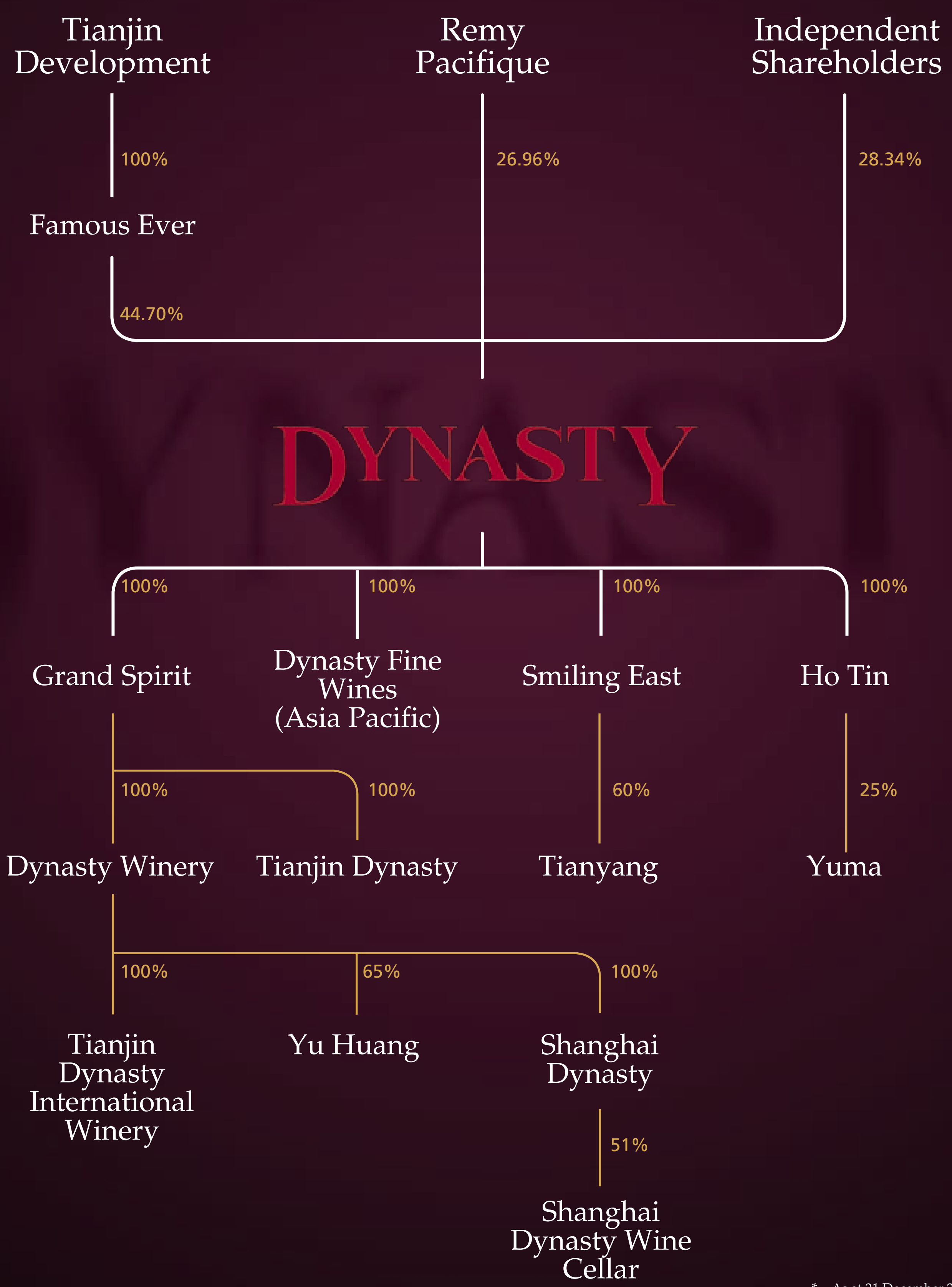
Sep (I)

Sep (I)


Sep (II)

Oct

# Corporate Structure




* As at 31 December 2010

# Nationwide Sales Network

# Product Portfolio


## Red Wine

1 Dynasty Merlot Dry Red Wine Reserve

2 Dynasty Merlot Series — Gold Label

3 Dynasty Merlot Series — Red Label

4 Dynasty Dry Red Wine



## White Wine

1 Dynasty Chardonnay Dry White Wine

2 Dynasty Medium Dry White Wine


## Icewine

Dynasty 5-star Icewine Reserve

## Sparkling Wine

1 Dynasty Sparkling Wine (Second Fermentation in bottle)

2 Dynasty Muscat Sparkling Wine



## Brandy

1 Dynasty Fine Brandy — X.O

2 Dynasty Fine Brandy — V.S.O.P.



## Selection
(available in Hong Kong only)

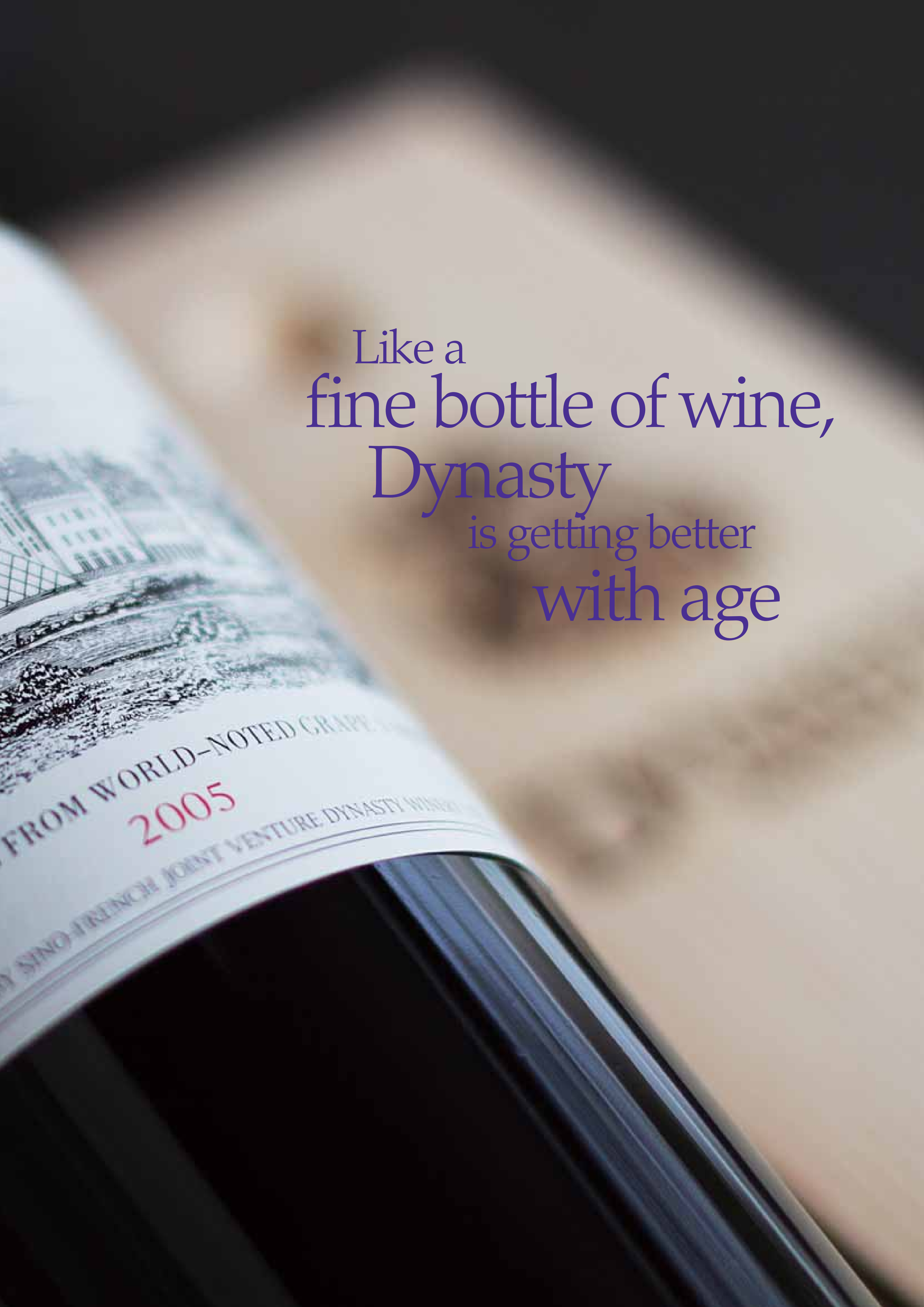
1 Dynasty Cabernet Sauvignon Reserve 2008

2 Dynasty Cabernet Sauvignon 2008

3 Dynasty Chardonnay Reserve 2008

4 Dynasty Chardonnay 2009


THIS WINE IS MADE




Like a
fine bottle of wine,
Dynasty
is getting better
with age

# Chairman's Statement

## Chateau Dynasty marks a significant milestone in our development, for which when the expansion of production capacity was completed in October 2010, our production capability increased to 70,000 tonnes

As we have completed an extraordinarily eventful year, 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 2010.

### FINANCIAL RESULTS

The Group has recorded a revenue of HK$1,614.6 million in the year under review, representing an increase of 9% compared with HK$1,482.5 million reported for 2009. The Group's consolidated profit attributable to equity holders of the Company also rose by 2% to HK$158.8 million (2009: HK$156.1 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$0.127, representing a rise of 2% compared with HK$0.125 per share in 2009.

### DIVIDENDS

To enhance the return to our shareholders and taking into account the Group's strong financial position and cash flow, the Board has recommended the payment of a final dividend of HK2.8 cents per share (2009: HK3.1 cents per share) for the year ended 31 December 2010. Together with the interim dividend of HK3.3 cents per share (2009: HK2.8 cents per share) declared and paid earlier, the total dividend of HK6.1 cents per share would be repatriated to our shareholders for the whole year, representing five consecutive years of uninterrupted dividend payment since public listing, an increase of 3% compared with HK5.9 cents per share in 2009 and a dividend payout ratio of 48% (2009: 47%).

# Chairman's Statement

## Anniversary

This year marked some particularly noteworthy anniversaries of the Group – we celebrated the 5th anniversary of the Group's listing on the Hong Kong Stock Exchange and the 30th anniversary of Dynasty.

During these 30 years, Dynasty has developed from a small scale joint-venture company in Tianjin with a registered capital of RMB 800,000 to a company listed in Hong Kong with market capitalization of approximately HK$5.4 billion as at 31 December 2010. We have witnessed our wine business advancing to another stage of growth through our strong brand recognition and financial strength and a nationwide distribution network, all supported by the high quality of our products.

Following are some of the noteworthy highlights of 2010:

- We launched the official activities celebrating the 5th anniversary of our listing in Hong Kong aboard the aptly named cruise liner "Grand Cru" under the theme "Dynasty Fine Wines – a Taste of Life and Luxury" in January 2010. The gala event featured an official lighting-up ceremony for the brand's giant outdoor billboard along the Tsim Sha Tsui waterfront.

- As part of the global marketing and promotion campaign for our 30th anniversary, the Group participated in "Vinexpo Asia-Pacific 2010", one of the most effective vectors for promoting Dynasty brand and its history to overseas markets, in May 2010. The event is an internationally renowned bi-annual wine exhibition, and Dynasty, as China's premier winemaker, captured the widespread attention of the trade and wine enthusiasts as well as media coverage.

- The 30th anniversary celebration culminated in a cocktail party and an exquisite gala dinner in August 2010. The event showcased Dynasty's prestigious premium wines to the guests, including business leaders and other dignitaries, and launched the latest Merlot series designated to celebrate the 30th anniversary.

- As part of its 30th anniversary celebration programme, Dynasty and Hainan Airlines collaborated in arranging the maiden voyage of an aircraft featured Dynasty's Chinese name prominently on the front section of the fuselage with Dynasty logo above the name. Before take-off from Hainan to Tianjin, the "Dynasty" aircraft was on display at Haikou Meilan International Airport in order to promote and embellish the well-established image of Dynasty before thousands of air enthusiasts and travelers in September 2010.

- In line with the concept of global marketing and promotion campaign for the 30th anniversary, we had arranged various celebrities, such as Mr. Michel Rolland, world-renowned oenologist, and the delegations of World Association of Chefs' Societies and the World Economic Forum to visit our "Chateau Dynasty", hosting wine tasting events in the underground wine cellar.

- As a further move to commemorate the 30th anniversary, in October 2010 we also hosted the spectacular grand opening of a classical European-style wine chateau, Chateau Dynasty, in conjunction with the completion of expanded capacity from 50,000 to 70,000 tonnes in Tianjin. More than 2,000 government officials, business leaders and associates from across the world attended the event. They were duly impressed by this iconic new landmark symbolizing the global ambitions of our fast-growing brand. To commemorate the anniversary, the Group produced a special commemorative booklet, dedicated to the people who worked arduously to make Dynasty what it is today, and to share with guests, friends and business associates the history and heritage of Dynasty.

