DYNASTY

ANNUAL REPORT 2007 年報

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

Stock Code 股份代號：828

RED WINE
紅葡萄酒

■ Dynasty Dry Red Wine
王朝乾紅葡萄酒

■ Dynasty Merlot Dry Red Wine
王朝梅鹿輒乾紅葡萄酒

■ Dynasty Dry Red Wine - Aged in Oak Barrels
王朝木桶陳釀乾紅葡萄酒

WHITE WINE
白葡萄酒

■ Dynasty Medium Dry White Wine
王朝半乾白葡萄酒

■ Dynasty Extra Dry White Wine
王朝乾白葡萄酒

SPARKLING
起泡葡萄酒 WINE

■ Dynasty Sparkling Wine (Second Fermentation in bottle)
王朝工藝瓶式起泡葡萄酒

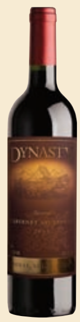
BRANDY
白蘭地

■ Dynasty Fine Brandy - XO
王朝XO白蘭地

SELECTIONS
available in Hong Kong only

於香港發售之
精選產品

■ Dynasty Chardonnay Reserve 2004
王朝2004年珍藏霞多麗



■ Royal Selection - Dynasty Cabernet Sauvignon Reserve 2004
皇族系列 - 王朝2004年珍藏赤霞珠

Contents

Corporate Profile 01

Financial Highlights 02

Corporate Information 03

Milestones of 27 years 04

Corporate Structure 06

Nationwide Sales Network 07

Chairman's Statement 08

Management Discussion and Analysis 10

Biography of Directors and Senior Management 19

Corporate Governance Report 23

Financial Section 31

Corporate Profile

Dynasty is a leading premier winemaker with a dominant presence in the PRC wine market. Our brand name, "Dynasty", was recognised as a well-known trademark by the State Administration for Industry and Commerce of the PRC. For nine of the ten years between 1997 and 2006, Dynasty was granted "The Certificate of Best Selling Grape Wines" in the PRC by the China Industry and Enterprise Information Centre.

Dynasty has inherited the fine traditions and state-of-the-art expertise in winemaking from Remy Cointreau, one of the world's leading wine and spirits operators and our second largest shareholder ever since Dynasty's inception. From grape growing, harvesting, to every single step of winemaking, Dynasty believes in quality. The entire production process is under stringent quality control to ensure the highest standards of our products. In recognition of our high standards, we were accredited with certificates of ISO 9002 in 1996, ISO 14001 in 2000, ISO 9001: 2000 in 2002 and HACCP Certificate in 2006.

Dynasty has a diversified product portfolio, catering to various price segments and consumer tastes and preferences. We now make and sell over 50 types of wine products in four main categories, namely red wines, white wines, sparkling wines and brandy.

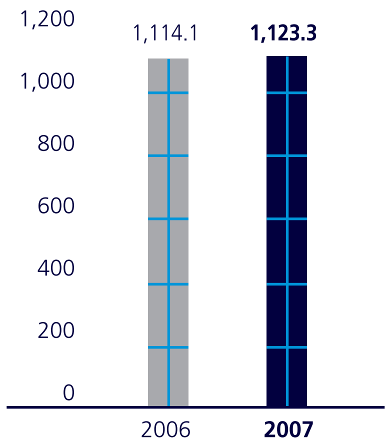
Over the years, Dynasty has sustained a strong financial performance and generated excellent returns for its shareholders. On 26 January 2005, Dynasty was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited with the stock code 828. Having strong support from our major shareholders — Tianjin Development Holdings Ltd. (882) and Remy Cointreau, Dynasty keeps on providing all consumer strata high quality and "excellent value for money" wines. With enhanced facilities and continual marketing efforts, Dynasty is well positioned to capture the robust growth potential of the Chinese wine market. We will build a stronger Dynasty for the future of all our stakeholders.

Financial Highlights

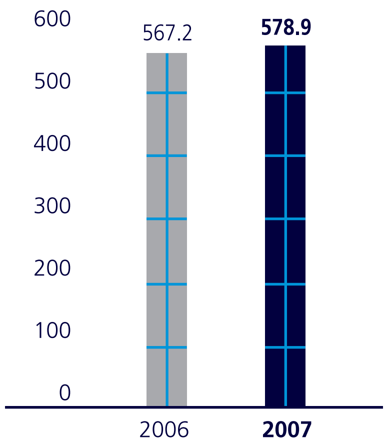
	2007 HK$'000	2006 HK$'000	Changes
Turnover	**1,123,327**	1,114,145	+1%
Gross Profit	**578,873**	567,245	+2%
Profit attributable to equity holders of the Company	**126,326**	114,803	+10%

	2007	2006	Changes in percentage point
Gross margin	**52%**	51%	+1%
Net profit margin	**11%**	10%	+1%

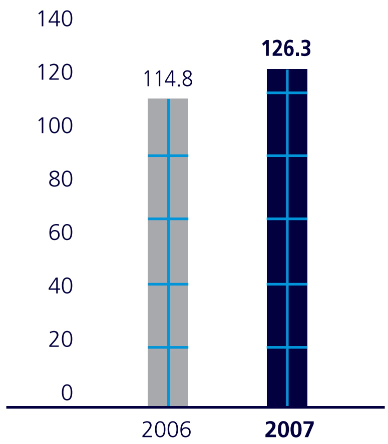
Turnover (HK$'million)



Gross profit (HK$'million)



Profit attributable to equity holders of the Company
(HK$'million)



Corporate Information

Board of Directors

Executive Director
Mr. BAI Zhisheng

Non-Executive Directors
Mr. HERIARD-DUBREUIL Francois
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(#)(&)

 # Audit committee members
& Remuneration committee members

Qualified Accountant and Company Secretary

Mr. YEUNG Chi Tat

Authorised Representatives

Mr. ZHANG Wenlin
Mr. YEUNG Chi Tat

Legal Advisers

Hong Kong
Kirkpatrick & Lockhart Preston Gates Ellis

Cayman
Conyers Dill & Pearman, Cayman

The People's Republic of China
Global Law Office

Auditors

PricewaterhouseCoopers

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business

Hong Kong Office
Suite 5506, Central Plaza,
18 Harbour Road, Wanchai,
Hong Kong

Tianjin Office
No. 29 Jinwei Road, Bei Chen District,
Tianjin City, PRC

Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited
P.O. BOX 513GT, Strathvale House
North Church Street, George Town
Grand Cayman, Cayman Islands
British West Indies

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

Principal Bankers

Industrial and Commercial Bank of China
Commercial Bank
Bank of China
The Hongkong & Shanghai Banking Corporation
Rabobank
China Merchants Bank
Mizuho Corporate Bank

Investor Relations Consultant

Strategic Financial Relations (China) Limited

Company Website

http://www.dynasty-wines.com

Share Information

Listing date	26 January 2005
Stock name	Dynasty Wines
Nominal value	HK$0.1
Number of issued shares	As at 31 December 2007 1,245,000,000 shares
Board lot	2,000 shares

Stock Code

The Stock Exchange of Hong Kong	828
Reuters	0828.HK
Bloomberg	828:HK

Financial year-end date 31 December

Milestones of 27 years

1980

The origins of Dynasty dated back to 1980 when Dynasty was established as a Sino-French joint-venture between *Tianjin City Grape Garden* and *Remy Martin*.
It was the first Sino-foreign joint venture in Tianjin city and one of the earliest Sino-foreign joint ventures in China.

1984

Dynasty Medium Dry Wine won the gold prize in Dem Auf Der Leipziger Fruhjahrsmesse, which was our first prize won in the international wine competitions.

1988-1991

Institut International Pour Les Selections De La Qualite granted Dynasty the following awards:

1988	Dynasty Dry Red Wine was granted MEDAILLE DE BRONZE Award;
1988 & 1989	Dynasty Extra Dry White Wine was granted MEDAILLE D'OR Award for 2 years;
1989-1991	Dynasty Medium Dry White Wine was granted MEDAILLE D'ARGENT (1989), MEDAILLE D'OR (1990) and GRANDE MEDAILLE D'OR (1991) Award.

2002
Dynasty was awarded "the top 100 enterprises in the food industry (beverage manufacturing industry) in China" by the National Bureau of Statistics of China and China National Food Industry Association.

2003
Dynasty Red Wine won the "Certificate for National Food Industry Technological Progress 2001-2002"; Dynasty Sparkling Wine was granted "CFIN National Scientific and Technological Progress Award (Class 2) by China National Food Industry Association.

1996
Dynasty was granted Technological Progress Award (Class 3) by PRC State Commision of Science and Technology.

1997-2006
For nine of the ten years between 1997 and 2006, Dynasty was granted "The Certificate of Best Selling Grape Wines" in the PRC by the China Industry and Enterprise Information Centre.

1998
Dynasty Medium Dry White Wine, Dynasty Dry White Wine, Dynasty Dry Red Wine and Dynasty V.S.O.P Brandy won the gold prize at the first China Food Expo. It was the first time Dynasty was awarded with such prize in the PRC.

2004
The annual production of our wines reached 30,000 tonnes.

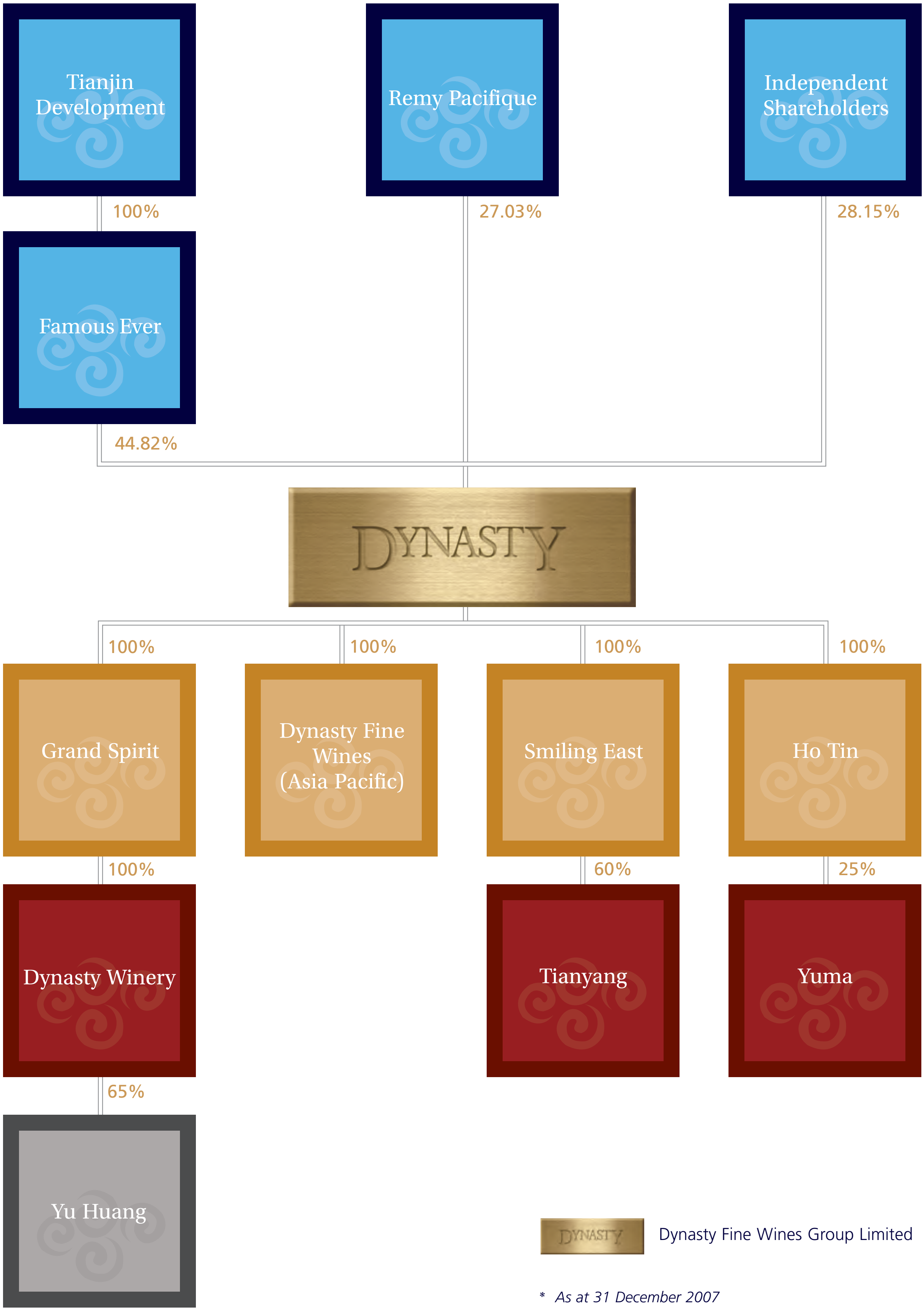
2000
"Dynasty" was recognised as a well-known trade mark for grape wine products in the PRC by the Trade Mark Office of the State Administration for Industry and Commerce of the PRC.

