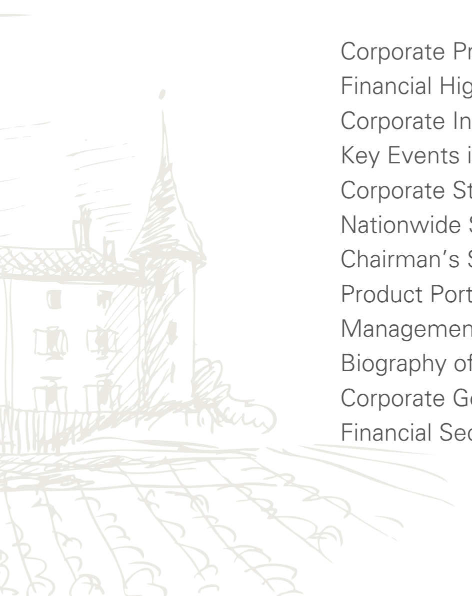
ANNUAL REPORT 2011

DYNASTY

Dynasty Fine Wines Group Limited

Stock Code: 828

CONTENTS

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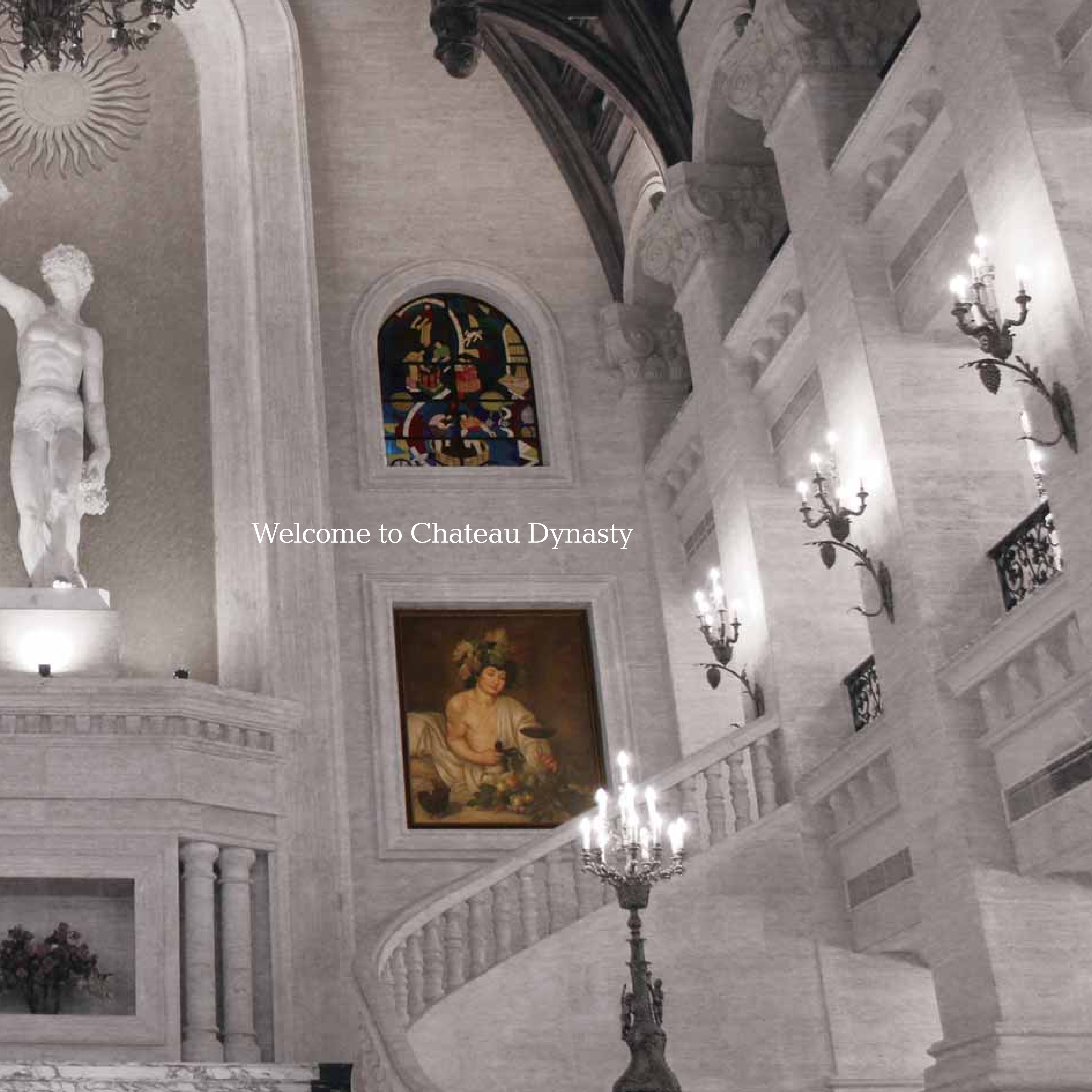

Welcome to Chateau Dynasty

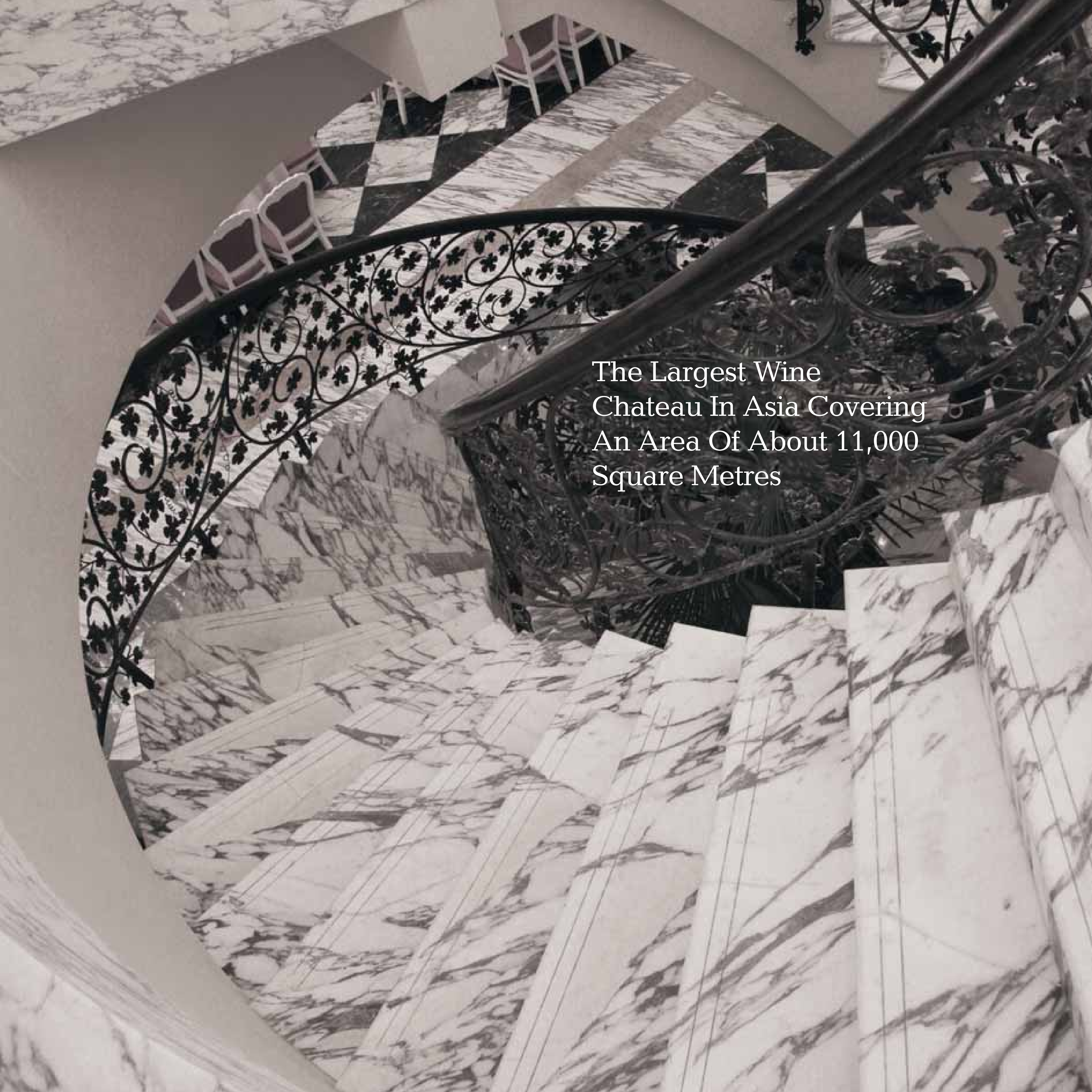
CORPORATE PROFILE

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 fifteen years between 1997 and 2011, 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 good financial performance and generated reasonable 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.



The Largest Wine Chateau In Asia Covering An Area Of About 11,000 Square Metres

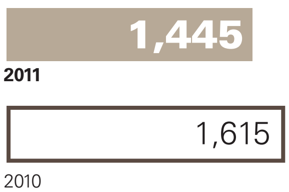
Grand Dining Hall

FINANCIAL HIGHLIGHTS

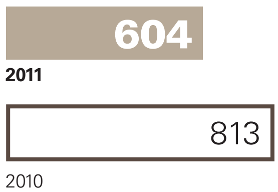
	2011 **HK$'000**	2010 HK$'000	Changes
Revenue	**1,445,117**	1,614,610	–10%
Gross profit	**603,738**	812,703	–26%
Profit attributable to owners of the Company	**4,267**	158,808	–97%

	2011	2010	Changes in percentage point
Gross profit margin	**42%**	50%	–8.0%
Net profit margin	**0.3%**	10%	–9.7%

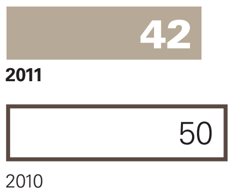
Revenue
(HK$'million)



Gross profit
(HK$'million)



Gross profit margin
(%)



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

SELF-OPERATED RETAIL SHOPS

Dynasty Club

273 Heng Shan Road, Xu Hui District,
Shanghai

Shanghai Retail Shop

61A 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 (王朝愛酒網)

SHARE INFORMATION

Listing date	26 January 2005
Stock name	Dynasty Wines
Nominal value	HK$0.1
Number of issued shares	As at 31 December 2011 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

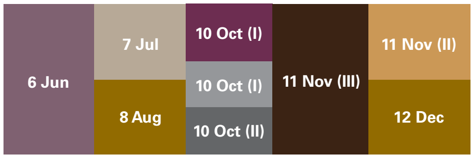
We Committed To Popularising Wine Knowledge And Helping Chinese Consumers Understand The Wine Culture And Identify Fine Wine.