## Awards and Recognition

During the year, we were also delighted to be recognized for our brand excellence by garnering the "Top Ten Greatest Satisfaction Brands in China Award" organized by the China General Chamber of Commerce and the "Most Innovative and Competitive Brand in China's Liquor Industry" organized by China Wine Magazine, while I have personally been honoured with the "Asia Pacific Entrepreneurship Awards 2010 – China" by Enterprise Asia. None of these accolades would have been achieved without the dedicated efforts of our colleagues during the year.

## Future Outlook

Going forward, we have great confidence in the future of our business coupled with the rising popularity of and demand for wines in the PRC. Meanwhile, we are alert to the challenges that could persist or emerge, including fierce competition in the market and further rise in wages and other overhead expenses.

Our strategic focus is to leverage our brand equity and to continue to strengthen and expand sales channels in order to accelerate business growth and fortify market positions. We are ensuring that our production facilities have enough capacity to accommodate rising market demand and capturing new business opportunities by carefully planning ahead and prudently investing for growth. At the same time, we continue to exercise stringent cost controls to stay competitive and maintain profitability as well as maximize returns to our shareholders.

## Directorships changes

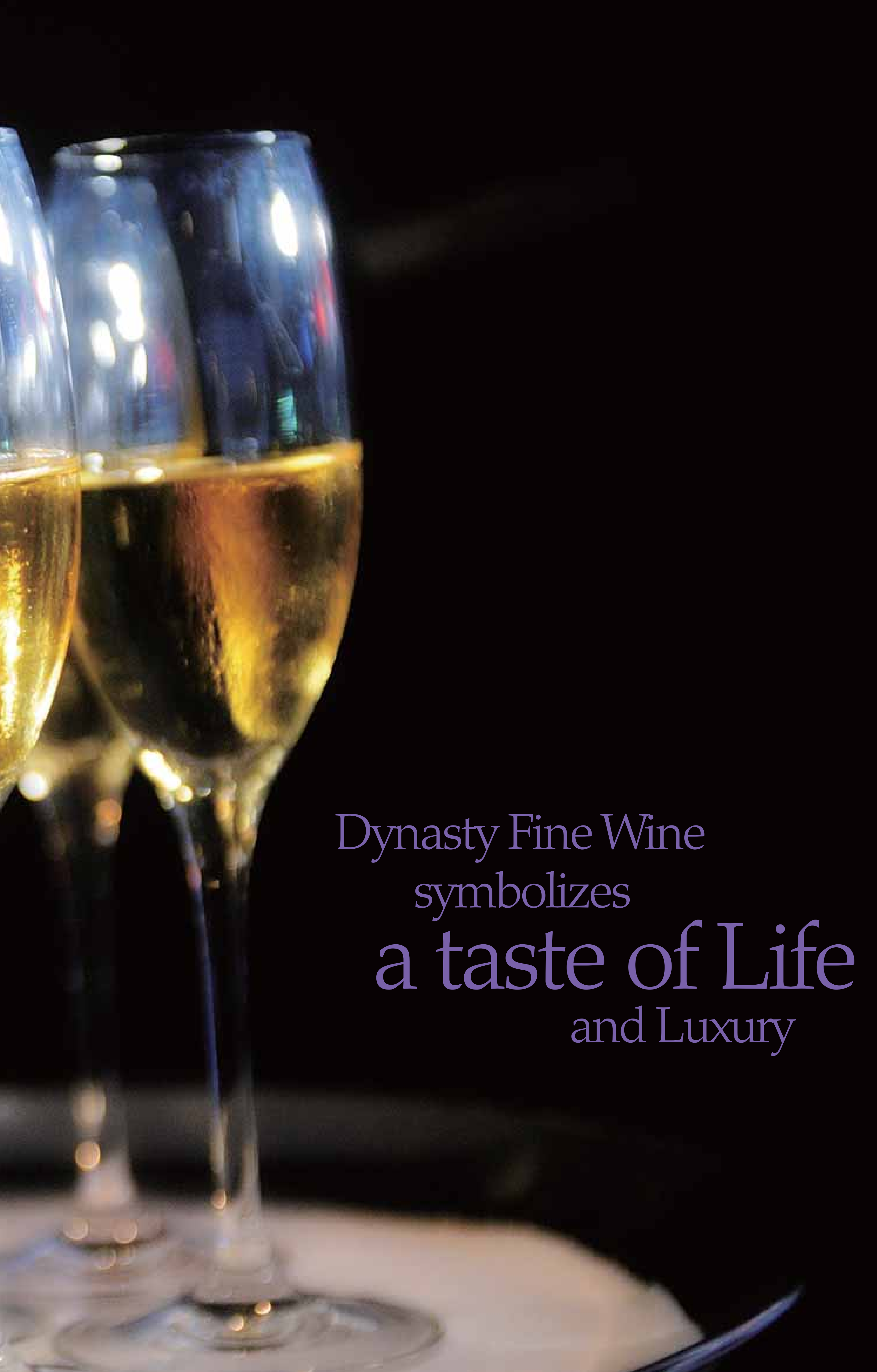
Mr. Zheng Daoquan and Mr. Zhang Wenlin have retired as non-executive directors and Mr. Lai Ming, Joseph resigned as an independent non-executive director on 1 January 2011. On behalf of the Board, I would like to express our heartfelt gratitude to them for their invaluable contributions to Dynasty over the past years, and I wish them and their families to whom they are devoted, every happiness for the future.

To fill these vacancies, the Board has appointed Mr. Wu Xuemin and Mr. Dong Jingrui as non-executive directors and Mr. Yeung Ting Lap Derek Emory as an independent non-executive director respectively. With their wealth of experience, I am confident that their contributions and guidance to the Board would lead to the continuous success of the Group.

## Acknowledgement

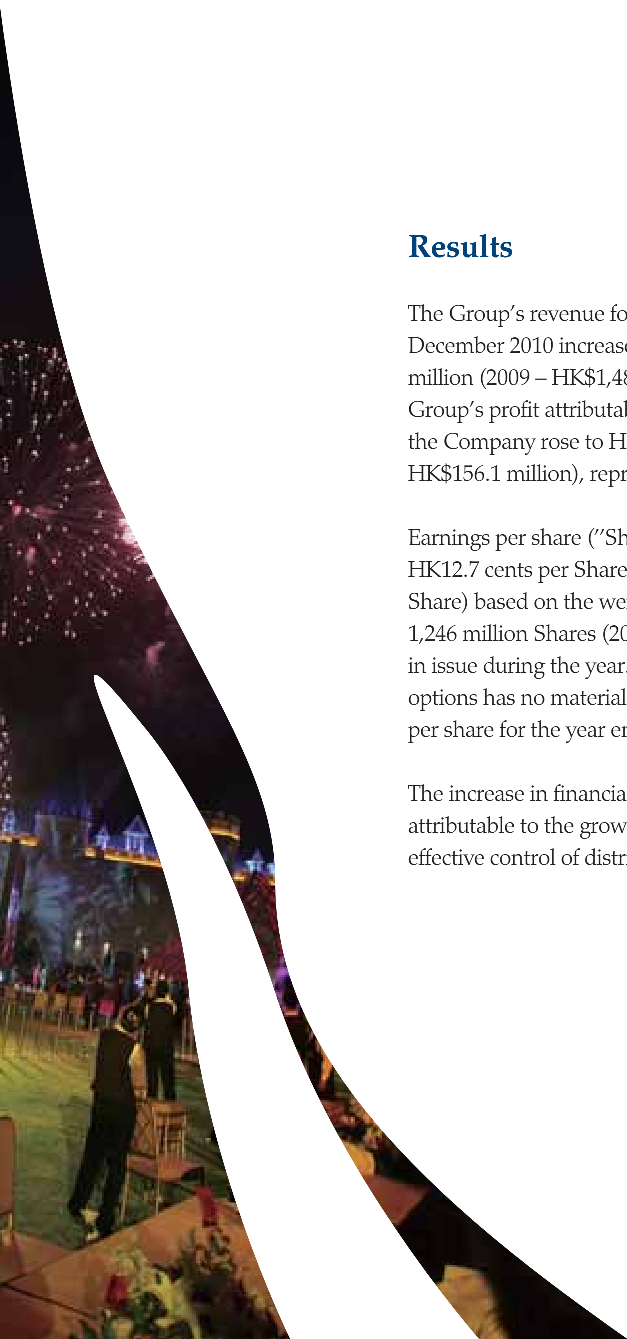
I take this opportunity to express the Board's sincere gratitude to the professionalism of our staff, the management team, valued shareholders, customers, distributors, suppliers, business associates and all other stakeholders who have supported us through the years.

**Bai Zhisheng**
*Chairman and Executive Director*


Dynasty Fine Wine
symbolizes
a taste of Life
and Luxury

# Management Discussion and Analysis

*Our solid financial position has provided a strong foundation for future growth and development. Revenue has risen by 9% to HK$1,614.6 million and profit attributable to equity holders of the Company has increased by 2% to HK$158.8 million*



## Results

The Group's revenue for the year ended 31 December 2010 increased by 9% to HK$1,614.6 million (2009 – HK$1,482.5 million) and the Group's profit attributable to equity holders of the Company rose to HK$ 158.8 million (2009 – HK$156.1 million), representing an increase of 2%.

Earnings per share (''Share'') of the Company was HK12.7 cents per Share (2009 – HK12.5 cents per Share) based on the weighted average number of 1,246 million Shares (2009 – 1,245 million Shares) in issue during the year. The exercise of share options has no material dilutive effect on earnings per share for the year ended 31 December 2010.

The increase in financial results in 2010 was mainly attributable to the growth in sales volume and effective control of distribution costs.

## Business Review

### Sales analysis

**A) Existing sales channels**

Sales volume of the Group for the year ended 31 December 2010 grew compared with that of last year, primarily contributed by the expansion of the distribution network and the continued sales and marketing effort in promoting the Dynasty brand and its products. The total number of bottles of wine sold increased from approximately 57.4 million in 2009 to approximately 63.2 million in 2010. Sales of red wines continued to be the Group's main revenue contributor accounting for approximately 82% of the total revenue of the Group for the year (2009 – 83%). Dynasty Dry Red, the prototype product for the mass market, remained as its best selling label accounting for approximately 39% of the Group's revenue (2009 – 33%).

In order to consolidate the Group's existing position in the Huadong region (i.e., the eastern region of the PRC) where a strong presence with strong brand equity has been established and further increase its market share in other regions, the Group continued to expand and strengthen our nationwide and extensive distribution

network. This network supported sales of products of the Group throughout all provinces and autonomous regions and the four directly-administered municipalities under the Central Government of the PRC during the year under review. The Huadong region including Shanghai city, Zhejiang and Jiangsu provinces has remained as the Group's strongest markets. By extending the sales network and expanding our sales teams to other regional markets such as in the southern region including Guangdong, Fujian, Guangxi and Hainan provinces, sales in those markets also grew substantially. In addition, the Group reported export sales accounting for 0.1% (2009 – 0.1%) of its total revenue during the year.

The Group offers a wide spectrum of more than 100 wine products under the "Dynasty" brand to meet different demands of consumers 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 the "Dynasty" brand is able to attract savvy consumers with an appreciation for fine wines by offering Dynasty's premium high-end products. Sales of premium wine products, such as Dynasty Merlot Dry Red Wine Reserve, Dynasty Dry Red Wine – Reserve and Dynasty Dry White Wine – Reserve were greeted enthusiastically and recorded encouraging growth during the year. Moreover, the Group also sold foreign brand wines imported from Europe in the PRC wine market through the Group's existing distribution network to bring some classic "old world" varietals to cater for a niche market with customers preferring the taste of foreign premium wines only. In this respect, the Group has set up a wholly-owned subsidiary in China, Tianjin Dynasty International Winery Ltd, dedicated to imported foreign wine distributorship in the PRC wine market. We believe that with increasing disposable income of consumers aspiring to a higher status as well as the trappings of upper class enjoyment, the sales of premium Dynasty and imported wines will increase and become major growth drivers for our future development. To further expand the Group's brand image, increase its market share and sustain its growth, the Group is determined to continue to actively promote and boost the visibility of these wines to the high-end market.

## Tianjin

Tianjin, in north-east China, beside the Bohai Gulf, lies between 38-40°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.

# Management Discussion and Analysis

**B) New sales channels**

*(i) Dynasty Club and retail shops*

In order to promote the higher awareness of the "Dynasty" brand, Dynasty opened its first "Dynasty Club" in Shanghai in December 2009, 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 spacious wine storage area to top-tier customers in Shanghai. To cater for different needs of our customers, Dynasty's first self-operated retail shop was also opened in the Huangpu District of Shanghai in December 2009, selling a variety of Dynasty wines and our imported wines to customers directly with a higher gross profit margin. During the year, the Group established two new self-operated retail shops in Tianjin and one franchised retail shop in Qingdao. The contribution from the sales at the Dynasty Club and these retail shops were relatively insignificant to our revenue during the year. However we believe that through these sales channels we can bring the grape wine culture to more people and lead the trend towards wine consumption in these cities, and at the same time extend our market influence, bring greater promotional attention to the brand and consolidate our leading presence in the PRC. In addition, once this business model has proven viable, the Group plans to steadily increase the number of similar establishments in appropriate locations.