2005
In 2005 Dynasty marked a 25-year of history and was successfully listed on the Stock Exchange of Hong Kong on 26 January 2005 with the stock code 828. It was added to the Hong Kong China-Affiliated Corporations Index as a constituent stock on 5 September 2005.

2001
Dynasty Red Wine won the "National Scientific and Technological Progress Award (Class 2)" granted by the State Council of the PRC.

2006
In mid-2006, the annual production capacity reached 50,000 tonnes.

Corporate Structure*



* As at 31 December 2007

Nationwide Sales Network

Listed Company | Branch Office | Distribution Network | Production Facilities

Bai Zhisheng
Chairman, General Manager and Executive Director

Benefiting from the robust wine market in China, Dynasty would continue to deliver sustainable and healthy returns to our shareholders

I am pleased to present on behalf of the Board to the shareholders the annual results of Dynasty Fine Wines Group Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2007.

PERFORMANCE

Despite a 1% Group's turnover growth to HK$1,123.3 million (2006: HK$1,114.1 million) for the year ended 31 December 2007, the Group's profit attributable to equity holders of the Company increased by 10% to HK$126.3 million (2006: HK$114.8 million). Correspondingly, earnings per share for the year amounted to HK$0.101 per share (2006 — HK$0.092 per share).

The increase in profit for the year was mainly due to decrease in distribution costs.

DIVIDENDS

With the Group being in a solid financial position and enjoying strong cash flow from operations, the Board recommends payment of a final dividend of HK1.2 cents per share (2006: HK1.2 cents per share) for the financial year ended 31 December 2007. Combined with an interim dividend of HK3.6 cents per share (2006: HK3.0 cents per share) paid in November 2007, the total dividend payment was HK4.8 cents per share (2006: HK4.2 cents per share) for the full financial year. This translates into a 47% (2006: 46%) dividend payout ratio of the current year profit, in line with the Company's dividend policy of 30% to 50% of the net profit available for distribution to the shareholders.

BUSINESS REVIEW

Following the completion of the first-phase capacity expansion from 30,000 tonnes to 50,000 tonnes in 2006, the Group commenced its second-phase capacity expansion from 50,000 tonnes to 70,000 tonnes during the year, which would enable the Group to seize the opportunity offered by the fast growing grape wine market and provide a solid foundation for its long term strategic development in the future.

In order to craft more effective brand strategies, the Group commenced the brand strategy review during the year. The findings and conclusions of the review provided valuable information for the management to better understand the market situation, strengths and weakness of the Group and its competitors, and to plan a strong move in the marketplace.

OUTLOOK

The wine industry in the PRC is expected to grow strongly in the next few years but this lucrative market will also trigger fierce competition from existing competitors and new entrants. The Group is making preparation to take the challenges head on and to provide a steady and favourable return for our shareholders by taking measures to enhance margin, to increase sales and marketing reach, and to improve staff motivation and measurement systems. The Group will participate in the Vinexpo, the internationally renowned bi-annual wine exhibition which will be held in Hong Kong in May 2008 so as to enhance Dynasty brand's exposure in the international market and plan to roll out the new brand strategy.

APPRECIATION

I wish to express my heartfelt gratitude to our loyal shareholders, customers, distributors, suppliers and business partners for their notable support. I would also like to take this opportunity to thank our fellow Board members, management team and our dedicated staff for their support, advice, wise counsel and contribution throughout the year.

Bai Zhisheng
Chairman, General Manager and Executive Director

Strong financial position providing a solid foundation for future growth; our turnover increased by about 1% to HK$1,123.3 million and profit attributable to equity holders of the Company arose by 10% to HK$126.3 million

RESULTS

The Group's turnover increased to HK$1,123.3 million (2006 — HK$1,114.1 million), representing a very slight increase of 1% for the year ended 31 December 2007 and the Group's profit attributable to equity holders of the Company increased by 10% to HK$126.3 million (2006 — HK$114.8 million).

Earnings per share of the Company ("Share") was HK10.1 cents per Share (2006 — HK9.2 cents per Share) based on the weighted average number of 1,245 million (2006 — 1,245 million) Shares in issue during the year. The exercise of share options would have no material dilutive effect of earnings per share for the year ended 31 December 2006 and 2007.

The increase in financial results in 2007 was mainly attributable to decrease in distribution costs.

Business Review

Sales analysis

Sales volume for the year ended 31 December 2007 remained basically stable as compared with last year because of keen competition in the market. The number of bottles of wine sold was approximately 48.8 million in 2007 (2006 — approximately 49.5 million). The primary revenue sources of the Group continued to be red wine product sales which accounted for approximately 91% of its total turnover for the year (2006 — 94%). Dynasty Dry Red, the prototype of the Group's mass market product, remained as the Group's best selling label accounting for approximately 36% of the Group's turnover (2006 — 46%).

The Group continued to reinforce and expand its nationwide distribution network, which supported sale of products in all provinces and autonomous regions and four directly-administered municipalities under the central government of the PRC during the year. Huadong region (i.e. the Eastern region of the PRC), which comprises Shanghai city, Zhejiang and Jiangsu provinces continued to be the Group's primary markets. Our sales in other regional markets, such as Tianjin city, Guangdong, Anhui and Fujian provinces etc., in the PRC also highly grew. As the domestic market has been the Group's primarily focus, export sales was insignificant, amounting to only 0.2% (2006 — 0.1%) of the Group's total turnover during the year.

We produce a diversified range of over 50 products under the "Dynasty" brand to meet consumer needs mainly in the medium to high end segments in the PRC wine market. During the year, sales of premium wine products, such as Dynasty Dry Red Wine Reserve — Aged in Oak Barrels, Dynasty Dry Red Cabernet — Aged in Oak Barrels and Dynasty Dry White Wine - Reserve, recorded encouraging growth. Although the sales contribution from these products to our turnover was insignificant during the year, we believe these products will bring increasingly significant income to the Group and become major growth drivers for us in the future. The Group recognizes the need for greater effort to drive high end sales to increase income as well as uplifting our brand image.

Supplies of grapes or grape juice

Having sufficient supply of quality grapes and grape juice is crucial to ensuring the Group's production of consistently high quality products. We currently have over 10 major grape juice suppliers, mainly located in Tianjin, Shandong, Hebei and Ningxia, with whom we have long term and stable relationships. To ensure we have reliable and solid supplies of quality grapes and grape juice to meet the needs of our growing business and fill our expanding production capacity, the Group continues to work with grape growers to enlarge their existing vineyards so as to enjoy better economies of scale and improve quality by adopting state-of-art techniques, and also identify new suppliers who can meet our quality requirements. For new suppliers, the quality of their grape juice will be thoroughly tested before orders are placed. Such measures will enable us to secure quality grape and grape juice supplies and lower the risk of our production being interrupted by bad harvest.

The average cost of grape juice in 2008 is expected to remain stable.

Production capacity

The Group expanded production capacity to 50,000 tonnes (equivalent to approximately 66.7 million bottles) per annum in June 2006. To add additional capacity, we commenced the construction of new production and research and development facilities in our Tianjin winery during the year. The new production facility, expected to be completed by the end of 2008, will increase our annual production capacity to 70,000 tonnes (equivalent to approximately 93.3 million bottles). The enlarged production capacity will enable us to promptly respond to the booming market and consolidate the Group's market position.

Prospects

Looking ahead, the Group expects strong market growth to continue as wine consumption is boosted by China's economic development and people's changing taste. This will create opportunities as well as challenges due to keener competition. The Group is prepared to take measures to capitalize on the future growth of the market through both organic growth and acquisition.

FINANCIAL REVIEW

Selected financial information

Key components of our financial results as well as other financial and operating data as at and for the year ended 31 December 2007 are extracted or calculated from our consolidated financial statements as set out on page 42 to 75 of this annual report and presented as follows:

	2007 **HK$'000**	2006 HK$'000
Financial results:		
Turnover	**1,123,327**	1,114,145
Cost of sales	**(544,454)**	(546,900)
Gross profit	**578,873**	567,245
Distribution costs	**(339,211)**	(387,896)
General and administrative expenses	**(105,015)**	(71,261)
Income tax expense	**(54,668)**	(37,694)
Profit attributable to equity holders of the Company	**126,326**	114,803
Dividends declared in respect of the year	**59,760**	52,290

	2007	2006
Other financial and operating data:		
Sales volume (million bottles)	**48.8**	49.5
Gross profit margin (%)	**51.5**	50.9
Net operating margin (%)	**11.2**	10.3
Return on average equity (%)	**8.5**	8.5
Debtors' turnover (days)	**35**	32
Creditors' turnover (days)	**37**	37
Inventories turnover (days)	**357**	323
Gearing ratio		
— total bank borrowings to shareholders' funds (%)	**—**	—

Income Statement

Turnover

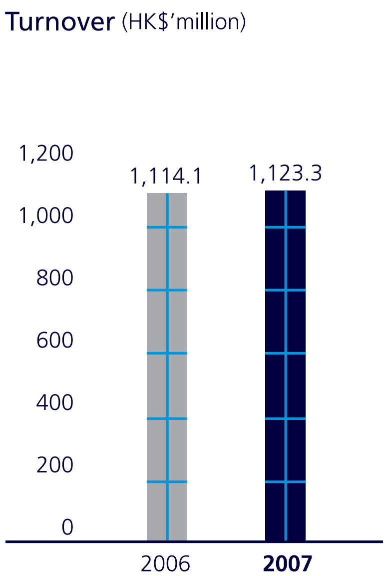
The Group's turnover increased by about 1% to approximately HK$1,123.3 million for the year ended 31 December 2007 from approximately HK$1,114.1 million for the year ended 31 December 2006. The slight growth in turnover principally reflected a basically stable sales volume.

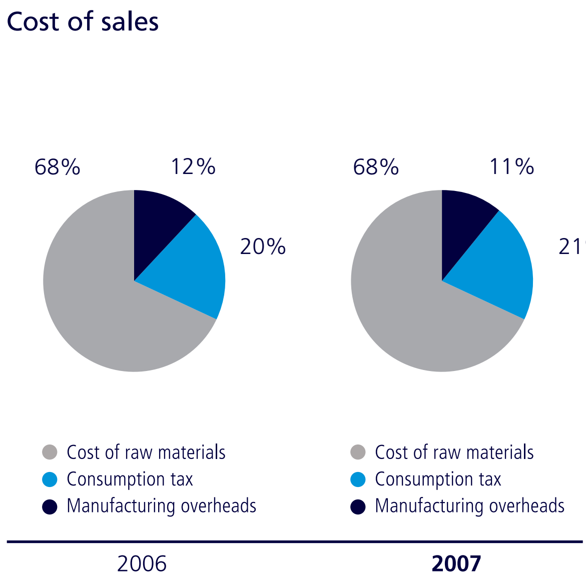
The Group's average ex-winery sales price during the year of 2007 for red and white wine products remained relatively stable amounting HK$23.0 per bottle (750ml) (2006 — HK$22.5 per bottle (750ml)). Since consumers in the PRC have a prevalent preference for red wines, the Group is able to set higher prices for its red wine products and therefore the average ex-winery sales price of the Group's red wine products are in general higher than that of the Group's white wine products.

Cost of sales

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

	2007 %	2006 %
Cost of raw materials		
— Grapes and grape juice	**38**	39
— Yeast and additives	**2**	1
— Packaging materials	**26**	26
— Others	**2**	2
Total cost of raw materials	**68**	68
Manufacturing overheads	**11**	12
Consumption tax	**21**	20
Total cost of sales	**100**	100





The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives as well as packaging materials including bottles, bottle caps, labels, corks and packing boxes. For the year ended 31 December 2007, the cost of grapes and grape juice was the key component of cost of sales and accounted for approximately 38% (2006 — 39%) of the Group's total cost of sales. As a percentage of cost of sales, the decrease was due to lower average cost of grapes and grape juice. The total cost of packaging materials to turnover was relatively stable during the year.

