

# Report of the Directors

The Directors have pleasure in submitting their first annual report together with the audited accounts of Dynasty Fine Wines Group Limited (the "Company") for the period from 29 July 2004 (date of incorporation) to 31 December 2004 and the audited proforma accounts of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") (legally established on 13 January 2005) for the year ended 31 December 2004.

## 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 prospectus of the Company dated 17 January 2005 (the "Prospectus"), to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of all other companies now comprising the Group on 13 January 2005 (the "Reorganisation"). Further details of the Reorganisation are set out in Note 1 to the proforma accounts of the Group.

Following the completion of the Reorganisation and the placing and public offer, the Company's shares ("Shares") were listed on the Stock Exchange on 26 January 2005 ("Listing Date").

In order to provide the Company's shareholders with more meaningful information, proforma accounts are included in this annual report which are prepared as if the Group had been in existence throughout the year ended 31 December 2004. The basis of preparing the aforesaid proforma financial information, which is detailed in Note 2 to the proforma accounts, is consistently applied for presenting information relating to the Group in this report.

## Principal Activities

As at 31 December 2004, the principal activity of the Company is investment holding. Had the Reorganisation been completed on 31 December 2004, the principal activity of the Group is the production and sale of grape wine products, mainly carried out through Sino-French Joint-Venture Dynasty Winery Limited ("Dynasty Winery"), a major subsidiary of the Group. Particulars of the Company's subsidiaries are set out in Note 29 to the proforma accounts. The nature of the principal activities of the Company and the Group has not changed during the year.

## Results and Appropriation

The results of the Company and the proforma financial results of Group for the year are set out on page 61 and page 71 respectively.

Prior to the Reorganisation and placing and public offer, the board of directors of Dynasty Winery declared a special cash dividend of approximately RMB145.4 million on 8 November 2004. The declaration of dividends is considered a return of investments to the shareholders of Dynasty Winery for their long-term support to the Group. This special dividend, comprising approximately RMB66.6 million in respect of undistributed retained earnings carried forward to 31 December 2003 and RMB78.8 million in respect of the net profit for the year

## Report of the Directors

ended 31 December 2004, was attributable to the then equity owners of Dynasty Winery. Approximately RMB66.6 million was paid in December 2004 and the remaining amount of approximately RMB78.8 million was paid in April 2005.

Taking into account of the dividend of approximately RMB78.8 million in respect of the net profit for the year ended 31 December 2003 which was declared on 12 May 2004 and paid in July 2004, the total dividends declared during the year ended 31 December 2004 were approximately RMB224.2 million. All dividends were paid out of the Group's internally generated cash flow from operating activities.

As the Company was recently listed on the Stock Exchange and the Group was not legally established until 13 January 2005, the Directors do not recommend the payment of dividend by the Company for the period from 29 July 2004 (date of incorporation) to 31 December 2004.

### Reserves

Details of movements of reserves of the Company from 29 July 2004 (date of incorporation) to 31 December 2004 are set out on page 63. As at 31 December 2004, the Company had no reserve available for distribution to its shareholders.

The Group did not exist as at 31 December 2004. Details of movements in reserves of the Group on proforma basis during the year are set out in Note 24 to the proforma accounts.

### Financial Summary

A summary of the proforma financial results and position of the Group for the last four financial years is set out on page 96.

### Fixed Assets

Details of movements in fixed assets of the Company and the proforma movements in fixed assets of the Group during the year are set out in Note 9 to the accounts and Note 13 to the proforma accounts respectively.

### Share Capital

Details of the movements of the Company's issued share capital since its incorporation on 29 July 2004 are set out in Note 11 to the accounts and Note 23 to the proforma accounts.

