



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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 828)

PRELIMINARY ANNOUNCEMENT OF ANNUAL RESULTS
FOR YEAR ENDED 31 DECEMBER 2005

The board of directors (the “Board”) of Dynasty Fine Wines Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2005, prepared on the basis set out in Note 2, together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	<i>Note</i>	2005 HK\$'000	2004 HK\$'000
Turnover	3	947,489	804,629
Cost of sales		(456,922)	(377,699)
Gross profit		490,567	426,930
Other revenue	3	19,368	4,800
Distribution costs		(221,515)	(169,210)
General and administrative expenses		(59,062)	(38,148)
Operating profit	5	229,358	224,372
Finance costs		(346)	(708)
Profit before income tax		229,012	223,664
Income tax expense	6	(47,604)	(57,187)
Profit for the year		181,408	166,477
Attributable to:			
Equity holders of the Company		178,991	165,955
Minority interest		2,417	522
		181,408	166,477
Dividends	7	70,965	74,340
Earnings per share for profit attributable to the equity holders of the Company during the year		HK cents	HK cents
– Basic earnings per share	8	14.7	18.4

CONSOLIDATED BALANCE SHEET*As at 31 December 2005*

	<i>Note</i>	2005 HK\$'000	2004 <i>HK\$'000</i> (Restated)
ASSETS			
Non-current assets			
Fixed assets		292,581	189,596
Land use rights		18,857	16,860
Goodwill		9,421	–
Deferred income tax assets		1,236	1,212
		322,095	207,668
Current assets			
Trade receivables	9	111,705	106,097
Other receivables, deposits and prepayments		40,449	24,598
Inventories		354,872	234,425
Cash and bank balances		763,251	227,898
		1,270,277	593,018
Total assets		1,592,372	800,686
EQUITY			
Capital and reserves attributable to the Company's equity holders:			
Share capital		124,500	90,000
Reserves		1,181,644	330,284
		1,306,144	420,284
Minority interest		31,107	3,072
Total equity		1,337,251	423,356
LIABILITIES			
Current liabilities			
Trade payables	10	51,019	45,207
Other payables and accruals		188,653	211,761
Amount due to a fellow subsidiary		–	1,735
Amount due to a related company		10,104	11,994
Current income tax liabilities		5,345	18,142
Borrowings		–	14,151
Dividend payable		–	74,340
Total liabilities		255,121	377,330
Total equity and liabilities		1,592,372	800,686
Net current assets		1,015,156	215,688
Net assets less current liabilities		1,337,251	423,356

1 Group reorganisation

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.

Pursuant to the reorganisation, as disclosed in the Company's prospectus dated 17 January 2005, prepared for the purpose of listing its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Reorganisation"), the Company became the holding company of Grand Spirit Holdings Limited ("Grand Spirit"), Sino-French Joint-Venture Dynasty Winery Ltd. ("Dynasty Winery") and Shandong Yu Huang Grape Wine Co., Ltd. ("Yu Huang") on 13 January 2005.

2 Basis of preparation and accounting policies

The accounting policies and methods of computation used in the preparation of these consolidated accounts are consistent with those used in the annual accounts for the year ended 31 December 2004, except the Group has changed certain of its accounting policies following its adoption of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are effective for accounting periods commencing on or after 1 January 2005.

The consolidated accounts of Dynasty Fine Wines Group Limited have been prepared in accordance with the new HKFRSs. The consolidated accounts have been prepared under the historical cost convention.

The preparation of accounts 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 Company's accounting policies.

In 2005, the Group adopted the new/revised HKFRSs below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new HKASs 1, 2, 7, 8, 10, 14, 16, 21, 23, 24, 27, 33, 37 and 38 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest and other disclosures.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.
- HKASs 2, 7, 8, 10, 14, 16, 23, 27, 33, 37 and 38 had no material effect on the Group's policies.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to land use rights. The up-front prepayments made for the leasehold land and land use rights are now reclassified as operating lease and expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement in the year identified. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

In accordance with the provisions of HKFRS 3 and HKAS 36, goodwill is tested annually for impairment, and also when there is indication of impairment commencing from the year ended 31 December 2005. In accordance with HKFRS 2, costs of share options are expensed in income statement.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than HKASs 16, 21, 39 and HKFRSs 2 and 3.