Manufacturing overheads primarily consist of depreciation, rental of fixed assets, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses for production. As a percentage of turnover, manufacturing overheads in the year ended 31 December 2007 remained stable as compared to 2006.

Gross profit margin

Calculated based on cost of sales inclusive of consumption tax and gross invoiced sales, the overall gross profit margin rose to 52% in 2007 from 51% in 2006. The primary reason for the gross profit margin improvement was the lower purchase cost of grape juice as compared to that of 2006. The gross margin of red wine products and white wine products in 2007 were 53% and 42% respectively (2006 — 51% and 43% respectively) and the higher gross margin of red wine products was mainly because of higher sales prices.

Other gains

Other gains in 2007 increased by 8% to HK$46.6 million (2006 — HK$43.3 million), mainly attributable to:

(1) a government grant of HK$15.5 million (2006 — HK$14.6 million) to a subsidiary to encourage its technology development and winemaking improvement in the PRC; and

(2) increase in interest income from higher bank deposit's interest rates.

Distribution costs

Distribution costs mainly include advertising and market promotion expenses, transportation and delivery charges in connection with the sales of grape wine products, salaries and related personnel expenses for the sales and marketing department and other incidental expenses. For the year ended 31 December 2007, the Company had taken strong measures to ensure more effective utilization of advertising and promotion expenses. As a result, distribution costs decreased and stood at approximately 30% (2006 — 35%) of the Group's turnover. Advertising and market promotion expenses to the Group's turnover was approximately also reduced to 17% (2006 — 21%).

General and administrative expenses

General and administrative expenses primarily comprise of salaries and related personnel expenses for administrative, finance and human resources departments, exchange loss, depreciation and amortisation expense and other incidental administrative expenses.

For the year ended 31 December 2007, general and administrative expenses as a percentage of the Group's turnover increased to 9% from 6% in 2006 mainly due to the decrease in government subsidy to HK$6.8 million (2006 — HK$15.2 million) for the general welfare of a PRC subsidiary's employees and larger functional currency exchange loss of HK$19.5 million (2006 — HK$10.5 million) attributable to our bank deposits denominated in US dollar in connection with the appreciation of Renminbi.

Income tax expense

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

For the year ended 31 December 2007, pursuant to the relevant income tax rules and regulations of the PRC, the applicable tax rate for Sino-French Joint-Venture Dynasty Winery Limited, our major operating subsidiary, and Tianjin Tianyang Grape Winery Co. Ltd. (formerly known as Tianjin Tianyang Grape Extract Co. Ltd.), another subsidiary of the Group, was 24%, being the preferential income tax rate for foreign investment production enterprises established in a coastal zone. The applicable tax rate for Shandong Yu Huang Grape Wine Co., Ltd., another subsidiary of the Group, was 30%. During the year, the effective tax rate of the Group increased to approximately 30% (2006 — 25%), principally due to under-provision of profits tax in prior year and more non-tax deductible expenses incurred being unrealised functional currency loss.

Balance sheet

Trade receivables, credit period, debtors' turnover and credit policy

Trade receivables amounted to HK$106.5 million (2006 — HK$97.5 million) for the year ended 31 December 2007, an increase of approximately 9.2%. The increase was a result of more credit sales with bill receivable clauses made at year end. During the year, customers were given a credit period ranging from one to six months and receivables with an age of less than six months accounted for approximately 98.5% of the net trade receivables as at 31 December 2007 (2006 — 94.8%) and debtors' turnover of approximately 35 days (2006 - 32 days) was in line with the credit period granted to most customers.

Since 1999, the Group has required larger customers, comprising mainly regional distributors, to place deposits in accordance with the targeted sales levels on entering a sales contract with the Group to enjoy certain credit terms, in general ranging from 30 days to 90 days. Smaller customers, with whom the Group has long-term trading relationships and who have good payment history, are also given, in general, credit terms of 30 days. All other customers are required to pay cash on delivery. Up to 31 December 2007, the Group had received deposits from customers totaling approximately HK$83.8 million (2006 — HK$83.4 million). Such amounts are recorded in the balance sheet as the "Other payables and accruals" and are only refundable upon termination of the sales contracts. In addition, the Group may deduct from the deposit if the customer does not pay for the purchase within the credit period granted and the same customer would have to top up the deposit if it wishes to continue purchasing products from the Group. As a result, the Group's credit policy has minimized its exposure to doubtful debts.

Trade payables, payment period and creditors' turnover

Trade payables remained stable for the year ended 31 December 2007 and amounted to approximately HK$44.1 million (2006 — HK$44.0 million). During the year, payments to most suppliers were subject to a payment period of one to two months. Creditors' turnover of approximately 37 days (2006 — 37 days) was in line with the credit period granted by most suppliers.

Inventories and inventory turnover

The Group's inventories balance amounted to approximately HK$422.6 million (2006 — HK$386.0 million) for the year ended 31 December 2007, an increase of approximately 9.5%. Inventories mainly comprised unprocessed wines worth approximately HK$167.6 million and finished goods valued at approximately HK$227.1 million. During the year, inventory turnover was approximately 357 days (2006 — 323 days). The longer inventory turnover period during the year was primarily the result of the stocking up of finished goods for sale during the anticipated peak season in early 2008.

Cash flow

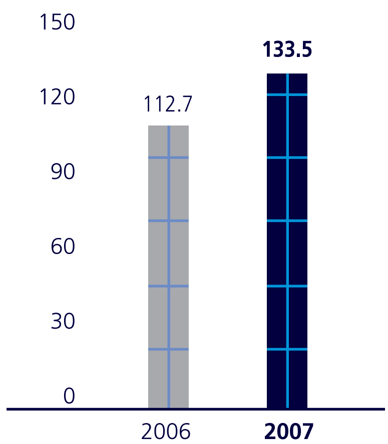
In 2007, operating activities were the Group's main source of cash flow for the year. Cash was principally used to pay for acquisition of plant and machinery, and dividends to shareholders during the year.

The increase in cash inflow from operating activities from HK$112.7 million in 2006 to HK$133.5 million in 2007 was primarily attributable to the decrease in distribution costs as well as the effects of the changes in working capital, mainly the increase in other payables and accruals.

Net cash used in investing activities was HK$32.4 million, primarily attributable to the acquisition of plant and machinery amounting to HK$64.6 million (2006 — HK$78.9 million including plant and machinery, and land use right) pursuant to our expansion plan less interest income of HK$30.6 million (2006 — HK$28.7 million). In 2006, the Company has prepaid investment in an associated company of HK$12.0 million.

Net cash outflow in financing activities was primarily attributable to the payment of approximately HK$59.8 million (2006 — HK$62.3 million) in dividends to shareholders.

Cash inflow from operating activities (HK$'million)



Dividend policy

We intend to declare and pay dividends in the future. The payment and the amount of any dividends will be recommended by the Directors in accordance with the relevant laws, rules and regulations and dependent on inter alia, the Group's results of operations, cash requirements and availability, financial condition, acquisition opportunities and the provisions of relevant laws, rules and regulations. Subject to the factors described above, the Board of Directors intends to recommend at relevant shareholders' meetings to distribute to shareholders an annual dividend amount of approximately 30% to 50% of the net profit available for distribution to the shareholders in the corresponding year in the future.

Financial management and treasury policy

As at 31 December 2007, except for the net proceeds from the placing and public offer, the Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB"). The net proceeds from the placing and public offer in 2005 that were not used for the intended purposes have been placed on short-term deposits (denominated in US dollars or Hong Kong dollars) with authorised financial institutions in Hong Kong. The Company also pays dividends in Hong Kong dollars. No hedging or other alternatives have been employed since it is the Group's policy not to enter into any derivative products for speculative activities and there are no cost-effective hedges against the appreciation of RMB and no effective manner to generally convert US dollars or Hong Kong dollars into RMB, which is not a freely exchangeable currency, there is a risk that we may experience a loss to be recorded in income statement as a result of US dollars or Hong Kong dollars exchange rate fluctuations in connection with deposits, especially in light of the increasing appreciation of RMB against these currencies. Maintaining sufficient financial resources and in a net cash position, the Group is exposed to minimal financial risk from interest rate fluctuation.

The purpose of the Group's investment policy is to monitor investments of the Group's uncommitted funds to ensure achievement of the highest practicable returns while heeding the need to preserve capital and assure liquidity.

Liquidity and financial resources

The Group's cash and bank balances as at 31 December 2007 amounted to HK$830.3 million. It has net cash inflow from operating activities ample for satisfying the working capital requirement of business operations and capital expenditures. New investment will be funded by the Group's internal resources.

Capital structure

As at 31 December 2007, the Group had no borrowing and was in a significant net cash position, reflecting its sound capital structure. The net proceeds raised from the placing and public offer in 2005 has strengthened the Group's capital structure giving it sufficient cash to support operating and capital expenditure requirements in the foreseeable future.

The market capitalisation of the Company as at 31 December 2007 was approximately HK$3,860 million.

Gearing ratio

As at 31 December 2007, the Group had no long-term debts with shareholders' fund of the Group amounted to approximately HK$1,560 million. The Group's gearing ratio, expressed as a ratio of total long-term debts to shareholders' fund, as at 31 December 2007 was nil (2006- nil).

Capital commitments, contingencies and charges on assets

The Group made capital expenditure commitments of approximately HK$131 million mainly for machineries which were authorised but not contracted for and approximately HK$42 million which were contracted but not provided for in the financial statements as at 31 December 2007. These commitments were required mainly to support expansion of the Group's production capacity. The funding of such capital commitments will be paid out of the proceeds of the placing and public offer as stated in the prospectus dated 17 January 2005.

As at 31 December 2007, the Group had no material contingent liabilities and the Group's assets were free from any charge.

Material acquisitions and disposals of subsidiaries and associated companies

The Group completed a sale and purchase agreement to acquire 25% equity interest of Dynasty Yuma Vineyard (Ning Xia) Co. Ltd. (formerly known as Ning Xia Heavenly Palace Yuma Winery Co., Ltd.)*（王朝御馬酒庄（寧夏）有限公司，前稱為寧夏天宮御馬葡萄釀酒有限公司）at a consideration of HK$11.49 million on 18 January 2007. The Group considers the acquisition represents a good opportunity for the Group to secure stable and high quality grape juice supply of grape wine business. Save for disclosed above, the Group had no material acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2007.

* *for identification purpose*

Use of proceeds

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 January 2005. The net proceeds from the successful placing and public offer amounted to approximately HK$724 million. The satisfactory results of the placing and public offer reflected the confidence of investors in the prospects of our business as well as in the grape wine industry in the People's Republic of China (the "PRC"). The planned use of the proceeds and actual spent are as follows:

Use	Usage as announced HK$ million	Actual progress HK$ million
Expansion of existing production facilities	200	200
Establishment of new production facilities	160	7
Expansion of sales and distribution network	20	—
Acquisition of Smiling East	47	47
Other acquisition opportunities and general working capital	297	26
Total	724	280

We have placed unutilised net proceeds as short term bank deposits with authorised financial institutions in Hong Kong.

Human resources management

People are our most important assets and are indispensable to our success in the competitive market. We strive to ensure a strong team spirit among our employees such that they identify and contribute in unison to our corporate objectives. To this end, we offer competitive remuneration packages commensurate with industry level and provide various fringe benefits including trainings, medical, insurance coverage as well as retirement benefits to all employees in Hong Kong and the PRC. Employees are encouraged to enrol in external professional and technical seminars, and other training courses to update their technical knowledge and skills, enhance their market awareness and improve their business acumen. The Group reviews its human resources and remuneration policies periodically with reference to local legislations, market conditions, industry practice and assessment of the performance of the Group and individual employees.

As at 31 December 2007, the Group employed a work force of 423 (including Directors) in Hong Kong and the PRC. The total salaries and related costs (including the Directors' fees) for the year ended 31 December 2007 amounted to approximately HK$88.5 million (2006 — HK$56.7 million).

The Company also adopted a share option scheme on 6 December 2004 for the purposes of providing incentives and rewards to eligible participants who have contributed to the success of our operations. As at 31 December 2007, 20,050,000 share options were granted and outstanding under the scheme.