KEY EVENTS IN 2011

3 Mar
Dynasty honoured as the "Important Leading Company of State Agriculture Industrialization"

6 Jun
Dynasty Wine Dinner

7 Jul
Dynasty wedding expo. in Chateau Dynasty



8 Aug
Sponsorship to Intercontinental Basketball Game

9 Sept
Dynasty preluded among the third "Top Ten Greatest Satisfaction Brands (Industry) in China" Award

10 Oct
(I) "The One and Only DYNASTY" Wine Banquet

(II) Hong Kong Wine & Dine Festival 2011

11 Nov
(I) Hong Kong International Wine & Spirits Fair 2011

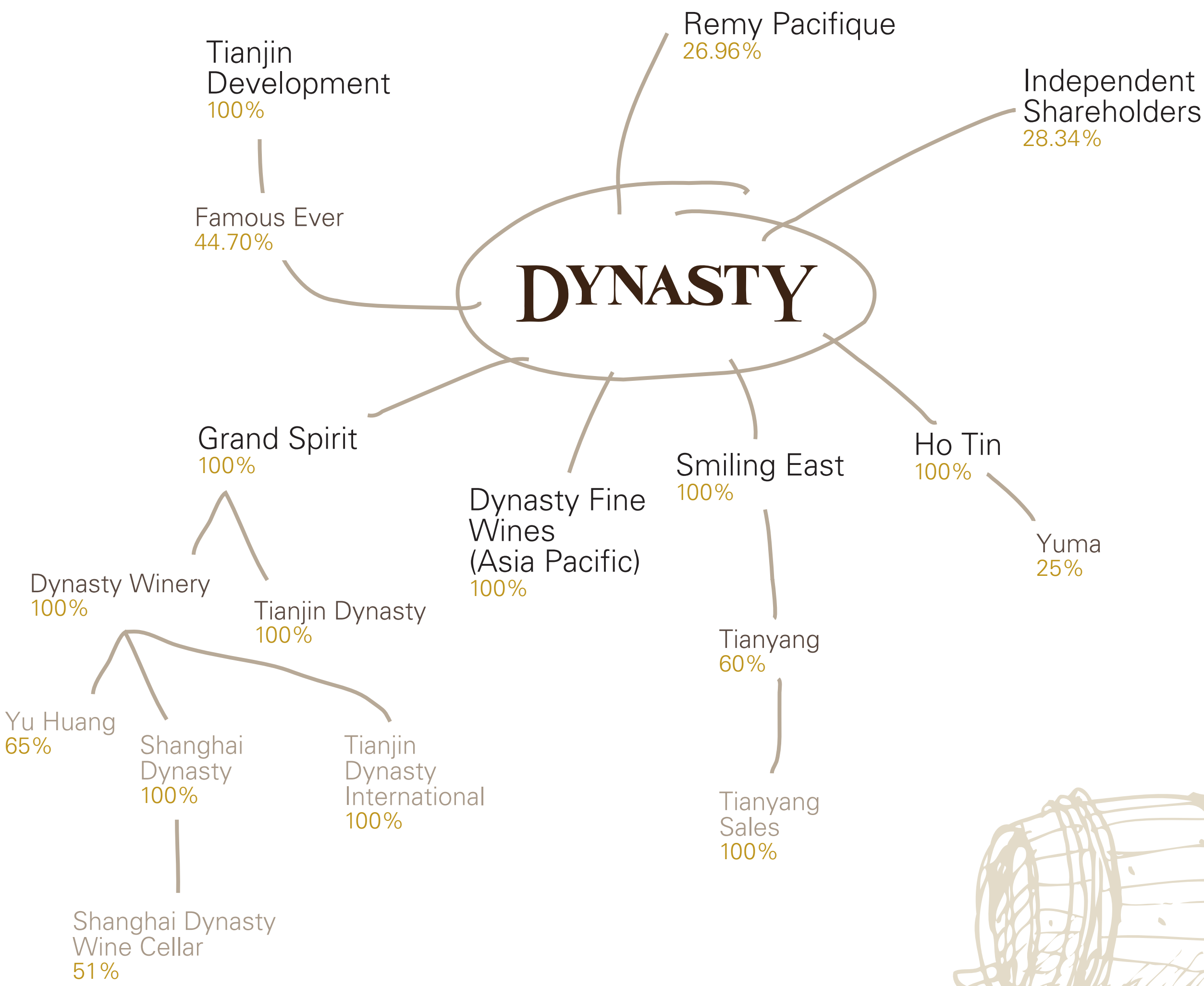
(II) Wine Future Hong Kong 2011

(III) Dynasty honoured as the "Chinese Listed Company with the Most Influential Brand Overseas"

12 Dec
Dynasty won Bronze Award in the "2011 Cathay Pacific Hong Kong International Wine & Spirit Competition"

Our Annual Production Capacity
Reached 70,000 Tonnes

CORPORATE STRUCTURE



NATIONWIDE SALES NETWORK

CHAIRMAN'S STATEMENT

Reforming and investing for the future

The year 2011 was a challenging year for the Group, I herewith 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 2011.

FINANCIAL RESULTS

The Group recorded a revenue of HK$1,445 million in the year under review, representing a decrease of 10% compared with HK$1,614 million reported for 2010. The Group's consolidated profit attributable to owners of the Company also dropped by 97% to HK$4.3 million (2010: HK$158.8 million). The decrease in profit for the year was mainly attributable to i) the decrease in sales volume resulted from implementation of reform on our sales and distribution model; and ii) the decrease in gross profit margin.

Earnings per share for the year were HK0.34 cents, representing a decrease of 97% compared with HK$0.127 per share in 2010.

REFORMING AND INVESTING FOR THE FUTURE

Taking into consideration the environment of the wine industry and the unique situation of the Group, Dynasty has implemented a reform on its sales and distribution model. Resources have been allocated to implement the reform with a focus on cooperating more closely with distributors within their designated channels and markets in order to strengthen Dynasty's presence and accelerate our growth in their responsible territories. We are committed to providing stronger support to help drive their business, putting us closer to the market trend while improving their efficiency.

As a consequence of the Group's proactive reform activities, results of the Group for the year have inevitably been affected in the short term. As the pace of reform was slower than expected, especially in the Huadong region, we subsequently yielded a lower sales volume in 2011. However, we firmly believe that the reform is not only necessary but also imperative to reignite the growth momentum of the Group. We are of the view that the reform will prove successful in the long run and lead to sustainable growth for the Group by creating a business model that will mutually benefit both the Group and our distributors.

AWARDS AND RECOGNITION

During the year and up to the date of this report, we were delighted to be recognised for our brand excellence by garnering a number of industry awards. Noteworthy among these was the "Top Ten Greatest Satisfaction Brands (Industry) in China" Award organised by the *China General Chamber of Commerce*, marking the second consecutive year for Dynasty to be thus selected. We were also honoured as the "Chinese Listed Company with the Most Influential Brand Overseas" at the 2011 China Securities Golden Bauhinia Award organised by *Ta Kung Pao*. In February 2012, Dynasty has once again been honored as one of "The Asset Triple A – China's Most Promising Companies" in the food and beverages industry category by *The Asset* magazine. The Group had previously garnered this accolade in 2009, and its selection serves as wider international recognition of the leadership potential and trust of the Group. In addition, Dynasty was also honored with the "Prime Awards for the Best Brand Enterprise in Greater China 2012" by *metroBox* magazine. This award recognised Dynasty's successful efforts in promoting the brand over the years. None of these accolades would have been achieved without the dedicated efforts, hard work, focus and commitment of our colleagues during the period.

FUTURE OUTLOOK

Going forward, in the light of China's ongoing economic growth and continued increase in people's consumption power, coupled with the rising popularity of and demand for wines, the wine industry is expected to progressively expand. In order to reap the benefits of this market, we will strive to continue with the reform of our sales and distribution model, underscoring our determination to do what is right for the Group and brand for the long-term. Implementing this reform process is challenging and will take time to complete, much like a good wine, but should prove rewarding when perfected.

Besides the reform, Dynasty is well positioned with a strong, healthy balance sheet, an unrivalled product portfolio and a highly skilled workforce to craft and make wines of outstanding quality.

The Group intends to participate again in Vinexpo, the internationally renowned bi-annual wine exhibition to be held in Hong Kong during May 2012 so as to showcase our fine vintages from China and enhance Dynasty's brand exposure in the international market.

ACKNOWLEDGEMENT

I would like to take this opportunity to acknowledge the support of my Board members and to commend them for their sage guidance and the enthusiasm they have demonstrated.

I would also like to express my sincere gratitude to our valued shareholders, customers, distributors, grape growers, suppliers, business associates and all other stakeholders who have supported us through the years.

Thanks also must go to our staff and the management team who have shown great dedication and teamwork during this period of reform.

Bai Zhisheng
Chairman and Executive Director

PRODUCT PORTFOLIO

RED WINE (From right to left)
Dynasty Merlot Dry Red Wine Reserve
Dynasty Merlot Series — Gold Label
Dynasty Merlot Series — Red Label
Dynasty Dry Red Wine

WHITE WINE (From right to left)
Dynasty Medium Dry White Wine
Dynasty Chardonnay Dry White Wine

ICEWINE
Dynasty 5-star Icewine Reserve

SPARKLING WINE
(From right to left)
Dynasty Muscat Sparkling Wine
Dynasty Sparkling Wine
(Second Fermentation in bottle)

BRANDY (From right to left)
Dynasty Fine Brandy — V.S.O.P.
Dynasty Fine Brandy — X.O

SELECTION (From right to left)
(available in Hong Kong only)
Dynasty Cabernet Sauvignon Reserve 2008
Dynasty Cabernet Sauvignon 2008
Dynasty Chardonnay Reserve 2010
Dynasty Chardonnay 2009

MANAGEMENT DISCUSSION AND ANALYSIS

Our scale, operating platform and people make the post reform operational efficiency happen

RESULTS

The Group's revenue for the year ended 31 December 2011 decreased by 10% to HK$1,445.1 million (2010 – HK$1,614.6 million) and the Group's profit attributable to owners of the Company dropped to HK$4.3 million (2010 – HK$158.8 million), representing a decline of 97%.

Earnings per share ("Share") of the Company was HK 0.34 cents per Share (2010 – HK12.74 cents per Share) based on the weighted average number of 1,248 million Shares (2010 – 1,246 million Shares) in issue during the year. There was no potential dilutive share for the year ended 31 December 2011.

The decline in financial results in 2011 was attributable to i) the decrease in sales volume resulting from the implementation of reform on our sales and distribution model; and ii) the decrease in our gross profit margin.

