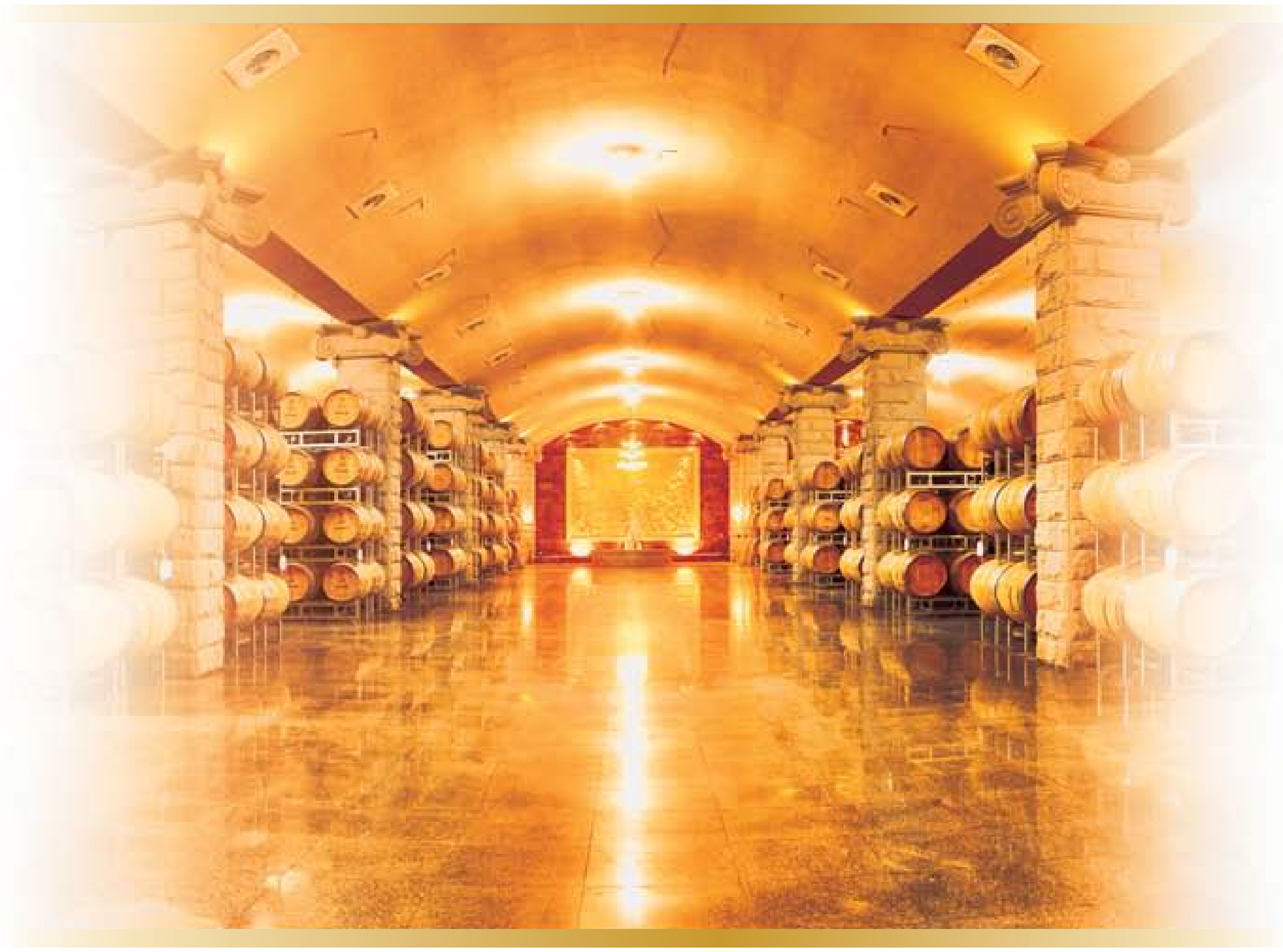


DYNASTY

Dynasty Fine Wines Group Limited

王 朝 酒 業 集 團 有 限 公 司

Stock Code 股份代號：828

ANNUAL REPORT 2008 年報

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 ten of the eleven years between 1997 and 2007, 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 five main categories, namely red wines, white wines, sparkling wines, icewine 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.