Standards, interpretations and amendments to published standards that are not yet effective

Following are the new standards, amendments and interpretations to existing standards for accounting periods beginning on or after 1 January 2006 or later periods which are relevant to the Group but the Group has not early adopted:

Effective from 1 January 2006:

HKAS 19 (Amendment)	Employee Benefits
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions; The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts

Effective from 1 January 2007:

HKFRS 7 and Amendment to HKAS 1	Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures
---------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------

The Group has already commenced an assessment of the impact of these new standards, interpretations and amendments but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

3 Turnover and other revenue

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover		
Manufacturing and sale of wine products	947,489	804,629
Other revenue		
Interest income	19,368	4,800
Total revenue	<u>966,857</u>	<u>809,429</u>

4 Segment information

Manufacturing and sale of wine products is the only business segment of the Group for the year ended 31 December 2005 and 2004.

No geographic analysis is provided as less than 10% of the consolidated turnover, consolidated results and operating assets of the Group are attributable to markets other than PRC.

5 Operating profit

	2005 HK\$'000	2004 HK\$'000
Operating profit is stated after charging/(crediting):		
Employee costs include:		
– salaries	33,745	21,301
– contributions to retirement benefits scheme	3,670	1,873
– other allowance and benefits	17,584	19,437
– share-based payments	8,847	–
– government subsidy	(12,074)	(7,589)
Total employee costs including directors' emoluments	51,772	35,022
Auditors' remuneration	1,000	400
Depreciation	21,436	16,555
Amortisation	914	775
Net exchange loss/(gain)	6,544	(223)
Loss on disposal of fixed assets	147	1,102
Operating lease rentals in respect of:		
– storage facilities and plant and machinery	3,143	3,396
– transformation station	2,057	2,038
– office premises	1,425	238

6 Income tax expense

	2005 HK\$'000	2004 HK\$'000
Current income tax:		
– PRC income tax	51,151	56,678
– (over)/under provision in previous years	(2,003)	509
– tax refund	(1,544)	–
	47,604	57,187

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 24%, being the preferential rate for foreign investment production enterprises established in a coastal economic development zone (2004: 24%).

7 Dividends

	2005 HK\$'000	2004 HK\$'000
Dividend declared on 12 May 2004 paid in July 2004 (<i>Note i</i>)	–	74,344
Special dividend declared on 8 November 2004 paid in December 2004 (<i>Note i</i>)	–	62,825
Special dividend declared on 8 November 2004 paid in April 2005 (<i>Note i</i>)	–	74,340
Interim dividend paid of HK3.7 cents per ordinary share	46,065	–
Proposed final dividend of HK2.0 cents per ordinary share (<i>Note ii</i>)	24,900	–
	70,965	211,509

Note:

- (i) All of the dividends declared in 2004 were attributable to the then shareholders of Dynasty Winery prior to the Reorganisation.
- (ii) On 20 April 2006, the directors declared final dividend of HK2.0 cents per ordinary share. These accounts do not reflect this dividend payable.

8 Earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK\$178,991,000 and the weighted average number of 1,220,630,137 shares in issue during the year.

The comparative basic earnings per share is calculated based on profit attributable to equity holders of the Company of HK\$165,955,000 and an aggregate of 900,000,000 shares comprising 100 shares issued immediately after incorporation of the Company and 899,999,900 shares issued upon the Reorganisation, which were deemed to have been in issue since 1 January 2004.

The exercise of share options would have no material dilutive effect of earnings per share for the year ended 31 December 2005 (2004: Nil).

9 Trade receivables

In general, the Group grants a credit period of 30 to 90 days to its customers. The aging analysis of the trade receivables is as follows:

	2005 HK\$'000	2004 HK\$'000
Below 30 days	87,648	76,241
30 to 90 days	19,025	21,062
91 to 180 days	2,797	11,819
Over 180 days	2,235	864
	111,705	109,986
Less: Provision for doubtful debts	–	(3,889)
	111,705	106,097

10 Trade payables

The aging analysis of the trade payables is as follows:

	2005 HK\$'000	2004 HK\$'000
Below 30 days	48,183	41,574
30 to 90 days	–	337
91 to 180 days	–	1,871
Over 180 days	2,836	1,425
	51,019	45,207

11 Comparative figures

Comparative figures have been translated into Hong Kong dollars to conform with the current year's presentation.