BUSINESS REVIEW

Sales analysis

A) *Existing sales channels*

Despite the increase in the average ex-factory sales price of the Group's wine products as a result of shifting the sales mix further to high end products during the year ended 31 December 2011, the sales revenue has still recorded a decrease compared with last year mainly because the Group is implementing a reform on its sales and distribution model intended to improve the operational efficiency of the Group. Reform measures include, among other things, (i) co-operating with distributors to strengthen the control on retail price; (ii) enhancing the effective management in monitoring and controlling sales and marketing spending; and (iii) streamlining the existing multi-layered sales and distribution


22 Luxurious Guest Rooms

system so as to strengthen our direct control over the sales channels, thereby enhancing efficiency and effectiveness. Purchase orders for the year ended 31 December 2011 from certain distributors which are affected by the abovementioned reform, especially those in Zhejiang province, were reduced resulting in a decrease in sales volume in such region compared with last year. The pace of reform was slower than expected but the reform is still in progress and will take time to implement. As Zhejiang province is part of the Huadong region which is the Group's strongest market in mainland China, the decrease in sales of that region has an impact on the overall sales volume of the Group.

The total number of bottles of wine sold decreased from approximately 63.2 million in 2010 to approximately 51.9 million in 2011. Sales of red wines continued to be the Group's primary revenue contributor accounting for approximately 84% of the Group's revenue for the year (2010 – 82%).

In order to consolidate the Group's position in the Huadong region (i.e., the eastern region of the PRC including Shanghai City, Zhejiang and Jiangsu provinces) and win market share in other regions, the Group devoted significant resources to continue and accelerate the expansion and to strengthen our nationwide and extensive sales and distribution network during the year. This network supports sales of the Group's products throughout all provinces and autonomous regions and the four directly-administered municipalities under the Central Government of the PRC. We have also extended the sales network to other regional markets such as the South-Central region including Hunan, Jiangxi, Sichuan provinces and Chongqing city, and sales in those markets also grew substantially. Moreover, the Group reported export sales accounting for 0.1% (2010 – 0.1%) of its total revenue during the year.

The Group produces a wide range of more than 100 wine products under the "Dynasty" brand to meet the demands and preferences of different consumer groups mainly in the medium to high end segments in the PRC wine market. With effective product strategies and 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 Merlot Series – Gold Label & Black Label and Dynasty Dry Red Wine – Reserve were greeted enthusiastically and recorded encouraging growth during the year. Moreover, the Group also sold foreign brand wines mainly imported from France, Italy, Germany, the United States of America, Chile and Spain in the PRC wine market through the Group's existing distribution network to introduce some classic "old world" and "new world" varietals to cater for a market niche preferring the taste of foreign premium wines. The Group currently carries more than 390 imported products under approximately 100 brands. Sales of these imported products in 2011 more than doubled compared with that in 2010. We believe that with the trend of increasing wealth and the disposable income of consumers aspiring to a higher status as well as the pursuit of upper class enjoyment, the demand for premium Dynasty and imported wines should increase and become major growth drivers for our future development. To boost its market share and sustain its growth, the Group is determined to continue to actively promote and raise the visibility of these wines to the high end market.

B) *New sales channels*

(i) Dynasty Club and retail shops

The first "Dynasty Club" was opened in Shanghai in 2009 in order to generate higher awareness of the "Dynasty" brand, targeting the high-end market and cultivating a group of loyal and sophisticated customers. 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 and preferences of our customers, the Group as at 31 December 2011 had 2 self-operated retail shops in Tianjin, 1 self-operated retail shop in Shanghai and 71 franchised retail shops across various provinces and cities in the PRC, selling a variety of Dynasty wines and our imported wines to customers directly. The contribution from the sales at the Dynasty Club and retail shops was relatively insignificant to our revenue during the year. However, we strongly believe that through these sales channels and our network we can attract more people to embrace the grape wine culture and lead the trend of rising wine consumption. At the same time we could also expand our sales presence, extend our market influence, bring greater awareness to the brand and consolidate our leading presence in the PRC because Dynasty Club and retail shops are amongst the best vehicles to communicate our brand image and message, and to enhance customers' experience of buying and drinking wines. We have strategically planned to develop our franchised retail shops through a progressive and disciplined growth strategy to increase the number of similar establishments in appropriate locations. During the year under review, we have emphasized the development of franchised retail shops and targeted establishing approximately 100 franchised retail shops, out of which 71 franchised retail shops were opened by the end of the year. The remaining shops are under planning and renovation and will be opened in the first half of 2012.

The following table sets out the number of self-operated retail shops and franchised retail shops by regions as at 31 December 2011:

Region	**Number of self-operated retail shops**	**Number of franchised retail shops**	**Total**
South-Central region	–	44	44
Eastern region	1	10	11
North-West region	–	1	1
North-East region	–	2	2
Northern region	2	14	16
Total	3	71	74

(ii) Online Sales

The Group launched an e-commerce business in 2010 by setting up a convenient 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 the imported wines we carry anywhere and anytime. Since the operating cost of the website is relatively low, we enjoy a higher gross profit margin on e-commerce business. It has been running smoothly and recording a steady income. Although the online sales contribution was insignificant during the year, we are optimistic about the prospects of the business as research indicates that 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 believes 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. Thus, the platform should enhance the overall business potential of the Group because growth in online sales channels will be further exploited internationally following the successful e-commerce model in overseas.

Supplies of grapes or grape juice

Production of quality wines greatly depends on a sufficient supply of quality grapes or grape juice. Currently, we 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. Ensuring reliable supplies of quality grapes and grape juices to meet the production needs of our growing business as well as our expanded production capacity is a high priority of the Group. Thus, it 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. For super and ultra premium wines, vignerons have adopted a disciplined approach to limiting harvest yields in order to deliver higher quality grape. For optimising supply networks, the Group has also kept identifying new suppliers who comply with our quality requirements and conducts thorough tests on their grape juices before orders are placed. These procedures ensure we procure quality grape and grape juice supplies and also minimise the effect of bad harvests interrupting production. The Group has imported grape juices from overseas, applying the same stringent quality requirements as it has on suppliers in the PRC.

The average cost of grape juice in 2012 is expected to increase.

Production capacity

In October 2010 the Group completed the construction of new production and research and development facilities in its Tianjin winery increasing its annual production capacity to 70,000 tonnes (equivalent to approximately 93.3 million bottles). The expansion has enabled the Group to promptly response to market demand and further enhance the overall cost effectiveness in term of unit cost in the long run and has provided a better platform for sustainable earnings growth after the reform.

Prospects and Future Plans

Looking to 2012, reform will be a key priority. Although the reform will have an impact on our performance, the management of the Company will continue in-depth negotiation with some distributors on the new cooperation terms of distributorship related to the reform on its sales and distribution model. Despite the effects on its overall sales volume in the near term future (at least until the first half of current year in general), the Group strongly believes that the programme of reform on sales and distribution model implemented by the Group together with other growth strategies, such as upgrading the product mix, expansion of sales channels and networks, evaluating appropriate acquisition opportunities and distributorships for foreign brand wines, will provide benefits in the long run. These benefits, including improving the Group's post reform operational efficiency and maximising the sales revenue and operating profit margin of the Group. This may take time but the Group believes we have the scale, operating platform and the people to make it happen.

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 2011 have been extracted from or calculated based on our financial statements as set out on page 56 to 99 of this annual report and summarised as follows:

	2011 **HK$'000**	2010 HK$'000
Financial Results:		
Revenue	**1,445,117**	1,614,610
Cost of sales	**(841,379)**	(801,907)
Gross profit	**603,738**	812,703
Distribution costs	**(468,298)**	(491,021)
Administrative expenses	**(143,921)**	(118,705)
Income tax	**(17,003)**	(69,259)
Profit attributable to owners of the Company	**4,267**	158,808
Dividends declared in respect of the year	**18,723**	76,035

	2011	2010
Other Financial and Operating Data:		
Sales volume (million bottles)	**51.9**	63.2
Gross profit margin (%)	**42**	50
Net profit margin (%)	**0.3**	10
Distribution costs as a percentage of revenue (%)	**32**	30
Administrative expenses as a percentage of revenue (%)	**10**	7
Effective tax rate	**89**	31
Return on average equity (%)	**0.2**	8.3
Debtors' turnover (days)	**91**	58
Creditors' turnover (days)	**109**	90
Inventories turnover (days)	**410**	282
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 decreased by 10% to approximately HK$1,445.1 million in 2011 from approximately HK$1,614.6 million in 2010. The decrease in revenue was mainly attributable to a drop in sales volume despite the increase in the average ex-factory sales price of the Group's wine products as a result of shifting the sales mix further to high end products.

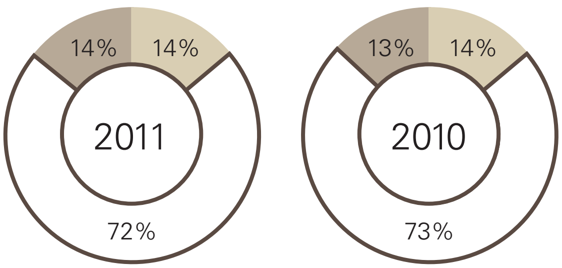
The Group's average ex-winery sales price of red and white wine products during the year was higher than the average price of HK$25.5 per bottle (750ml) in 2010, as a result of shifting the sales mix further to high end products and lower trade discounts offered to distributors. The rise in the Group's average ex-winery sales price was a good sign showing that we are keeping up and moving in the right direction. Since consumers in the PRC have a preference for red wines, the Group is able to set higher prices for its red wine products and therefore the average ex-winery sales price of the Group's red wines is generally higher than that of its white wines.

Cost of sales

The major components of our cost of sales for the year are presented below:

	2011	2010
	%	%
Cost of raw materials		
– Grapes and grape juice	**44**	43
– Yeast and additives	**2**	2
– Packaging materials	**25**	26
– Others	**1**	2
Total cost of raw materials	**72**	73
Manufacturing overheads	**14**	13
Consumption tax and other taxes	**14**	14
Total cost of sales	**100**	100

Cost of sales



Cost of raw materials
Manufacturing overheads
Consumption tax and other taxes

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 44% of the Group's total cost of sales, representing an increase of 1% from approximately 43% in 2010, due to the rise in the average cost of grapes and grape juice. The total cost of packaging materials to the Group's revenue was relatively stable during the year as compared with 2010.

Manufacturing overheads primarily consist of depreciation, rental of property, plant and equipment, 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 revenue increased as compared with 2010 mainly due to rising labour costs, depreciation and other overheads as a result of the completion of production capacity expansion from 50,000 tonnes to 70,000 tonnes per annum in the fourth quarter of 2010.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross invoiced sales. The overall gross profit margin declined to 42% in 2011 from 50% in 2010, mainly as a result of the impact of (i) the increase in the cost of raw materials (including grapes and grape juice) and manufacturing overheads; and (ii) the newly imposed city construction tax and education surcharge levied on the Group's subsidiaries in mainland China.

The gross margin of red wine products and white wine products in 2011 were 43% and 34% respectively (2010 – 52% and 41% respectively). The higher sales prices of red wine products explained the higher gross margin of the products than white wine products.

