

Report of the Directors



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

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 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").

Principal Activities

As at 31 December 2005, the principal activity of the Company is investment holding. 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 33 to the accounts. The nature of the principal activities of the Group has not changed during the year.

Results and Appropriation

The results of the Group for the year are set out on page 57.

The Directors have declared an interim dividend of HK3.7 cents per Share. The total interim dividend of HK\$46.1 million has been paid in November 2005. The Directors recommend the payment of a final dividend of HK2.0 cents per Share to shareholders whose names appear on the register of members on 26 May 2005.

Reserves

Details of movements in reserves of the Group and the Company during the year are set out in Note 24 to the accounts.

Financial Summary

A summary of the financial results and position of the Group for the last five financial years is set out on page 94.



Fixed Assets

Details of movements in fixed assets of the Group and the Company during the year are set out in Note 14 to the accounts.

Share Capital

Details of the movements of the Company's share capital during the year are set out in Note 23 to the 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.

Directors

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

Executive Directors:

Mr. Bai Zhisheng
Mr. Nie Jiansheng
Mr. Chen Naiming
Mr. He Xiuheng (resigned on 1 January 2006)
Mr. Gao Xiaode (resigned on 1 January 2006)

Non-executive Directors:

Mr. Heriard-Dubreuil Francois
Mr. Wang Guanghao
Mr. Cheung Wai Ying, Benny
Mr. Zhang Wenlin
Mr. Wong Ching Chung
Mr. Robert Luc

Independent non-executive Directors:

Mr. Lai Ming, Joseph
Mr. Hui Ho Ming, Herbert
Mr. Chau Ka Wah, Arthur

In accordance with Article 87 of the Company's Articles of Association, Mr. Nie Jiansheng, Mr. Robert Luc, Mr. Wang Guanghao and Mr. Hui Ho Ming, Herbert will retire from office by rotation and, being eligible, offers themselves for re-election at the forthcoming annual general meeting.

Report of the Directors

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Directors' Service Contracts

Each of the executive Directors and non-executive Directors of the Company during the year 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 or the Company giving not less than two 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.

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 Tiangong 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 were deemed to be the interested parties of Yuma and Tianyang to the extent that they were directors of Yuma, Tianyang, their respective holding companies or Tianjin Development. Tianyang became a subsidiary of the Group after the acquisition of Smiling East on 23 February 2005 and ceased to be a fellow subsidiary of the Group. Further details of the transactions undertaken by the Group with Yuma and Tianyang are set out in Note 32 to the 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, the following 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:

Name of Director	Name of entity with competing business	Business activities of the entities	Nature of interest in the entities
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

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 of the Company is independent from the board of Shenma and none of the directors of Shenma can control the Board of the Company. On this basis, the Board of Directors believe 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 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.

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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 Company has granted share options representing the right to subscribe for 23,100,000 Shares under the Scheme of which share options representing the right to subscribe for 500,000 Shares have been cancelled. The Company may further grant share options to subscribe for 96,900,000 Shares, representing approximately 7.8% of the total number of Shares in issue.

(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 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.

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

	Granted	Exercised	Cancelled	Outstanding options held at 31 December 2005	Approximate percentage of issued share capital of the Company
Executive Directors:					
Mr. He Xiuheng	2,300,000	—	—	2,300,000	0.18%
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%
Non-executive Directors:					
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. Robert Luc	900,000	—	—	900,000	0.07%
Other employees	8,000,000	—	(500,000)	7,500,000	0.60%
Total	23,100,000	—	(500,000)	22,600,000	1.81%

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.