Overview

For the year ended 31 December 2005, our turnover was HK\$947.5 million (2004 – HK\$804.6 million), increased by 17.8% while our profit attributable to equity holders of the Company was HK\$179.0 million (2004 – HK\$165.9 million), arose by 7.9% as the operating costs increased.

Earnings per share of the Company (“Share”) was HK14.7 cents per Share based on the weighted average number of 1,220,630,137 Shares in issue during the year (2004 – HK18.4 cents per Share on a pro forma basis as if 900,000,000 Shares were outstanding since 1 January 2004). As there was no dilutive potential ordinary Share outstanding as at 31 December 2005, dilutive earnings per Share are not presented.

The financial results in 2005 were mainly attributable to the growth in sales volume but partially offset by the increase in purchase cost of grape juice, distribution costs and general and administrative expenses.

Financial review

– Turnover

For the year ended 31 December 2005, we achieved satisfactory growth in turnover due to increase in sales volume. The Group's turnover increased from approximately HK\$804.6 million in 2004 to approximately HK\$947.5 million in 2005. This increase was attributable to the sales and marketing effort and the organic growth of the overall grape wine market in the PRC.

The Group's average ex-factory sales prices during the year for red and white wine products had been relatively stable compared to average price of HK\$20.8 per bottle (750ml) in 2004. The average ex-factory sales prices of the Group's red wine products are, however, in general higher than the Group's white wine products. Based on consumers in the PRC having a prevalent preference in favour of red wine products, the Group is able to set higher prices for its red wine products.

– Cost of sales

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

	2005 %	2004 %
Cost of raw materials		
• Grapes and grape juice	39.0	35.8
• Yeast and additives	1.6	1.9
• Packaging materials	26.1	26.2
• Others	2.0	1.5
Total cost of raw materials	68.7	65.4
Manufacturing overheads	10.6	13.3
Consumption tax	20.7	21.3
Total cost of sales	100.0	100.0

The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives and packaging materials comprising bottles, bottle caps, labels, corks and packing boxes. During the year, the cost of grapes and grape juice accounted for approximately 39.0% of the Group's total cost of sales, an increase of 3.2 percentage points from approximately 35.8% in 2004 and was due to the unfavorable demand and supply situation of grapes or grape juice. The total cost of packaging materials as a percentage of turnover was relatively stable during the year as compared with last year.

Manufacturing overheads consist primarily of depreciation or rental of fixed assets, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses for production. During the year, manufacturing overheads did not fluctuate significantly as a percentage of turnover.

– Gross profit margin

During the year, the gross margin was calculated based on cost of sales inclusive of consumption tax over gross invoiced sales. Overall gross profit margin reached 51.8% in 2005, a decline of 1.3 percentage points from 53.1% in 2004 and was primarily due to higher purchase cost of grape juice as compared to 2004. The gross margin of red wine products and white wine products were 52.3% and 42.2% respectively (2004 – 53.9% and 40.1% respectively). The higher gross margin of the red wine products was mainly due to their higher sales prices.

– Distribution costs

Distribution costs include principally advertising and market promotion expenses, transportation and delivery charges in connection with the sales of grape wine products, salaries and related personnel expenses for the sales and marketing department and other incidental expenses. During the year, distribution costs increased and accounted for approximately 23.4% (2004 – 21.0%) of the Group's turnover. In particular, advertising and market promotion expenses accounted for approximately 14.9% (2004 – 13.2%) of the Group's turnover. The modest increase in distribution costs as a percentage was due to the increase in advertising and promotion fees incurred to boost market demand. In order to allow the Group to maintain consumer awareness of our brand name – “Dynasty”, to increase the market share and also to facilitate the launch of new products, we expect advertising and market promotion expenses to increase with the growth in turnover of the Group in the foreseeable future.

– General and administrative expenses

General and administrative expenses consist primarily of salaries and related personnel expenses for administrative, finance and human resources departments, provision for doubtful debts and write off for obsolete inventories, depreciation and amortization expense and other incidental administrative expenses.

In 2005, general and administrative expenses rose and accounted for approximately 6.2% (2004 – 4.7%) of the Group's turnover. The increase in general and administrative expenses was attributable to i) share-based payment of \$8.8 million regarding share option granted to the Directors and employees during the year under the new requirements of adopting new Hong Kong Financial Reporting Standard 2 – Share-based Payments; and ii) additional costs in relation to Directors' emoluments. Apart from the aforesaid factors, the general and administrative expenses as a percentage of turnover remained relatively stable during the year.