企業簡介

王朝是優質葡萄酒生產商，在中國葡萄酒市場具有舉足輕重的地位。本公司品牌「王朝」獲中國國家工商行政管理局定為中國馳名商標。自一九九七年至二零零七年十一年內，王朝有十年獲得中國行業企業訊息發佈中心頒發中國「葡萄酒銷量第一證書」。

全球首屈一指的葡萄酒及烈酒營運商 Remy Cointreau，乃自王朝成立以來的第二大股東，王朝秉承了 Remy Cointreau的優良釀酒傳統及先進技術，由種植葡萄、採收以至每一個釀酒步驟，均以品質為先，對整個生產過程實施嚴謹的品質控制，以確保本公司產品保持高水平的產品質量。本公司分別於一九九六年、二零零零年、二零零二年及二零零六年獲頒ISO 9002、ISO 14001、ISO 9001：2000證書及HACCP驗證證書，足證本公司對產品質量的堅持，得到外界充分的認同。

王朝擁有多元化的產品，以迎合不同的消費檔次及消費者的口味與喜好。本公司目前製造及銷售超過50種葡萄酒產品，產品可分為紅葡萄酒、白葡萄酒、起泡葡萄酒、冰酒、以及白蘭地五大類別。

自成立以來，王朝始終保持強勁的財政表現，為本公司股東帶來豐厚回報。王朝於二零零五年一月二十六日在香港聯合交易所有限公司主板成功上市，股份代號828。在本公司主要股東天津發展控股有限公司（882）及 Remy Cointreau的鼎力支持下，王朝持續為不同類型的消費者提供物超所值的優質葡萄酒。今後，王朝將繼續改良設備，不斷加強市場推廣，充分把握中國葡萄酒市場迅猛增長的潛力，為全體利益相關人士的未來福祉而奮鬥，創建王朝盛世。

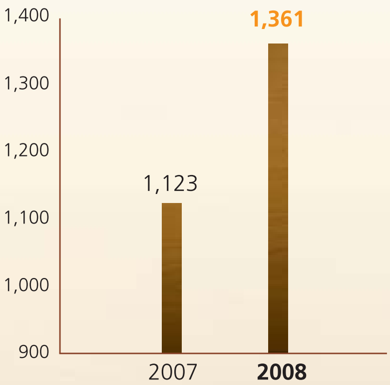
Contents

Financial Highlights

	2008 HK$'000	2007 HK$'000	Changes
Revenue	**1,360,859**	1,123,327	+21%
Gross profit	**721,711**	578,873	+25%
Profit attributable to equity holders of the Company	**143,079**	126,326	+13%

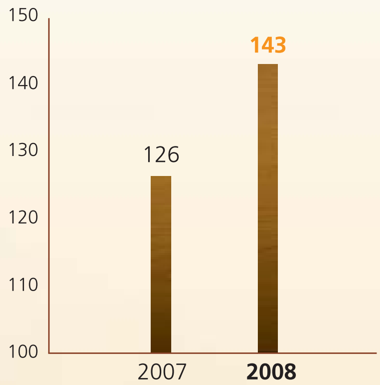
	2008	2007	Changes in percentage point
Gross profit margin	**53%**	52%	+1%
Net profit margin	**11%**	11%	—

Revenue (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. HU Chengli
Mr. ZHENG Daoquan
Mr. Jean-Marie LABORDE
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*

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, 55/F, 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

Bank of China
China Construction Bank
China Everbright Bank
Commercial Bank
Industrial and Commercial Bank of China
Mizuho Corporate Bank
The Hongkong & Shanghai Banking Corporation

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 2008 1,245,000,000 shares
Board lot	2,000 shares

Stock code

The Stock Exchange of Hong Kong	00828
Reuters	0828.HK
Bloomberg	828:HK

Financial year-end date

31 December

Milestones of 28 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.

1996

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

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.

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.

2001	Dynasty Red Wine won the "National Scientific and Technological Progress Award (Class 2)" granted by the State Council of the PRC.
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.
2004	The annual production of our wines reached 30,000 tonnes.
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.
2006	In mid-2006, the annual production capacity reached 50,000 tonnes.
1997–2007	For ten of the eleven years between 1997 and 2007, Dynasty was granted "The Certificate of Best Selling Grape Wines" in the PRC by the China Industry and Enterprise Information Centre.