Other income

Other income for the year ended 31 December 2011 increased by 12% to HK$27.8 million (2010 – HK$24.7 million), mainly attributable to:

(1) an increase in the government grant to HK$17.9 million (2010 – HK$12.4 million) for subsidiaries in the PRC to encourage technological development and improvement in winemaking, and to support enterprise development; which was offset by

(2) a decline in interest income from decrease in bank deposits.

Distribution costs

Distribution costs principally 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. During the year, distribution costs accounted for approximately 32% (2010 – 30%) of the Group's revenue. In particular, the advertising and market promotion expenses accounted for approximately 18% (2010 –18%) of the Group's revenue. This percentage slightly increased because the decrease in revenue was more than the decrease in distribution costs in term of percentage points. During the year, the Group continued to promote and market the Chateau Dynasty, brand and products effectively through a range of joint promotions with wedding planner companies and local distributors, print and outdoor advertisements, wine dinners, wine tasting events, digital communication, event sponsorships and exhibitions. The Group will ensure that our promotional strategy is responsive to market dynamics and competition.

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.

During the year, administrative expenses as a percentage of the Group's revenue accounted for 10% (2010 – 7%). The increase in administrative expenses was attributable to i) an increase in staff costs to support the growth of imported wine and e-commerce businesses, management and control on shop expansion, implementation of the reform and operation of new production facilities; and ii) costs associated with the full year operation of Chateau Dynasty which was completed in October 2010.

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 2011 rose to approximately 89% (2010 – 31%), mainly due to more expenses not allowed to deduct for the year in terms of profit before income tax.

Balance sheet

Trade receivables, credit period, debtors' turnover and credit policy
Trade receivables for the year ended 31 December 2011 amounted to HK$437.3 million (2010 – HK$285.6 million), increasing by approximately 53% against the previous year. The increase was primarily due to more credit sales with bill receivable clauses made at year end. For certain bill receivables issued by the bank on behalf of the customers for settlement of the Group's trade receivables during the year, a subsidiary of the Group had to provide guarantee to the bank for issuing bill receivables to the Group under the government's tightening of credit and monetary policy. Under the guarantee term, the validity of bill receivables is subject to repayment made by the customers to the bank in due course. During the year, customers with whom the Group has a long-term trading relationship and who have a good payment history, are given, in general, credit period of one to six months, except for those with bills receivable clauses, and receivables with an age of less than six months accounted for approximately 63.4% of the net trade receivables as at 31 December 2011 (2010 – 64.1%) and the debtors' turnover of approximately 91 days (2010 – 58 days) was in line with the credit period granted to most customers. All other customers are required to pay cash on delivery. As a result, the Group's credit policy has proven effective in helping to minimise its exposure to doubtful debts. The longer debtors' turnover period was mainly a result of an increase in trade receivables including bills receivable at year end while, except for two customers, credit control has been largely maintained during the year.

During the year, two customers, which are related to state owned entities with large operational scale and nationwide good reputation, had a longer aging receivables of more than six months but not impaired. No impairment allowance is necessary in respect of these two balances as there has not been a significant change in their credit quality and they have a good track record with the Group and/or have good financial strength, so the balances are considered fully recoverable and the Group has accepted more flexibility in their repayment schedules.

Other receivables, deposits and prepayments
The balance includes advance payments to suppliers, VAT receivables, interest receivables, deposits and other prepayments.

Trade payables, payment period and creditors' turnover
Trade payables for the year ended 31 December 2011 amounted to approximately HK$192.2 million (2010 – HK$241.7 million), down by approximately 20% compared with last year. During the year, payments to most suppliers were subject to a payment period of three to four months. The creditors' turnover of approximately 109 days (2010 – 90 days) was in line with the credit period granted by most suppliers to the Group. The lower trade payables balance in 2011 was mainly because more trade payables were settled before the financial year end as purchases were made an earlier time than that in the previous year.

Inventories and inventory turnover

The Group's inventories balance for the year ended 31 December 2011 amounted to approximately HK$962.0 million (2010 – HK$669.9 million), representing a significant increase of approximately 44%. Inventories mainly comprised unprocessed wines worth approximately HK$516.8 million and finished goods valued at approximately HK$361.0 million. During the year, inventory turnover was approximately 410 days (2010 – 282 days). The longer inventory turnover period during the year was primarily the result of the higher cost of inventories due to input cost pressure and stocking up of unprocessed wines to reduce the impact of an anticipated increase in purchase costs of grape juice in 2012 and finished goods in preparation of the increase in sales demand for imported wines. For stocking up of unprocessed wines, it is for better management of the Group's working capital as the Group has sufficient cash and bank balances and the percentage of increase in the average purchase costs of unprocessed wines during the year was higher than the interest rate of deposits at bank.

Cash flow

In 2011, operating activities were the Group's main source of cash outflow.

The change in cash flow derived from operating activities from HK$71.9 million cash inflow in 2010 to HK$528.5 million cash outflow in 2011 was mainly attributable to (i) the decrease in gross profit, (ii) higher inventories (stocking up of unprocessed wines and finished goods), (iii) increase in trade receivables and (iv) decrease in other payables and accruals due to payments to various other creditors in accordance with the payment and settlement terms during the year.

Net cash inflow in investing activities amounted to approximately HK$124.0 million (2010 – HK$58.3 million cash used), primarily related to reduced placement of fixed deposits with maturity over 3 months and offset by acquisition of plant and equipment during the year as compared with 2010.

Net cash outflow in financing activities was primarily attributable to the payment of dividends to shareholders of approximately HK$53.7 million (2010 – HK$79.7 million).

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 2011 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 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

The liquidity and financial position of the Group remain strong as the Group continues to adopt a prudent approach in managing its financial resources. As at 31 December 2011, the Group's cash and cash equivalents, and fixed deposits amounted to HK$402.8 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 had no debts, with total equity before non-controlling interests of the Group amounting to approximately HK$2,016 million as at 31 December 2011 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 2011 was Nil (2010 – Nil).

Capital structure

The Group had no borrowing and was in a net cash and liquid position as at 31 December 2011, reflecting its sound capital structure. We expect our cash to be sufficient to support operating and capital expenditure requirements in the foreseeable future.

As at 31 December 2011, the market capitalisation of the Company was approximately HK$2,234 million.

Capital commitments, contingencies and charges on assets

As at 31 December 2011, the Group made capital expenditure commitments including approximately HK$17.0 million that were authorised but not contracted for and approximately HK$3.3 million contracted but not provided for in the financial statements. These commitments were mainly required to support the Group's production capacity expansion's auxiliary facilities and the expansion of the sales and distribution network. These capital commitments are to be funded by the net proceeds of the placing and public offer as stated in our prospectus dated 17 January 2005 and partly from the internally generated funds of the Group.

As at 31 December 2011, the Group had no material contingent liabilities and the Group's assets were free from any charge.

Material acquisitions and disposal of subsidiaries and associated companies

For the year ended 31 December 2011, 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 2011, 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	75
Total	724	485

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

Future plans for material investments or capital assets

To ensure its long term development, the Group will explore appropriate acquisition or investment opportunities that offer reasonable returns to the Group and its shareholders. We are currently in discussion with and review on a boutique wine company, including its two brands and three related vineyards, located at the top of New Zealand's South Island, which we consider as a potential target of acquisition in the future in order to diversify and enrich our product portfolio and brand, and expand the source of supply of grapes and grape juice from overseas. Apart from New Zealand's domestic market, this wine company's overseas sales were to Australia, the United Kingdom, Belgium, Hong Kong, Malaysia and Singapore. The owners of the wine company are independent third parties who are not connected with (within the meaning of the Listing Rules) any director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates. As at the date of this report, no agreement or memorandum of understanding was entered into between the Group and such party in this regard. Announcement(s) will be made in compliance with the Listing Rules (if required) when the formal agreement is reached but it is expected that the transaction contemplated therein will not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

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 market practices and 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 has reviewed and adjusted its human resources and remuneration policies, especially the performance-based bonus award, with reference to local legislation, market conditions, industry practice and achievements of the Group's targets as well as the performance of individual employee.

The Group employed a work force of 650 (including Directors) in Hong Kong and the PRC as at 31 December 2011. The increase in manpower has occurred mainly due to the reform and growth of business, and the Group has had to recruit additional talented employees in order to cope with these changes. The total salaries and related costs (including the Directors' fees) for the year ended 31 December 2011 amounted to approximately HK$204.3 million (2010 – HK$166.0 million).

The Company also adopted a share option scheme on 6 December 2004 for the purposes of providing incentives and rewards to eligible participants who have contributed to the success of our operations and the long-term growth of the Group. As at 31 December 2011, 10,300,000 share options were granted and outstanding under the scheme.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

01. Mr. HUANG Yaqiang, Executive Director
02. Mr. ROBERT Luc, Non-executive Director
03. Mr. Jean-Marie LABORDE, Non-executive Director
04. Mr. BAI Zhisheng, Chairman & Executive Director
05. Mr. HERIARD-DUBREUIL Francois, Vice-Chairman & Non-executive Director
06. Mr. WONG Ching Chung, Non-executive Director
07. Mr. GAO Feng, General Manager & Executive Director
08. Mr. DONG Jingrui, Non-executive Director

DIRECTORS

Executive Directors

BAI Zhisheng, aged 56, 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 56, 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 38, 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 63, 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 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 57, 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 and the Nomination 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 63, was appointed as a non-executive Director of the Company in February 2009. He joined the Remy Cointreau S.A., a substantial shareholder of the Company, as a chief executive officer in September 2004. Mr. Laborde holds a master's degree in economics from the University of Bordeaux and a master degree in business administration from the Institut Supérieur des Affaires (HEC/ISA). He held various senior positions at Pernod Ricard from 1979 to 1996 and chairman and chief executive officer of Moët et Chandon (LVMH Group) from 1996 to 2003. Mr. Laborde is a member of a number of professional organizations. He was directors of Maxxium Worldwide BV, an associate of Remy Cointreau Group and Antonin Rodet, Burgundy Wines, a wholly owned subsidiary of Sequana Capital, a company listed on the Euronext Stock Exchange (stock code: VOR). He is also a director of Finadvance S.A., a private equity firm.

DONG Jingrui, aged 50, 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 72, 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 was the chairman of Shanghai Shenma Winery Co., Ltd. between 2002 and 2011. 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 55, 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 53, was appointed as an independent non-executive Director of the Company in August 2004. 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 a vice chairman of Right Day Holdings 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 Bureau's Start-up Loan Post-secondary Education Providers Vetting Committee and Selection Committee for the Allocation of Sites to Postsecondary Education Providers. He was appointed a Justice of the Peace in Hong Kong in 2004.

CHAU Ka Wah, Arthur, aged 66, 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 39, 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, a member of Chinese People's Political Consultative Conference of Qingdao City, the town planning appeal board panel and the municipal services appeals board, and a deputy general of the Hong Kong United Youth Association.

SENIOR MANAGEMENT

YEUNG Chi Tat, aged 42, 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 56, 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 58, 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 54, 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 49, 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.