– Taxation expense

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

Pursuant to the relevant income tax rules and regulations of the PRC, the applicable tax rate for Sino-French Joint-Venture Dynasty Winery Limited, our major operating subsidiary, and for Tianjin Tianyang Grape Extracting Co. Ltd, another subsidiary of the Group, is 24%, being the preferential income tax rate for foreign investment production enterprises established in a coastal economic development zone. The applicable rate for Shandong Yu Huang Grape Wine Co., Ltd., another subsidiary of the Group, is 30%. During the year, the effective tax rate of the Group was slightly lowered to approximately 20.8% (2004 – 25.6%) due to overprovision in previous years and tax refund.

– Cash flow

In 2005, the Group’s source of cash flow was mainly from its financing activities. The Group’s cash has principally been applied to pay the consideration for acquisition of Smiling East Resources Limited (“Smiling East”), 2004 special dividends to shareholders and listing expenses.

The decrease in cash inflow from operating activities from HK\$181.3 million in 2004 to HK\$53.7 million in 2005 was primarily attributable to the effects of the changes in working capital, mainly purchase of inventories and decrease in other payables and accruals.

Net cash used in investing activities was primarily attributable to the acquisition of Smiling East pursuant to the plan disclosed in the prospectus dated 17 January 2005 and amounting to approximately HK\$47.0 million (2004 – HK\$Nil). It was also attributable to the acquisition of fixed assets pursuant to our expansion plan and amounted to approximately HK\$83.7 million (2004 – HK\$82.9 million).

Net cash inflow in financing activities was primarily attributable to the net proceeds from the placing and public offer approximately HK\$724 million (2004 – HK\$Nil) and offset by the payment of dividends to shareholders of approximately HK\$124.7 million (2004 – HK\$137.2 million).

– Financial management and treasury policy

As at 31 December 2005, except for the net proceeds from the placing and public offer, and the revenue and expenses of the Company in Hong Kong, the Group’s revenues, expenses, assets and liabilities are mainly denominated in RMB. Accordingly, the Group does not anticipate significant exposure to foreign currency fluctuation. The Group has maintained sufficient financial resources and is in a net cash position, thus we are exposed to minimal financial risk on interest rate fluctuation. The Group will continue monitoring the market conditions and its financial exposure to determine if any hedging is required.

As at the date of this announcement, almost all of our cash and bank balances are denominated either in RMB, Hong Kong dollars or United States dollars. The net proceeds from the placing and public offer that were not already used for the intended purposes have been placed on short term deposits with authorised financial institutions in Hong Kong. The Group has established an investment policy with the objective of monitoring the investments of the Group’s uncommitted funds to ensure the achievement of the highest practicable return on the investments with priority on capital preservation and liquidity.

Business review

– Sales analysis

For the year ended 31 December 2005, the Group experienced satisfactory growth in sales volume. The number of bottles of wine sold increased from approximately 38.9 million in 2004 to approximately 45.5 million in 2005, whilst the average ex-factory sale price remained relatively stable. The primary revenue sources of the Group continued to be red wine product sales which accounted for approximately 95.0% of the Group’s turnover for the year (2004 – 93.9%). The Group’s best selling wine product remained Dynasty Dry Red, the prototype of our mass market product, accounting for approximately 49.1% of the Group’s turnover (2004 – 50.3%).

During the year, we sold our products in all provinces and autonomous regions and four directly-administered municipalities under the central government of the PRC. Huadong region, or Eastern region of the PRC, comprising Shanghai, Zhejiang and Jiangsu provinces still remained to be the Group’s primary market. In addition to the primary market, sales of our products made in other markets, such as Guangdong, Jiangxi, Hunan and Hubei provinces etc., in the PRC are expanding as well as to enhance our marketing and promotion efforts in other coastal provinces in order to increase market share in those markets. In respect of the export of the Group’s products to overseas, sales remained insignificant at 0.3% (2004 – 0.2%) of our turnover during the year as the domestic market was our primary focus.