DIRECTORS

Executive Director

BAI Zhisheng, aged 52, was appointed as a non-executive Director of the Company in August 2004 and is an executive Director, the chairman and the general manager overseeing the business development and taking up the function of formulating and managing the investment strategies of the Group. He has been the deputy general manager of Tianjin Agricultural Cultivation Group Company since 1991 and subsequently he was the general manager in 2005. He is also a qualified senior economist. Mr. Bai graduated in 1984 from the undergraduate programme of Peking University where he studied in international politics. He completed a postgraduate course specializing in law at the School of Central Committee of the Communist Party in 1998. Mr. Bai has solid experience in corporate management for over ten years.

Non-executive Directors

HERIARD-DUBREUIL Francois, aged 59, was appointed as the vice-chairman and a non-executive Director of the Company in August 2004. He has been the vice-chairman of Dynasty Winery since May 1980. He has also been the chairman of the supervisory board of Remy Cointreau S.A., a company listed on the Premier Marche of the Euronext Paris Stock Exchange, from December 2000 to September 2004, chairman of Orpar S.A. since December 1997 and director of Oeneo S.A. Mr. Heriard-Dubreuil joined Remy Martin & Co. S.A. in 1977 prior to its merger with Cointreau & Cie. He was appointed as the director of the Remy Cointreau Group in 1990. He has around 30 years of experience in the wines industry and has held various senior positions, including chairman of the Remy Martin Group from September 1984 to July 1990. He is also a director of Shanghai Shenma Winery Co., Ltd. ("Shenma"). He graduated from Université de Paris with a degree of Maîtrise Es Sciences in 1970 and a master of business administration from INSEAD, France in 1975.

CHEUNG Wai Ying, Benny, aged 74, was appointed as a non-executive Director of the Company in August 2004. He is also the owner of International Trade and Technology Research Associates and a director of Inttra Ltd. Mr. Cheung has been a director of Dynasty Winery since May 1980. He has extensive corporate and commercial experience for over 20 years. Besides, he is fluent in Chinese, English and Indonesian. He is currently a visiting professor at Central-South University, in Changsha, Hunan, the PRC. He graduated from the Russian Language Institute, Beijing, PRC in 1957 where he majored in translation.

ZHANG Wenlin, aged 57, was appointed as a non-executive Director of the Company in August 2004. He has been the chief accountant of Tianjin Agricultural Cultivation Group Company since 2000. He is also a qualified senior accountant. Mr. Zhang graduated from the undergraduate programme of Jilin Agricultural University in 1985 where he majored in agricultural economics and earned a master's degree in business administration from Macao University of Science and Technology in 2004.

WONG Ching Chung, aged 68, was appointed as a non-executive Director of the Company in August 2004. He has been a director of Dynasty Winery since December 1985. He is also a censeur (監事) of Orpar S.A. and the chairman of Shenma. Prior to joining Orpar S.A. in 2003, he was a director of Remy Cointreau S.A. between 1999 and 2002 and the regional managing director of Remy Associes and Maxxium Worldwide B.V. between 1986 and 2002. He graduated from The University of Hong Kong with a bachelor's degree in 1964 and from Arthur D. Little Management Institute, USA with a master of science in management degree in 1981. Mr. Wong has extensive experience in the wines industry for over 20 years. He was also awarded the Officier de l'Ordre du Merite Agricoleby the French government in 1994 in recognition of his accomplishment in the wines and spirits industry.

ROBERT Luc, aged 51, was appointed as a non-executive Director of the Company in August 2004. He is also the director of Orpar S.A. for the Greater China region. He has held various management positions in the Orpar S.A. — Remy Cointreau Group since 1987, including the deputy group controller, regional finance director for the America, finance director of the champagne division and the regional finance director of Asia Pacific. Prior to joining the Remy Cointreau Group in 1987, he worked with the Ernst & Whinney in Montreal and Paris. He graduated from University of Sherbrooke, Canada with a bachelor's degree in business administration (accounting) in 1979. He is a Canadian Chartered Accountant. Mr. Robert has extensive experience in the wines and spirits industry for over 19 years.

Independent non-executive Directors

LAI Ming, Joseph, aged 63, was appointed as an independent non-executive Director of the Company in August 2004. Mr. Lai is a fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), CPA Australia and the Chartered Institute of Management Accountants ("CIMA") and the Hong Kong Institute of Directors. He co-founded the HK Centre of CIMA (then known as the Institute of Cost and Management Accountants) in 1973 and was the president in 1974/75 and 1979/80. He was the president of the HKICPA in 1986. He is also an adviser to the Corporate Governance Committee of CPA Australia Hong Kong China Division. Until retirement in 2004, Mr. Lai served several Hong Kong listed companies in key management positions with particular emphasis on corporate finance and organization and management information. He is an independent non-executive director of Jolimark Holdings Limited, Shinhint Acoustic Link Holdings Limited, Guangzhou R&F Properties Co., Limited and Country Garden Holdings Limited. Mr. Lai is also a founding member and a director of Opera H.K. Ltd. and a director of the Research and Development Corporation Limited of the Hong Kong University of Science and Technology.

Dr. HUI Ho Ming Herbert, J.P. aged 49, was appointed as an independent non-executive Director in August 2004. He is the Chairman of China Supply Company Ltd. and Vice Chairman of the First Vanguard Private Equity Ltd and My Click Media Limited. He has extensive commercial and regulatory experience and serves on the boards of a number of public and private companies. He was appointed a Justice of the Peace in Hong Kong in 2004.

CHAU Ka Wah, Arthur, aged 62, was appointed as an independent non-executive Director of the Company in August 2004. Mr. Chau has substantial knowledge and experience in commercial and corporate industry. Prior to joining the Company in August 2004, he was the managing director of Otis Elevator Company (Hong Kong) Ltd. and the regional director of Otis Elevator International, Inc. in China. He graduated with a bachelor's degree from The University of Hong Kong and a master's degree in business administration from Chinese University of Hong Kong.

SENIOR MANAGEMENT

LIU Jicheng, aged 46, is the deputy general manager of the Company. He has more than 20 years of government affairs, commercial and corporate experience. Prior to joining the Company in November 2004, Mr. Liu was China business director of Tai Ping Carpets International Limited, a company listed on The Stock Exchange of Hong Kong Limited. He graduated from Macquarie University, Australia, with a master's degree in business administration. Mr. Liu was also granted the Hong Kong Management Association Awards in marketing and strategic management by Macquarie University.

YEUNG Chi Tat, aged 38, is the financial controller, qualified accountant and company secretary of the Company. He holds a bachelor's degree in business administration from The University of Hong Kong and a master's degree in professional accounting from Hong Kong Polytechnic University. Mr. Yeung possesses experience in auditing, corporate restructuring and corporate financial services. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in England and Wales and a senior international finance manager of International Financial Management Association.

WANG Shusheng, aged 52, is a deputy general manager of Dynasty Winery, technical director of the Company and chief senior food engineer responsible for production engineering, infrastructure management, vineyard construction and purchase of grape juice. Mr. Wang has more than 30 years of experience in research and development, quality control and production management. He is a profession accredited by Tianjin government. Mr. Wang is currently the director of the China Brewing Association (中國釀酒協會) and the Grape Wine Expert Committee (葡萄酒專家委員會) and the deputy director of the expert committee of China National Food Industry Association (中國食品協會專家委員會). He is also the state and national level appraisal judge of the China Brewing Association (中國釀酒協會) and the expert committee of China National Food Industry Association, and the distinguished appraisal judge of the China Wine Examination Centre (中國葡萄酒檢測中心), as well as being a visiting professor at the food college of China Agriculture University. He graduated from Tianjin Municipal Party Committee Party School in 2002 with a diploma in economic management. Mr. Wang joined the Group in 1991.

LIU Jianhua, aged 54, is a deputy general manager of Dynasty Winery and chief senior food engineer responsible for production planning, purchase of other raw materials, and import and export operations. Mr. Liu has more than 18 years of experience in research and development of brewing technology. He graduated from Tianjin Municipal Party Committee Party School in 2002 with a diploma in economic management. Mr. Liu joined the Group in 1985.

TIAN Fengying, aged 50, is a deputy general manager of Dynasty Winery, sales director of the Company and senior economist responsible for sales and marketing. Ms. Tian has more than 20 years experience in market planning as well as public relations. She is the legal adviser of Tianjin Government Economic Committee and an analyst at the China Management Science Research Institute. She graduated from International East-West University of the United States in 2000 with a master's degree in business administration. Ms. Tian joined the Group in 1980.

LIU Kejing, aged 45, is a chief economist of Dynasty Winery responsible for the management of production facilities and has over 10 years' experience in the wines industry. He graduated from University of Zhengzhou with a bachelor's degree in Chinese in 1986. He then obtained a bachelor's degree in law from Nan Kai University in 1992. Mr. Liu joined the Group in 1992.

LI Zhanbiao, aged 52, is head of the human resources department, secretary of disciplinary examination committee, supervisor of the Communist Party Committee and chairman of the Trade Union of Dynasty Winery. Mr. Li is qualified as senior professional manager (高級職業經理人), registered senior human resources supervisor (註冊高級人力資源管理師) and registered senior corporate operator (註冊高級企業運營師). Prior to joining the Group, Mr. Li was the deputy general manager of Tianjin Jinying Foods Ltd. He graduated from Tianjin Agriculture College in 1982 with a bachelor's degree and was a graduate student at China Agriculture University in 2002. He completed the business administration and management course at the Business Administration and Management Research Centre of Remin University of China in 2003. Mr. Li joined the Group in 1997.

LI Wei, aged 50, is an assistant to the general manager and researcher of agricultural promotion of Dynasty Winery responsible for matters related to production safety and winery security. He graduated from the undergraduate programme of Northwest Agriculture Institution of China (formerly known as Northwest Agriculture Institution of China) in 1983 and studied grape cultivation at Bordeaux Wine School in France in 1996. Mr. Li has over 20 years' experience in the wines industry. Mr. Li joined the Group in 1986.

YIN Jitai, aged 44, is an assistant to the general manager and chief senior engineer of Dynasty Winery responsible for quality control. He has more than 10 years' experience in the wines industry and is a member of China Brewing Association (中國釀酒協會), China National Food Industry Association and China National Wine Examine Committee. Mr. Yin has also been appointed onto the board of the state grape and fruit wines judges. He graduated from Tianjin Industrial College in 1985 with a bachelor degree in food engineering where he majored in food fermentation. Mr. Yin joined the Group in 1992.

ZHANG Chunya, aged 54, is a vice chief engineer and head of technology department of Dynasty Winery and chief senior engineer. She has been involved in the production of Dynasty Winery for over 16 years. Ms. Zhang graduated from Jiangxi Medical College in 1975. She was recognised as a state-level wine appraisal judge by the China Brewing Industry Association in 2000. In 2000, she also received from the Tianjin Government the first class technology improvement prize for the development of high end dry red wines. In 2001, the "Research and Development of Dynasty High end Dry Red Wines Production Techniques and Raw Material Equipment Protection System" obtained the second class national technology improvement prize. Ms. Zhang joined the Group in 1992.

HUANG Yaqiang, aged 34, is a vice chief accountant and head of the financial department of Dynasty Winery responsible for financial matters of Dynasty Winery. Mr. Huang graduated from the undergraduate programme of Zhongnan University of Economics and Law in 1996 and earned a master's degree in economics from Tianjin University of Economics and Finance in 1999. Mr. Huang has solid experience in financial accounting and management for over ten years. Mr. Huang joined the Group in 1996.

WANG Yan, aged 41, is a head of equipment department of Dynasty Winery. He graduated from the branch of Tianjin University. Mr. Wang was awarded the first class technology improvement prize for the development of Dynasty high class red wines in 2001 and other prizes in relation to the research and development of grape wines such as for the development of the Hangu Region Rose Scented grape wines in 2004. Mr. Wang has solid experience in the production of grape wines for over 15 years. Mr. Wang joined the Group in 1991.

WANG Fang, aged 40, is a head of the quality control department of Dynasty Winery, senior engineer and registered quality engineer. She graduated from Wuhan University with a bachelor degree in 1989 and a master degree from Tianjin Technology University in 2007. Ms. Wang was appointed as a member of national grape and fruit wines appraisal board by the China National Food Industry Association in 2001. Ms. Wang was awarded the second class science and technology prize from the China National Food Industry Association for the research and application of the new brewing techniques in 2003. Ms. Wang has a solid experience in quality control and examination of grape wines over 19 years.