LI Zhanbiao, aged 56, is secretary of disciplinary examination committee, supervisor of the Communist Party Committee and deputy 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 48, 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 54, 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.

We Produce A Diverse Range
Of Over 100 Wine Products In
Five Main Categories

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 period from 1 January 2011 to 19 January 2011, following the resignation of Mr. Lai Ming, Joseph on 1 January 2011, there had remained only two independent non-executive directors on the Board, the number of which falls below the minimum number required under Rule 3.10(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Furthermore, the number of audit committee members of the Company had also fallen below the minimum number required under Rule 3.21 of the Listing Rules.

On 20 January 2011, following the appointment of Mr. Yeung Ting Lap Derek Emory as an independent non-executive director as well as a member of the audit committee of the Company, the Company has complied with the requirement of minimum number of independent non-executive directors and audit committee members under Rules 3.10(1) and 3.21 of the Listing Rules respectively.

During the year, save as disclosed above, none of the Directors was aware of any information that would reasonably indicate that the Company was not in compliance with the Code of Corporate Governance Practices (the "Code") 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 2011.

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 2011.

BOARD OF DIRECTORS

Composition of the Board

As at 31 December 2011, 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. Wu Xuemin, Mr. Jean-Marie Laborde, Mr. Dong Jingrui, Mr. Wong Ching Chung and Mr. Robert Luc, and three independent non-executive Directors, namely Dr. Hui Ho Ming, Herbert, Mr. Chau Ka Wah, Arthur and Mr. Yeung Ting Lap Derek Emory. The biographies of the Directors are set out in "Biography of Directors and Senior Management" section, which demonstrate a diversity of knowledge, skills, experience and qualifications.

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

Mr. Heriard-Dubreuil Francois, Mr. Jean-Marie Laborde, Mr. Wong Ching Chung and Mr. Robert Luc held or continue to hold directorships or other management positions within the group comprising Andromede S. A. (the ultimate controlling shareholder of Remy Pacifique Limited, a substantial shareholder of the Company), its subsidiaries and joint venture companies. Mr. Wu Xuemin 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 2011.

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 (either in person or through electronic means of communications) 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 2011 are set out in the table below.

Board Members	Meetings attended/held
Executive Director	
Bai Zhisheng	4/4
Gao Feng	4/4
Huang Yaqiang	4/4
Non-executive Director	
Heriard-Dubreuil Francois	4/4
Wu Xuemin (appointed on 1 January 2011)	4/4
Jean-Marie Laborde	4/4
Dong Jingrui (appointed on 20 January 2011)	3/4
Wong Ching Chung	4/4
Robert Luc	4/4
Independent non-executive Director	
Hui Ho Ming, Herbert	4/4
Chau Ka Wah, Arthur	4/4
Yeung Ting Lap Derek Emory (appointed on 20 January 2011)	3/4

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

All Directors are supplied with comprehensive board papers and relevant materials within a reasonable period of time in advance of the intended meeting date (in any event at least 3 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. Where queries are raised by Directors, steps would be taken to respond as promptly and fully as possible.

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.

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Non-executive Directors and independent non-executive Directors have the same fiduciary duties, duties of care and skill 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 general 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 director, a full member board meeting was held and the work performed by the Board in relation to nomination of two new directors during the year ended 31 December 2011 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 2011, 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 2011, the chairman of the Remuneration Committee was Mr. Chau Ka Wah, Arthur, an independent non-executive Director and the other members comprised Mr. Dong Jingrui and Mr. Wong Ching Chung, both being non-executive Directors and Dr. Hui Ho Ming, Herbert and Mr. Yeung Ting Lap Derek Emory, 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;

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 2011, 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 2010. 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
Dong Jingrui (appointed on 20 January 2011)	0/1
Wong Ching Chung	1/1
Hui Ho Ming, Herbert	1/1
Yeung Ting Lap Derek Emory (appointed on 20 January 2011)	0/1

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 2011 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, cancelled, lapsed and exercised during the year ended 31 December 2011 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 2011 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 2011, 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 2012. On the basis of this review, the Directors considers 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.

AUDIT COMMITTEE

As at 31 December 2011, the Audit Committee comprised three independent non-executive Directors of the Company namely, Dr. Hui Ho Ming, Herbert, Mr. Chau Ka Wah, Arthur and Mr. Yeung Ting Lap Derek Emory. One of these Directors, Dr. Hui Ho Ming, Herbert, 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 2011 includes the following:

i) a review of the draft annual financial statements for the year ended 31 December 2010 and interim financial statements for the period ended 30 June 2011 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 2011, 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**
Hui Ho Ming, Herbert	2/2
Chau Ka Wah, Arthur	2/2
Yeung Ting Lap Derek Emory	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 2011, 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	1,400
Non-audit services	
– Tax services, internal control review and other engagements	1,763

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 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 2011 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 organised several winery visits in Tianjin for media, financial analysts and fund managers. In the future, the Group plans to continue to strengthen its investors' relationship by participating in future roadshows and conferences;

4) The Company's website at www.dynasty – wines.com provides regularly updated information of interest to shareholders, including corporate information, biographical details of Directors, shareholding structure, annual and interim reports, major historical developments with comprehensive and user-friendly information about the Group, as well as announcements 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 traditional format annual report: tobacco, food & beverages" regarding the 2010 annual report in International ARC Awards competition to recognise 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 2010 annual report in International Galaxy Awards competition to recognise 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.

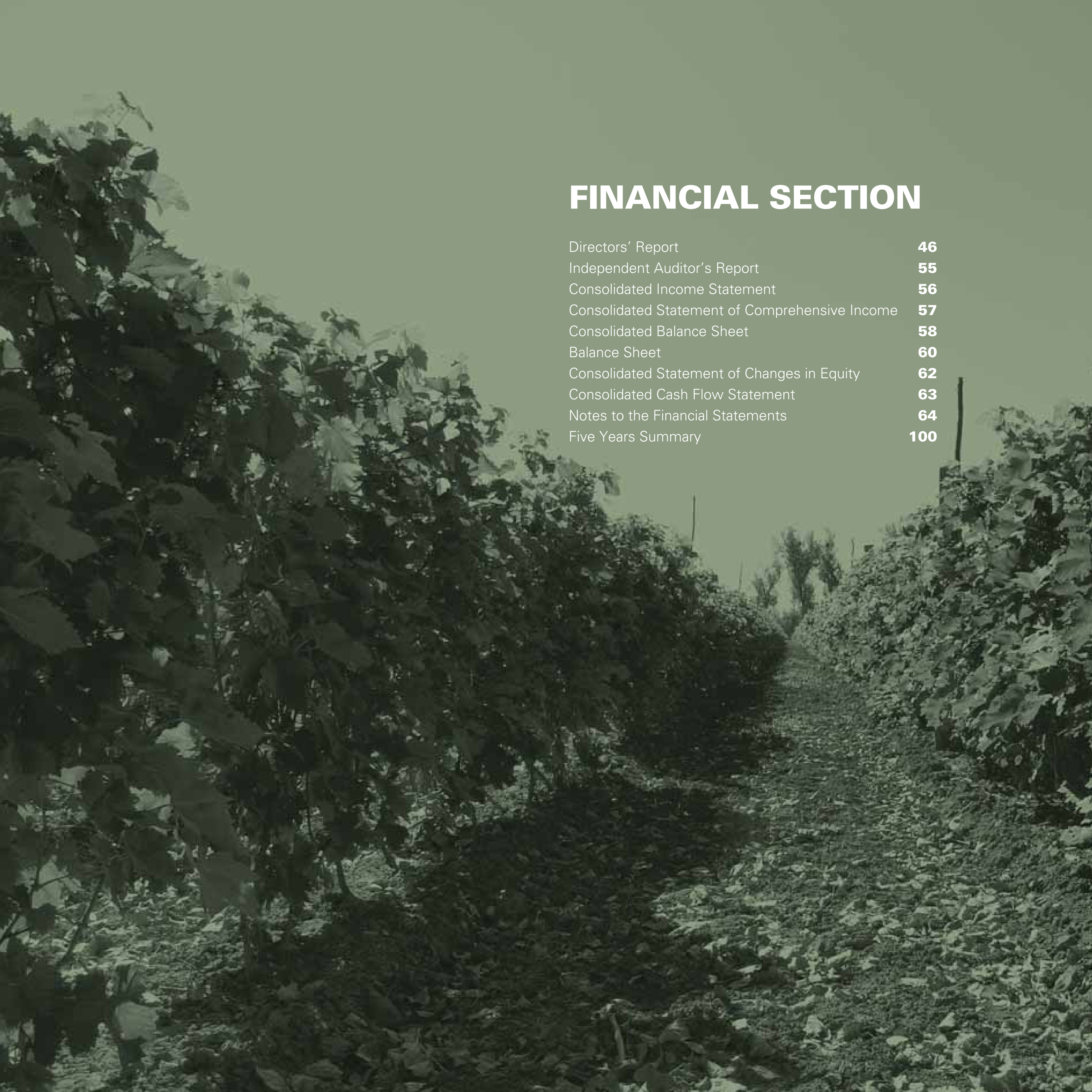
- A winner of the "Bronze award for annual report-overall presentation: Food Manufacturing" regarding the 2010 annual report in International MERCURY Awards competition to recognise Dynasty's outstanding achievement in professional communications. It is one of the most important international competitions honoring the best in public relations, public affairs and corporate communications.

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 3 June 2011 and all resolutions were passed at the AGM by way of poll. Voting results are posted on the Group's website on the day of the AGM.

Market Capitalisation

The market capitalisation of the Company as at 30 December 2011, the last trading day in 2011, was HK$2,234 million (issued share capital: 1,248,200,000 shares at closing market price: HK$1.79 per share).



FINANCIAL SECTION

DIRECTORS' REPORT

The Directors submit herewith annual report together with the audited consolidated 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 2011.

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 2011 are set out in the section headed "Consolidated Income Statement" of the annual report.

The Directors have declared an interim dividend of HK1.5 cents per Share during the year. The total interim dividend of HK$18.7 million has been paid in October 2011. The Directors do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 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 2011 are set out in Note 23 to the financial statements and balance sheet of the Company respectively.

GROUP FINANCIAL SUMMARY

The results and of the assets and liabilities 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.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

Executive Directors:

Mr. Bai Zhisheng
Mr. Gao Feng
Mr. Huang Yaqiang

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)

In accordance with Article 87 of the Company's Articles of Association, Mr. Gao Feng, Mr. Huang Yaqiang, Mr. Jean-Marie Laborde, Dr. Hui Ho Ming, Herbert and Mr. Chau Ka Wah, Arthur will retire from office by rotation at the forthcoming annual general meeting. Being eligible, Mr. Gao Feng, Mr. Huang Yaqiang, Mr. Jean-Marie Laborde and Dr. Hui Ho Ming, Herbert offer themselves for re-election at the forthcoming annual general meeting. Mr. Chau Ka Wah, Arthur has informed the Board of his intention of not seeking re-election and will retire from the Board with effect from the conclusion of 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.