*(ii) Online Sales*

The Group has developed a e-commerce business in 2010 by setting up an efficient online platform – www.i9wang.com (王朝愛酒網) – to further expand our sales channels and develop a new customer base. Customers can place orders via the internet at this website for Dynasty wines and our imported wines anywhere and anytime. Since the operating cost for the website is relatively low, we enjoy a higher gross profit margin on e-commerce business. Although the online sales contribution was insignificant during the year, we are optimistic about the outlook of the business as research suggests the online trading business in China should grow steadily in the coming years and the country has the world's largest number of internet users. The Group considers that the online platform not only serves as a business-to-customer trading platform between Dynasty and consumers, but also an additional marketing and promotion channel for the brand.

## Supplies of grapes or grape juice

For producing quality wines, it is crucial for the Group to ensure a sufficient supply of quality grapes or grape juice. We currently have more than 10 major grape juice suppliers with whom we have enjoyed long-term relationships, mainly located in Tianjin, Shandong, Hebei, Ningxia and Xinjiang. To ensure we have reliable supplies of quality grapes and grape juices to meet the needs of our growing business and to meet our expanded production capacity, the Group continues to actively work with vignerons to enlarge their existing vineyards in order to enjoy better economies of scale and equip their vineyards with state-of-the-art techniques for assuring quality. The Group has also kept identifying new suppliers who comply with our quality requirements and thorough tests are conducted on their grape juices before orders are placed. These procedures ensure that we procure quality grape and grape juice supplies and also minimise the effect of bad harvests on the quality of grapes or grape juice we use. The Group has also been looking into importing grape juice from overseas applying the same stringent quality requirements as it has on suppliers in the PRC.

The average cost of grape juice in 2011 is expected to slightly increase.

## Production capacity

To capitalize on the fast growing wine market, the Group has begun to build new production and research and development facilities in its Tianjin winery. The related construction of new facilities was completed in October 2010, thus the Group's annual production capacity increased from 50,000 tonnes (equivalent to approximately 66.7 million bottles) to 70,000 tonnes (equivalent to approximately 93.3 million bottles). For the future development, we will also commission a preliminary study for the next phase of production capacity expansion.

## Prospects

Looking to 2011 and beyond, the Group is confident we can effectively execute our various growth strategies, such as upgrading the product mix, expansion of sales channels and networks by planning to establish approximately 100 franchised retails shops in certain selected markets in the PRC, evaluating appropriate acquisition opportunities and distributorships for foreign brand wines. Leveraging the Group's strong financial position, enlarged production capacity and strong brand equity, we believe that the Group is well-positioned to sustain long-term growth and deliver greater value to its shareholders and consumers.

# Management Discussion and Analysis

## 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 2010 have been extracted from or calculated based on our financial statements as set out on pages 58 to 99 of this annual report and summarized as follows:

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| **Financial Results:** | | |
| Revenue | **1,614,610** | 1,482,542 |
| Cost of sales | **(801,907)** | (727,041) |
| Gross profit | **812,703** | 755,501 |
| Distribution costs | **(491,021)** | (467,965) |
| Administrative expenses | **(118,705)** | (97,831) |
| Income tax | **(69,259)** | (55,456) |
| Profit attributable to equity holders of the Company | **158,808** | 156,122 |
| Dividends declared in respect of the year | **76,035** | 73,455 |

| | **2010** | 2009 |
|---|---|---|
| **Other Financial and Operating Data:** | | |
| Sales volume (million bottles) | **63.2** | 57.4 |
| Gross profit margin (%) | **50** | 51 |
| Net operating margin (%) | **10** | 11 |
| Distribution costs as a percentage of revenue (%) | **30** | 32 |
| Administrative expenses as a percentage of revenue (%) | **7** | 7 |
| Effective tax rate | **31** | 26 |
| Return on average equity (%) | **8.3** | 8.8 |
| Debtors' turnover (days) | **58** | 38 |
| Creditors' turnover (days) | **90** | 57 |
| Inventories turnover (days) | **282** | 261 |
| Gearing ratio – total bank borrowings to shareholders' funds (%) | **–** | – |

## Income Statement

### Revenue

Revenue of the Group represents proceeds from sale of wine products. Our total revenue rose by 9% to approximately HK$1,614.6 million in 2010 from approximately HK$1,482.5 million in 2009. The steady increase in revenue was primarily attributable to an encouraging growth in sales volume.

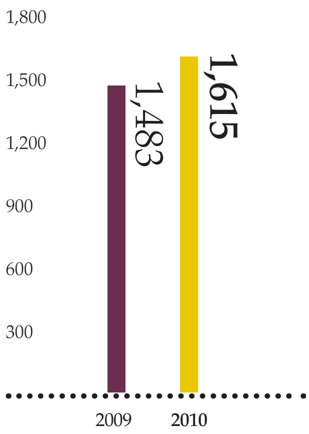
The Group's average ex-winery sales price of red and white wine products during the year ended 31 December 2010 was slightly lower than the average price of HK$25.8 per bottle (750ml) in 2009, as a result of the higher trade discounts offered to certain distributors for expansion of distribution network and sales channel coverage beyond the Huadong region, especially in the second and third tier cities within the PRC. Since consumers in the PRC have a prevalent preference for red wines, the Group is able to set higher prices for its red wine products 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**

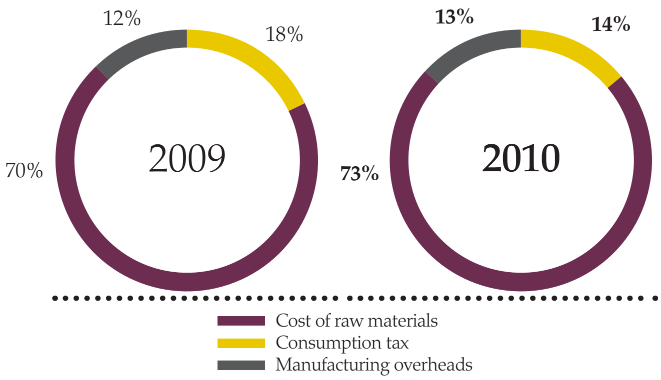
The major components of our cost of sales for the year are detailed as follows:

| | **2010** | 2009 |
|---|---|---|
| | **%** | % |
| Cost of raw materials | | |
| – Grapes and grape juice | **43** | 41 |
| – Yeast and additives | **2** | 2 |
| – Packaging materials | **26** | 26 |
| – Others | **2** | 1 |
| Total cost of raw materials | **73** | 70 |
| Manufacturing overheads | **13** | 12 |
| Consumption tax | **14** | 18 |
| Total cost of sales | **100** | 100 |

## Revenue (HK$'million)




## Cost of sales



# Management Discussion and Analysis

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 43% of the Group's total cost of sales, representing an increase of 2% from approximately 41% in 2009, due to the rise in the average cost of grapes 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 to the Group's revenue was relatively stable during the year as compared with 2009.

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 in relation to production. During the year, manufacturing overheads as a percentage of the Group's revenue remained stable compared with last year.

**Gross profit margin**

Margin is calculated based on cost of sales inclusive of consumption tax and gross invoiced sales. The overall gross profit margin for the year ended 31 December 2010 was 50%, a decrease of 1 percentage point from 51% in 2009 and was mainly due to higher purchase cost of grape juice, especially those for red wine products, and an decrease in the overall proportion of sales of red wine products to the Group's total revenue compared to 2009. The gross margin of red wine products and white wine products in 2010 were 52% and 41% respectively (2009 –53% and 40% respectively). The higher gross margin of red wine products was mainly because of its higher sales prices.

**Other income**

Other income for the year ended 31 December 2010 increased by 7% to HK$24.7 million (2009 – HK$23.1 million), mainly attributable to:

(1) Increase in interest income as a result of the higher interest rates for bank deposits; and

(2) Increase in the government grant to HK$12.4 million (2009 – HK$11.0 million) for subsidiaries in the PRC to encourage technology development and improvements in winemaking, and a greater contribution to economic development.

**Distribution costs**

Distribution costs primarily include advertising and market promotion expenses, transportation and delivery charges in connection with the sales of grape wine products, salaries and related personnel expenses of the sales and marketing functions and other incidental expenses. Distribution costs for the year ended 31 December 2010 accounted for approximately 30% (2009 –32%) of the Group's revenue. In particular, advertising and market promotion expenses as a percentage of the Group's revenue also reduced to approximately 18% (2009 –20%). The decrease in distribution costs was primarily attributable to the effective management in monitoring and controlling sales and marketing expenditure exactly where they should be by a targeted approach.

During the year, the Group continued to promote and market the brand and products through a range of joint promotion with local distributors, event sponsorship and exhibitions. In addition, we have also relied on a publicity campaign in the new media, such as by expanding relations with bloggers and internet sites.

**Administrative expenses**

Administrative expenses comprise salaries and related personnel expenses for administrative, finance and human resources departments, depreciation and amortisation expenses and other incidental administrative expenses.

Administrative expenses to the Group's revenue for the year ended 31 December 2010 remained stable at 7% compared with 2009.

**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. The effective tax rate of the Group for the year ended 31 December 2010 increased to approximately 31% (2009 –26%), mainly due to more expenses not allowed to deduct for the year.

## Balance sheet

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

Trade receivables for the year ended 31 December 2010 amounted to HK$285.6 million (2009 – HK$227.8 million), increasing by approximately 25% against the previous year. The increase was primarily due to more credit sales with bill receivable clauses made at year end. During the year, customers in general were given a credit period ranging from one to six months, except for those with bills receivable clauses, and receivables with an age of less than six months accounted for approximately 64.1% of the net trade receivables as at 31 December 2010 (2009 –99.9%) and the debtors' turnover of approximately 58 days (2009 – 38 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 bills receivable 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. Smaller customers, with whom the Group has a long-term trading relationship and who have a good payment history, are also given, in general, credit terms of 30 days. All other customers are required to pay cash on delivery. 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**

Trade payables for the year ended 31 December 2010 amounted to approximately HK$241.7 million (2009 – HK$97.0 million), up by approximately 149% compared with last year. During the year, payments to most suppliers were subject to a payment period of two to three months. The creditors' turnover of approximately 90 days (2009 – 57 days) was in line with the credit period granted by most suppliers to the Group. The higher trade payables balance in 2010 was mainly due to the increased purchase of unprocessed wines toward the year end in preparation for the expected growth in demand for our wines and, to a certain extent, reducing the impact of the expected increasing purchase costs of grape juice in 2011.

**Inventories and inventory turnover**

The Group's inventories balance for the year ended 31 December 2010 amounted to approximately HK$669.9 million (2009 – HK$393.4 million), representing a significant increase of approximately 70%. Inventories mainly comprised unprocessed wines worth approximately HK$324.3 million and finished goods valued at approximately HK$279.5 million. During the year, inventory turnover was approximately 282 days (2009 – 261 days). The longer inventory turnover period during the year was primarily the result of stocking up of unprocessed wines and finished goods in preparation of the increase in sales demand and, to a certain extent, reducing the impact of the anticipated increasing purchase costs of grape juice in 2011.

**Cash flow**

In 2010, 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 expenditures, and dividends to its shareholders during the year.

The decrease in cash inflow from operating activities from HK$ 214.5 million in 2009 to HK$71.9 million in 2010 was mainly attributable to the effects of the changes in working capital in large part due to the increase in inventories.

# Management Discussion and Analysis

Net cash used in investing activities was HK$58.3 million (2009 – HK$377.9 million), primarily attributable to acquisition of plant and equipment and payments for construction of winery premises pursuant to our expansion plan and offset by the net decrease in placement of fixed deposits with maturity over 3 months.

Net cash outflow in financing activities consisted mainly of dividend payments to shareholders totalling approximately HK$79.7 million (2009 – HK$58.5 million), offsetting the cash proceeds on exercise of share options amounting to HK$9.5 million (2009 – Nil).

## Dividend policy

The payment and the amount of any dividends are 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 position, acquisition opportunities and future prospects. 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 2010, 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 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 operations currently would not generate any significant foreign currency exposure, we will continue to closely monitor foreign currency movements and adopt prudent measures as appropriate.

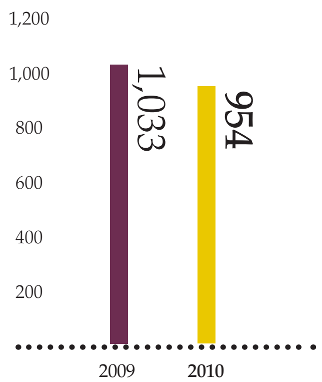
Armed with sufficient financial resources and in a net cash position with no borrowing, the Group is exposed to minimal financial risk from interest rate fluctuation.