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.

During the year, the Company has complied with the Code on Corporate Governance Practices (the "Code"). The Directors are not aware of any information that would reasonably indicate that the Company is not in compliance with the Code of Corporate Governance Practices set out in Appendix 14 of the Listing Rules as effective during the year. 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"). The Company has made specific enquiry of all Directors and that all the Directors have confirmed their compliance with the required standards set out in the Model Code throughout the financial year ended 31 December 2007.

BOARD OF DIRECTORS

Composition of the Board

As at 31 December 2007, the Board comprised three executive Directors, namely Mr. Bai Zhisheng (Chairman), Mr. Nie Jiansheng and Mr. Chen Naiming (General Manager), 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, Dr. 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. Bai Zhisheng, the chairman and Mr. Chen Naiming, the general manager as at 31 December 2007.

The Board

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

The Board has four scheduled meetings a year and meets more frequently as and when required. During the year, four full board meetings were held. Their individual attendance records, on a named basis, during the year ended 31 December 2007 is set out in the table as follows:

Board Members	**Meetings attended/held**
Executive Director	
Mr. Bai Zhisheng	4/4
Mr. Nie Jiansheng	2/4
Mr. Chen Naiming	4/4
Non-executive Director	
Mr. Heriard-Dubreuil Francois	4/4
Mr. Wang Guanghao	3/4
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 Director	
Mr. Lai Ming, Joseph	4/4
Dr. Hui Ho Ming, Herbert	3/4
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 member 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.

Directors' Appointment, Re-election and Removal

Pursuant to the Articles of Association of the Company, every Director shall be subject to retirement by rotation at least once every three years and Director appointed to fill a casual vacancy shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that general meeting. The new Director shall not be taken into account in determining the number of Directors who are to retire by rotation at that meeting.

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 director has been newly appointed during the year. No board meeting was held for nomination of director in 2007.

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

Chairman 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 2007, Mr. Bai Zhisheng as the Chairman led the Board and ensured all Directors were properly briefed on issues to be discussed at board meetings. Mr. Chen Naiming as the general manager 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 in 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 Dr. Hui Ho Ming, Herbert, both being 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 in determining the specific remuneration packages of such executive Directors and senior management;

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 2007, three meetings were held. The Remuneration Committee has reviewed and recommended to the Board on: 1) the payment of bonuses to staff in the PRC and Hong Kong in respect of the financial year ended 31 December 2006; 2) the salary adjustment available to the Hong Kong staff; and 3) the salary adjustment available to the PRC staff. The Board has approved all the recommendations of the Remuneration Committee during the year. The attendance record of individual committee members is set out in the table as follows:

Name of member	Meeting attended/held
Chau Ka Wah, Arthur	3/3
Nie Jiansheng	3/3
Wong Ching Chung	3/3
Lai Ming, Joseph	3/3
Hui Ho Ming, Herbert	2/3

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 and pensions.

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

Apart from basic salary, executive Directors and employees 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 and officers, 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 optimize their continuing contributions to the Group.

Details of the amount of Directors' emoluments during the year ended 31 December 2007 are set out in note 11 to the financial statements and details of the Share Option Scheme and grant of options by the Company during the year are set out in Directors' Report and note 21 to the financial statements.

ACCOUNTABILITY AND AUDIT

The Board is responsible for the preparation of the financial statements for the financial year ended 31 December 2007 which give a true and fair view of the state of affairs of the Company and of the Group and of the results and cash flows for that year. In preparing the financial statements for the year ended 31 December 2007, 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.

The Directors had reviewed the financial projections of the Group in respect of the year ending 31 December 2008. On the basis of this review, the Directors 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 Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

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 and Audit Committee have reviewed 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 by the professional accounting firm has been determined and approved by the Audit Committee. The professional accounting firm has reported major internal control review findings to the Board and the Audit Committee. No major issue but areas for improvement have been identified. All recommendations from the professional accounting firm will be properly followed up to ensure that they are implemented within a reasonable period of time. The Board and Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented and the Group has fully complied with the Code provisions regarding internal control systems in general.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors of the Company namely, Mr. Lai Ming, Joseph, Dr. Hui Ho Ming, Herbert and Mr. Chau Ka Wah, Arthur. One of these Directors, Mr. Lai Ming, Joseph, 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 financial statements and reports of the Company, the effectiveness of the Group's system of internal controls, as well as the 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 2007 includes the following:

(i) a review of the draft annual financial statements for the year ended 31 December 2006 and interim financial statements for the period ended 30 June 2007 of the Group, focusing on main areas of judgement, consistency of and changes in accounting policies (if any) 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 control and audit issues;

(iii) met with the external auditors to discuss the general scope of their audit works;

(iv) a review of the external auditors' report thereon;

(v) a review of the internal control review report covering the evaluation of internal controls; and

(vi) a review of the independence, performance and remuneration of the external auditors.

During the year ended 31 December 2007, 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 2007, the remuneration paid/payable to the auditors in respect of audit and non-audit services were set out as below:

Nature of services	Amount (HK$'000)
Audit services	1,050
Non-audit services	
(i) Tax services	22
(ii) Internal control review	428

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 ("Shareholders"), the Company has established various channels of communication with its shareholders:

(1) The Company regards the annual general meeting ("AGM") as one of the 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 2007, 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 strategies, operations and developments. During 2007, executive Directors and senior management visited several major international investment centres, including Europe, Japan and Singapore to meet with institutional investors. In the future, the Group plans to continue to strengthen 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 timely disseminated through publication of interim and annual reports, announcements, circulars and press release.

The Company was named a winner of the "Gold award for annual report-overall presentation: beverages and entertainment" regarding the 2006 annual report in MERCURY Awards Competition to recognize Dynasty's outstanding achievement in professional communications. Considered the "Oscar" of the world-wide communications industry, the MERCURY Awards is one of the most important international competitions honoring the best in public relations, public affairs and corporate communications.

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 is 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 resolutions. The most recent Shareholders' meeting was the AGM held on 25 May 2007.

Market Capitalisation

The market capitalisation of the Company as at 31 December 2007, the last trading day in 2007, was HK$3,860 million (issued share capital: 1,245,000,000 shares at closing market price: HK$3.10 per share).

Financial Section

32 Directors' Report

40 Independent Auditor's Report

42 Consolidated Income Statement

43 Consolidated Balance Sheet

44 Balance Sheet

45 Consolidated Statement of Changes In Equity

46 Consolidated Cash Flow Statement

47 Notes to the Financial Statements

76 Five Years Summary

The Directors are pleased to present the 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 2007.

PRINCIPAL ACTIVITIES

As at 31 December 2007, 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 28 to the financial statements. The nature of the principal activities of the Group has not changed during the year.

RESULTS AND APPROPRIATION

The financial results of the Group for the year are set out on page 42.

The Directors have declared an interim dividend of HK3.6 cents per Share. The total interim dividend of HK$44.8 million has been paid in November 2007. 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 of the Company at the close of business on 30 May 2008.

RESERVES

Movements in reserves of the Group and the Company during the year and distributable reserves of the Company as at 31 December 2007 are set out in Note 22 to the financial statements and balance sheet of the Company respectively.

GROUP FINANCIAL SUMMARY

A summary of the financial results and position of the Group for the last five financial years is set out on page 76.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group and the Company during the year are set out in Note 13 to the financial statements.

SHARE CAPITAL

Details of the movements of the Company's share capital during the year are set out in Note 21 to the financial statements.

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 of the Company.

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 (resigned on 14 January 2008)
Mr. Chen Naiming (passed away on 23 January 2008)

Non-executive Directors:
Mr. Heriard-Dubreuil Francois
Mr. Cheung Wai Ying, Benny
Mr. Zhang Wenlin
Mr. Wong Ching Chung
Mr. Robert Luc
Mr. Wang Guanghao (resigned on 14 January 2008)

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. 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 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 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

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 entity with competing business	Nature of interest in the entity with competing business
Mr. Heriard-Dubreuil Francois	Shanghai Shenma Winery Co., Ltd. ("Shenma")	Manufacturing and sale of grape wine products in greater Shanghai region	Being a director of Shenma 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	Being a non-executive director of Shenma 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.

SHARE OPTION SCHEME

Pursuant to the resolution passed by the shareholders ("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 or former 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 31 December 2007, the Company has granted share options representing the right to subscribe for 24,950,000 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 95,050,000 Shares, representing approximately 7.6% of the total number of Shares in issue as at 31 December 2007.

(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:

	Outstanding options held at 1 January 2007 *(Note 1)*	Granted *(Note 2)*	Exercised	Lapsed/ Cancelled	Outstanding options held at 31 December 2007	Approximate percentage of issued share capital of the Company
Executive Directors:						
Mr. Bai Zhisheng	2,300,000	—	—	—	2,300,000	0.18%
Mr. Nie Jiansheng	1,950,000	—	—	—	1,950,000	0.16%
Mr. Chen Naiming	1,950,000	150,000	—	—	2,100,000	0.17%
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	—	—	—	8,000,000	0.65%
Total	19,900,000	150,000	—	—	20,050,000	1.61%

Note 1: These share options (except for the 1,200,000 share options granted to Mr. Bai Zhisheng) 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. 1,200,000 share options were granted to Mr. Bai Zhisheng on 1 November 2006 with an exercise price of HK$3.00 and are exercisable from 22 May 2007 to 31 October 2016.

Note 2: These share options were granted on 27 August 2007, with an exercise price of HK$3.00 and are exercisable from 17 March 2008 to 26 August 2017.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2007, 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:

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 2007, 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 2007, so far as was known to the Directors or chief executive of the Company, 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	336,528,000	27.03%
Remy Concord Limited *(Note 4)*	Interest of a controlled corporation	336,528,000	27.03%
Remy Cointreau Services S.A.S. *(Note 4)*	Interest of a controlled corporation	336,528,000	27.03%

Name	Nature of interest	Number of Shares held	Approximate percentage of the Company's issued share capital
Remy Cointreau S.A. *(Note 4)*	Interest of a controlled corporation	336,528,000	27.03%
Orpar S.A. *(Note 4)*	Interest of a controlled corporation	336,528,000	27.03%
Andromede S.A. *(Note 4)*	Interest of a controlled corporation	336,528,000	27.03%
Matthews International Capital Management, LLC	Investment manager	99,764,000	8.01%
The Hamon Investment Group Pte Limited	Investment manager	75,126,000	6.03%

Notes:

(1) Famous Ever Group Limited is a wholly owned subsidiary of Tianjin Development Holdings Limited ("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 51.77% 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.

(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 54.68% 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.

Except as set out above, as at 31 December 2007, 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	10.5%
— five largest customers combined	34.9%
Purchases	
— the largest supplier	10.8%
— five largest suppliers combined	39.8%

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. During the year, the Group purchased unprocessed wines from Dynasty Yuma Vineyard (Ning Xia) Co. Ltd., an associated company of the Group, and those purchases accounted for approximately 9.5% of the consolidated purchases of the Group.

CONNECTED TRANSACTION

Purchase of Oak Barrels

Pursuant to the oak barrel purchase contracts dated 14 June 2007, Sino-French Joint-Venture Dynasty Winery Limited, an indirect wholly-owned subsidiary of the Company, has agreed to purchase certain oak barrels from Tonnellerie Radoux, Tonnellerie Seguin Moreau and Seguin Moreau Napa Cooperage ("the Vendors") at a total consideration of Euro799,660 and US$189,800 (totalling equivalent to approximately HK$9,956,836) (the "Purchases").

The Vendors are wholly-owned subsidiaries of Oeneo S.A., an associate (within the meaning ascribed to it in the Listing Rules) of Orpar S.A., which is a substantial shareholder (within the meaning ascribed to it in the Listing Rules) of the Company. Accordingly, the Vendors are connected persons of the Company within the meaning of the Listing Rules and the Purchases therefore constitute connected transactions for the Company. Pursuant to Rule 14A.25 of the Listing Rules, the Purchases pursuant to each of the oak barrel purchase contracts are aggregated. Such aggregation would result in each of the applicable ratios for the purchases being more than 0.1% but less than 2.5%. Accordingly, the Purchases are only subject to reporting and announcement requirements and are exempt from independent Shareholders' approval requirements under the Listing Rules. For details of the Purchases, please also refer to Company's announcement dated 14 June 2007.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

For the year ended 31 December 2007, none of the Company and any of its subsidiaries had purchased, sold or redeemed any of the Shares of the Company.