We produce a wider spectrum of over 50 products under the “Dynasty” brand name to meet different consumer demands in the PRC grape wine market and focus on medium to high end segments. With a high quality and diversified product portfolio, we believe we will be able to attract higher end consumers by introducing premium higher end products. During the year, sales of premium wine products, such as Dynasty Dry Red Wine-Aged in Oak Barrels and Dynasty Cabernet Sauvignon Reserve 2003 and Dynasty Chardonnay Reserve 2002, saw encouraging growth. Although the contribution from the sales of these products to our turnover was insignificant during the year, we believe these premium product sales will become an increasingly significant source of our growth in the future.

In 2006, we will continue to explore acquisition opportunities of grape wine producers in the PRC and overseas so as to realize our vision to enlarge our market share and high quality product range.

– Supplies of grapes or grape juice

Production for quality of wine products is highly dependent upon sufficient supply of quality grapes or grape juice. We currently have over 10 major grape juice suppliers, mainly located in Tianjin, Shandong, Hebei and Ningxia, with whom we have established good, long term and stable relationships. To ensure reliable and solid supplies of quality grapes and grape juice to meet the production needs of the growing business and our expected increasing demand generated from the production capacity expansion plan, we are working with our grape growing partners on enlarging their existing vineyards to increase harvests and also identify new suppliers who can meet our quality requirements. For new suppliers, the quality of their products will be fully tested before orders will be placed by the Group. Such measures will enable us to secure grape supplies and lower the risk of our production being interrupted by effects of weather, affecting the quality of our grapes or grape juice. We will also explore opportunities of acquiring grape juice suppliers in the PRC or overseas.

– Production capacity

The progress of production capacity expansion from 30,000 tonnes (equivalent to approximately 40.0 million bottles) to 50,000 tonnes (equivalent to approximately 66.7 million bottles) per annum is in accordance with our schedule and is expected to be completed around mid-2006. As at 31 December 2005, the actual production reached 35,000 tonnes (equivalent to approximately 46.7 million bottles). The management will put all its efforts into ensuring the timely, or even early, completion of the remaining portion. During the year, we commenced a feasibility study on the establishment of a new production facility and identified an appropriate site in Tianjin for that purpose. The new production facility, expected to be completed by the end of 2008, will further increase our production capacity to 70,000 tonnes (equivalent to approximately 93.3 million bottles) per annum. The enlarged production capacity will enable us to promptly respond to the surge of market demand.

– Prospects

Looking ahead, despite the intensifying market competition, the Group has confidence in its ability in capitalising on the robust market demand of grape wine products in the PRC to maximise business growth and managing the rapid development. By leveraging the advantages of the Group in a wide range of areas, such as our reputable brand name, comprehensive product and market knowledge, extensive distribution network and further upgrading our product mix, we will further strengthen our leading position and grow our business in the grape wine market in the PRC.

To stay in line with our future organic growth in the market, we will also explore appropriate acquisition opportunities in synergy with our business strategies to help us generating greater value for our shareholders in the year ahead.

Human resources management

People are our most important assets and are indispensable to our success in the competitive marketplace. As part of our corporate culture, we strive to ensure a strong team spirit among our employees for them to contribute towards our corporate objectives. In achieving that goal, we offer competitive remuneration packages commensurate with industry level and provide various fringe benefits, including trainings, medical, insurance coverage as well as retirement benefits to all employees in Hong Kong and in the PRC. Staff have enrolled in external professional and technical seminars, and other training courses in order to update their technical knowledge and skills, to enhance their awareness of the markets and to improve their business acumen.

As at 31 December 2005, the Group employed a work force of 395 staff (including Directors) in Hong Kong and the PRC. The increase in manpower occurred mainly due to the acquisition of Smiling East. The total salaries and related costs amounted to approximately HK\$51.8 million for the year ended 31 December 2005 (2004 – HK\$35.0 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. As at 31 December 2005, 22,600,000 share options were granted under the scheme.

Liquidity and financial resources

The Group's cash balances amounted to HK\$763 million and net cash inflow from operating activities are ample enough to satisfy the working capital requirement for the business operations and capital expenditures. No bank debts were recorded and the gearing of the Group was net cash as at 31 December 2005, reflecting the sound capital structure of the Group. New investment will be funded by the Group's internal resources.

Capital structure

Upon the completion of the placing and public offer, the net proceeds from our listing on the Stock Exchange further strengthen our capital structure and we expect our cash to be sufficient for meeting our operating and capital expenditure requirements in the foreseeable future.