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 2010, the Group's cash and cash equivalents, and fixed deposits amounted to HK$954 million. It has sufficient financial resources and a strong cash position for satisfying the working capital requirements of business development, operations and capital expenditures. New investment opportunities, if any, will be funded by the Group's internal resources.

### Cash and cash equivalents and fixed deposits (HK$' million)




The Group remained financially sound with strong liquidity and had no debts, with total equity before non-controlling interests of the Group amounting to approximately HK$1,977 million as at 31 December 2010 ensuring 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 non-controlling interests, as at 31 December 2010 was Nil (2009 – Nil).

## Capital structure

The Group had no borrowing and was in a significant net cash and liquid position as at 31 December 2010, 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 2010, the market capitalisation of the Company was approximately HK$5,367 million.

## Capital commitments, contingencies and charges on assets

As at 31 December 2010, the Group made capital expenditure commitments including approximately HK$ 23.4 million that were authorised but not contracted for and approximately HK$0.3 million contracted but not provided for in the financial statements. These commitments were required mainly to support the Group's production capacity expansion's auxiliary facilities. The funding of these capital commitments is to 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 2010, the Group had no contingent liabilities and none of the Group's assets was pledged except for restricted cash amounting to HK$14 million pledged as security for obtaining letters of credit as described in Note 20 to the financial statements.

## Material acquisitions and disposal of subsidiaries and associated companies

For the year ended 31 December 2010, the Group had not made any other material acquisitions or disposal of subsidiaries and associated companies.

## 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. As at 31 December 2010, the planned usage and actual amounts were spent 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 | 160 |
| Expansion of sales and distribution network | 20 | 3 |
| Acquisition of Smiling East | 47 | 47 |
| Other acquisition opportunities and general working capital | 297 | 63 |
| Total | 724 | 473 |

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

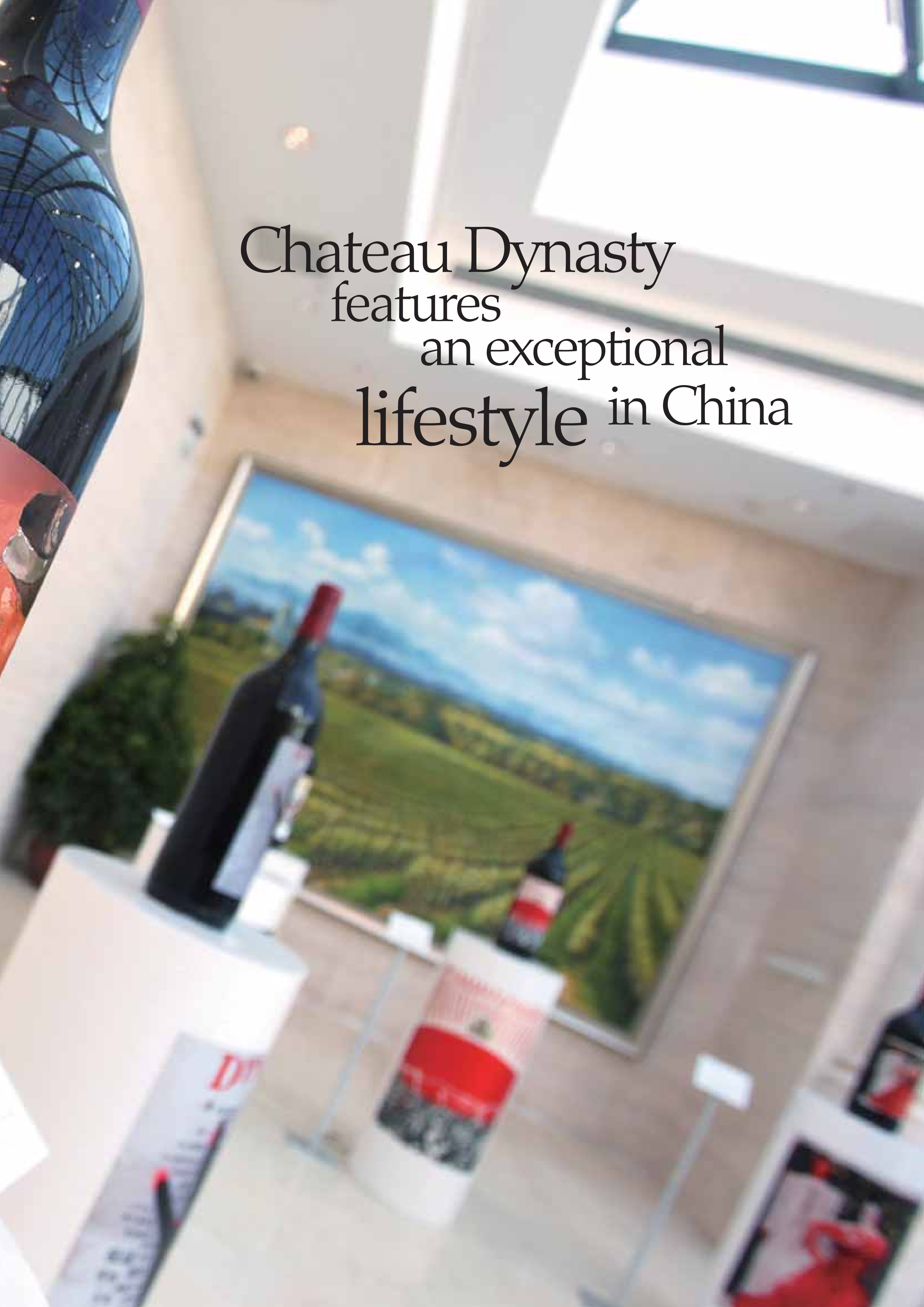
## Human resources management

Quality and dedicated staff are the most important assets of the Group and are indispensable to our success in the competitive market. We strive to ensure a strong team spirit among our employees so that they identify and contribute in unison to our corporate objectives. To this end, we offer competitive remuneration packages commensurate with industry levels and provide various fringe benefits including training, medical and 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 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 and adjusts its human resources and remuneration policies periodically with reference to local legislation, market conditions, industry practice and assessment of the performance of the Group and individual employees.

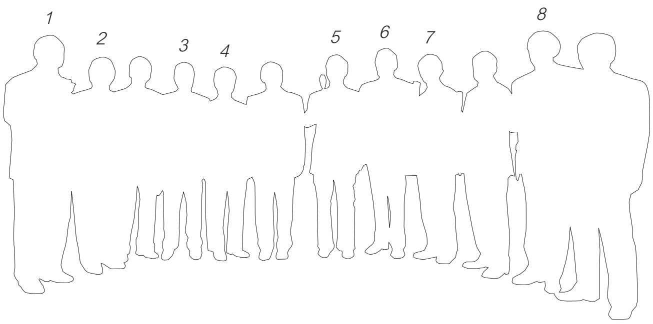
The Group employed a work force of 529 (including Directors) in Hong Kong and the PRC as at 31 December 2010. The total salaries and related costs (including the Directors' fees) for the year ended 31 December 2010 amounted to approximately HK$166.0 million (2009 – HK$123.9 million).

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 2010, 11,200,000 share options were granted and outstanding under the scheme.

# Chateau Dynasty features an exceptional lifestyle in China



# Biography of Directors and Senior Management


1. *Mr. HUANG Yaqiang, Executive Director*
2. *Mr. Jean-Marie LABORDE, Non-executive Director*
3. *Mr. CHAU Ka Wah, Arthur, Independent Non-executive Director*
4. *Mr. WONG Ching Chung, Non-executive Director*
5. *Mr. BAI Zhisheng, Chairman & Executive Director*
6. *Mr. HERIARD-DUBREUIL Francois, Vice-Chairman & Non-executive Director*
7. *Mr. GAO Feng, General Manager & Executive Director*
8. *Mr. ROBERT Luc, Non-executive Director*

## Directors

### Executive Directors

**BAI Zhisheng**, aged 55, 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 55, 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 37, 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 62, 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., the holding company of Remy Cointreau, 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"). He is chairman of the Fondation INSEAD, France, Member of INSEAD French Council and vice-chairman of the Ligue Européenne de Coopération Economique French Office. 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.

**WU Xuemin**, aged 56, was appointed as a non-executive Director of the Company in January 2011. Mr. Wu is a senior economist and possesses a university degree. In 1999, he completed a postgraduate course of International trade at the Tianjin Institute of Finance and Economics. He worked in foreign trade corporations for many years and is experienced in foreign economy and import and export business. From July 1987 to November 1996, he acted as the Deputy Manager and Manager of Hainan office and import and export office of Li Da Group. In November 1996, he acted as the Deputy General Manager of Li Da Group. During the period, he also acted as the chairman of Hai He Trading Company and Jin Rong International Company of Li Da Group in Hong Kong. In September 2002, he acted as the General Manager of Tianjin Li He Group. Mr. Wu was also appointed as an executive director and a general manager of Tianjin Development, a controlling shareholder of the Company, on 31 January 2008 and 3 August 2009, respectively. He is also a member of the Remuneration Committee of the Tianjin Development and the Vice Chairman and General Manager of Tsinlien Group Company Limited, the controlling shareholder of Tianjin Development.

**Jean-Marie LABORDE**, aged 62, 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

# Biography of Directors and Senior Management

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.

**DONG Jingrui**, aged 49, was appointed as a non-executive Director of the Company in January 2011. Mr. Dong studied at the Electrical Machinery Campus of Tianjin University (天津大學機電分校) in 1979, majoring in machine manufacturing and equipment; he graduated with a bachelor's degree in September 1983. From November 1991 until now, he was re-designated to Tianjin Agricultural Cultivation Group Company from Tianjin Sewing Machine Factory (天津縫紉機廠) during which period he was mainly responsible for the production, operation and management of industrial and commercial enterprises, and introduction, investment, construction and operation of new projects, reforms of enterprises, structural adjustment and technology innovation, as well as implementation of brand development strategies and various tasks. He served as deputy director of industry department in the Tianjin Agricultural Cultivation Group Company from 1995 to 2006.

**WONG Ching Chung**, aged 71, 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 Hult International Business School (formerly Arthur D. Little Management Institute, USA) with a master of science in management degree in 1981. Mr. Wong has 30 years of extensive experience in the wines industry. 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 54, was appointed as a non-executive Director of the Company in August 2004. 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

**Dr. HUI Ho Ming Herbert**, J.P. aged 52, was appointed as an independent non-executive Director of the Company in August 2004 and was appointed as chairman of audit committee in January 2011. He has extensive commercial and regulatory and corporate finance experience and serves on the boards of a number of public and private companies. He is the executive director of Hong Kong Resources Holdings Company Limited and independent non-executive director of Citic 21CN Company Limited, both shares are listed on The Stock Exchange of Hong Kong Limited ("the Hong Kong Stock Exchange"). He is vice chairman of Wanthorpe Private Equity Ltd. (formerly known as First Vanguard Private Equity Ltd.). He is the chairman of the finance and administration committee of the APAS Research and Development Centre and a member of the Hong Kong Education and Manpower Bureau's Post-secondary Education Providers Vetting Committee and Selection Committee for the Allocation of Sites to Postsecondary Education Providers. He is also the deputy chairman of Ocean Grand Holdings Ltd. (Provisional Liquidator Appointed) ("OGH"), 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 65, 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.

**YEUNG Ting Lap Derek Emory**, aged 38, was appointed as an independent non-executive Director of the Company in January 2011. Mr. Yeung is also the chief executive officer and co-founder of she.com international holdings limited and a non-executive director of Bio-dynamic Group Limited and Asia Coal Limited respectively, both are companies listed on the Main Board of the Hong Kong Stock Exchange. Prior to founding she.com, Mr. Yeung was an associate with Telecom Venture Group Limited and a consultant with Arthur Andersen & Company both in Boston and Hong Kong. He holds a bachelor degree in applied mathematics and economics from Brown University and a master degree in business administration and accounting from Northeastern University, both in the United States of America. He is a certified public accountant and a member of the American Institute of Certified Public Accountants. He is also an adjudicator of the registration of persons tribunal of the HKSAR, an executive director of the Hong Kong United Youth Association, member of the town planning appeal board panel and the municipal services appeals board.

## Senior Management

**YEUNG Chi Tat**, aged 41, 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 55, is a deputy general manager of Dynasty Winery, technical director of the Company and chief senior food engineer responsible for production engineering, 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 57, is a deputy general manager of Dynasty Winery and chief senior food engineer responsible for infrastructure management and imported brand distributorship. 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 53, is a deputy general manager of Dynasty Winery, senior economist responsible for quality control and enterprise control. Ms. Tian has more than 20 years experience in public relations. She is the legal adviser of Tianjin Government Economic Committee and an analyst at the China Management Science Research Institute. Ms. Tian joined the Group in 1980.

