

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 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.

The Company has complied with the Code on Corporate Governance Practices (the "Code"). It has taken various actions to comply with the new requirements by compiling this Corporate Governance Report as part of the Company's annual report and accounts for the year ended 31 December 2005. 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.

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"). All the Directors have confirmed compliance with the required standards set out in the Model Code throughout the year ended 31 December 2005.

Board of Directors

Composition of the Board

As at 31 December 2005, the Board comprised five executive Directors, namely Mr. He Xiuheng (Chairman), Mr. Gao Xiaode (General Manager), Mr. Nie Jiansheng, Mr. Bai Zhisheng and Mr. Chen Naiming, six 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 three independent non-executive Directors, namely Mr.

Lai Ming, Joseph, Mr. Hui Ho Ming, Herbert and Mr. Chau Ka Wah, Arthur. The biographies of the Directors are set out in "Biography of Directors and Senior Management" section, which demonstrate a diversity of knowledge, skills, experience and qualifications.

The Company has complied with rule 3.10(1) and 3.10(2) of the Listing Rules regarding the appointment of sufficient independent non-executive Directors and is having the independent non-executive Directors with relevant 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. Wang Guanghao and Mr. Nie Jiansheng held or continue to hold directorships or other management positions within the group comprising Tsinlien Group Company Limited (the ultimate controlling shareholder of the Tianjin Development Holdings Limited ("Tianjin Development"), a controlling shareholder of the Company), its subsidiaries and joint venture companies. Mr. Heriard-Dubreuil Francois, 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. 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. He Xiuheng, the chairman and Mr. Gao Xiaode, the general manager as at 31 December 2005.



The Board

The Board oversees the Group's businesses, overall strategic directions and financial performance. It assumes responsibility 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 these committees are set out in this report.

The Board has four scheduled meetings per year and meets more frequently as and when required. During the year, four full board meetings were held. Their attendance record, on a named basis, during the year ended 31 December 2005 is set out in the table as follows:

Board Members	Meetings attended/held
Executive Director	
Mr. He Xiuheng	4/4
Mr. Gao Xiaode	4/4
Mr. Nie Jiansheng	4/4
Mr. Bai Zhisheng	4/4
Mr. Chen Naiming	4/4
Non-executive Director	
Mr. Heriard-Dubreuil Francois	4/4
Mr. Wang Guanghao	4/4
Mr. Cheung Wai Ying, Benny	4/4
Mr. Zhang Wenlin	4/4
Mr. Wong Ching Chung	4/4
Mr. Robert Luc	4/4
Independent non-executive Directors	
Mr. Lai Ming, Joseph	4/4
Mr. Hui Ho Ming, Herbert	4/4
Mr. Chau Ka Wah, Arthur	4/4

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 no less than 2 days before the Board meeting), including business and financial reports covering the Group's principal business activities, financial highlights and operational review.

If so required, the Directors are free to have access to the management for enquiries and to obtain further information so as to facilitate the decision-making process.

Every Director has unrestricted access to the advice and services of the company secretary.

The Directors are continually updated with legal and regulatory developments, business and market changes and development of the Company to facilitate the discharge of their responsibilities. In addition, the Directors can obtain independent professional advice at the Company's expense in discharging their duties to the Company.

Non-executive Directors and independent non-executive Directors have the same fiduciary duties and duties of care as executive Directors. Non-executive Directors provide the Group with a wide range of knowledge and expertise in the wine industry. The independent non-executive Directors also participate actively in board meetings, contribute to the development of strategies and policies and make sound judgement in various aspects. They will take lead when potential conflicts of interest arise. They are also members of various board committees and devote sufficient amount of time and attention to the affairs of the Company.

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Directors' Appointment, Re-election and Removal

Pursuant to the Company's Articles of Association, one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting ("AGM"). The Directors to retire in every year shall be those appointed by the Board during the year and those who have been longest in office since their last election or re-election. Any Director appointed to fill a casual vacancy is subject to re-election at the next AGM following their appointment. The new Director shall not be taken into account in determining the number of Directors who are to retire by rotation at that AGM. However, in order to comply with the Code, the Company will propose to amend its Articles of Association at the forthcoming AGM to provide that all Directors shall retire in such manner of rotation as required by the Code, i.e. subject to retirement by rotation at least once every three years.

All non-executive Directors and the independent non-executive Directors of the Company are appointed for a specific term of three years, but they are subject to retirement by rotation and re-election at the AGM of the Company pursuant to Article 87 of the Company's Articles of Association.

The Company has not established a nomination committee. No board meeting was held for nomination of director in 2005.

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.