The market capitalisation of the Company as at 31 December 2005 was approximately HK\$3,579 million.

Capital commitments, contingencies and charges on assets

The Group has made capital expenditure commitments mainly for machineries of approximately HK\$79.5 million which are authorised but not contracted for and approximately HK\$9.8 million which are contracted but not provided for in the financial statements as at 31 December 2005. These commitments were mainly related to the expansion of the Group's production capacity. The funding of such capital commitments will be out of the proceeds of the new issue as stated in the prospectus dated 17 January 2005.

As at 31 December 2005, none of the Group's assets were charged or subject to any encumbrance and the Group had no material contingent liabilities.

Acquisition

The Group completed the acquisition of Smiling East on 23 February 2005 by acquiring its entire issued share capital and shareholder's loan according to the sales and purchase agreement entered into between Tianjin Development Holdings Limited and the Group on 10 January 2005. Accordingly, Tianjin Tianyang Grape Extracting Company Limited, an unprocessed wine producer held by Smiling East, became a 60% owned subsidiary of the Group. We believe the acquisition will enable us to secure stable sources of unprocessed wine for our production.

Dividend

An interim dividend of HK3.7 cents per Share was paid in November 2005. With a solid financial position and in view of our strong cash flow and rising equity base, the Board recommends payment of a final dividend of HK2.0 cents per Share for the financial year ended 31 December 2005, making an aggregate dividend payment of HK5.7 cents per Share for the full financial year. This translates into a 40% dividend payout ratio of the current year profit which represents a prudent decision to provide shareholders with a favorable cash return. The final dividend will be paid on Tuesday, 20 June 2006.

Closure of Register of Members

The register of members of the Company will be closed from 22 May 2006 to 26 May 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and to determine entitlement to attend and vote at the meeting, all transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on 19 May 2006.

Purchase, Sale or Redemption of Shares of the Company

Pursuant to the international underwriting agreement dated 21 January 2005, the Company granted an option ("Over-allotment Option") to the international placing underwriters exercisable by ABN AMRO Rothschild, to require the Company to allot and issue up to an aggregate of 45,000,000 additional Shares to cover overallocation in the international placing. The exercise price per Share for the Over-allotment Option is HK\$2.25. On 1 February 2005, the Over-allotment Option was fully exercised and, as a result, the Company issued 45,000,000 additional Shares.

Except for as disclosed above, since the listing of the Company's Shares on the Stock Exchange on 26 January 2005 and up to 31 December 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's Shares.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors for Listed issues in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding director's securities transactions. The Company has confirmed with the Directors that they have complied with the standard set out in the Model Code on the fiscal year.

Compliance with the Code on Corporate Governance Practice

Throughout the year 2005, none of the Directors is aware of information that would reasonably indicate that the Company is not in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules as effective during the said period.

Audit Committee

The audit committee is comprised of three independent non-executive directors who together have substantial experience in fields of auditing, legal matters, business, accounting, corporate internal control and regulatory affairs. The audit committee has reviewed the Group's financial statements for the year ended 31 December 2005 in conjunction with the Company's auditors.

Publication of Annual Results on the Website of the Stock Exchange

All the financial and other related information required by Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

Acknowledgement

On behalf of the Board of Directors, I wish to take this opportunity to thank deeply the shareholders for their support, the management and staff for their tireless aptitude, devotion and commitment to serve the Group and our customers for their invaluable patronage.

By order of the Board
Mr. Bai Zhisheng
Chairman

Hong Kong, 20 April 2006

As at the date of this announcement, the Board of Directors comprises 3 executive directors, namely, Mr. Bai Zhisheng, Mr. Nie Jiansheng and Mr. Chen Naiming, 6 non-executive directors, namely, Mr. Heriard-Dubreuil Francois, Mr. Wang Guanghao, Mr. Cheung Wai Ying, Benny, Mr. Zhang Wenlin, Mr. Wong Ching Chung and Mr. Robert Luc, and 3 independent non-executive directors, namely, Mr. Lai Ming, Joseph, Mr. Hui Ho Ming, Herbert and Mr. Chau Ka Wah, Arthur.

The figures in respect of the preliminary announcement of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31 December 2005 have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated accounts for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

"Please also refer to the published version of this announcement in The Standard."