**LIU Kejing**, aged 48, is a deputy general manager of Dynasty Winery responsible for management of import and export operation and logistics support. He 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.

# Biography of Directors and Senior Management

**LI Zhanbiao**, aged 55, is secretary of disciplinary examination committee and supervisor of the Communist Party Committee of Dynasty Winery and deputy general manager of Dynasty Sales Company responsible for human resources, logistics and market planning. 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 47, is a deputy general manager and chief senior engineer of Dynasty Winery responsible for production planning, research and development. 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 53, 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 57, is a vice chief engineer of Dynasty Winery and chief senior engineer. She has been involved in the production of Dynasty Winery for over 19 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.

# Corporate Governance Report

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 2010.

## 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 2010.

## Board of Directors

### Composition of the Board

As at 31 December 2010, the Board comprised three executive Directors, namely Mr. Bai Zhisheng (Chairman), Mr. Gao Feng (General Manager) and Mr. Huang Yaqiang, 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.

# Corporate Governance Report

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. Mr. Zheng Daoquan held or continues to hold directorships or other management positions within the group comprising Tsinlien Group Company Limited (which is the ultimate controlling shareholder of a controlling shareholder of the Company, Tianjin Development Holdings Limited ("Tianjin Development")), 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 2010.

## 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, four regular board meetings were held. Notice of more than 14 days was given to all Directors to attend a regular board meeting. For all other board meetings, reasonable notice will be given to the Directors. Their individual attendance records, on a named basis, during the year ended 31 December 2010 are set out in the table below.


| Board Members | Meetings attended/held |
|---|---|
| **Executive Director** | |
| Bai Zhisheng | 4/4 |
| Gao Feng | 4/4 |
| Huang Yaqiang (appointed on 26 January 2010) | 3/3 |
| **Non-executive Director** | |
| Heriard-Dubreuil Francois | 4/4 |
| Zheng Daoquan | 3/4 |
| Jean-Marie Laborde | 4/4 |
| Zhang Wenlin | 4/4 |
| Wong Ching Chung | 4/4 |
| Robert Luc | 3/4 |
| **Independent non-executive Director** | |
| Lai Ming, Joseph | 4/4 |
| Hui Ho Ming, Herbert | 4/4 |
| Chau Ka Wah, Arthur | 4/4 |

# Corporate Governance Report

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. All Directors are given opportunity to include matters in the agenda for regular board meeting.

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 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. Independent board committee comprising all independent non-executive Directors will be formed to advise the independent shareholders on those connected transactions to be approved by the independent shareholders at the special general meeting of the Company as appropriate. 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. A board meeting was held and the work performed by the Board in relation to nomination of new director during the year ended 31 December 2010 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 2010, Mr. Bai Zhisheng as the Chairman led the Board and ensured that 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 2010, 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. The terms of reference of the Remuneration Committee 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;

# Corporate Governance Report

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 2010, one meeting of the Remuneration Committee was held. The Remuneration Committee has reviewed and recommended to the Board on the payment of bonuses to staff in the PRC in respect of the financial year ended 31 December 2009. 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 | 1/1 |

The terms of reference of the Remuneration Committee are available from the company secretary at any time and the information in respect of the Remuneration Committee are included in the website of the Company.

## 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 2010 are set out in Note 10 to the financial statements and details of the Share Option Scheme and number of options granted by the Company, lapsed and exercised during the year ended 31 December 2010 are set out in Directors' Report and Note 22 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 2010 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 2010, 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 2011. 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 applicable 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 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.

# Corporate Governance Report

## Audit committee

As at 31 December 2010, the Audit Committee comprised 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, had appropriate professional qualifications and experience in financial matters and was 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 2010 includes the following:–

(i) a review of the draft annual financial statements for the year ended 31 December 2009 and interim financial statements for the period ended 30 June 2010 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; and

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

During the year ended 31 December 2010, the Audit Committee met two times together with an executive Director, 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 | 2/2 |
| Hui Ho Ming, Herbert | 2/2 |
| Chau Ka Wah, Arthur | 2/2 |

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 2010, 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 | 1,250 |
| Non-audit services | |
| – Tax services, internal control review and other engagements | 1,569 |

## 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 2010 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. 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;

# Corporate Governance Report

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 and press releases 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 following awards came in recognition of the Group's commitment to achieving excellent communications:

- a winner of the "Gold award for annual report-cover photo/design: beverages" regarding the 2009 annual report in International ARC Awards competition to recognize Dynasty's success in communicating its story. It is the largest international annual competition and one of the most prestigious financial media events honoring excellence in annual reports around the world.

- a winner of the "silver award for annual report-overall presentation: Food& Consumer Packaged Goods" regarding the 2009 annual report in International Galaxy Awards competition to recognize Dynasty's the best in marketing communications. It symbolizes the assembly of numerous disciplines that create marketing excellence. The Galaxy Awards honor the works that contribute to the process of building image and making a difference in the market place.

## Meetings

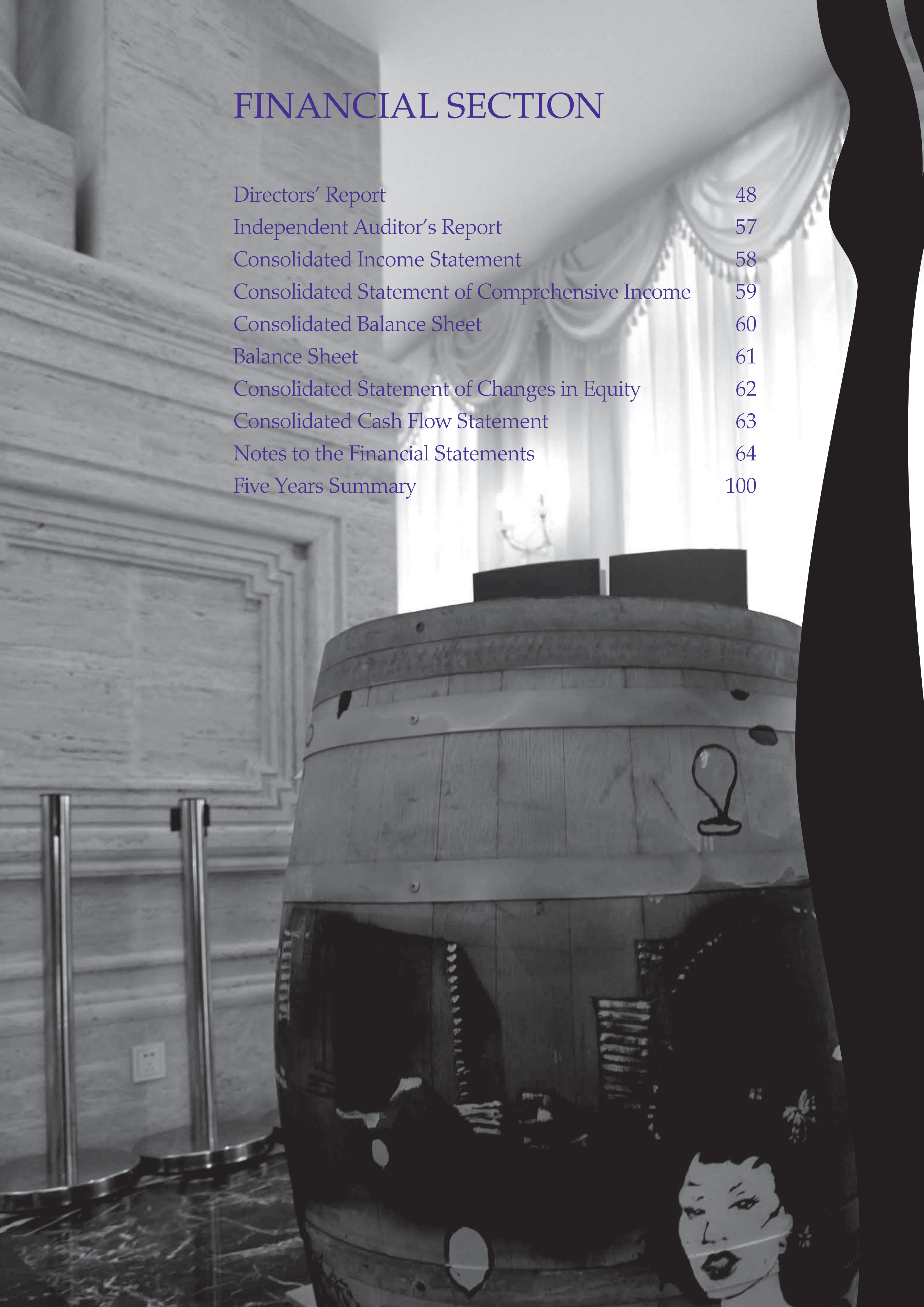
The Board and senior management recognise the importance of their responsibility to represent the interests of all shareholders and to maximise Shareholder value. AGM is a valuable forum for the Board to communicate directly with the Shareholders. An AGM circular is distributed which accompanies the 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 26 May 2010 and all resolutions were passed at the AGM by way of poll.

## Market Capitalisation

The market capitalisation of the Company as at 31 December 2010, the last trading day in 2010, was HK$5,367 million (issued share capital: 1,248,200,000 shares at closing market price: HK$4.30 per share).

# FINANCIAL SECTION





# Directors' Report

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 2010.

## 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 30 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 ended 31 December 2010 are set out in the section headed "Consolidated Income Statement" of the annual report.

The Directors have declared an interim dividend of HK3.3 cents per Share. The total interim dividend of HK$ 41.1 million has been paid in October 2010. The Directors have resolved to recommend the payment of a final dividend of HK2.8 cents per Share to shareholders whose names appear on the register of members of the Company at the close of business on 3 June 2011.

## Share Capital

Details of the movements in the share capital of the Company during the year are set out in Note 22 to the financial statements.

## Reserves

Details of the movements in reserves of the Group and the Company during the year and distributable reserves of the Company as at 31 December 2010 are set out in Note 23 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

Details 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.

## 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' Report

## 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
Mr. Huang Yaqiang (appointed on 26 January 2010)

### Non-executive Directors:

Mr. Heriard-Dubreuil Francois
Mr. Wu Xuemin (appointed on 1 January 2011)
Mr. Jean-Marie Laborde
Mr. Dong Jingrui (appointed on 20 January 2011)
Mr. Wong Ching Chung
Mr. Robert Luc
Mr. Zheng Daoquan (resigned on 1 January 2011)
Mr. Zhang Wenlin (resigned on 1 January 2011)

### Independent non-executive Directors:

Dr. Hui Ho Ming, Herbert
Mr. Chau Ka Wah, Arthur
Mr. Yeung Ting Lap Derek Emory (appointed on 20 January 2011)
Mr. Lai Ming, Joseph (resigned on 1 January 2011)

Mr. Wu Xuemin, Mr. Dong Jingrui and Mr. Yeung Ting Lap Derek Emory, having been appointed to the Board since the date of the last annual general meeting, will retire at the forthcoming annual general meeting in accordance with Article 86 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

In accordance with Article 87 of the Company's Articles of Association, Mr. Bai Zhisheng, Mr. Robert Luc and Mr. Chau Ka Wah, Arthur will retire from office by rotation 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, whether 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.

# Directors' Report

## 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 on 6 December 2004, a share option scheme (the "Scheme") was approved and adopted. Relevant information relating to the Scheme disclosed in accordance with the Listing Rules 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.

# Directors' Report

### (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 2010, 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.

# Directors' Report

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 2010** (Note 1) | **Granted** | **Exercised** | **Lapsed/ Cancelled** | **Outstanding options held at 31 December 2010** (Note 1) | **Market value per share on exercise of options** (Note2) |
|---|---|---|---|---|---|---|
| *Executive Director:* | | | | | | |
| Mr. Bai Zhisheng | 2,300,000 | – | – | – | 2,300,000 | – |
| *Non-executive Directors:* | | | | | | |
| Mr. Heriard-Dubreuil Francois | 1,200,000 | – | – | – | 1,200,000 | – |
| Mr. Zhang Wenlin | 900,000 | – | – | – | 900,000 | – |
| Mr. Wong Ching Chung | 900,000 | – | (700,000) | – | 200,000 | 5.29 |
| Mr. Robert Luc | 900,000 | – | (900,000) | – | – | 4.72 |
| *Independent Non-executive Directors:* | | | | | | |
| Mr. Lai Ming, Joseph | 500,000 | – | (500,000) | – | – | 4.41 |
| Dr. Hui Ho Ming, Herbert | 500,000 | – | (500,000) | – | – | 5.12 |
| Mr. Chau Ka Wah, Arthur | 500,000 | – | (300,000) | – | 200,000 | 4.65 |
| Other employees | 6,700,000 | – | (300,000) | – | 6,400,000 | 5.25 |
| Total | 14,400,000 | – | (3,200,000) | – | 11,200,000 | |

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: Being the weighted average closing price of the Company's Shares immediately before the dates on which the options were granted or exercised, as applicable.