### Pre-emptive Rights

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

## Report of the Directors

### Directors

The Directors of the Company for the period from 29 July 2004 (date of incorporation) to the date of this report are as follows:

*Executive Directors:*

Mr. He Xiuheng (appointed on 10 August 2004)  
Mr. Gao Xiaode (appointed on 10 August 2004)  
Mr. Nie Jiansheng (appointed on 9 August 2004)  
Mr. Bai Zhisheng (appointed on 10 August 2004)  
Mr. Chen Naiming (appointed on 10 August 2004)

*Non-executive Directors:*

Mr. Heriard-Dubreuil Francois (appointed on 10 August 2004)  
Mr. Wang Guanghao (appointed on 9 August 2004)  
Mr. Cheung Wai Ying, Benny (appointed on 10 August 2004)  
Mr. Zhang Wenlin (appointed on 10 August 2004)  
Mr. Wong Ching Chung (appointed on 10 August 2004)  
Mr. Luc Robert (appointed on 10 August 2004)

*Independent non-executive Directors:*

Mr. Lai Ming, Joseph (appointed on 10 August 2004)  
Mr. Hui Ho Ming, Herbert (appointed on 10 August 2004)  
Mr. Chau Ka Wah, Arthur (appointed on 10 August 2004)

In accordance with Article 87 of the Company's Articles of Association, Mr. Bai Zhisheng, Mr. Zhang Wenlin, Mr. Wong Ching Chung and Mr. Chau Ka Wah, Arthur will retire from office by rotation and, being eligible, offers themselves for re-election at the forthcoming annual general meeting.

### Directors' Service Contracts

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

The independent non-executive Directors are appointed for a period of three years commencing from the Listing Date 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.

## Report of the Directors

### 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

During the year, the Group purchased unprocessed wines from Ning Xia Heavenly Palace Yuma Winery Co., Ltd. (“Yuma”) and Tianjin Tianyang Grape Extracting Company Limited (“Tianyang”), companies indirectly owned by Tianjin Development Holdings Limited (“Tianjin Development”) as to 25% and 60% respectively, in which Mr. He Xiuheng, Mr. Gao Xiaode, Mr. Nie Jiansheng, Mr. Chen Naiming and Mr. Wang Guanghao are deemed to be the interested parties of Yuma and Tianyang to the extent that they are directors of Yuma, Tianyang, their respective holding companies or Tianjin Development. Further details of the transactions undertaken by the Group with Yuma and Tianyang are set out in Note 28 to the proforma accounts and the section headed “Major customers and suppliers” below.

Except for the transactions mentioned above, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or related companies was a party during the year.

### Relationship with Shenma

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

<b>Name of Director</b>	<b>Name of entity with competing business</b>	<b>Business activities of the entities</b>	<b>Nature of interest in the entities</b>
Mr. Heriard-Dubreuil Francois	Shanghai Shenma Winery Co., Ltd. (“Shenma”)	Manufacturing and sale of grape wine products in greater Shanghai region	Director 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	Non-executive director and together with his spouse hold approximately 34.2% indirect beneficial interest in Shenma

## Report of the Directors

Although the Group and Shenma are engaged in the production and sale of grape wine products, they operate under different brand names. The Board of Directors of the Company is independent from the board of Shenma and none of the directors of Shenma can control the Board of the Company. 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 with compete or are likely to compete, either directly or indirectly, with the business of the Group 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 and the Group were entered into or existed during the year.

### Share Option Scheme

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

**(a) Purpose of the Scheme**

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

**(b) Participants of the Scheme**

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

**(c) Maximum number of Shares available for issue under the Scheme**

Except with the approval of the Company's independent shareholders at general meeting, the total number of Shares which may be issued upon exercise of all options to be granted under the Scheme must not in aggregate exceed 10% of the issued share capital of the Company as at Listing Date 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 the date of this report, the total number of Shares available for issue in respect thereof is 120,000,000 Shares, representing approximately 9.6% of the total number of Shares in issue.

## Report of the Directors

### **(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.

### **(e) Period and payment on acceptance of options**

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

### **(f) Basis of determining the exercise price**

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

### **(g) Period of the Scheme**

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

## Report of the Directors

Details of the share options granted, exercised, lapsed and cancelled under the Scheme for the period from 29 July 2004 (date of incorporation) to the date of this report are as follows:

	Granted	Exercised	Lapsed/ Cancelled	Outstanding options held at 21 April 2005	Approximate percentage of issued share capital of the Company
<b>Executive Directors:</b>					
Mr. He Xiuheng	2,300,000	—	—	2,300,000	0.19%
Mr. Gao Xiaode	2,100,000	—	—	2,100,000	0.17%
Mr. Nie Jiansheng	1,950,000	—	—	1,950,000	0.16%
Mr. Bai Zhisheng	1,100,000	—	—	1,100,000	0.09%
Mr. Chen Naiming	1,950,000	—	—	1,950,000	0.16%
<b>Non-executive Directors:</b>					
Mr. Heriard-Dubreuil Francois	1,200,000	—	—	1,200,000	0.10%
Mr. Wang Guanghao	900,000	—	—	900,000	0.07%
Mr. Cheung Wai Ying, Benny	900,000	—	—	900,000	0.07%
Mr. Zhang Wenlin	900,000	—	—	900,000	0.07%
Mr. Wong Ching Chung	900,000	—	—	900,000	0.07%
Mr. Luc Robert	900,000	—	—	900,000	0.07%
<b>Other employees</b>	8,000,000	—	—	8,000,000	0.64%
<b>Total</b>	23,100,000	—	—	23,100,000	1.86%

All of the above share options 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.

### Directors' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company

The Company was listed on the Stock Exchange on 26 January 2005. As at the date of this report, 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 associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept 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:

#### (a) Long position in Shares

<u>Name</u>	<u>Capacity</u>	<u>Number of Shares interested</u>	<u>Approximate percentage of issued share capital of the Company</u>
Mr. Cheung Wai Ying, Benny	Corporate interest	45,000,000 (Note)	3.6%

Note: Intra Limited directly owns 45,000,000 Shares or 3.6% of the issued share capital of the Company. The entire issued share capital of Intra Limited is owned by Mr. Cheung Wai Ying, Benny and his spouse. By virtue of SFO, Mr. Cheung Wai Ying Benny is deemed to be interested in the Shares held by Intra Limited.

#### (b) 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.

Since the Listing Date and up to the date of this report, each of the Directors of the Company has complied with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

Save as disclosed above, as at the date of this report, none of the Directors and chief executives and their associates has any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept 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.



## Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at the date of this report, the interests or short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO are as follows:

### Long position in Shares

Name	Nature of interest	Number of Shares held	Approximate percentage of the Company's issued share capital
Famous Ever Group Limited	Beneficial owner	558,000,000	44.82%
Tianjin Development Holdings Limited (Note 1)	Interest of a controlled corporation	558,000,000	44.82%
Tianjin Investment Holdings Limited (Note 2)	Interest of a controlled corporation	558,000,000	44.82%
Tsinlien Group Company Limited (Note 3)	Interest of a controlled corporation	558,000,000	44.82%
Remy Pacifique Limited	Beneficial owner	297,000,000	23.86%
Remy Concord Limited (Note 4)	Interest of a controlled corporation	297,000,000	23.86%
Remy Cointreau S.A. (Note 4)	Interest of a controlled corporation	297,000,000	23.86%
Orpar S.A. (Note 4)	Interest of a controlled corporation	297,000,000	23.86%
Andromede S.A. (Note 4)	Interest of a controlled corporation	297,000,000	23.86%

Notes:

- (1) Famous Ever Group Limited is a wholly owned subsidiary of 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 63.86% shareholdings in Tianjin Development. By virtue of the SFO, Tianjin Investment is deemed to be interested in the Shares held by Tianjin Development.
- (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 Shares held by Tianjin Investment.

## Report of the Directors

- (4) Remy Pacifique Limited is a wholly owned subsidiary of Remy Concord Limited, which is wholly owned by Remy Cointreau. Orpar S.A. is entitled to exercise or control the exercise of approximately 50.87% of the voting power at general meetings of Remy Cointreau S.A. and Andromede S.A. is entitled to exercise or control the exercise of approximately 84.83% 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 S.A., Orpar S.A. and Andromede S.A. is deemed to be interested in the Shares held by Remy Pacifique Limited.

Except for as disclosed above, as at the date of this report, no person, not being a Director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company required to be kept in the register by the Company under Section 336 of the SFO.

### Major Customers and Suppliers

The largest customer of the Group by itself and taken together with the next four largest customers accounted for approximately 14.8% and 40.9% respectively of the Group's proforma consolidated turnover for the year. The largest supplier of the Group by itself and taken together with the next four largest suppliers accounted for approximately 14.7% and 39.2% respectively of the Group's proforma consolidated purchases for the year.

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 except for Yuma and Tianyang (see section headed "Directors' interests in contracts" above). During the year, the Group purchased unprocessed wines from Yuma and Tianyang and those purchases accounted for approximately 14.7% and 7.5% of the proforma consolidated purchases of the Group respectively.