Division of Responsibilities

During the financial year ended 31 December 2005, the Board has appointed a Chairman who 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 2005, Mr. He Xiuheng as the Chairman led the Board and ensured all Directors were properly briefed on issues to be discussed at board meetings. Mr. Gao Xiaode as the general manager also 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 during the financial year ended 31 December 2005. The chairman of the Remuneration Committee is Mr. Chau Ka Wah, Arthur, an independent non-executive Director and the other members comprise Mr. Nie Jiansheng, an executive Director, Mr. Wong Ching Chung, a non-executive Director, and Mr. Lai Ming, Joseph and Mr. Hui Ho Ming, Herbert, independent non-executive Directors of the Company. The independent non-executive Directors constitute the majority of the committee. Its terms of reference 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;
- 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 2005, one meeting was held. The Remuneration Committee has reviewed and recommended to the Board the revised annual salaries and other benefits of Mr. Bai

who become the Chairman and the general manager of the Company on 1 January 2006 after the retirement of Mr. He and Mr. Gao. The attendance record of individual committee members is set out in the table as follows:

Name of member	Meeting attended/held
Chau Ka Wah, Authur	1/1
Nie Jiansheng	1/1
Wong Ching Chung	1/1
Lai Ming, Joseph	1/1
Hui Ho Ming, Herbert	1/1

The terms of reference of the Remuneration Committee are available from the company secretary at any time.

Remuneration package for Directors

The remuneration for the executive Directors comprises basic salary, annual bonus, housing allowances (if applicable) and pensions.

Salary adjustments are made where the Remuneration Committee takes into account performance of the individual, contribution, increased responsibilities, the inflation price index and/or by reference to market/sector trends.

Apart from basic salary, executive Directors and senior management 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, 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 optimise their continuing contributions to the Group.

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Details of the amount of Directors' emoluments during the year ended 31 December 2005 are set out in note 12 to the accounts and details of the Share Option Scheme and grant of options by the Company during the year are set out in Report of the Directors and note 23 to the accounts.

Accountability and Audit

The Board is responsible for the preparation of the accounts for the financial year ended 31 December 2005 which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2005, the generally accepted accounting standards in Hong Kong, 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.

Towards the end of 2005, the Board had reviewed the financial projections of the Group in respect of the year ending 31 December 2006. On the basis of this review, the Board 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 Board consider that it is appropriate to adopt the going concern basis in preparing the accounts.

Internal Controls

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. 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 difference between actual results and yearly budgets.

Monthly financial reporting is provided to the executive Directors. 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.

In addition to the above, the Board is also planning to review 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 scope of review and the audit programme of the professional accounting firm will be determined and approved by the Audit Committee in conjunction with the external auditors. The professional accounting firm will report directly to the Chairman of the Board and the Chairman of the Audit Committee. Regular internal control review reports will be circulated to the Chairman, the Audit Committee members, the financial controller and the external auditors for their review in accordance with the approved programme.

Audit Committee

The Audit Committee comprises three independent non-executive Directors of the Company. One of these Directors, Mr. Lai, has appropriate professional qualifications and experience in financial matters and is 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 accounts and reports of the Company, the effectiveness of the Group's system of internal controls, as well as 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 2005 includes the following:-

- i) a review of the draft annual accounts for the year ended 31 December 2004 and interim accounts for the period ended 30 June 2005 of the Group, focusing on main areas of judgment, consistency of and changes in accounting policies 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 controls and audit issues;
- iii) a review the external auditors' statutory audit plan and scope; and
- iv) a review of the connected transactions entered into by the Group during the year.

During the year ended 31 December 2005, the Audit Committee met three times together with certain executive Directors, deputy general manager and financial controller as well as with the external auditors. Please refer to the below table for the attendance record of individual Audit Committee members.

Name of member	Meeting attended/held
Lai Ming, Joseph	3/3
Hui Ho Ming, Herbert	3/3
Chau Ka Wah, Arthur	3/3

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 2005, 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	1,000
Non-audit services — Tax services	6

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, the Company has established various channels of communication with its shareholders:-

- 1) The Company regards the AGM as an 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 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 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 2005, 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 operations and developments. In

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In addition, a three-day "Dynasty Harvest Season Investor Tour" has been organized to further strengthen and enhance bonds between the Group and investors. Forty investors have visited our winery, new wine cellar and grape extracting facilities and met with our winemakers in Tianjin during the tour. In the future, the Group plans to continue to deepen 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 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 disseminated through publication of interim, and annual reports, announcements, circulars and press release.

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 21 days before the AGM and will be included with the notice to shareholders of any future AGM. It sets out the procedures for demanding and conducting a poll and other relevant information of the proposed resolution. The most recent shareholders' meeting was the AGM held on 27 May 2005.

Market Capitalisation

The market capitalisation of the Company as at 30 December 2005, the last trading day in 2005, was HK\$3,579 million (issued share capital: 1,245,000,000 shares at closing market price: HK\$2.875 per share).