# Directors' Report

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

As at 31 December 2010, 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:

### (i) Interest in the Company

| Name of Directors | Personal interests in shares | Number of underlying shares held pursuant to share options | Total interests | Approximate percentage of the Company's issued share capital |
|---|---|---|---|---|
| *Executive Director:* | | | | |
| Mr. Bai Zhisheng | – | 2,300,000 | 2,300,000 | 0.18% |
| *Non-executive Directors:* | | | | |
| Mr. Heriard-Dubreuil Francois | – | 1,200,000 | 1,200,000 | 0.10% |
| Mr. Zhang Wenlin | – | 900,000 | 900,000 | 0.07% |
| Mr. Wong Ching Chung | – | 200,000 | 200,000 | 0.02% |
| *Independent Non-executive Directors:* | | | | |
| Mr. Lai Ming, Joseph | 500,000 | – | 500,000 | 0.04% |
| Dr. Hui Ho Ming, Herbert | 300,000 | – | 300,000 | 0.02% |
| Mr. Chau Ka Wah, Arthur | – | 200,000 | 200,000 | 0.02% |

### (ii) 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 disclosed above, as at 31 December 2010, 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 2010 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.

# Directors' Report

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

As at 31 December 2010, 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:

### (i) 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 | 44.70% |
| Tianjin Development Holdings Limited (Note 1) | Interest of a controlled corporation | 558,000,000 | 44.70% |
| Tianjin Investment Holdings Limited (Note 2) | Interest of a controlled corporation | 558,000,000 | 44.70% |
| Tsinlien Group Company Limited (Note 3) | Interest of a controlled corporation | 558,000,000 | 44.70% |
| Remy Pacifique Limited (Note 4) | Beneficial owner | 336,528,000 | 26.96% |
| Remy Concord Limited (Note 4) | Interest of a controlled corporation | 336,528,000 | 26.96% |
| Remy Cointreau Services S.A.S. (Note 4) | Interest of a controlled corporation | 336,528,000 | 26.96% |
| Remy Cointreau S.A. (Note 4) | Interest of a controlled corporation | 336,528,000 | 26.96% |
| Orpar S.A. (Note 4) | Interest of a controlled corporation | 336,528,000 | 26.96% |
| Andromede S.A. (Note 4) | Interest of a controlled corporation | 336,528,000 | 26.96% |

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 54.05% of the entire issued share capital 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 52.35% of the voting power at general meetings of Remy Cointreau S.A.. Orpar S.A. is also entitled to exercise or control the exercise of approximately 61% of the voting power at general meetings of Recopart, which is entitled to exercise or control the exercise of approximately 17.23% 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 2010, no other 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.

# Directors' Report

## 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 | 24.9% |
| – five largest customers combined | 48.6% |

### Purchases

| | |
|---|---|
| – the largest supplier | 11.2% |
| – five largest suppliers combined | 34.9% |

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 4.2% of the consolidated purchases of the Group.

## Connected transactions

### Purchase of Corks

Pursuant to the Cork Purchase Contract dated 1 April 2010, Sino-French Joint-Venture Dynasty Winery Limited, ("Dynasty Winery"), an indirect wholly-owned subsidiary of the Company, has agreed to purchase corks from Oeneo Bouchage (the "Vendor") at a consideration of Euro 525,600 (equivalent to approximately HK$5,518,800) (the "Cork Purchase").

The Vendor is a wholly-owned subsidiary 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 Vendor is a connected person of the Company within the meaning of the Listing Rules and the Cork Purchase therefore constitutes a connected transaction of the Company. Pursuant to Rule 14A.25 of the Listing Rules, the Cork purchase pursuant to the Cork Purchase Contract would result in each of the applicable ratios for the Purchase being less than 2.5%. Accordingly, the Cork Purchase is only subject to reporting and announcement requirements and is exempt from independent shareholders' approval requirements under the Listing Rules. For details of the Cork Purchase Contract, please also refer to Company's announcement dated 1 April 2010.

### Purchase of Oak Barrels

Pursuant to the Oak Barrel Purchase Contracts dated 2 November 2010, Dynasty Winery, 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 Euro795,685 and US$115,500 (totalling equivalent to approximately HK$9,536,264) (the "Oak Barrel 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 Oak Barrel Purchases therefore constitute connected transactions of the Company. The Oak Barrel Purchase Contracts and Cork Purchase Contract are aggregated pursuant to Rule 14A.25 of the Listing Rules. As each of the applicable percentage ratios (other than the profits ratio) in relation to the aggregate amount of the consideration payable under the Oak Barrel Purchase Contracts and Cork Purchase Contract is less than 5%, the Oak Barrel 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 Oak Barrel Purchase Contracts, please also refer to Company's announcement dated 2 November 2010.

# Directors' Report

## Purchase, sale or redemption of shares of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any Company's Shares 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 as auditor of the Company.

On behalf of the Board
**Mr. Bai Zhisheng**
*Chairman*

Hong Kong, 29 March 2011

# 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 58 to 99, which comprise the consolidated and company balance sheets as at 31 December 2010, 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 information.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated 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 2010 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, 29 March 2011

# Consolidated Income Statement

*For the year ended 31 December 2010*

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| Revenue | 3 | **1,614,610** | 1,482,542 |
| Cost of sales | 5 | **(801,907)** | (727,041) |
| Gross profit | | **812,703** | 755,501 |
| Other income | 3 | **24,715** | 23,073 |
| Distribution costs | 5 | **(491,021)** | (467,965) |
| Administrative expenses | 5 | **(118,705)** | (97,831) |
| Operating profit | | **227,692** | 212,778 |
| Share of loss of an associate | 16 | **(1,372)** | (451) |
| Profit before income tax | | **226,320** | 212,327 |
| Income tax expense | 6 | **(69,259)** | (55,456) |
| Profit for the year | | **157,061** | 156,871 |
| Attributable to: | | | |
| Equity holders of the Company | 7 | **158,808** | 156,122 |
| Non-controlling interests | | **(1,747)** | 749 |
| | | **157,061** | 156,871 |
| Dividends | 8 | **76,035** | 73,455 |
| Earnings per share of profit attributable to the equity holders of the Company | | **HK cents** | HK cents |
| – Basic and diluted earnings per share | 9 | **12.7** | 12.5 |

The Notes on pages 64 to 99 are an integral part of these financial statements.

# Consolidated Statement of Comprehensive Income

*For the year ended 31 December 2010*

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **Profit for the year** | **157,061** | 156,871 |
| **Other comprehensive income** | | |
| Currency translation differences | **60,660** | 1,869 |
| **Total comprehensive income for the year** | **217,721** | 158,740 |
| **Total comprehensive income attributable to:** | | |
| Equity holders of the Company | **218,510** | 157,991 |
| Non-controlling interests | **(789)** | 749 |
| | **217,721** | 158,740 |

The Notes on pages 64 to 99 are an integral part of these financial statements.

# Consolidated Balance Sheet

*As at 31 December 2010*

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **599,332** | 499,140 |
| Leasehold land and land use rights | 13 | **63,576** | 62,570 |
| Goodwill | 14 | **9,421** | 9,421 |
| Investment in an associate | 16 | **11,855** | 12,801 |
| Deferred income tax assets | 17 | **19,624** | 26,090 |
| | | **703,808** | 610,022 |
| **Current assets** | | | |
| Trade receivables | 18 | **285,583** | 227,819 |
| Other receivables, deposits and prepayments | | **52,862** | 65,039 |
| Inventories | 19 | **669,878** | 393,412 |
| Short-term deposits with maturity over three months | | **194,023** | 254,664 |
| Restricted cash | 20 | **14,336** | 11,759 |
| Cash and cash equivalents | 21 | **760,265** | 778,277 |
| | | **1,976,947** | 1,730,970 |
| Total assets | | **2,680,755** | 2,340,992 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | 22 | **124,820** | 124,500 |
| Other reserves | 23 | **1,146,817** | 1,134,459 |
| Retained earnings | | **705,023** | 569,388 |
| | | **1,976,660** | 1,828,347 |
| Non-controlling interests in equity | | **26,789** | 27,781 |
| Total equity | | **2,003,449** | 1,856,128 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payables | 25 | **241,729** | 96,977 |
| Other payables and accruals | | **402,350** | 344,462 |
| Financial liabilities at fair value through profit or loss | 24 | **–** | 11,759 |
| Current income tax liabilities | | **33,227** | 31,666 |
| Total liabilities | | **677,306** | 484,864 |
| Total equity and liabilities | | **2,680,755** | 2,340,992 |
| Net current assets | | **1,299,641** | 1,246,106 |
| Total assets less current liabilities | | **2,003,449** | 1,856,128 |

**BAI Zhisheng**
*Director*

**GAO Feng**
*Director*

The Notes on pages 64 to 99 are an integral part of these financial statements.

# Balance Sheet

*As at 31 December 2010*

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **439** | 919 |
| Investments in subsidiaries | 15 | **938,949** | 932,556 |
| | | **939,388** | 933,475 |
| **Current assets** | | | |
| Trade receivables | 18 | **183** | 286 |
| Other receivables, deposits and prepayments | | **1,803** | 1,874 |
| Inventories | 19 | **381** | 350 |
| Dividend receivable | | **77,500** | 175,020 |
| Short-term deposits with maturity over three months | | **152,895** | 140,022 |
| Cash and cash equivalents | 21 | **21,643** | 21,206 |
| | | **254,405** | 338,758 |
| Total assets | | **1,193,793** | 1,272,233 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | 22 | **124,820** | 124,500 |
| Other reserves | 23 | **962,751** | 1,033,268 |
| Retained earnings | | **63,031** | 76,472 |
| Total equity | | **1,150,602** | 1,234,240 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payable | | **193** | 175 |
| Other payables and accruals | | **32,653** | 27,108 |
| Amount due to subsidiaries | 26 | **10,345** | 10,710 |
| Total liabilities | | **43,191** | 37,993 |
| Total equity and liabilities | | **1,193,793** | 1,272,233 |
| Net current assets | | **211,214** | 300,765 |
| Total assets less current liabilities | | **1,150,602** | 1,234,240 |

**BAI Zhisheng**
*Director*

**GAO Feng**
*Director*

The Notes on pages 64 to 99 are an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2010*

| | | Attributable to equity holders of the Company | | | | |
|---|---|---|---|---|---|---|
| | Note | Share capital HK$'000 | Other reserves HK$'000 | Retained earnings HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| Balance at 1 January 2009 | | 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 | 23 | – | 1,869 | – | – | 1,869 |
| **Total comprehensive income** | | – | 1,869 | 156,122 | 749 | 158,740 |
| **Transaction with owners** | | | | | | |
| Share options scheme | 23 | – | (1,149) | 1,149 | – | – |
| Transfers | 23 | – | 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 | | – | – | – | (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 |
| **Comprehensive income** | | | | | | |
| Profit for the year | | – | – | 158,808 | (1,747) | 157,061 |
| **Other comprehensive income** | | | | | | |
| Currency translation differences | 23 | – | 59,702 | – | 958 | 60,660 |
| **Total comprehensive income** | | – | 59,702 | 158,808 | (789) | 217,721 |
| **Transaction with owners** | | | | | | |
| Shares issued under share options scheme | 23 | 320 | 9,163 | – | – | 9,483 |
| Transfers | 23 | – | 23,173 | (23,173) | – | – |
| Dividends | | – | (79,680) | – | (203) | (79,883) |
| **Total transactions with owners** | | 320 | (47,344) | (23,173) | (203) | (70,400) |
| Balance at 31 December 2010 | | **124,820** | **1,146,817** | **705,023** | **26,789** | **2,003,449** |

The Notes on pages 64 to 99 are an integral part of these financial statements.

# Consolidated Cash Flow Statement

*For the year ended 31 December 2010*

| | Note | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 28 | 121,178 | 278,103 |
| Income tax paid | | (61,232) | (74,781) |
| Interest received | | 11,951 | 11,174 |
| Net cash generated from operating activities | | 71,897 | 214,496 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (116,350) | (103,028) |
| Decrease/(increase) in short-term deposits with maturity over three months | | 60,641 | (254,664) |
| Increase in restricted cash | | (2,577) | (11,759) |
| Reduction of a non-wholly owned subsidiary | | – | (11,806) |
| Contribution by a minority shareholder | | – | 3,337 |
| Net cash used in investing activities | | (58,286) | (377,920) |
| **Cash flows from financing activities** | | | |
| Dividends paid to the Company's equity holders | | (79,680) | (58,515) |
| Dividends paid to a non-controlling interest holders | | (203) | – |
| Proceeds from shares issued under share options scheme | | 9,483 | – |
| Net cash used in financing activities | | (70,400) | (58,515) |
| Net decrease in cash and cash equivalents | | (56,789) | (221,939) |
| Cash and cash equivalents at the beginning of the year | | 778,277 | 999,006 |
| Change in exchange rate | | 38,777 | 1,210 |
| Cash and cash equivalents at the end of the year | | 760,265 | 778,277 |

The Notes on pages 64 to 99 are an integral part of these financial statements.