MINIMUM PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors as at the latest practicable date prior to the issue of this report, it is confirmed that the Company has maintained the amount of public float as required under the Listing Rules.

AUDITORS

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, 16 April 2008

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF DYNASTY FINE WINES GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Dynasty Fine Wines Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 42 to 75, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	3	**1,123,327**	1,114,145
Cost of sales	4	**(544,454)**	(546,900)
Gross profit		**578,873**	567,245
Other gains	3	**46,569**	43,325
Distribution costs		**(339,211)**	(387,896)
General and administrative expenses		**(105,015)**	(71,261)
Operating profit	6	**181,216**	151,413
Share of profit of an associate	17	**67**	—
Profit before income tax		**181,283**	151,413
Income tax expense	7	**(54,668)**	(37,694)
Profit for the year		**126,615**	113,719
Attributable to:			
Equity holders of the Company	8	**126,326**	114,803
Minority interests		**289**	(1,084)
		126,615	113,719
Dividends	9	**59,760**	52,290
Earnings per share of profit attributable to the equity holders of the Company		**HK cents**	HK cents
— Basic earnings per share	10	**10.1**	9.2

The Notes on pages 47 to 75 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	**361,928**	313,034
Land use rights	14	**61,698**	59,186
Interest in an associate	17	**12,536**	—
Goodwill	15	**9,421**	9,421
Deferred income tax asset		**1,373**	1,279
		446,956	382,920
Current assets			
Trade receivables	18	**106,504**	97,521
Other receivables, deposits and prepayments		**61,428**	42,584
Inventories	19	**422,564**	386,035
Cash and bank balances	20	**830,346**	764,394
		1,420,842	1,290,534
Total assets		**1,867,798**	1,673,454
EQUITY			
Capital and reserves attributable to the Company's equity holders:			
Share capital	21	**124,500**	124,500
Other reserves	22	**1,115,891**	1,005,481
Retained earnings			
— Proposed final dividend		**14,940**	14,940
— Others		**305,285**	254,879
		1,560,616	1,399,800
Minority interests		**32,616**	30,098
Total equity		**1,593,232**	1,429,898
LIABILITIES			
Current liabilities			
Trade payables	23	**44,121**	44,000
Other payables and accruals		**218,703**	195,324
Current income tax liabilities		**11,742**	4,232
Total liabilities		**274,566**	243,556
Total equity and liabilities		**1,867,798**	1,673,454
Net current assets		**1,146,276**	1,046,978
Total assets less current liabilities		**1,593,232**	1,429,898

BAI Zhisheng
Director

ZHANG Wenlin
Director

The Notes on pages 47 to 75 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	**3,459**	2,003
Interest in subsidiaries	16	**882,666**	722,605
		886,125	724,608
Current assets			
Other receivables, deposits and prepayments		**2,347**	13,700
Dividend receivable		**149,000**	60,000
Cash and bank balances	20	**306,471**	429,728
		457,818	503,428
Total assets		**1,343,943**	1,228,036
EQUITY			
Capital and reserves attributable to the Company's equity holders:			
Share capital	21	**124,500**	124,500
Other reserves	22	**1,137,504**	1,062,877
Retained earnings			
— Proposed final dividend		**14,940**	14,940
— Others		**37,221**	1,269
Total equity		**1,314,165**	1,203,586
LIABILITIES			
Current liabilities			
Other payable and accruals		**20,137**	14,623
Amount due to subsidiaries	24	**9,641**	9,827
Total liabilities		**29,778**	24,450
Total equity and liabilities		**1,343,943**	1,228,036
Net current assets		**428,040**	478,978
Total assets less current liabilities		**1,314,165**	1,203,586

BAI Zhisheng
Director

ZHANG Wenlin
Director

The Notes on pages 47 to 75 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2007

	Note	Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Minority interests HK$'000	Total HK$'000
		Attributable to equity holders of the Company				
Balance at 1 January 2006		124,500	950,981	230,663	31,107	1,337,251
Employee share options scheme						
— Value of employee services	22	—	217	—	—	217
Profit/(loss) for the year		—	—	114,803	(1,084)	113,719
Transfers		—	13,397	(13,397)	—	—
Currency translation differences	22	—	40,886	—	75	40,961
Dividends		—	—	(62,250)	—	(62,250)
Balance at 31 December 2006		124,500	1,005,481	269,819	30,098	1,429,898
Employee share options scheme						
— Value of employee services	22	—	474	—	—	474
Profit for the year		—	—	126,326	289	126,615
Transfers		—	16,160	(16,160)	—	—
Currency translation differences	22	—	93,776	—	2,229	96,005
Dividends		—	—	(59,760)	—	(59,760)
Balance at 31 December 2007		124,500	1,115,891	320,225	32,616	1,593,232

The Notes on pages 47 to 75 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Cash generated from operations	26	**180,690**	151,466
Income tax paid		**(47,157)**	(38,807)
Net cash generated from operating activities		**133,533**	112,659
Cash flows from investing activities			
Purchase of property, plant and equipment		**(64,623)**	(38,906)
Purchase of land use rights		**—**	(40,039)
Proceeds from disposal of equipment		**1,639**	560
Interest received		**30,563**	28,691
Prepayment for acquisition of an associate		**—**	(11,987)
Net cash used in investing activities		**(32,421)**	(61,681)
Cash flows from financing activities			
Dividends paid to the Company's equity holders		**(59,760)**	(62,250)
Net cash used in financing activities		**(59,760)**	(62,250)
Net increase/(decrease) in cash and cash equivalents		**41,352**	(11,272)
Cash and cash equivalents at the beginning of the year		**764,394**	763,251
Exchange gain on cash and cash equivalents		**24,600**	12,415
Cash and cash equivalents at the end of the year		**830,346**	764,394

The Notes on pages 47 to 75 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

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. Its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, whilst the principal office is Suite 5506, 55/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The principal activity of the Company is investment holding and the principal activities of the subsidiaries are stated in Note 28.

The shares of the Company were listed on the Main Board of the Stock Exchange on 26 January 2005.

These consolidated financial statements have been approved for issue by the Board of Directors on 16 April 2008.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Dynasty Fine Wines Group Limited have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The area involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 30.

(a) *Standards, amendment and interpretations effective in 2007 and relevant to the Group*

HKFRS 7	Financial instruments: Disclosures
HKAS 1 (Amendment)	Presentation of financial statements — Capital disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 10	Interim financial reporting and impairment

(b) *Standard and interpretations effective in 2007 but not relevant to the Group*

HKFRS 4	Insurance contracts
HK(IFRIC)-Int 7	Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies
HK(IFRIC)-Int 9	Re-assessment of embedded derivatives

The adoption of the above did not have a material impact on the financial statements of the Group other than disclosure changes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) *Standard, amendment and interpretations to the existing standards that are not yet effective and have not been early adopted by the Group*

HKAS 1 (Revised)	Presentation of financial statements (effective from 1 January 2009)
HKAS 23 (Amendment)	Borrowing costs (effective from 1 January 2009)
HKAS 27 (Revised)	Consolidated and separate financial statements (effective from 1 July 2009)
HKFRS 2 (Amendment)	Share-based payment — Vesting conditions and cancellations (effective from 1 January 2009)
HKFRS 3 (Revised)	Business combinations (effective from 1 July 2009)
HKFRS 8	Operating segments (effective from 1 January 2009)
HK(IFRIC)-Int 11	HKFRS 2 — Group and treasury share transactions (effective from 1 March 2007)
HK(IFRIC)-Int 12	Service concession arrangements (effective from 1 January 2008)
HK(IFRIC)-Int 13	Customer loyalty programmes (effective from 1 July 2008)
HK(IFRIC)-Int 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008)

The Group is in the process of making an assessment of the impact of these standards, amendments and interpretations on the financial statements of the Group in the initial application.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2007.

(a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation *(continued)*

(a) *Subsidiaries (continued)*

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) *Transactions and minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interest result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated income statement.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's presentation currency. The functional currency of the Company and all of its Group's subsidiaries in the PRC is Renminbi.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign entity is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Property, plant and equipment

Construction in progress is stated at cost which includes cost of construction and other direct costs capitalised during the construction less impairment losses and is not depreciated until such time the assets are completed and ready for their intended use.

Buildings comprise mainly factories and offices. Buildings and other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of buildings and other property, plant and equipment is calculated using the straight-line method to allocate the cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Plant and machinery	10 years
Leasehold improvements, furniture and equipment	5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains — net, in the income statements. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

2.7 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, and are at least tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Financial assets

The Group classifies loans and receivable as its financial assets. The classification depends on the purposes for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables".

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a weighted average basis, comprises materials, direct labour and an appropriate portion of production overheads. Net realisable value is determined on the basis of anticipated sales proceed less estimated cost to completion and selling expenses. Provision is made for inventories when they become obsolete.

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.12 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.13 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Current and deferred income tax *(continued)*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.14 Employee benefits

(a) *Retirement scheme obligation*

Employees of the Group's subsidiaries in the PRC are members of the state-managed employee pension scheme which undertakes to assume the retirement benefit obligations of all existing and future retired employees. The Group's obligation is to make the required contributions under the scheme. In addition, the Company contributes to a mandatory provident fund scheme for all Hong Kong employees. All contributions are based on a certain percentage of the employee's salary and are charged to the income statement as incurred.

(b) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.15 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue from sales of goods is recognised when the Group has delivered products to the customers, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Interest income is recognised on a time-proportion basis using the effective interest method.

2.17 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

2.18 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.20 Government grants/subsidies

Government grants are recognised at fair value where there is a reasonable assurance that the Group will comply with all conditions attached to the grants and the grants will be received.

Government subsidies relating to costs are deferred and recognised in the income statement on a systemic basis to match related costs which they are intended to compensate.

3 TURNOVER AND OTHER GAINS

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

	2007 HK$'000	2006 HK$'000
Turnover		
Manufacturing and sale of wine products	**1,123,327**	1,114,145
Other gains		
Interest income	**31,105**	28,691
Government grant	**15,464**	14,634
	46,569	43,325
Total revenue and other gains	**1,169,896**	1,157,470

4 COST OF SALES

Cost of the sales comprises the following items:

	2007 HK$'000	2006 HK$'000
Cost of production	**432,350**	435,682
Consumption tax at 10% of domestic sales	**112,104**	111,218
	544,454	546,900

5 SEGMENT INFORMATION

Manufacturing and sale of wine products is the only business segment of the Group for the year ended 31 December 2006 and 2007.

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

6 OPERATING PROFIT

	2007 HK$'000	2006 HK$'000
Operating profit is stated after charging/(crediting):		
Employee costs:		
— salaries, other allowance and benefits	**87,682**	65,787
— contributions to retirement benefits scheme	**7,118**	5,931
— share-based payments	**474**	217
— government subsidy *(Note i)*	**(6,800)**	(15,193)
Total employee costs including directors' emoluments	**88,474**	56,742
Auditors' remuneration	**1,050**	1,018
Depreciation	**37,673**	33,396
Amortisation	**1,786**	1,140
Net exchange loss	**19,806**	10,590
Loss on disposal of property, plant and equipment	**218**	1,231
Operating lease rentals in respect of:		
— transformation station	**2,227**	2,107
— office premises	**2,130**	1,425

Note:

(i) Prior to 2003, one of the Group's subsidiaries, Sino-French Joint-Venture Dynasty Winery Limited ("Dynasty Winery"), had been making contributions to an external special purpose fund which is managed and approved by the PRC joint venture partner of Dynasty Winery as permitted under the then related PRC regulations. Pursuant to revised regulations issued by the Tianjin Finance Bureau effective 1 January 2003, Dynasty Winery ceased to make further contributions to this fund. The Group's legal counsel has confirmed that the Group does not have ownership of this fund which effectively belongs to the PRC government and is to be used only for the general welfare of Dynasty Winery's employees. In 2007, Dynasty Winery received approximately HK$6.8 million (2006: HK$15.2 million) from the fund. As at 31 December 2007, the remaining balance in this fund is Nil (2006: HK$6.8 million).