Corporate Structure

* As at 31 December 2008

Nationwide Sales Network

Listed Company | Sales Office | Distribution Network | Production Facilities

Product Portfolio

Red Wine

- Dynasty Merlot Dry Red Wine Reserve
- Dynasty Dry Red Wine — Aged in Oak Barrels
- Dynasty Merlot Dry Red Wine
- Dynasty Dry Red Wine

White Wine

- Dynasty Chardonnay Dry White Wine
- Dynasty Medium Dry White Wine
- Dynasty Extra Dry White Wine

Icewine

- Dynasty 5-star Icewine Reserve

Sparkling Wine

- Dynasty Sparkling Wine (Second Fermentation in bottle)
- Dynasty Sparkling Wine — Muscat

Brandy

- Dynasty Fine Brandy —XO
- Dynasty Fine Brandy — V.S.O.P.

Selections
(available in Hong Kong only)

- Royal Selection-Dynasty Cabernet Sauvignon Reserve 2006
- Royal Selection-Dynasty Cabernet Sauvignon 2006
- Dynasty Chardonnay Reserve 2006
- Dynasty Chardonnay 2007

Bai Zhisheng
Chairman and Executive Director

Dynasty's fine traditions and state-of-the-art expertise in winemaking give consumers compelling reasons to buy our wines.

On behalf of the Board, I am delighted to present to shareholders the annual results of Dynasty Fine Wines Group Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2008.

Financial results

Despite the keen competition in the wine market and impacts of the global economic crisis and the earthquakes and flooding in the PRC, strong leadership in the PRC wine market and effective management of Dynasty supported the Group to attain a revenue of HK$1,360.9 million in the year under review, representing an increase of 21% as compared to HK$1,123.3 million in 2007. The Group's profit attributable to equity holders of the Company increased by 13% to HK$143.1 million (2007 — HK$126.3 million). Earnings per share for the year were HK$0.115 (2007 — HK$0.101 per share).

The increase in profit for the year was mainly attributable to the increase in sales volume and the improved gross profit margin of the Group.

Dividends

The Company has the utmost regard for shareholder interest and constantly strives to achieve the best returns for shareholders. Having taken into consideration factors such as the Group's solid financial position and strong cash flow, the Board recommends payment of a final dividend of HK1.9 cents per Share (2007 — HK1.2 cents per Share) for the financial year ended 31 December 2008. This, together with the interim dividend of HK3.5 cents per Share (2007 — HK3.6 cents per Share) already paid in October 2008, takes the total dividend payment for the year to HK5.4 cents per Share, representing an increase of 13% from HK4.8 cents per Share for the financial year 2007 and a dividend payout ratio of 47% (2007 — 47%).

Business review

Aspiring to become an internationally recognized and respected premier winemaker and to gain brand exposure in the international market, the Group participated in the internationally-famed bi-annual wine exhibition Vinexpo Asia-Pacific held in Hong Kong in May 2008. The exhibition provided an opportunity for the Group to strengthen the high reputation of its "Dynasty" brand and promote the premium quality of its products. As a result, its products attracted plentiful attention from visitors to the show including sommeliers, food and beverage managers, retailers, wholesalers and importers. Participation in the event is conducive to uphold the "Dynasty" brand and market awareness of the brand in Hong Kong and around the world in the long run.

The Group commenced second-phase capacity expansion from 50,000 tonnes to 70,000 tonnes in 2007. Related construction in Tianjin has been in steady progress and is expected to be completed in the second half of 2009. With boosted capacity, the Group will be able to expand its business, achieve better market penetration and attract a broader customer base.

To meet increasing sophisticated consumer tastes, the Group launched Dynasty 5-star Icewine Reserve, a new ultra premium product, in January 2009. The new product, which adds to the diverse product portfolio of Dynasty, was well-received by the market.

Directorships

Mr. Jean-Marie Laborde (chief executive officer of Remy Cointreau S.A.) and Mr. Zheng Daoquan (executive director of Tianjin Development Holdings) had been appointed as Non-executive Directors of the Company effective from 10 February 2009. I am confident that, bringing with them wealth of experience, they will be able to continue to contribute to the Board in leading Dynasty toward success.

Looking to the future

The global economy is going to stay grim in 2009. However, given the economic stimulating policies and measures to boost domestic demand implemented by the PRC government, we expect a boost in consumption sentiment. Armed with a near 30-year history as a leading premier wine producer, Dynasty will continue to produce supreme quality wines to serve its customers and take advantage of the strengths of its brand to overcome the challenges ahead.

Acknowledgement

I would like to take this opportunity to express my heart-felt thanks to all our shareholders, customers, distributors, suppliers and business partners for their tireless support, and employees of the Group for their diligence and hard work in the past year.