# Notes to the 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 30.

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

These consolidated financial statements have been approved for issue by the Board of Directors on 29 March 2011.

## 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 32.

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

The group has adopted the following new and amended HKFRSs as of 1 January 2010:

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term.

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (Continued)

### 2.1 Basis of preparation (Continued)

**(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events)**

- HK(IFRIC) 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- HK(IFRIC) 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- HK(IFRIC) 9, 'Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to HK(IFRIC) 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety.

- HK(IFRIC) 16, Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group.

- HKAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies 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.

- HKAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (Continued)

### 2.1 Basis of preparation (Continued)

**(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events) (Continued)**

- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective form 1 January 2010. In addition to incorporating HK(IFRIC) 8, 'Scope of HKFRS 2', and HK(IFRIC) 11, 'HKFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of group arrangements that were not covered by that interpretation.

- HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarificaties that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1.

**(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted**

| | |
|---|---|
| HKFRS 9 | Financial instruments |
| HKAS 24 (revised) | Related party disclosures |
| Amendment to HKAS 32 | Classification of rights issues |
| HK (IFRIC) – Int 19 | Extinguishing financial liabilities with equity instruments |

The Group is in the process of making an assessment of the impact of these standards, amendments and interpretations on the financial statements of the Group in the initial adoption.

# Notes to the 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 2010.

**(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 group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

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 with non-controlling interests**

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (Continued)

### 2.2 Consolidation (Continued)

**(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.

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.

**Changes in accounting policy**

The group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010 when revised HKAS 27, 'Consolidated and separate financial statements', became effective. The revision to HKAS 27 contained consequential amendments to HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures'.

Previously transactions with non-controlling interests were treated as transactions with parties external to the group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously, when the group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (Continued)

### 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.

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.

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (Continued)

### 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 statements.

### 2.6 Leasehold land and land use rights

The upfront prepayments made for such right are treated as prepayment for operating lease and recorded as leasehold land and 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 are 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.

### 2.8 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.

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (Continued)

### 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 determine 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.

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (Continued)

### 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.

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.

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (Continued)

### 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.

### 2.19 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.

# Notes to the Financial Statements

## 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:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Revenue** | | |
| Manufacturing and sale of wine products | **1,614,610** | 1,482,542 |
| **Other income** | | |
| Interest income | **12,003** | 10,496 |
| Government grant (Note) | **12,422** | 11,024 |
| Others | **290** | 1,553 |
| | **24,715** | 23,073 |
| Total revenue and other income | **1,639,325** | 1,505,615 |

Note: The amount represents unconditional government grants of RMB10.8 million (2009: RMB9.7 million) received by the subsidiaries in the PRC to encourage technology development and improvements in winemaking, and a greater contribution to economic development. There is no condition nor restriction on use attached to the grants.

## 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.

| | Red wines<br>HK$'000 | White wines<br>HK$'000 | All other products<br>HK$'000 | Total Group<br>HK$'000 |
|---|---|---|---|---|
| **For the year ended 31 December 2010** | | | | |
| **Revenue** | 1,331,856 | 276,537 | 6,217 | 1,614,610 |
| **Gross profit** | 694,460 | 114,049 | 4,194 | 812,703 |
| **Unallocated items:** | | | | |
| Depreciation and amortisation | – | – | – | (46,846) |
| Interest income | – | – | – | 12,003 |
| Share of loss of an associate | – | – | – | (1,372) |
| Income tax expense | – | – | – | (69,259) |

# Notes to the Financial Statements

## 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) |

Measurement of total segment assets and reconciliation to total assets are not disclosed as key management team does not assess performance of reportable segments using information on assets.

The Group's customer base is diversified and includes only two (2009: Nil) external customers with whom transactions have exceeded 10% of the group's revenues. Total revenues of approximately HK$569 million are derived from these customers.

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

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Gross profit for reportable segments | 812,703 | 755,501 |
| Other income | 24,715 | 23,073 |
| Distribution costs | (491,021) | (467,965) |
| Administrative expenses | (118,705) | (97,831) |
| Operating profit | 227,692 | 212,778 |
| Share of loss of an associate | (1,372) | (451) |
| Profit before income tax | 226,320 | 212,327 |

# Notes to the Financial Statements

## 5 Expenses by nature

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Cost of unprocessed wines, consumables and other materials recognised as expenses included in cost of sales | **633,519** | 549,488 |
| Advertising, marketing, and other incidental promotion expenses | **300,729** | 313,249 |
| Consumption tax of domestic sales | **112,653** | 127,538 |
| Employee costs: | | |
| – salaries, other allowance and benefits | **156,778** | 116,946 |
| – contributions to retirement benefits scheme | **9,247** | 6,907 |
| Total employee costs including directors' emoluments | **166,025** | 123,853 |
| Transportation and logistics expenses | **62,236** | 76,971 |
| Depreciation | **45,667** | 42,487 |
| Consultancy and professional fee | **6,257** | 3,487 |
| Operating lease rentals in respect of: | | |
| – transformation station | **2,494** | 2,450 |
| – office premises | **2,257** | 2,262 |
| Amortisation | **1,179** | 1,289 |
| Auditors' remuneration | **1,250** | 1,169 |
| Net exchange loss | **269** | 40 |
| Provision for impairment in trade receivables | **3,940** | – |
| Other expenses | **73,158** | 48,554 |
| Total of cost of sales, distribution costs and administrative expenses | **1,411,633** | 1,292,837 |

## 6 Income tax expense

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Current income tax: | | |
| – PRC income tax for the year | **65,428** | 87,422 |
| – Over provision in previous year | **(2,635)** | (5,876) |
| | **62,793** | 81,546 |
| Deferred income tax: | | |
| – Reversal/(recognition) of temporary difference | **6,466** | (26,090) |
| | **69,259** | 55,456 |

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% (2009: 25%).

# Notes to the Financial Statements

## 6 Income tax expense (Continued)

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

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Profit before income tax | **226,320** | 212,327 |
| Calculated at applicable rates | **58,132** | 54,458 |
| Expenses not allowed to deduct for the year | **9,626** | 4,404 |
| Income not subject to tax | **(6)** | (203) |
| Tax losses for which no deferred income tax asset was recognised | **4,142** | 2,673 |
| Over provision in previous year | **(2,635)** | (5,876) |
| Income tax for the year | **69,259** | 55,456 |

## 7 Profit attributable to the equity holders of the Company

The profit attributable to the equity holders of the Company is dealt with in the financial statements of the Company to the extent of a loss about HK$ 13,441,000 (2009: HK$9,124,000).

## 8 Dividends

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Interim dividend paid of HK3.3 cents (2009: HK2.8 cents) per ordinary share | **41,085** | 34,860 |
| Proposed final dividend of HK2.8 cents (2009: HK3.1 cents) per ordinary share (note) | **34,950** | 38,595 |
| | **76,035** | 73,455 |

Note: On 29 March 2011, the board of directors declared final dividend of HK2.8 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 2011.

# Notes to the Financial Statements

## 9 Basic and diluted earnings per share

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

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Earnings<br>Profit attributable to equity holders of the Company | **158,808** | 156,122 |

| | Number of shares (thousand) | |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **1,245,647** | 1,245,000 |
| Effect of dilutive potential ordinary shares:<br>– Share options | **1,441** | – |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | **1,247,088** | 1,245,000 |

## 10 Emoluments for directors and five highest paid individuals

- **Directors' emoluments**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Fees | **3,240** | 3,280 |
| Salaries, allowances and other benefits | **4,483** | 2,956 |
| Contributions to retirement benefits scheme | **192** | 120 |
| | **7,915** | 6,356 |

# Notes to the Financial Statements

## 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 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | – | 1,400 | 520 | 336 | – | 70 | 2,326 |
| Mr. Huang Yaqiang (i) | – | 150 | 219 | 22 | – | 47 | 438 |
| **Non-executive director** | | | | | | | |
| Mr. Heriard-Dubreuil Francois | 360 | – | – | – | – | – | 360 |
| Mr. Zheng Daoquan | 360 | – | – | – | – | – | 360 |
| Mr. Jean-Marie Laborde | 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 | – | – | – | – | – | 360 |
| Dr. Hui Ho Ming, Herbert | 360 | – | – | – | – | – | 360 |
| Mr. Chau Ka Wah, Arthur | 360 | – | – | – | – | – | 360 |
| | 3,240 | 3,050 | 739 | 694 | – | 192 | 7,915 |

# Notes to the Financial Statements

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

### • Directors' emoluments (Continued)

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 (ii) | – | 903 | – | 217 | – | 45 | 1,165 |
| **Non-executive director** | | | | | | | |
| Mr. Heriard-Dubreuil Francois | 360 | – | – | – | – | – | 360 |
| Mr. Cheung Wai Ying, Benny (iii) | 40 | – | – | – | – | – | 40 |
| Mr. Zheng Daoquan (iv) | 320 | – | – | – | – | – | 320 |
| Mr. Jean-Marie Laborde (iv) | 320 | – | – | – | – | – | 320 |
| Mr. Hu Chengli (v) | 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 |

Notes:

(i) Appointed on 26 January 2010

(ii) Appointed on 9 May 2009

(iii) Resigned on 10 February 2009

(iv) Appointed on 10 February 2009

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

# Notes to the Financial Statements

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

### • Five highest paid individuals

The five highest paid individuals included two directors for the year ended 31 December 2010 (2009: three) whose emoluments are reflected above. The emoluments payable to the remaining three (2009: two) individuals during the year are summarised as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and allowances | **2,825** | 2,090 |
| Contributions to retirement benefits scheme | **104** | 105 |
| | **2,929** | 2,195 |

The emoluments fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Emolument bands | | |
| Nil – HK$1,000,000 | **2** | 1 |
| HK$1,500,001 – HK$2,000,000 | **1** | 1 |
| | **3** | 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 2010 (2009: 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.

# Notes to the Financial Statements

## 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 2009 | 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 |
| Exchange differences | 10,207 | 11,651 | 4,068 | 1,160 | 3,685 | 30,771 |
| Additions | 282 | 11,944 | 5,408 | 2,328 | 108,782 | 128,744 |
| Transfers | 211,606 | 47,629 | 9,295 | 1,091 | (269,621) | – |
| Disposals | – | – | – | (2,813) | (1,491) | (4,304) |
| As at 31 December 2010 | 405,697 | 371,932 | 130,789 | 35,971 | 27,063 | 971,452 |
| **Accumulated depreciation** | | | | | | |
| As at 1 January 2009 | 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 |
| Exchange differences | 2,333 | 6,239 | 2,345 | 851 | – | 11,768 |
| Charge for the year | 9,285 | 20,073 | 14,390 | 1,919 | – | 45,667 |
| Disposals | – | – | – | (2,416) | – | (2,416) |
| As at 31 December 2010 | 73,169 | 193,240 | 79,448 | 26,263 | – | 372,120 |
| **Net book value** | | | | | | |
| As at 31 December 2010 | 332,528 | 178,692 | 51,341 | 9,708 | 27,063 | 599,332 |
| As at 31 December 2009 | 122,051 | 133,780 | 49,305 | 8,296 | 185,708 | 499,140 |

# Notes to the Financial Statements

## 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 2009 | 3,901 | 1,601 | 5,502 |
| Additions | 12 | – | 12 |
| As at 31 December 2009 | 3,913 | 1,601 | 5,514 |
| Additions | 144 | – | 144 |
| As at 31 December 2010 | 4,057 | 1,601 | 5,658 |
| **Accumulated depreciation** | | | |
| As at 1 January 2009 | 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 |
| Charge for the year | 608 | 16 | 624 |
| As at 31 December 2010 | 3,695 | 1,524 | 5,219 |
| **Net book value** | | | |
| As at 31 December 2010 | 362 | 77 | 439 |
| As at 31 December 2009 | 826 | 93 | 919 |

# Notes to the Financial Statements

## 13 Leasehold land and 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 2010 HK$'000 | Group 2009 HK$'000 |
|---|---|---|
| Cost | **75,171** | 72,611 |
| Accumulated amortisation | **(11,595)** | (10,041) |
| | **63,576** | 62,570 |
| As at 1 January | **62,570** | 63,787 |
| Amortisation | **(1,179)** | (1,289) |
| Exchange differences | **2,185** | 72 |
| As at 31 December | **63,576** | 62,570 |

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 2009 and 2010 | 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:

| | 2010 | 2009 |
|---|---|---|
| Growth rate | **2%** | 2% |
| Discount rate | **7%** | 6% |
| Gross margin | **12%** | 7% |

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

No impairment is recognised during the year (2009: Nil).