7 INCOME TAX EXPENSE

	2007 HK$'000	2006 HK$'000
Current income tax:		
— PRC income tax for the year	**52,703**	37,222
— Under provision in previous years	**1,965**	662
— Tax refund	**—**	(190)
	54,668	37,694

7 INCOME TAX EXPENSE *(continued)*

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit in Hong Kong.

Provision for PRC income tax has been made at the applicable rate on the estimated assessable profit for the year for each of the Group's subsidiaries. The applicable rate is principally 24%, being the preferential rate for foreign investment production enterprises established in a coastal economic development zone (2006: 24%).

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "new CIT Law"). The new CIT Law revised the Group's corporate income tax rate from 24% to 25% with effect from 1 January 2008. This change in tax rate has no significant impact to the Group's deferred tax assets as at 31 December 2007.

The Group's effective tax rate differs from the applicable rates principally due to the following factors:

	2007 HK$'000	2006 HK$'000
Profit before income tax	**181,283**	151,413
Calculated at applicable rates	**44,961**	37,008
Non-tax deductible expenses	**11,876**	4,050
Income not subject to tax	**(3,972)**	(3,836)
Utilisation of previously unrecognised tax losses	**(162)**	—
Income tax for the year	**52,703**	37,222

8 PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to the equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$95,712,000 (2006: HK$49,850,000).

9 DIVIDENDS

	2007 HK$'000	2006 HK$'000
Interim dividend paid of HK3.6 cents (2006: HK3.0 cents) per ordinary share	**44,820**	37,350
Proposed final dividend of HK1.2 cents (2006: HK1.2 cents) per ordinary share *(Note)*	**14,940**	14,940
	59,760	52,290

Note: On 16 April 2008, the directors declared final dividend of HK1.2 cents per ordinary share. These financial statements do not reflect this dividend payable, which will be reflected as an appropriation of retained profits for the year ending 31 December 2008.

10 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK$126,326,000 (2006: HK$114,803,000) and the weighted average number of 1,245,000,000 shares in issue during the year.

The exercise of share options would have no material dilutive effect of earnings per share for the year ended 31 December 2006 and 2007.

11 EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Directors' emoluments:

	2007 HK$'000	2006 HK$'000
Fees	**2,160**	2,160
Salaries, allowances and other benefits	**5,652**	5,056
Share-based payments	**306**	153
Contributions to retirement benefits scheme	**230**	216
	8,348	7,585

Each of the directors' remuneration is set out as below:

	For the year ended 31 December 2007						
	Fees HK$'000	**Salary HK$'000**	**Discretionary bonus HK$'000**	**Other benefits HK$'000**	**Share-based payments HK$'000**	**Employer's contribution to pension scheme HK$'000**	**Total HK$'000**
Executive director							
Mr. Bai Zhisheng	—	1,500	—	336	306	75	2,217
Mr. Nie Jiansheng	—	1,200	—	300	—	60	1,560
Mr. Chen Naiming (i)	—	1,529	433	354	—	95	2,411
Non-executive director							
Mr. Heriard-Dubreuil Francois	240	—	—	—	—	—	240
Mr. Wang Guanghao	240	—	—	—	—	—	240
Mr. Cheung Wai Ying, Benny	240	—	—	—	—	—	240
Mr. Zhang Wenlin	240	—	—	—	—	—	240
Mr. Wong Ching Chung	240	—	—	—	—	—	240
Mr. Robert Luc	240	—	—	—	—	—	240
Independent non-executive director							
Mr. Lai Ming, Joseph	240	—	—	—	—	—	240
Dr. Hui Ho Ming, Herbert	240	—	—	—	—	—	240
Mr. Chau Ka Wah, Arthur	240	—	—	—	—	—	240
	2,160	4,229	433	990	306	230	8,348

11 EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

For the year ended 31 December 2006

	Fees HK$'000	**Salary** HK$'000	**Discretionary bonus** HK$'000	**Other benefits** HK$'000	**Share-based payments** HK$'000	**Employer's contribution to pension scheme** HK$'000	**Total** HK$'000
Executive director							
Mr. Bai Zhisheng	—	1,500	—	336	153	75	2,064
Mr. Nie Jiansheng	—	1,200	—	300	—	60	1,560
Mr. Chen Naiming (i)	—	1,286	108	326	—	81	1,801
Non-executive director							
Mr. Heriard-Dubreuil Francois	240	—	—	—	—	—	240
Mr. Wang Guanghao	240	—	—	—	—	—	240
Mr. Cheung Wai Ying, Benny	240	—	—	—	—	—	240
Mr. Zhang Wenlin	240	—	—	—	—	—	240
Mr. Wong Ching Chung	240	—	—	—	—	—	240
Mr. Robert Luc	240	—	—	—	—	—	240
Independent non-executive director							
Mr. Lai Ming, Joseph	240	—	—	—	—	—	240
Dr. Hui Ho Ming, Herbert	240	—	—	—	—	—	240
Mr. Chau Ka Wah, Arthur	240	—	—	—	—	—	240
	2,160	3,986	108	962	153	216	7,585

Note:

(i) Deceased on 23 January 2008

Senior management's emoluments:

The five highest paid individuals included three directors for the year ended 31 December 2007 (2006: three) whose emoluments are reflected above. The emoluments payable to the remaining two (2006: two) individuals during the year are summarised as follows:

	2007 **HK$'000**	2006 HK$'000
Salaries and allowances	**2,265**	1,879
Contributions to retirement benefits scheme	**113**	86
Share-based payments	**128**	64
	2,506	2,029

11 EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

The emoluments fell within the following bands

	Number of individuals	
	2007	2006
Emolument bands		
HK$Nil–HK$1,000,000	**—**	1
HK$1,000,001–HK$1,500,000	**2**	1
	2	2

No emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join the Group or upon joining the Group or as compensation for loss of office for the year ended 31 December 2007 (2006: Nil).

12 RETIREMENT BENEFIT OBLIGATIONS

The Group has no other obligation for the payment of retirement and other post-retirement benefits of employees or retirees other than the contribution payments as disclosed in Note 6.

13 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost						
As at 1 January 2006	93,617	195,574	53,526	26,354	62,040	431,111
Exchange differences	4,353	7,093	2,140	891	1,144	15,621
Additions	—	2,456	20,045	3,451	19,378	45,330
Transfers	54,877	15,090	480	—	(70,447)	—
Disposals	—	(3,388)	(2,192)	(2,257)	—	(7,837)
As at 31 December 2006	152,847	216,825	73,999	28,439	12,115	484,225
Exchange differences	11,570	17,238	5,704	2,021	903	37,436
Reclassifications	(1,633)	594	1,157	(118)	—	—
Additions	1,009	2,713	15,694	2,139	43,068	64,623
Transfers	8,954	31,361	2,497	—	(42,812)	—
Disposals	—	(141)	(6,363)	(1,181)	—	(7,685)
As at 31 December 2007	172,747	268,590	92,688	31,300	13,274	578,599
Accumulated depreciation						
As at 1 January 2006	25,729	71,378	24,505	16,918	—	138,530
Exchange differences	1,020	2,802	916	573	—	5,311
Charge for the year	6,213	17,717	7,121	2,345	—	33,396
Disposals	—	(1,818)	(1,971)	(2,257)	—	(6,046)
As at 31 December 2006	32,962	90,079	30,571	17,579	—	171,191
Exchange differences	2,708	7,329	2,279	1,319	—	13,635
Reclassifications	1,077	17	(1,152)	58	—	—
Charge for the year	6,572	19,007	9,272	2,822	—	37,673
Disposals	—	(63)	(4,943)	(822)	—	(5,828)
As at 31 December 2007	43,319	116,369	36,027	20,956	—	216,671
Net book value						
As at 31 December 2007	129,428	152,221	56,661	10,344	13,274	361,928
As at 31 December 2006	119,885	126,746	43,428	10,860	12,115	313,034

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Company

	Leasehold improvements, furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost			
As at 1 January 2006	2,527	1,441	3,968
Exchange differences	89	50	139
Additions	20	—	20
As at 31 December 2006	2,636	1,491	4,127
Exchange differences	264	110	374
Additions	2,743	—	2,743
Disposals	(1,784)	—	(1,784)
As at 31 December 2007	3,859	1,601	5,460
Accumulated depreciation			
As at 1 January 2006	718	272	990
Exchange differences	52	20	72
Charge for the year	774	288	1,062
As at 31 December 2006	1,544	580	2,124
Exchange differences	74	64	138
Charge for the year	1,000	288	1,288
Disposals	(1,549)	—	(1,549)
As at 31 December 2007	1,069	932	2,001
Net book value			
As at 31 December 2007	2,790	669	3,459
As at 31 December 2006	1,092	911	2,003

14 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Cost	**68,344**	63,651
Accumulated amortisation	**(6,646)**	(4,465)
	61,698	59,186
As at 1 January	**59,186**	18,857
Additions	**—**	40,039
Amortisation	**(1,786)**	(1,140)
Exchange differences	**4,298**	1,430
As at 31 December	**61,698**	59,186

All of the land use rights are located in the PRC and are held under lease terms ranging from 10 to 50 years.

15 GOODWILL

	Group
	HK$'000
As at 31 December 2006 and 2007	9,421

Impairment tests for goodwill

Goodwill relates to the Group's only segment: manufacturing and sale of wine products.

The recoverable amount of goodwill is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets prepared by management covering a ten-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the winery business.

The key assumptions used for value-in-use calculations are as follows:

Production capacity	Remains constant
Growth rate	3%
Discount rate	8%

15 GOODWILL *(continued)*

Management determined budgeted sales based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant operation.

No impairment is recognised during the year.

16 INTEREST IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**489,866**	456,233
Loan to a subsidiary	**94,747**	—
Amount due from subsidiaries	**298,053**	266,372
	882,666	722,605

The loan to a subsidiary is unsecured, interest bearing at HIBOR plus 0.5%, denominated in US$ and is rolled over every twelve months. The fair value of the loan approximates its carrying value as it is contracted at market interest rate.

Amount due from subsidiaries are unsecured, interest free and have no fixed repayment terms. Details of principal subsidiaries are set out in Note 28.

17 INTEREST IN AN ASSOCIATE

	Group	
	2007	2006
	HK$'000	HK$'000
Share of net assets	**12,536**	—

On 18 January 2007, the Group completed the acquisition of 25% equity interest of Dynasty Yuma Vineyard (Ning Xia) Co. Ltd. ("Yuma") from Tianjin Heavenly Palace Winery Co., Ltd. Yuma is an unlisted company established and operating in the PRC as manufacturer and distributor of unprocessed wines. Its paid up capital is Rmb 40 million. Goodwill arising from this acquisition was insignificant.

17 INTEREST IN AN ASSOCIATE *(continued)*

The Group's share of the result of its associate is as follows:

	HK$'000
Assets	24,524
Liabilities	11,988
Revenue	10,196
Profit	67

18 TRADE RECEIVABLES

The Group grants a credit period of 30 to 180 days to its customers. The aging analysis of the trade receivables is as follows:

	Group	
	2007 **HK$'000**	2006 HK$'000
Below 30 days	**55,610**	78,504
30 to 90 days	**21,829**	10,141
91 to 180 days	**27,498**	3,793
Over 180 days	**2,610**	5,907
	107,547	98,345
Less: Provision for impairment	**(1,043)**	(824)
	106,504	97,521

The carrying amounts of the Group's trade receivables were principally denominated in Renminbi. The balance included bill receivables amounting HK$29,569,000 (2006: HK$10,307,000) and will be settled on due date.

Trade receivables that are impaired are aged over 12 months (2006:12 months).

19 INVENTORIES

	Group 2007 HK$'000	2006 HK$'000
At cost:		
Unprocessed wines	**167,646**	172,034
Finished goods	**227,094**	191,634
Consumables	**27,824**	22,367
	422,564	386,035

20 CASH AND BANK BALANCES

	2007 HK$'000	2006 HK$'000
The Group		
Balances with banks	**830,161**	764,232
Balances with other financial institutions	**185**	162
	830,346	764,394
The Company		
Balances with banks	**306,471**	429,728

Cash and bank balances deposited with banks and other financial institutions in the PRC were principally denominated in Renminbi. The conversion of these Renminbi denominated balances into foreign currencies and remittance out of the PRC is subject to the rules and regulations of foreign exchange controls promulgated by the PRC government.

