

Report of the Directors

The Directors have pleasure in submitting their annual report together with the audited financial statements of Dynasty Fine Wines Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2006.

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 financial statements 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 2006, 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 30 to the financial statements. 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 44.

The Directors have declared an interim dividend of HK3.0 cents per Share. The total interim dividend of HK\$37.4 million has been paid in November 2006. The Directors recommend the payment of a final dividend of HK1.2 cents per Share to shareholders whose names appear on the register of members on 25 May 2007.

Reserves

Movements in reserves of the Group and the Company during the year and distributable reserves of the Company as at 31 December 2006 are set out in Note 23 to the financial statements and balance sheet of the Company respectively.

Financial Summary

A summary of the financial results and position of the Group for the last five financial years is set out on page 78.

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 financial statements.

Share Capital

Details of the movements of the Company's share capital during the year are set out in Note 22 to the financial statements.

Report of the Directors *(Continued)*

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
Dr. Hui Ho Ming, Herbert
Mr. Chau Ka Wah, Arthur

In accordance with Article 87 of the Company's Articles of Association, Mr. Chen Naiming, Mr. Heriard-Dubreuil Francois, Mr. Cheung Wai Ying, Benny and Mr. Lai Ming, Joseph 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 for a term of three years. Each of these contracts may be terminated by either party giving not less than two months' notice in writing.

The independent non-executive Directors are appointed for a period of three years 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 *(Continued)*

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 Dynasty Yuma Vineyard (Ning Xia) Co. Ltd. (formerly known as Ning Xia Heavenly Palace Yuma Winery Co., Ltd.) (“Yuma”), a company indirectly owned by Tianjin Development Holdings Limited (“Tianjin Development”) as to 25%, in which Mr. Bai Zhisheng, Mr. Nie Jiansheng and Mr. Wang Guanghao were deemed to be the interested parties of Yuma to the extent that they were directors of Yuma, its respective holding companies or Tianjin Development. Yuma became an associated company of the Group after the completion of acquisition on 18 January 2007 and ceased to be a related company of the Group.

Further details of the transactions undertaken by the Group with Yuma are set out in Note 29 to the financial statements 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.

Report of the Directors *(Continued)*

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 Company has granted share options representing the right to subscribe for 24,800,000 Shares under the Scheme of which share options representing the right to subscribe for 4,900,000 Shares have been cancelled. The Company may further grant share options to subscribe for 95,200,000 Shares, representing approximately 7.6% 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.

Report of the Directors (Continued)

(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:

	Outstanding options held at 1 January 2006 <i>(Note 1)</i>	Granted <i>(Note 2)</i>	Exercised	Lapsed/ Cancelled	Outstanding options held at 31 December 2006	Approximate percentage of issued share capital of the Company
<i>Executive Directors:</i>						
Mr. Bai Zhisheng	1,100,000	1,200,000	—	—	2,300,000	0.18%
Mr. Nie Jiansheng	1,950,000	—	—	—	1,950,000	0.16%
Mr. Chen Naiming	1,950,000	—	—	—	1,950,000	0.16%
Mr. He Xiuheng (resigned on 1 January 2006)	2,300,000	—	—	(2,300,000)	—	—
Mr. Gao Xiaode (resigned on 1 January 2006)	2,100,000	—	—	(2,100,000)	—	—
<i>Non-executive Directors:</i>						
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%
<i>Other employees</i>	7,500,000	500,000	—	—	8,000,000	0.65%
Total	22,600,000	1,700,000	—	(4,400,000)	19,900,000	1.60%

Note 1: These 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.

Note 2: These share options were granted on 1 November 2006, with an exercise price of HK\$3.00 and are exercisable from 22 May 2007 to 31 October 2016.

Report of the Directors *(Continued)*

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

As at 31 December 2006, 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	10,000,000 <i>(Note)</i>	0.8%

Note: Intra Limited directly owns 10,000,000 Shares or 0.8% of the issued share capital of the Company as at 31 December 2006. 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 2006, 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.

Report of the Directors (Continued)

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

As at 31 December 2006, 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 (Note 1)	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 (Note 4)	Beneficial owner	327,000,000	26.27%
Remy Concord Limited (Note 4)	Interest of a controlled corporation	327,000,000	26.27%
Remy Cointreau Services S.A.S. (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%
Matthews International Capital Management, LLC	Investment manager	87,272,000	7.01%
Fidelity International Limited	Investment manager	74,936,000	6.02%

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 54.95% 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 *(Continued)*

(4) *Remy Concord Limited is entitled to exercise or control the exercise of all the voting power at general meetings of Remy Pacifique Limited. Remy Cointreau Services S.A.S. is entitled to exercise or control the exercise of all the voting power at general meetings of Remy Concord Limited. Remy Cointreau S.A. is entitled to exercise or control the exercise of all the voting power at general meetings of Remy Cointreau Services S.A.S.. Orpar S.A. is entitled to exercise or control the exercise of approximately 55.04% of the voting power at general meetings of Remy Cointreau S.A.. Andromede S.A. is entitled to exercise or control the exercise of approximately 79.71% of the voting power at general meetings of Orpar S.A. By virtue of Part XV of the SFO, each of Remy Concord Limited, Remy Cointreau Services S.A.S., Remy Cointreau S.A., Orpar S.A. and Andromede S.A. is deemed to be interested in the Shares held by Remy Pacifique Limited*

Saved as disclosed above, as at 31 December 2006, 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 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Major Customers and Suppliers

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

Sales

— the largest customer	15.8%
— five largest customers combined	43.4%

Purchases

— the largest supplier	7.6%
— 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 (see section headed "Directors' interests in contracts" above). During the year, the Group purchased unprocessed wines from Yuma and those purchases accounted for approximately 5.4% of the consolidated purchases of the Group respectively.

Connected Transaction

Acquisition of 25% equity interest of Yuma

Pursuant to the sale and purchase agreement dated 21 April 2006, Ho Tin International Co., Ltd., a direct wholly-owned subsidiary of the Company, has acquired 25% equity interest of Yuma from Tianjin Heavenly Palace Winery Co., Ltd. ("Heavenly Palace") at a consideration of RMB11.95 million (equivalent to approximately HK\$11.49 million). The transaction was completed on 18 January 2007 and was disclosed as a subsequent event in Note 33 to the financial statements.

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 equity capital ratio which is 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 21 April 2006 posted on the Stock Exchange and the Company's website.

Report of the Directors *(Continued)*

Purchase, Sale or Redemption of Shares of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's Shares during the year under review.

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 for the year ended 31 December 2006.

Auditor

The financial statements 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, 19 April 2007