Dynasty Fine Wines Group Limited
王 朝 酒 業 集 團 有 限 公 司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 828)

PRELIMINARY ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

The board of directors (the "Board") of Dynasty Fine Wines Group Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010, prepared on the basis set out in Note 2, together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	**2010**	2009
		HK$'000	*HK$'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		**(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		**158,808**	156,122
Non-controlling interests		**(1,747)**	749
		157,061	156,871
Dividends	*7*	**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	*8*	**12.7**	12.5

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'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

CONSOLIDATED BALANCE SHEET
As At 31 December 2010

	Note	**2010** *HK$'000*	2009 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**599,332**	499,140
Leasehold land and use rights		**63,576**	62,570
Goodwill		**9,421**	9,421
Investment in an associate		**11,855**	12,801
Deferred income tax assets		**19,624**	26,090
		703,808	610,022
Current assets			
Trade receivables	*9*	**285,583**	227,819
Other receivables, deposits and prepayments		**52,862**	65,039
Inventories		**669,878**	393,412
Short-term deposits with maturity over three months		**194,023**	254,664
Restricted cash		**14,336**	11,759
Cash and cash equivalents		**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		**124,820**	124,500
Other reserves		**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	*11*	**241,729**	96,977
Other payables and accruals		**402,350**	344,462
Financial liabilities at fair value through profit or loss	*10*	**–**	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

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 principal activity of the Company is investment holding and trading of wine products. The principal activities of the subsidiaries are manufacturing and sale of wine products and unprocessed wine.

2 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 group has adopted the following new and amended HKFRS 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.

There are other standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group.

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

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	**White wines**	**All other products**	**Total group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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 amortization	**–**	**–**	**–**	**(46,846)**
Interest income	**–**	**–**	**–**	**12,003**
Share of loss of an associate	**–**	**–**	**–**	**(1,372)**
Income tax expense	**–**	**–**	**–**	**(69,259)**
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	2009
	HK$'000	*HK$'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

5 EXPENSE BY NATURE

	2010	2009
	HK$'000	*HK$'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 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	2009
	HK$'000	*HK$'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%).

7 DIVIDENDS

	2010	2009
	HK$'000	*HK$'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.

8 BASIC AND DILUTED EARNINGS PER SHARE

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

	2010	2009
	HK$'000	*HK$'000*
Earnings		
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:		
– 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

9 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	2009
	HK$'000	*HK$'000*
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 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).

10 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).

11 TRADE PAYABLES

The aging analysis of the trade payables is as follows:

	2010	2009
	HK$'000	*HK$'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

OVERVIEW

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.

FINANCIAL REVIEW

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

	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

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 a 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 approximately to 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.

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.

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).

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.

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.

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 retail 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.

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.

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.

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.

MATERIAL ACQUISITIONS AND DISPOSALS 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.

DIVIDEND

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%), in compliance with the Company's dividend policy of 30% to 50% of the net profit available for distribution to the shareholders. The final dividend will be paid on Friday, 17 June 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of shareholders of the Company will be closed from 30 May 2011 to 3 June 2011, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and to determine entitlement to attend and vote at the meeting, all transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on 27 May 2011.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

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

COMPLIANCE WITH THE MODEL CODE FOR 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.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

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.

AUDIT COMMITTEE

The audit committee comprises of three independent non-executive directors who together have substantial experience in fields of auditing, legal matters, business, accounting, corporate internal control and regulatory affairs. The audit committee has reviewed the Group's financial statements for the year ended 31 December 2010 in conjunction with the Company's auditors.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITE OF THE COMPANY AND OF THE STOCK EXCHANGE

All the financial and other related information required by Appendix 16 of the Listing Rules will be published on the website of the Company (www.dynasty-wines.com) and the Stock Exchange in due course.

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.

By order of the Board
Mr. Bai Zhisheng
Chairman

Hong Kong,
29 March 2011

As at the date of this announcement, the Board of Directors comprises 3 executive directors, namely, Mr. Bai Zhisheng, Mr. Gao Feng and Mr. Huang Yaqiang, 6 non-executive directors, namely, Mr. Heriard-Dubreuil Francois, Mr. Wu Xuemin, Mr. Jean-Marie Laborde, Mr. Dong Jingrui, Mr. Wong Ching Chung and Mr. Robert Luc, and 3 independent non-executive directors, namely, Dr. Hui Ho Ming, Herbert, Mr. Chau Ka Wah, Arthur and Mr. Yeung Ting Lap Derek Emory

The figures in respect of the preliminary announcement of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2010 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.