RELATIONSHIP WITH SHENMA

During the period from 1 January 2011 to 6 December 2011, the following Directors were considered to have interests in businesses which compete or were 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

Mr. Heriard-Dubreuil and Mr. Wong disposed all of their interests in Shenma, and resigned as directors of Shenma on 6 December 2011.

During the period, 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 (the "Board") of the Company is independent from the board of directors of Shenma and none of the directors of Shenma can control the Board of the Company. On this basis, the Board 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 may offer any employee or former employee, directors or former directors of the Company or any of its subsidiaries or any person or entity acting in their capacities as advisers or consultants or former advisers or consultants that provides research, development or other technological support to the Group and their bona fide wife, husband, widow or widower or child or stepchild under the age of 18 years.

(c) Maximum Number of Shares Available for Issue under the Scheme

Except with the approval of the Company's independent Shareholders at general meeting, the total number of shares of the Company ("Share") 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 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 2011, 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 12,950,000 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 Scheme shall be a price determined by the Board 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, the Scheme shall be valid and effective for a period of ten years from 6 December 2004, after which period no further option shall be granted.

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

	Outstanding options held at 1 January 2011 (Note)	**Granted**	**Exercised**	**Lapsed/ Cancelled**	**Outstanding options held at 31 December 2011** (Note)
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	200,000	–	–	–	200,000
Independent Non-executive Director:					
Mr. Chau Ka Wah, Arthur	200,000	–	–	–	200,000
Other employees	6,400,000	–	–	–	6,400,000
Total	11,200,000	–	–	(900,000)	10,300,000

Note: These share options (except for the 1,200,000 share options granted to Mr. Bai Zhisheng and 200,000 share options granted to Mr. Chau Ka Wah, Arthur) 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. 200,000 share options were granted to Mr. Chau Ka Wah, Arthur on 16 January 2008 with an exercise price of HK$2.91 and are exercisable from 6 August 2008 to 15 January 2018.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2011, 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. Wong Ching Chung	–	200,000	200,000	0.02%
Independent Non-executive Directors:				
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 2011, none of the Directors, chief executive and their respective associates has any interests 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 2011 was the Company, its subsidiaries, its fellow subsidiaries or its holding company, a party to any arrangements to enable the Directors or any of their spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2011, 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 55.02% 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 54.14% 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 17.82% 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 79.97% 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 2011, no other person, other than a Director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

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

Sales

– the largest customer	11.1%
– five largest customers combined	28.9%

Purchases

– the largest supplier	10.8%
– five largest suppliers combined	35.2%

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 1.2% of the consolidated purchases of the Group.

CONNECTED TRANSACTIONS

Purchase of Corks

Pursuant to the Cork Purchase Contract dated 6 April 2011, Sino-French Joint-Venture Dynasty Winery Limited ("Dynasty Winery"), an indirect wholly-owned subsidiary of the Company, has agreed to purchase corks from Diam Bouchage S.A.S. (the "Vendor") at a consideration of Euro 1,054,300 (equivalent to approximately HK$11,597,300) (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. The Cork Purchase Contract and the oak barrel purchase contracts dated 2 November 2010 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 Cork Purchase Contract and oak barrel purchase contracts is less than 5%, 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 and oak barrel purchase contracts, please also refer to Company's announcements dated 6 April 2011 and 2 November 2010 respectively.

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

Auditor

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

On behalf of the Board
Mr. Bai Zhisheng
Chairman

Hong Kong, 29 March 2012

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the shareholders of Dynasty Fine Wines Group Limited
(incorporated in 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 56 to 99, which comprise the consolidated and company balance sheets as at 31 December 2011, 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 judgment, 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 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 2011, 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 2012

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
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CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Revenue	3	**1,445,117**	1,614,610
Cost of sales	5	**(841,379)**	(801,907)
Gross profit		**603,738**	812,703
Other income	3	**27,753**	24,715
Distribution costs	5	**(468,298)**	(491,021)
Administrative expenses	5	**(143,921)**	(118,705)
Operating profit		**19,272**	227,692
Share of loss of an associate	16	**(83)**	(1,372)
Profit before income tax		**19,189**	226,320
Income tax expense	6	**(17,003)**	(69,259)
Profit for the year		**2,186**	157,061
Attributable to:			
Owners of the Company	7	**4,267**	158,808
Non-controlling interests		**(2,081)**	(1,747)
		2,186	157,061
Dividends	8	**18,723**	76,035
Earnings per share of profit attributable to the owners of the Company			
		HK cents	HK cents
– Basic and diluted earnings per share	9	**0.34**	12.74

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 2011

	2011 HK$'000	2010 HK$'000
Profit for the year	**2,186**	157,061
Other comprehensive income		
Currency translation differences	**89,718**	60,660
Total comprehensive income for the year	**91,904**	217,721
Total comprehensive income attributable to:		
Owners of the Company	**92,693**	218,510
Non-controlling interests	**(789)**	(789)
	91,904	217,721

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**605,124**	599,332
Leasehold land and land use rights	13	**65,166**	63,576
Goodwill	14	**9,421**	9,421
Investment in an associate	16	**12,356**	11,855
Deferred income tax assets	17	**21,578**	19,624
		713,645	703,808
Current assets			
Trade receivables	18	**437,298**	285,583
Other receivables, deposits and prepayments		**72,319**	52,862
Inventories	19	**961,972**	669,878
Prepaid income tax		**5,246**	–
Short-term deposits with maturity over three months		**45,827**	194,023
Restricted cash	20	**–**	14,336
Cash and cash equivalents	21	**357,037**	760,265
		1,879,699	1,976,947
Total assets		**2,593,344**	2,680,755
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	22	**124,820**	124,820
Other reserves	23	**1,184,116**	1,146,817
Retained earnings		**706,744**	705,023
		2,015,680	1,976,660
Non-controlling interests in equity		**26,000**	26,789
Total equity		**2,041,680**	2,003,449

	Note	**2011 HK$'000**	2010 HK$'000
LIABILITIES			
Current liabilities			
Trade payables	24	**192,243**	241,729
Other payables and accruals	25	**359,421**	402,350
Current income tax liabilities		**–**	33,227
Total liabilities		**551,664**	677,306
Total equity and liabilities		**2,593,344**	2,680,755
Net current assets		**1,328,035**	1,299,641
Total assets less current liabilities		**2,041,680**	2,003,449

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 2011

	Note	2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**371**	439
Investments in subsidiaries	15	**947,468**	938,949
		947,839	939,388
Current assets			
Trade receivables	18	**–**	183
Other receivables, deposits and prepayments		**1,719**	1,803
Inventories	19	**311**	381
Dividend receivable from subsidiaries		**104,739**	77,500
Short-term deposits with maturity over three months		**45,827**	152,895
Cash and cash equivalents	21	**125,094**	21,643
		277,690	254,405
Total assets		**1,225,529**	1,193,793
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	22	**124,820**	124,820
Other reserves	23	**908,733**	962,751
Retained earnings		**143,419**	63,031
Total equity		**1,176,972**	1,150,602

	Note	**2011** **HK$'000**	2010 HK$'000
LIABILITIES			
Current liabilities			
Trade payable		**–**	193
Other payables and accruals	25	**38,212**	32,653
Amount due to subsidiaries	26	**10,345**	10,345
Total liabilities		**48,557**	43,191
Total equity and liabilities		**1,225,529**	1,193,793
Net current assets		**229,133**	211,214
Total assets less current liabilities		**1,176,972**	1,150,602

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 2011

		Attributable to owners 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 2010		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	23	–	(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
Comprehensive income						
Profit for the year		–	–	4,267	(2,081)	2,186
Other comprehensive income						
Currency translation differences	23	–	88,426	–	1,292	89,718
Total comprehensive income		–	88,426	4,267	(789)	91,904
Transaction with owners						
Share options scheme	23	–	(345)	345	–	–
Transfers	23	–	2,891	(2,891)	–	–
Dividends	23	–	(53,673)	–	–	(53,673)
Total transactions with owners		–	(51,127)	(2,546)	–	(53,673)
Balance at 31 December 2011		124,820	1,184,116	706,744	26,000	2,041,680

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 2011

	Note	2011 HK$'000	2010 HK$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	28	**(480,044)**	121,178
Income tax paid		**(56,439)**	(61,232)
Interest received		**8,018**	11,951
Net cash (used in)/generated from operating activities		**(528,465)**	71,897
Cash flows from investing activities			
Purchase of property, plant and equipment		**(38,517)**	(116,350)
Decrease in short-term deposits with maturity over three months		**148,196**	60,641
Decrease/(increase) in restricted cash		**14,336**	(2,577)
Net cash generated from/(used in) investing activities		**124,015**	(58,286)
Cash flows from financing activities			
Dividends paid to the Company's owners		**(53,673)**	(79,680)
Dividends paid to a non-controlling interest holder		**–**	(203)
Proceeds from shares issued under share options scheme		**–**	9,483
Net cash used in financing activities		**(53,673)**	(70,400)
Net decrease in cash and cash equivalents		**(458,123)**	(56,789)
Cash and cash equivalents at the beginning of the year		**760,265**	778,277
Change in exchange rate		**54,895**	38,777
Cash and cash equivalents at the end of the year		**357,037**	760,265

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 2012.

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 the Company have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The area involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 31.

(a) New and amended standards adopted by the Group

The group has adopted the following new and amended HKFRSs as of 1 January 2011.

- HKAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

  - The name of the government and the nature of their relationship;
  - The nature and amount of any individually significant transactions; and
  - The extent of any collectively-significant transactions qualitatively or quantitatively.

  It also clarifies and simplifies the definition of a related party.

- Transition requirements for amendments made as a result of HKAS 27 "Consolidated and Separate Financial Statements"

  It clarifies that the consequential amendments from HKAS 27 made to HKAS 21. "The effect of changes in foreign exchange rates, HKAS 28, "Investments in associates', and HKAS 31, "Interests in joint ventures', apply prospectively for annual periods beginning on or after 1 July 2009, or earlier when HKAS 27 is applied earlier.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of Preparation (Continued)

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

- HKFRS 7 "Financial instruments: Disclosures"

It clarifies seven disclosure requirements for financial instruments, with a particular focus on the qualitative disclosures and credit risk disclosures.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted

- HKFRS 9, "Financial instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and was amended October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

- HKFRS 10 "Consolidated financial statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 "Disclosures of interests in other entities" includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 13 "Fair value measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the group.

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 2011.

(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 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.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (Continued)

(c) 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.

(d) 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.

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.

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 other comprehensive income is recognised in other comprehensive income. 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.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profit/(loss) of an associate" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (Continued)

(d) Associates (Continued)

Impairment testing of the investments in associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the associates in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

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

In the Company's balance sheet, investments in associated companies are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of associated companies are accounted for by the company on the basis of dividend and receivable.