Bai Zhisheng
Chairman and Executive Director

Solid financial position and robust free cash flow providing a strong foundation for future growth and development; our revenue rose by 21% to HK$1,360.9 million and profit attributable to equity holders of the Company increased by 13% to HK$143.1 million

Results

Revenue of the Group increased to HK$1,360.9 million (2007 — HK$1,123.3 million), representing a notable increase of 21% for the year ended 31 December 2008 and the Group's profit attributable to equity holders of the Company increased by 13% to HK$143.1 million (2007 — HK$126.3 million).

The Company's earnings per share ("Share") reached HK11.5 cents per Share (2007 — HK10.1 cents per Share) based on the weighted average number of 1,245 million (2007 — 1,245 million) Shares in issue during the year. The exercise of share options have no material dilutive effect of earnings per share for the year ended 31 December 2008 (2007 — Nil).

The increase in financial results in 2008 was mainly attributable to increase in sales volume and improvement of the gross profit margin.

Business review

Sales analysis

For the year ended 31 December 2008, the Group recorded a satisfactory growth in sales volume as compared with last year amid keen competition in the market. The total number of bottles of wine sold was approximately 55.1 million in 2008 (2007— approximately 48.8 million). The major contributor of the Group's revenue was still from its red wine product sales which accounted for approximately 88% of its total revenue for the year (2007 — 91%). Dynasty Dry Red, the prototype of the Group's mass market product, continued to be the Group's best selling label accounting for approximately 35% of the Group's revenue (2007 — 36%).

We continued to expand and strengthen our nationwide and extensive distribution network, which supported our sales 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 remained as the Group's stronghold markets. Our sales in other regional markets, such as Tianjin city, Guangdong, Hubei and Fujian provinces etc., in the PRC also grew. Our export sales accounted for 0.2% (2007 — 0.2%) of the Group's total revenue during the year.

The Group offers a wide spectrum of over 50 products under the "Dynasty" brand to meet consumer demands mainly in the medium to high end segments in the PRC wine market. Sales of premium wine products, such as Dynasty Dry Red Wine — Aged in Oak Barrels, Dynasty Dry Red Wine — Reserve and Dynasty Premium Dry Red Wine — Aged in Oak Barrels, recorded encouraging growth during the year. The sales contribution from these products to our revenue was insignificant during the year, but we believe these products will become major growth drivers for us in the future. To sustain its growth, the Group will continue to maintain a product portfolio with high margin products, and will focus on marketing of these products.

Supplies of grapes or grape juice

Production for quality of wine products is highly dependent upon sufficient supply of quality grapes and grape juice. Currently, we 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 actively work with grape growers to enlarge their existing vineyards so as to enjoy better economies of scale and improve quality by adopting state-of-the-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 Group has also been looking into importing grape juice from overseas maintaining the same stringent quality requirements it has on suppliers in the PRC.

The average cost of grape juice in 2009 is expected to increase.

Production capacity

In 2006, the Group expanded production capacity to 50,000 tonnes (equivalent to approximately 66.7 million bottles) per annum. To continue to boost capacity, it commenced construction of new production and research and development facilities in our Tianjin winery in 2007. The construction is well in progress. Upon the completion of the new production facility, which is expected to be occured in the second half of 2009, our annual production capacity will be increased to 70,000 tonnes (equivalent to approximately 93.3 million bottles). The enlarged production capacity will enable us to promptly respond to the market demand and consolidate our market position.

Outlook

Going forward, the economy is expected to remain uncertain in 2009 affected by the looming financial crisis. However, the Group has determined to beat the challenges ahead by capitalizing its leading brand presence, comprehensive product offerings and market knowledge, and extensive distribution network in the PRC. In the advent of its 30th anniversary in 2010, the Group intends to continue to maintain leadership position in the wine market, and at the same time create value for shareholders in the next 30 years and the many more to come.