### Bank Borrowings

The total borrowings of the Group as at 31 December 2004 amounted to RMB15.0 million (2003 – RMB15.0 million). Particulars of borrowings are set out in Note 22 to the proforma accounts of the Group.

### Connected Transactions

Details of connected transactions included within the disclosure of related party transactions of the Group for the year ended 31 December 2004 are set out in Note 28 to the proforma accounts. Had the Company been listed during the year and had Smiling East Resources Limited ("Smiling East") not been acquired by the Company, certain transactions which would constitute as connected transactions/continuing connected transactions, under the Listing Rules at the time when such transactions were entered into, and which are required to be disclosed under rule 14A.45 of the Listing Rules, are summarised below:

#### Purchases of unprocessed wines

During the year, purchases of unprocessed wines amounting to approximately RMB23.0 million (2003 – RMB36.9 million) was made by the Group from Tianyang, an indirect subsidiary of Tianjin Development. Following the completion of the acquisition of Smiling East, holding company of Tianyang, from Tianjin Development on 23 February 2005, these transactions cease to be connected transactions subject to disclosure under rule 14A.45 of the Listing Rules on a going forward basis.

## Report of the Directors

### Rental of properties

Dynasty Winery entered into a tenancy agreement on 1 January 2003 with a fixed term of three years up to 31 December 2005 with Tianjin Heavenly Palace Winery Company Limited (“Heavenly Palace”) pursuant to which Heavenly Palace leased certain properties, machinery and equipment located in Tianjin to Dynasty Winery, including (i) factory, laboratory, store room, filling workshop and red wine workshop which altogether occupy a total area of approximately 3,600 square meters; and (ii) a workshop of approximately 36mu together with the machinery and equipment therein. The rental charge incurred by the Group during the year amounted to RMB3.6 million (2003 – RMB3.6 million). Heavenly Palace is a wholly owned subsidiary of Tianjin Development, a substantial shareholder of the Company, and is a connected person defined in the Listing Rules. The Company has obtained from the Stock Exchange a waiver from strict compliance with the announcement and independent shareholder’s approval requirements as set out in the Listing Rules in respect of such transaction.

In the opinion of the independent non-executive Directors of the Company, the above connected transactions which occurred during the year were:

- (i) entered into by the Group in the ordinary and usual course of its business;
- (ii) entered into on normal commercial terms;
- (iii) entered into in accordance with the relevant agreement governing such transactions; and
- (iv) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Except for the transaction inherited to the Reorganisation as disclosed in the Company’s prospectus dated 17 January 2005 and the acquisition of Smiling East that occurred subsequently in 2005, there were no other transactions required to be disclosed as connected transactions in accordance with the Listing Rules.

### Purchase, Sale or Redemption of Listed 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 over-allocation 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.

Save as disclosed above, since the listing of the Company’s Shares on the Stock Exchange on Listing Date and up to the date of this report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s Shares.

## Report of the Directors

### Compliance with the Code of Best Practice

Throughout the period between the date of incorporation and 31 December 2004, in the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules as effective during the said period, except that the audit committee was set up on 10 August 2004.

### Audit Committee

Written terms of reference of the Audit Committee based primarily on "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants have been adopted by the Board of Directors.

The Audit Committee provides an important link between the Board of Directors and the Company's auditors in matters falling within the scope of the audit of the Company and the Group. It will review the effectiveness of the external audit and of internal controls and risk evaluation and will provide comments and advice to the Board of Directors. The Audit Committee, comprising three independent non-executive Directors, namely Mr. Lai Ming, Joseph, Mr. Hui Ho Ming, Herbert and Mr. Chau Ka Wah, Arthur, was formed on 10 August 2004. The Audit Committee has reviewed with management and the Company's auditors the accounting principles and practices adopted by the Company and the Group.

The Company has received an annual confirmation of independence from each independent non-executive Directors comprising the Audit Committee. The Company considers the independent non-executive Directors to be independent.

### Subsequent Events

Details of the significant subsequent events are set out in Note 13 to the accounts and Note 31 to the proforma accounts.

### Auditors

The accounts and proforma accounts have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board  
**Mr. He Xiuheng**  
*Chairman*

Hong Kong, 21 April 2005