2.3 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers who are the executive directors. The chief operating decision-maker is responsible for making strategic decisions, allocating resources and assessing the performance of the operating segments.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign Currency Translation (Continued)

(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 in other comprehensive income.

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. Exchange difference arising are recognised in equity.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Non-Financial Assets

Assets that have an indefinite useful life are not subject to amortisation, and are at least tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial Assets

The Group classifies its financial assets as loans and receivables. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.15 Current and Deferred Income Tax

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

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

2.17 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue from sales of goods is recognised when the Group has delivered products to the customers, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Interest income is recognised on a time-proportion basis using the effective interest method.

2.18 Employee Benefits

(a) Retirement scheme obligation

Employees of the Group's subsidiaries in the PRC are members of the state-managed employee pension scheme which undertakes to assume the retirement benefit obligations of all existing and future retired employees. The Group's obligation is to make the required contributions under the scheme. In addition, the Company contributes to a mandatory provident fund scheme for all Hong Kong employees. All contributions are based on a certain percentage of the employee's salary and are charged to the income statement as incurred.

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value at the grant date 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 final dividends are approved by the Company's shareholders. Interim dividend is recognised when paid.

2.21 Government Grants/Subsidies

Government grants are recognised at fair value where there is a reasonable assurance that the Group will comply with all conditions attached to the grants and the grants will be received.

Government subsidies relating to costs are deferred and recognised in the income statement on a systemic basis to match related costs which they are intended to compensate.

3 REVENUE AND OTHER INCOME

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

	2011 **HK$'000**	2010 HK$'000
Revenue		
Manufacturing and sale of wine products	**1,445,117**	1,614,610
Other income		
Interest income	**7,888**	12,003
Government grants (Note)	**17,942**	12,422
Others	**1,923**	290
	27,753	24,715
Total revenue and other income	**1,472,870**	1,639,325

Note: The amount represents unconditional government grants of RMB14.9 million (2010: RMB10.8 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 HK$'000	**White wines** HK$'000	**All other products** HK$'000	**Total Group** HK$'000
For the year ended 31 December 2011				
Revenue	**1,214,761**	**219,391**	**10,965**	**1,445,117**
Gross profit	**522,267**	**74,404**	**7,067**	**603,738**
Unallocated items:				
Depreciation and amortisation	**–**	**–**	**–**	**(59,746)**
Interest income	**–**	**–**	**–**	**7,888**
Share of loss of an associate	**–**	**–**	**–**	**(83)**
Income tax expense	**–**	**–**	**–**	**(17,003)**
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)

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

4 SEGMENT INFORMATION (CONTINUED)

The Group's customer base is diversified and includes only one (2010: two) external customers with whom transactions have exceeded 10% of the group's revenues. Revenue of approximately HK$160 million (2010: HK$569 million) is derived from this customer.

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

	2011 HK$'000	2010 HK$'000
Gross profit for reportable segments	603,738	812,703
Other income	27,753	24,715
Distribution costs	(468,298)	(491,021)
Administrative expenses	(143,921)	(118,705)
Operating profit	19,272	227,692
Share of loss of an associate	(83)	(1,372)
Profit before income tax	19,189	226,320

5 EXPENSES BY NATURE

	2011 HK$'000	2010 HK$'000
Cost of unprocessed wines, consumables and other materials recognised as expenses included in cost of sales	660,782	633,519
Advertising, marketing, and other incidental promotion expenses	277,762	300,729
Consumption tax of domestic sales and other taxes	114,431	112,653
Employee costs:		
– salaries, other allowance and benefits	191,519	156,778
– contributions to retirement benefits scheme	12,817	9,247
Total employee costs including directors' emoluments	204,336	166,025
Transportation and logistics expenses	51,721	62,236
Travelling expenses	18,318	16,881
Depreciation	58,238	45,667
Consultancy and professional fee	6,200	6,257
Operating lease rentals in respect of:		
– transformation station	2,599	2,494
– office premises	2,714	2,257
Amortisation	1,508	1,179
Auditors' remuneration	1,400	1,250
Net exchange loss	1,182	269
Provision for impairment in trade receivables	–	3,940
Other expenses	52,407	56,277
Total of cost of sales, distribution costs and administrative expenses	1,453,598	1,411,633

6 INCOME TAX EXPENSE

	2011 HK$'000	2010 HK$'000
Current income tax:		
– PRC income tax for the year	**17,966**	65,428
– Over provision in previous year	**–**	(2,635)
	17,966	62,793
Deferred income tax:		
– (Recognition)/reversal of temporary difference	**(963)**	6,466
	17,003	69,259

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% (2010: 25%).

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

	2011 HK$'000	2010 HK$'000
Profit before income tax	**19,189**	226,320
Calculated at applicable rates	**6,072**	58,132
Expenses not allowed to deduct for the year	**8,075**	9,626
Income not subject to tax	**(616)**	(6)
Tax losses for which no deferred income tax asset was recognised	**3,472**	4,142
Over provision in previous year	**–**	(2,635)
Income tax for the year	**17,003**	69,259

7 PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The profit attributable to the owners of the Company is dealt with in the financial statements of the Company to the extent of a profit of HK$80,043,000 (2010: loss of HK$13,441,000).

8 DIVIDENDS

	2011 HK$'000	2010 HK$'000
Interim dividend paid of HK1.5 cents (2010: HK3.3 cents) per ordinary share	**18,723**	41,085
Proposed final dividend, nil (2010: HK2.8 cents per ordinary share)	**–**	34,950
	18,723	76,035

9 BASIC AND DILUTED EARNINGS PER SHARE

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

	2011 HK$'000	2010 HK$'000
Earnings		
Profit attributable to owners of the Company	**4,267**	158,808
	Number of shares (thousand)	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,248,200**	1,245,647
Effect of dilutive potential ordinary shares:		
– Share options (note)	**–**	1,441
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,248,200**	1,247,088

Note: In 2010, diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding in 2010 to assume full conversion of share options. A calculation was done to determine the number of shares that could have been acquired at fair value based on monetary value of the subscription rights attached to the outstanding share options. The calculated number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. In 2011, the share options would not have dilutive effect.

10 EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

- Directors' Emoluments

	2011 HK$'000	2010 HK$'000
Fees	3,135	3,240
Salaries, allowances and other benefits	3,975	4,483
Contributions to retirement benefits scheme	184	192
	7,294	7,915

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

	For the year ended 31 December 2011						
	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	–	336	–	70	1,806
Mr. Huang Yaqiang (i)	–	367	–	36	–	39	442
Non-executive director							
Mr. Heriard-Dubreuil Francois	360	–	–	–	–	–	360
Mr. Wu Xuemin (ii)	360	–	–	–	–	–	360
Mr. Jean-Marie Laborde	360	–	–	–	–	–	360
Mr. Dong Jingrui (iii)	342	–	–	–	–	–	342
Mr. Wong Ching Chung	360	–	–	–	–	–	360
Mr. Robert Luc	360	–	–	–	–	–	360
Independent non-executive director							
Dr. Hui Ho Ming, Herbert	360	–	–	–	–	–	360
Mr. Chau Ka Wah, Arthur	360	–	–	–	–	–	360
Mr. Yeung Ting Lap Derek Emory (iii)	273	–	–	–	–	–	273
	3,135	3,267	–	708	–	184	7,294

10 EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

- Directors' Emoluments (Continued)

	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 (iv)	360	–	–	–	–	–	360
Mr. Jean-Marie Laborde	360	–	–	–	–	–	360
Mr. Zhang Wenlin (iv)	360	–	–	–	–	–	360
Mr. Wong Ching Chung	360	–	–	–	–	–	360
Mr. Robert Luc	360	–	–	–	–	–	360
Independent non-executive director							
Mr. Lai Ming, Joseph (iv)	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

Note:

(i) Appointed on 26 January 2010

(ii) Appointed on 1 January 2011

(iii) Appointed on 20 January 2011

(iv) Resigned on 1 January 2011

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 2011 (2010: two) whose emoluments are reflected above. The emoluments payable to the remaining three (2010: three) individuals during the year are summarised as follows:

	2011 **HK$'000**	2010 HK$'000
Salaries and allowances	**3,018**	2,825
Contributions to retirement benefits scheme	**138**	104
	3,156	2,929

The emoluments fell within the following bands

	Number of individuals	
	2011	2010
Emolument bands		
Nil – HK$1,000,000	**2**	2
HK$1,500,001 – HK$2,000,000	**1**	1
	3	3

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 2011 (2010: Nil).

11 RETIREMENT BENEFIT OBLIGATIONS

The Group has no other obligation for the payment of retirement and other post-retirement benefits of employees or retirees other than the contribution payments as disclosed in Note 5.

12 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost						
As at 1 January 2010	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
Exchange differences	20,059	19,311	6,584	1,718	770	48,442
Additions	16	6,711	17,903	1,424	12,463	38,517
Transfers	1,958	33,143	–	–	(35,101)	–
Disposals	–	(668)	(4,335)	(513)	(249)	(5,765)
As at 31 December 2011	427,730	430,429	150,941	38,600	4,946	1,052,646
Accumulated depreciation						
As at 1 January 2010	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
Exchange differences	4,061	10,157	4,000	1,256	–	19,474
Charge for the year	18,312	25,993	12,013	1,920	–	58,238
Disposals	–	(601)	(1,247)	(462)	–	(2,310)
As at 31 December 2011	95,542	228,789	94,214	28,977	–	447,522
Net book value						
As at 31 December 2011	332,188	201,640	56,727	9,623	4,946	605,124
As at 31 December 2010	332,528	178,692	51,341	9,708	27,063	599,332

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 2010	3,913	1,601	5,514
Additions	144	–	144
As at 31 December 2010 and 2011	4,057	1,601	5,658
Accumulated depreciation			
As at 1 January 2010	3,087	1,508	4,595
Charge for the year	608	16	624
As at 31 December 2010	3,695	1,524	5,219
Charge for the year	68	–	68
As at 31 December 2011	3,763	1,524	5,287
Net book value			
As at 31 December 2011	294	77	371
As at 31 December 2010	362	77	439

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	
	2011	2010
	HK$'000	HK$'000
Cost	**78,878**	75,171
Accumulated amortisation	**(13,712)**	(11,595)
	65,166	63,576
As at 1 January	**63,576**	62,570
Amortisation	**(1,508)**	(1,179)
Exchange differences	**3,098**	2,185
As at 31 December	**65,166**	63,576

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 2010 and 2011	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 using the estimated growth rate of 2%. Cash flows beyond the five-year period are extrapolated using the same estimated growth rate as stated above. The growth rate does not exceed the long-term average growth rate for the winery business.