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

As at 31 December 2005, 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 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

Name	Capacity	Number of Shares interested	Approximate percentage of issued share capital of the Company
Mr. Cheung Wai Ying, Benny	Corporate interest	10,336,000 (Note)	0.8%

Note: Intra Limited directly owns 10,336,000 Shares or 0.8% of the issued share capital of the Company as at 31 December 2005. 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. Except as set out above, as at 31 December 2005, none of the Directors, chief executive and their respective associates has any interest 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 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 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 2005, 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:

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	327,000,000	26.27%
Remy Concord Limited (Note 4)	Interest of a controlled corporation	327,000,000	26.27%
Remy Cointreau S.A. (Note 4)	Interest of a controlled corporation	327,000,000	26.27%
Orpar S.A. (Note 4)	Interest of a controlled corporation	327,000,000	26.27%
Andromede S.A. (Note 4)	Interest of a controlled corporation	327,000,000	26.27%
Fidelity International Limited	Investment manager	62,544,000	5.02%

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.

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(4) *Remy Pacifique Limited is a wholly owned subsidiary of Remy Concord Limited, which is wholly owned by Remy Cointreau S.A.. Orpar S.A. owns approximately 50.87% of the shareholding in Remy Cointreau S.A. and Andromede S.A. owns approximately 84.83% of the shareholding in 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.*

Saved as disclosed above, as at 31 December 2005, the Directors are not aware of any other person, not being Directors 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 percentages of sales and purchase for the year attributable to the Group's major customers and suppliers are as follows:

Sales

- the largest customer	17.5%
- five largest customers combined	43.5%

Purchases

- the largest supplier	7.5%
- five largest suppliers combined	28.2%

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 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 7.5% and 0.7% of the consolidated purchases of the Group respectively.

Bank Borrowings

Particulars of borrowings of the Group as at 31 December 2005 are set out in Note 28 to the accounts.



Connected Transactions

Details of connected transactions included within the disclosure of related party transactions of the Group for the year ended 31 December 2005 are set out in Note 32 to the accounts.

(a) Purchases of Unprocessed Wines

During the year, purchases of unprocessed wines amounting to approximately HK\$2.7 million (2004 — HK\$21.7 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.

(b) Rental of Properties

Dynasty Winery entered into a tenancy agreement (“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 HK\$3.4 million (2004 — HK\$3.4 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.

The independent non-executive Directors of the Company had reviewed the transaction for the financial year ended 31 December 2005 and have confirmed that, the above connected transaction 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 transaction; and
- (iv) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company had also received a letter from the auditors in respect of the transaction arising from the Tenancy Agreement stating that:

- (a) the transaction has been approved by the Company’s board of Directors;
- (b) the transaction has been entered into in accordance with the relevant Tenancy Agreement governing the transaction; and
- (c) the lease rental is within the annual caps as disclosed in the Company’s prospectus dated 17 January 2005.

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 in 2005, there were no other transactions required to be disclosed as connected transactions in accordance with the Listing Rules.

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(C) Acquisition of Premises and Machinery

Pursuant to the premises acquisition agreement and the machinery and equipment acquisition agreement, Dynasty Winery, an indirect wholly-owned subsidiary of the Company, has acquired certain properties situated in Tianjin and machinery and equipment from Heavenly Palace at a total consideration of RMB3.1 million (equivalent to approximately HK\$3.0 million).

Heavenly Palace is a wholly-owned subsidiary of Tianjin Development, a substantial shareholder (within the meaning ascribed to it in the Listing Rules) of the Company and a connected person within the meaning of the Listing Rules. The acquisition therefore constitutes a connected transaction for the Company. Since, each of the relevant percentage ratios (other than the profit ratio and the equity capital ratio which are inapplicable) is less than 2.5%, the acquisition is only subject to reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from independent shareholders' approval. For details of the acquisition, please also refer to the Company's announcement dated 28 November 2005 posted on the Stock Exchange and the Company's website.

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 Issuers 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.



Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of its Directors, it is confirmed that the Company has maintained the amount of public float as required under the Listing Rules during the period from 26 January 2005 to 31 December 2005.

Auditors

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

On behalf of the Board

Mr. Bai Zhisheng

Chairman

Hong Kong, 20 April 2006