# Notes to the Financial Statements

## 15 Investments in subsidiaries

| | Company 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **489,866** | 489,866 |
| Loan to a subsidiary | **142,051** | 137,214 |
| Amount due from subsidiaries | **307,032** | 305,476 |
| | **938,949** | 932,556 |

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 30.

## 16 Investment in an associate

| | Group 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Share of net assets | **11,855** | 12,801 |

As at 31 December 2010, the Group held a 25% equity interest of 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 Rmb 40 million.

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

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Assets | **16,873** | 28,763 |
| Liabilities | **5,018** | 15,962 |
| Revenue | **7,581** | 5,597 |
| Loss | **(1,372)** | (451) |

# Notes to the Financial Statements

## 17 Deferred income tax

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

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **The Group** | | |
| At 1 January | **26,090** | – |
| Accrual of expenses | **(15,194)** | 18,708 |
| Unrealised profits on intercompany transactions | **8,048** | 8,763 |
| Write off of provisions and others | **680** | (1,381) |
| At 31 December | **19,624** | 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$49.9 million has not been provided in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries 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:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **The Group** | | |
| Below 30 days | **114,219** | 154,416 |
| 30 to 90 days | **46,245** | 59,228 |
| 91 to 180 days | **22,472** | 14,086 |
| Over 180 days | **106,587** | 89 |
| | **289,523** | 227,819 |
| Less: Provision for impairment | **(3,940)** | – |
| | **285,583** | 227,819 |
| **The Company** | | |
| 30 to 90 days | **183** | 286 |

# Notes to the Financial Statements

## 18 Trade receivables (Continued)

The carrying amounts of the Group's trade receivables were principally denominated in Renminbi. The balance included bill receivables amounting to about HK$233 million (2009: about HK$98 million).

Trade receivables that are impaired are past due over 12 months (2009:12 months).

Aging for trade receivables which are past due but not impaired are as set out below:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **The Group** | | |
| Over 180 days | **102,647** | 89 |

The balance included bill receivables over 180 days amounting to about HK$83 million (2009: Nil).

## 19 Inventories

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **The Group** | | |
| At cost: | | |
| Unprocessed wines | **324,288** | 197,762 |
| Finished goods | **279,497** | 160,257 |
| Consumables | **66,093** | 35,393 |
| | **669,878** | 393,412 |
| **The Company** | | |
| Finished goods | **381** | 350 |

The cost of inventories recognised as expense and included in 'cost of sales' amounted to HK$633,519,000 (2009: HK$549,488,000).

## 20 Restricted cash

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **The Group** | | |
| Restricted cash related to contracts (Note 24) | **–** | 11,759 |
| Restricted cash related to letters of credit (Note) | **14,336** | – |
| | **14,336** | 11,759 |

Note: As at 31 December 2010, a deposit amounting to Rmb 12.2 million has been pledged to a bank for obtaining letters of credit and is treated as restricted cash.

# Notes to the Financial Statements

## 21 Cash and cash equivalents

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **The Group** | | |
| Balances with banks | **760,265** | 778,277 |
| **The Company** | | |
| Balances with banks | **21,643** | 21,206 |

Cash and bank balances were primarily deposited with banks in the PRC and were principally 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.

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

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **The Group** | | |
| Renminbi | **731,674** | 751,423 |
| HK dollars | **21,396** | 9,188 |
| US dollars | **7,195** | 17,666 |
| | **760,265** | 778,277 |

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **The Company** | | |
| HK dollars | **21,278** | 9,056 |
| US dollars | **277** | 12,150 |
| Renminbi | **88** | – |
| | **21,643** | 21,206 |

# Notes to the Financial Statements

## 22 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 2009 and 2010 | 3,000,000,000 | 300,000 |
| **Issued and paid up:** | | |
| | **Number of Shares** | **Share capital** HK$'000 |
| As at 31 December 2009 | 1,245,000,000 | 124,500 |
| Shares issued under share options scheme | 3,200,000 | 320 |
| As at 31 December 2010 | 1,248,200,000 | 124,820 |

### Share options scheme

Pursuant to the resolutions of the shareholders of the Company on 6 December 2004, a share option scheme (the "Scheme") was approved and adopted.

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

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

# Notes to the Financial Statements

## 22 Share capital (Continued)

### Share options scheme (Continued)

Particulars and movements of the options granted are as follows:

| Date of grant | Exercisable date | Expiry date | Exercise price HK$ | Outstanding as at 1 January 2010 | Option granted/ (lapsed) | Option exercised | Outstanding as at 31 December 2010 |
|---|---|---|---|---|---|---|---|
| *Options granted to directors, other than independent non-executive directors* | | | | | | | |
| 27 January 2005 | 17 August 2005 | 26 January 2015 | 3 | 5,000,000 | – | (1,600,000) | 3,400,000 |
| 01 November 2006 | 22 May 2007 | 31 October 2016 | 3 | 1,200,000 | – | – | 1,200,000 |
| | | | | 6,200,000 | – | (1,600,000) | 4,600,000 |
| *Options granted to independent non-executive directors* | | | | | | | |
| 16 January 2008 | 06 August 2008 | 15 January 2018 | 2.91 | 1,500,000 | – | (1,300,000) | 200,000 |
| *Options granted to employees* | | | | | | | |
| 27 January 2005 | 17 August 2005 | 26 January 2015 | 3 | 6,200,000 | – | – | 6,200,000 |
| 01 November 2006 | 22 May 2007 | 31 October 2016 | 3 | 500,000 | – | (300,000) | 200,000 |
| | | | | 6,700,000 | – | (300,000) | 6,400,000 |
| Total | | | | 14,400,000 | – | (3,200,000) | 11,200,000 |

Options exercised in 2010 resulted in 3,200,000 shares (2009: Nil) being issued at a weighted average exercise price of HK$2.96. The related weighted average share price at time of exercise was HK$4.86 per share.

# Notes to the Financial Statements

## 23 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 2009 | 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 |
| Issued shares under share options scheme | 9,163 | – | – | – | – | – | 9,163 |
| Transfer from retained earnings | – | – | – | 23,156 | 17 | – | 23,173 |
| Transfer between reserves | 1,226 | – | (1,226) | – | – | – | – |
| Currency translation differences | – | – | – | – | – | 59,702 | 59,702 |
| Dividend for the year | (79,680) | – | – | – | – | – | (79,680) |
| As at 31 December 2010 | 518,137 | 74,519 | 4,289 | 156,037 | 94,434 | 299,401 | 1,146,817 |

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.

# Notes to the Financial Statements

## 23 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 2009 | 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 |
| Issued shares under share options scheme | 9,163 | – | – | – | 9,163 |
| Transfer between reserves | 1,226 | (1,226) | – | – | – |
| Dividend for the year | (79,680) | – | – | – | (79,680) |
| As at 31 December 2010 | 518,137 | 4,289 | 331,286 | 109,039 | 962,751 |

Notes:

(i) Refer to the note (i) of the Group.

(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.

## 24 Financial liabilities at fair value through profit or loss

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 Rmb 42 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 2010, the above contracts had matured and were settled in cash, and the financial liabilities at fair value through profit or loss are nil (2009: Rmb 10 million).

As part of the arrangement above, Dynasty Tianjin was required to pledge the consideration received to the Trust Company as security to the contracts. The amounts were restricted until the maturity of the contracts. In October 2009 and October 2010, the contracts with consideration of Rmb 42 million and Rmb 10 million respectively were expired. As at 31 December 2010, the related restricted cash is nil (2009: Rmb 10 million).

# Notes to the Financial Statements

## 25 Trade payables

The aging analysis of the trade payables is as follows:

| | Group 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Below 30 days | **189,822** | 88,888 |
| 30 to 90 days | **47,959** | – |
| 91 to 180 days | **3,913** | 4,197 |
| Over 180 days | **35** | 3,892 |
| | **241,729** | 96,977 |

## 26 Amount due to subsidiaries

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

## 27 Commitments

### (a) Capital commitments

As at 31 December 2010, the Group had capital expenditure commitments related to purchase of equipment and production facilities as follows:

| | Group 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Authorised but not contracted for | **23,443** | 59,407 |
| Contracted but not provided for | **263** | 23,898 |
| | **23,706** | 83,305 |

### (b) Operating lease commitments

At 31 December 2010, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | Group 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Transformation station | | |
| – Not later than one year | **2,494** | 1,429 |
| – Later than one year but not later than five years | **3,949** | – |
| | **6,443** | 1,429 |

# Notes to the Financial Statements

## 27 Commitments (Continued)

### (b) Operating lease commitments (Continued)

| | Group and Company | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Office premises | | |
| – Not later than one year | **2,251** | 1,319 |
| – Later than one year but not later than five years | **3,565** | – |
| | **5,816** | 1,319 |

## 28 Notes to consolidated cash flow statements

Cash generated from operations:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit before income tax | **226,320** | 212,327 |
| Adjustment for: | | |
| Interest income | **(12,002)** | (10,496) |
| Depreciation | **45,667** | 42,487 |
| Amortisation | **1,179** | 1,289 |
| Net exchange loss | **269** | 40 |
| Loss on disposal of equipment | **1,888** | 2,235 |
| Provision for impairment in trade receivables | **3,940** | – |
| Share of loss of an associate | **1,372** | 451 |
| Changes in working capital: | | |
| Increase in trade receivables | **(61,705)** | (143,726) |
| Decrease in other receivables, deposits and prepayments | **12,228** | 14,975 |
| (Increase)/decrease in inventories | **(276,466)** | 69,243 |
| Increase in trade payables | **144,752** | 7,962 |
| Increase in other payables and accruals | **45,495** | 69,557 |
| (Decrease)/increase in financial liabilities at fair value through profit or loss | **(11,759)** | 11,759 |
| Cash generated from operations | **121,178** | 278,103 |

# Notes to the Financial Statements

## 29 Related party transactions

The following is a summary of significant related party transactions during the year which in the opinion of the directors were conducted in the normal course of the Group's business.

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| • Purchase of unprocessed wine from an associate (Note(16)) | **30,324** | 24,529 |
| • Key management compensation | | |
| Salaries and other short-term employee benefits | **11,062** | 9,985 |
| Other long-term benefits | **597** | 520 |
| | **11,659** | 10,505 |

| | **As at December 31** **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| • Balance of advance for unprocessed wine due to an associate (Note (i)) | **9,163** | 16,708 |

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.

## 30 Principal subsidiaries

The following are the Group's principal subsidiaries at 31 December 2010:

| | **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 |

# Notes to the Financial Statements

## 30 Principal subsidiaries (Continued)

The following are the Group's principal subsidiaries at 31 December 2010:

| | 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. | 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 |
| Tianjin Dynasty International Winery Ltd. | RMB10,000,000 | 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

# Notes to the Financial Statements

## 31 Financial risk management

### 31.1 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 2010, 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.

*(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 2010.

**(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 adequate provision for uncollectible trade receivables has been made in the consolidated financial statements.

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.

# Notes to the Financial Statements

## 31 Financial risk management (Continued)

### 31.1 Financial risk factors (Continued)

**(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 | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| **The Group** | | |
| Trade payables | **241,729** | 96,977 |
| Other payables and accruals | **387,263** | 251,988 |
| | **628,992** | 348,965 |
| **The Company** | | |
| Trade payables | **193** | 175 |
| Other payables and accruals | **32,653** | 27,108 |
| Amount due to subsidiaries | **10,345** | 10,710 |
| | **43,191** | 37,993 |

# Notes to the Financial Statements

## 31 Financial risk management (Continued)

### 31.2 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.

### 31.3 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.

## 32 Critical accounting estimates and assumptions

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

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. 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 non-controlling interests in equity of the Group for the last five financial years:

## Consolidated Results

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **1,614,610** | 1,482,542 | 1,360,859 | 1,123,327 | 1,114,145 |
| Profit before income tax | **226,320** | 212,327 | 217,211 | 181,283 | 151,413 |
| Income tax expense | **(69,259)** | (55,456) | (73,270) | (54,668) | (37,694) |
| Profit after income tax | **157,061** | 156,871 | 143,941 | 126,615 | 113,719 |
| Non-controlling interests | **1,747** | (749) | (862) | (289) | 1,084 |
| Profit attributable to equity holders of the Company | **158,808** | 156,122 | 143,079 | 126,326 | 114,803 |
| Dividends | **76,035** | 73,455 | 67,230 | 59,760 | 52,290 |

## Consolidated Assets, Liabilities and Non-controlling Interests in Equity

| | **2010** | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Non-current assets | **703,808** | 610,022 | 526,747 | 446,956 | 382,920 |
| Current assets | **1,976,947** | 1,730,970 | 1,626,446 | 1,420,842 | 1,290,534 |
| Current liabilities | **(677,306)** | (484,864) | (388,821) | (274,566) | (243,556) |
| Non-controlling interests in equity | **(26,789)** | (27,781) | (35,501) | (32,616) | (30,098) |
| Shareholder's equity | **1,976,660** | 1,828,347 | 1,728,871 | 1,560,616 | 1,399,800 |

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