14 GOODWILL (CONTINUED)

The key assumptions used for value-in-use calculations are as follows:

	2011	2010
Growth rate	2%	2%
Discount rate	10%	7%
Gross margin	5%	12%

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 (2010: Nil).

15 INVESTMENTS IN SUBSIDIARIES

	Company	
	2011 HK$'000	2010 HK$'000
Unlisted shares, at cost	489,866	489,866
Loan to a subsidiary	149,057	142,051
Amount due from subsidiaries	308,545	307,032
	947,468	938,949

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	
	2011 HK$'000	2010 HK$'000
Share of net assets	12,356	11,855

As at 31 December 2011, 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 Rmb40 million.

16 INVESTMENT IN AN ASSOCIATE (CONTINUED)

The Group's share of the assets, liabilities and results of its associate is as follows:

	2011 **HK$'000**	2010 HK$'000
Assets	**17,593**	16,873
Liabilities	**5,237**	5,018
Revenue	**2,339**	7,581
Loss	**(83)**	(1,372)

17 DEFERRED INCOME TAX ASSETS

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

	Unrealised profits on intercompany transactions HK$'000	**Provision and others** HK$'000	**Total** HK$'000
The Group			
At 1 January 2010	8,763	17,327	26,090
Credited/(charged) to consolidated income statement	8,048	(14,514)	(6,466)
At 31 December 2010	16,811	2,813	19,624
Exchange differences	875	116	991
Credited/(charged) to consolidated income statement	1,876	(913)	963
At 31 December 2011	19,562	2,016	21,578

Deferred income tax assets are all expected to be recovered within 12 months.

(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$51.9 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 ageing analysis of the trade receivables is as follows:

	2011	2010
	HK$'000	HK$'000
The Group		
Below 30 days	**106,338**	114,219
30 to 90 days	**115,517**	46,245
91 to 180 days	**55,278**	22,472
Over 180 days (note (c))	**164,299**	106,587
	441,432	289,523
Less: Provision for impairment (note (b))	**(4,134)**	(3,940)
	437,298	285,583

	2011	2010
	HK$'000	HK$'000
The Company		
30 to 90 days	**–**	183

Notes:

(a) The carrying amounts of the Group's trade receivables were principally denominated in Renminbi. The balance included bill receivables amounting to about HK$222 million (2010: about HK$233 million). The fair value of trade receivables approximates their carrying values.

(b) Trade receivables that are impaired are past due over 12 months (2010:12 months). The change in the provision balance is due to exchange difference.

(c) Ageing for trade receivables of the Group which are past due but not impaired are as set out below:

	2011	2010
	HK$'000	HK$'000
Over 180 days	**160,165**	102,647

The balance included bill receivables over 180 days amounting to about HK$100 million (2010: about HK$83 million).

(d) Included in trade receivables are balances of HK$82 million of which the Group has received bill receivables from the customers. The Group has provided guarantees in favour of a bank issuing the bill receivables in the event the customers do not settle their amounts due to the bank. Consequently, until the customers settle the amounts of bill receivables to the bank, the Group will not derecognise the trade receivables. The Group has endorsed HK$65 million of the aforesaid bill receivables to its suppliers. The corresponding amounts of HK$82 million are disclosed as bank trade finance in note 25.

19 INVENTORIES

	2011 HK$'000	2010 HK$'000
The Group		
At cost:		
Unprocessed wines	516,817	324,288
Finished goods	360,996	279,497
Consumables	84,159	66,093
	961,972	669,878
The Company		
Finished goods	311	381

The cost of inventories recognised as expense and included in "cost of sales" amounted to HK$660,782,000 (2010: HK$633,519,000).

20 RESTRICTED CASH

	2011 HK$'000	2010 HK$'000
The Group		
Restricted cash related to letters of credit (Note)	–	14,336

Note: As at 31 December 2010, a deposit amounting to Rmb12.2 million was pledged to a bank for obtaining letters of credit and was treated as restricted cash.

21 CASH AND CASH EQUIVALENTS

	2011 HK$'000	2010 HK$'000
The Group		
Balances with banks	357,037	760,265
The Company		
Balances with banks	125,094	21,643

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:

	2011 HK$'000	2010 HK$'000
The Group		
Renminbi	229,067	731,674
HK dollars	47,633	21,396
US dollars	80,337	7,195
	357,037	760,265

	2011 HK$'000	2010 HK$'000
The Company		
HK dollars	47,544	21,278
US dollars	77,463	277
Renminbi	87	88
	125,094	21,643

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 2010 and 2011	3,000,000,000	300,000

Issued and paid up:

	Number of Shares	**Share capital** HK$'000
As at 31 December 2010 and 2011	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.

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 2011	Option lapsed	Option exercised	Outstanding as at 31 December 2011
Options granted to directors, other than independent non-executive directors							
27 January 2005	17 August 2005	26 January 2015	3	3,400,000	(900,000)	–	2,500,000
01 November 2006	22 May 2007	31 October 2016	3	1,200,000	–	–	1,200,000
				4,600,000	(900,000)	–	3,700,000
Options granted to independent non-executive directors							
16 January 2008	06 August 2008	15 January 2018	2.91	200,000	–	–	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	200,000	–	–	200,000
				6,400,000	–	–	6,400,000
Total				11,200,000	(900,000)	–	10,300,000

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 2010	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
Transfer between reserves	–	–	(345)	2,891	–	–	2,546
Currency translation differences	–	–	–	–	–	88,426	88,426
Dividend for the year	(53,673)	–	–	–	–	–	(53,673)
As at 31 December 2011	464,464	74,519	3,944	158,928	94,434	387,827	1,184,116

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.

23 OTHER RESERVES (CONTINUED)

The Company

	Share premium HK$'000 (Note iv)	Employee share-based compensation reserve HK$'000	Capital reserve HK$'000 (Note v)	Exchange reserve HK$'000	Total HK$'000
As at 1 January 2010	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
Transfer to retained earnings	–	(345)	–	–	(345)
Dividend for the year	(53,673)	–	–	–	(53,673)
As at 31 December 2011	464,464	3,944	331,286	109,039	908,733

Notes:

(iv) Refer to note (i) above.

(v) 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 TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	Group	
	2011 HK$'000	2010 HK$'000
Below 30 days	**92,761**	189,822
30 to 90 days	**69,583**	47,959
91 to 180 days	**15,786**	3,913
Over 180 days	**14,113**	35
	192,243	241,729

25 OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advance and deposits from customers	**113,508**	175,963	**–**	–
Bank trade finance (Note 18 (d))	**81,936**	–	**–**	–
Other tax payables	**44,196**	51,391	**–**	–
Others (Note)	**119,781**	174,996	**38,212**	32,653
	359,421	402,350	**38,212**	32,653

Note: The balances of the Group as at 31 December 2011 mainly included accrued promotion expenses and accrual for subcontracting processing charge.

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 2011, the Group had capital expenditure commitments related to purchase of equipment and production facilities as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Authorised but not contracted for	**16,956**	23,443
Contracted but not provided for	**3,296**	263
	20,252	23,706

(b) Operating Lease Commitments

At 31 December 2011, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Transformation station		
– Not later than one year	**2,599**	2,494
– Later than one year but not later than five years	**1,516**	3,949
	4,115	6,443

27 COMMITMENTS (CONTINUED)

(b) Operating Lease Commitments (Continued)

	Group and Company 2011 HK$'000	2010 HK$'000
Office premises		
– Not later than one year	**2,251**	2,251
– Later than one year but not later than five years	**1,313**	3,565
	3,564	5,816

28 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

Cash (Used In)/Generated From Operations:

	2011 HK$'000	2010 HK$'000
Profit before income tax	**19,189**	226,320
Adjustment for:		
Interest income	**(7,888)**	(12,003)
Depreciation	**58,238**	45,667
Amortisation	**1,508**	1,179
Net exchange loss	**1,182**	269
Loss on disposal of equipment	**3,455**	1,888
Provision for impairment in trade receivables	**–**	3,940
Share of loss of an associate	**83**	1,372
Changes in working capital:		
Increase in trade receivables	**(151,715)**	(61,705)
(Increase)/decrease in other receivables, deposits and prepayments	**(19,587)**	12,228
Increase in inventories	**(292,094)**	(276,466)
(Decrease)/increase in trade payables	**(49,486)**	144,752
(Decrease)/increase in other payables and accruals	**(42,929)**	45,496
Decrease in financial liabilities at fair value through profit or loss	**–**	(11,759)
Cash (used in)/generated from operations	**(480,044)**	121,178

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.

	2011 HK$'000	2010 HK$'000
• Purchase of unprocessed wine from an associate (Note 16)	**9,358**	30,324
• Key management compensation		
Salaries and other short-term employee benefits	**10,713**	11,062
Other long-term benefits	**545**	597
	11,258	11,659

	As at December 31 2011 HK$'000	 2010 HK$'000
• Balance of advance for unprocessed wine due to an associate (Note (i))	**7,409**	9,163

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 2011:

	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
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
Tianjin Tianyang Grape Winery Sales Co. Ltd.	RMB500,000	60	Sale of wine products
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.	RMB50,000,000	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

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 2011, 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 2011.

(b) Credit risk

The Group's customer base is diversified and includes only one (2010: two) external customer with whom transactions have exceeded 10% of the group's revenues. Revenue of approximately HK$160 million (2010: HK$569 million) is derived from this customer. The carrying amount of bank deposit, 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.

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

31.1 Financial Risk Factors (Continued)

(c) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

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	
	2011	2010
	HK$'000	HK$'000
The Group		
Trade payables	**192,243**	241,729
Other payables and accruals	**299,650**	387,263
	491,893	628,992
The Company		
Trade payables	**–**	193
Other payables and accruals	**38,212**	32,653
Amount due to subsidiaries	**10,345**	10,345
	48,557	43,191

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 equity attributable to owners 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.

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				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**1,445,117**	1,614,610	1,482,542	1,360,859	1,123,327
Profit before income tax	**19,189**	226,320	212,327	217,211	181,283
Income tax expense	**(17,003)**	(69,259)	(55,456)	(73,270)	(54,668)
Profit after income tax	**2,186**	157,061	156,871	143,941	126,615
Non-controlling interests	**2,081**	1,747	(749)	(862)	(289)
Profit attributable to owners of the Company	**4,267**	158,808	156,122	143,079	126,326
Dividends	**18,723**	76,035	73,455	67,230	59,760

CONSOLIDATED ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS IN EQUITY

	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**713,645**	703,808	610,022	526,747	446,956
Current assets	**1,879,699**	1,976,947	1,730,970	1,626,446	1,420,842
Current liabilities	**(551,664)**	(677,306)	(484,864)	(388,821)	(274,566)
Non-controlling interests in equity	**(26,000)**	(26,789)	(27,781)	(35,501)	(32,616)
Shareholder's equity	**2,015,680**	1,976,660	1,828,347	1,728,871	1,560,616

Concept, design and printing: iOne Financial Press Limited   Website: www.ione.com.hk

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