The effective interest rate earned on bank balances deposited with banks and other financial institutions were 3.3% (2006: 3.3%) respectively; these deposits have an average maturity of 30 days (2006: 30 days).

21 SHARE CAPITAL

The Company's share capital is as follows:

	Number of ordinary shares of HK$0.1 each	HK$'000
Authorised:		
As at 31 December 2006 and 2007	3,000,000,000	300,000

Issued and paid up:

	Number of shares	Share capital HK$'000
Issue of shares on 9 August 2004	1	—
Issue of shares on 10 August 2004	99	—
Acquisition of subsidiary	899,999,900	90,000
Proforma share capital as at 1 January 2005	900,000,000	90,000
Issue of shares	345,000,000	34,500
As at 31 December 2006 and 2007	1,245,000,000	124,500

Share options scheme

Pursuant to the resolutions of the shareholders of the Company on 6 December 2004, a share option scheme (the "Scheme") was approved and adopted.

Under the Scheme, the directors may, at their discretion, grant to any eligible person as defined under the Scheme to take up options to subscribe for shares of the Company at a subscription price to be determined by the directors pursuant to the relevant listing rules. The maximum number of shares issuable upon the exercise of all outstanding options to be granted under the Scheme must not, in aggregate, exceed 30% of the total number of shares in issue from time to time. The total number of shares in respect of which options may be granted under the Scheme and any other share options schemes of the Company shall not exceed 120 million shares, being 10% of the total number of shares in issue as at the date of listing of the Company's shares unless separate approval is obtained.

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

21 SHARE CAPITAL *(continued)*

Share options scheme *(continued)*

Particulars and movements of the options granted are as follows:

Date of grant	Exercisable date	Expiry date	Exercise price HK$	Outstanding as at 1 January 2007	Options granted	Outstanding as at 31 December 2007
27 January 2005	17 August 2005	26 January 2015	3	10,700,000	—	10,700,000
1 November 2006	22 May 2007	31 October 2016	3	1,200,000	—	1,200,000
27 August 2007	17 March 2008	26 August 2017	3	—	150,000	150,000
Options granted to directors, other than the independent non-executive directors				11,900,000	150,000	12,050,000
27 January 2005	17 August 2005	26 January 2015	3	7,500,000	—	7,500,000
1 November 2006	22 May 2007	31 October 2016	3	500,000	—	500,000
Options granted to employees				8,000,000	—	8,000,000
Total				19,900,000	150,000	20,050,000

The estimated fair market value of options granted is based on the Binominal valuation model, the significant inputs into the model as follows:

	2007	2006
Date of grant	**27 August 2007**	1 November 2006
Exercise price	**HK$3**	HK$3
Standard deviation of expected share return	**36%**	26%
Expected option life	**2 years**	2 years
Annual risk free interest rate	**3.986%**	3.644%
Dividend pay out rate	**45%**	50%
Fair value	**HK$0.38**	HK$0.38

The vesting period of the share options scheme is 6 months. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last several months.

22 OTHER RESERVES

The Group

	Share premium HK$'000	Merger reserve (Note i) HK$'000	Employee share-based compensation reserve HK$'000	Reserve fund (Note ii) HK$'000	Enterprise expansion reserve (Note ii) HK$'000	Exchange reserve HK$'000	Total HK$'000
As at 1 January 2006	689,518	74,519	8,655	63,927	94,293	20,069	950,981
Share-based payments	—	—	217	—	—	—	217
Transfer from retained earnings	—	—	(1,685)	15,000	82	—	13,397
Currency translation differences	—	—	—	—	—	40,886	40,886
As at 31 December 2006	689,518	74,519	7,187	78,927	94,375	60,955	1,005,481
Share-based payments	—	—	474	—	—	—	474
Transfer from retained earnings	—	—	—	16,160	—	—	16,160
Currency translation differences	—	—	—	—	—	93,776	93,776
As at 31 December 2007	689,518	74,519	7,661	95,087	94,375	154,731	1,115,891

Notes:

(i) The merger reserves of the Group represents the difference between the nominal value of the shares of the subsidiaries that were acquired and the nominal value of the Company's shares issued in exchange therefore pursuant to the Reorganisation.

(ii) According to the Articles of Association of the Group's subsidiaries established in the PRC, a percentage of net profit as reported in the PRC statutory financial statements should be transferred to reserve fund and enterprise expansion reserve. The percentage of appropriation may be determined at the discretion of the board of directors of the respective subsidiaries. The reserve fund can be used to set off accumulated losses whilst the enterprise expansion reserve can be used for expansion of production facilities or increase in registered capital.

22 OTHER RESERVES *(continued)*

The Company

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Capital reserve *(Note i)* HK$'000	Exchange reserve HK$'000	Total HK$'000
As at 1 January 2006	689,518	8,655	331,286	—	1,029,459
Share-based payments	—	217	—	—	217
Transfer from retained earnings	—	(1,685)	—	—	(1,685)
Currency translation differences	—	—	—	34,886	34,886
As at 31 December 2006	689,518	7,187	331,286	34,886	1,062,877
Share-based payments	—	474	—	—	474
Currency translation differences	—	—	—	74,153	74,153
As at 31 December 2007	689,518	7,661	331,286	109,039	1,137,504

Note:

(i) The capital reserve of the Company represents the excess of consolidated values of subsidiaries acquired, over the nominal value of the share of the Company issued in exchange thereof as a result of the Reorganisation.

23 TRADE PAYABLES

The aging analysis of the trade payables is as follows:

	Group	
	2007 HK$'000	2006 HK$'000
Below 30 days	**40,351**	41,821
91 to 180 days	**1,562**	1,890
Over 180 days	**2,208**	289
	44,121	44,000

24 AMOUNT DUE TO SUBSIDIARIES

The amount payable is unsecured, interest free and has no fixed term of repayment.

25 COMMITMENTS

(a) Capital commitments

As at 31 December 2007, the Group had capital expenditure commitments related to purchase of fixed assets and production facilities as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Authorised but not contracted for	**131,091**	43,059
Contracted but not provided for	**42,052**	1,008
	173,143	44,067

(b) Operating lease commitments

At 31 December 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Transformation station		
— Not later than one year	**2,227**	1,254
— Later than one year but not later than five years	**3,526**	—
	5,753	1,254

	Group and Company	
	2007	2006
	HK$'000	HK$'000
Office premises		
— Not later than one year	**2,262**	1,188
— Later than one year but not later than five years	**3,581**	—
	5,843	1,188

26 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

Cash generated from operations:

	2007 HK$'000	2006 HK$'000
Profit before taxation	**181,283**	151,413
Interest income	**(31,105)**	(28,691)
Depreciation	**37,673**	33,396
Amortisation	**1,786**	1,140
Loss on disposal of equipment	**218**	1,231
Share-based payments	**474**	217
Share of profit of an associate	**(67)**	—
(Increase)/decrease in trade receivables	**(8,983)**	14,184
(Increase)/decrease in other receivables, deposits and prepayments	**(30,346)**	9,852
Increase in inventories	**(36,529)**	(31,163)
Increase/(decrease) in trade payables	**121**	(7,019)
Increase in other payables and accruals	**23,377**	247
Decrease in amount due to related companies	**—**	(10,104)
Currency translation differences	**42,788**	16,763
Cash generated from operations	**180,690**	151,466

27 RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions during the year which in the opinion of the directors were conducted in the normal course of the Group's business.

	2007 HK$'000	2006 HK$'000
• Purchase of unprocessed wine		
— Associate *(Note (17))*	**38,406**	22,292
• Key management compensation		
Salaries and other short-term employee benefits	**12,194**	10,994
Other long-term benefits	**805**	522
Share-based payments	**474**	217
	13,473	11,733

27 RELATED PARTY TRANSACTIONS *(continued)*

	As at December 31	
	2007	2006
	HK$'000	HK$'000
Advance for unprocessed wine		
— Associate *(Note (i))*	**6,077**	230

Note:

(i) The advance for purchase of unprocessed wine was trade in nature, non-interest bearing and had no fixed repayment terms, the balance is included in other receivables, deposits and prepayments.

28 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2007:

	Issued and fully paid up share capital	Attributable interests (%)	Principal activities
Incorporated in the British Virgin Islands			
Grand Spirit Holdings Limited	US$200	#100	Investment holding
Smiling East Resources Limited	US$1	#100	Investment holding
Ho Tin International Co., Ltd.	US$1	#100	Investment holding
Established and operating in Hong Kong			
Dynasty Fine Wines (Asia Pacific) Limited	HK$10,000,000	#100	Trading of winery products
Established and operating in the PRC:			
Sino-French Joint-Venture Dynasty Winery Ltd.	RMB407,499,000	100	Manufacturing and sale of winery products
Shandong Yu Huang Grape Wine Co., Ltd.	RMB6,866,812	65	Manufacturing and sale of unprocessed wine
Tianjin Tianyang Grape Winery Co. Ltd. (Formerly known as Tianjin Tianyang Grape Extract Co. Ltd.)	RMB66,532,000	60	Manufacturing and sale of unprocessed wine

Shares held directly by the Company

29 FINANCIAL RISK MANAGEMENT

29.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk), credit risk, and liquidity risk. The Group's financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. As at 31 December 2007, the Group does not use any derivative financial instruments to hedge against its financial risk exposures.

(a) *Market Risk*

(i) ***Foreign exchange risk***

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The operations and customers of the Group's subsidiaries are located in the PRC with most of the operating assets and transactions denominated and settled in Renminbi.

At 31 December 2007, if Renminbi had weakened/strengthened by 5% against the HK dollar with all other variables held constant, profit for the year and equity would have been approximately HK$14 million (2006: HK$20 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of the outstanding HK dollar-denominated monetary items including cash and cash equivalent of the company.

(ii) ***Fair value interest rate risk***

As the Group has no significant interest-bearing assets and liabilities, other than bank deposits, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to changes in interest rates is mainly attributable to its short-term deposits. The Group did not use any interest rate swaps to hedge its exposure to interest rate risk during the year ended 31 December 2007.

(b) *Credit risk*

The Group has no significant concentrations of credit risk. The carrying amount of trade receivables included in the consolidated balance sheets represented the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible trade receivables has been made in the consolidated financial statements.

(c) *Liquidity risk*

The Group has minimal liquidity risk.

29 FINANCIAL RISK MANAGEMENT *(continued)*

29.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders and issue new shares.

The Group has minimal capital risk.

29.3 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, trade receivables, other receivables, deposits and prepayments; and financial liabilities including trade payables, other payables and accruals, are assumed approximate their fair values due to their short maturities.

30 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as set out in Note 15.

Note 21 contains information about the assumptions and their risk factors relating to fair value of share options granted.

Five Years Summary

Following is a summary of the consolidated results and of the consolidated assets, liabilities and minority interests of the Group for the last five financial years prepared on a basis as stated in the note below:

CONSOLIDATED RESULTS

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**1,123,327**	1,114,145	947,489	804,629	668,463
Profit before income tax	**181,283**	151,413	229,012	223,664	160,736
Income tax expense	**(54,668)**	(37,694)	(47,604)	(57,187)	(43,402)
Profit after income tax	**126,615**	113,719	181,408	166,477	117,334
Minority interests	**(289)**	1,084	(2,417)	(522)	18
Profit attributable to equity holders of the Company	**126,326**	114,803	178,991	165,955	117,352
Dividends	**59,760**	52,290	70,965	74,340	74,344

CONSOLIDATED ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**446,956**	382,920	322,095	207,668	143,908
Current assets	**1,420,842**	1,290,534	1,270,277	593,018	593,298
Current liabilities	**(274,566)**	(243,556)	(255,121)	(377,330)	(268,819)
Minority interests	**(32,616)**	(30,098)	(31,107)	(3,072)	(2,550)
Shareholder's equity	**1,560,616**	1,399,800	1,306,144	420,284	465,837

Note:

The summary of the proforma consolidated results and proforma consolidated assets, liabilities and minority interests of the Group as at and for the two financial years ended 31 December 2004 was prepared on the basis that the structure and business activities of the Group immediately after a reorganisation took place in January 2005 had been in existence throughout the years presented.

RFP Design and produced by: iOne (Regional) Financial Press Limited website: www.ioneregional.com
設計與製作：卓智(區域)財經印刷有限公司 網址：www.ioneregional.com

www.dynasty-wines.com