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 2008 are extracted from or calculated based on our financial statements as set out on page 44 to 79 of this annual report and presented as follows:

	2008 HK$'000	2007 HK$'000
Financial results:		
Revenue	**1,360,859**	1,123,327
Cost of sales	**(639,148)**	(544,454)
Gross profit	**721,711**	578,873
Distribution costs	**(442,272)**	(339,211)
Administrative expenses	**(90,823)**	(105,015)
Taxation	**(73,270)**	(54,668)
Profit attributable to equity holders of the Company	**143,079**	126,326
Dividends declared in respect of the year	**67,230**	59,760

	2008	2007
Other financial and operating data:		
Sales volume (million bottles)	**55.1**	48.8
Gross profit margin (%)	**53.0**	51.5
Net operating margin (%)	**10.5**	11.2
Return on average equity (%)	**8.7**	8.5
Debtors' turnover (days)	**23**	35
Creditors' turnover (days)	**64**	37
Inventories turnover (days)	**334**	357
Gearing ratio — total bank borrowings to shareholders' funds (%)	**—**	—

Income statement

Revenue

Revenue of the Group represents proceeds from sale of wine products. Our revenue increased by 21% to approximately HK$1,360.9 million for the year ended 31 December 2008 from approximately HK$1,123.3 million in 2007. The growth in revenue was due to a satisfactory increase in sales volume, a slight increase in average ex-winery sales prices of products and impact of Renminbi appreciation.

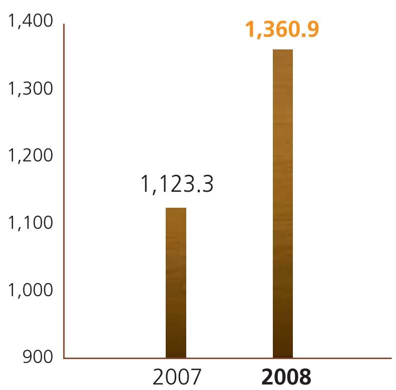
The average ex-winery sales price of red and white wine products during the year ended 31 December 2008 was slightly higher than the average price of HK$23.0 per bottle (750 ml) in 2007 as a result of increase in average ex-factory sales price of certain selected grape wine products in the second quarter of 2008. 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

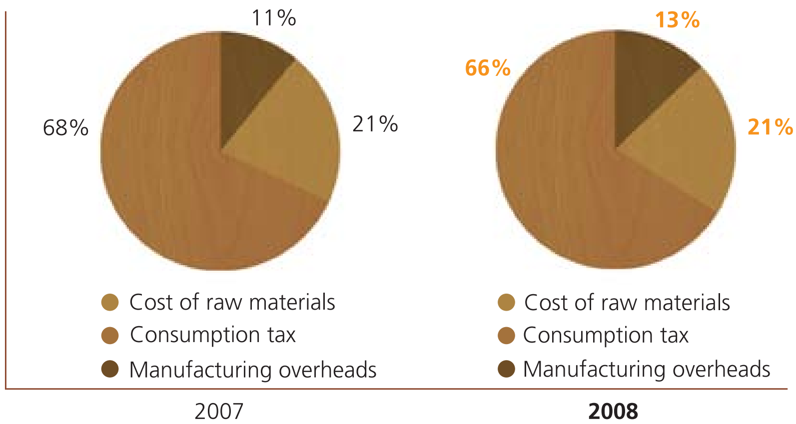
The following table sets forth the major components of our cost of sales for the year:

	2008 **%**	2007 %
Cost of raw materials		
— Grapes and grape juice	**36**	38
— Yeast and additives	**3**	2
— Packaging materials	**26**	26
— Others	**1**	2
Total cost of raw materials	**66**	68
Manufacturing overheads	**13**	11
Consumption tax	**21**	21
Total cost of sales	**100**	100

Revenue (HK$'million)



Cost of sales



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. In 2008, the cost of grapes and grape juice was the key component of cost of sales and accounted for approximately 36% of the Group's total cost of sales, representing a decrease of 2% from approximately 38% in 2007, contributed by the decrease in average cost of grape and grape juice. During the year, the total cost of packaging materials to revenue was relatively stable as compared with last 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. Manufacturing overheads as a percentage of revenue in 2008 remained stable as compared with 2007.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross invoiced sales. The overall gross profit margin reached 53% in 2008, an increase of 1 percentage point from 52% in 2007 and was primarily due to lower purchase cost of grape juice as compared to that of 2007. The gross margin of red wine products and white wine products in 2008 were 54% and 43% respectively (2007 — 53% and 42% respectively). The higher gross margin of red wine products was mainly because of higher sales prices.

Other income

Other income in 2008 decreased by 38% to HK$28.7million (2007 — HK$46.6 million), mainly attributable to:

(1) Decrease in interest income as a result of the lower interest rates for bank deposits; and

(2) Decrease in government grant to HK$5.7 million (2007 — HK$15.5 million) to a subsidiary in the PRC to encourage its technology development and improvement in winemaking.

Distribution costs

Distribution costs consist primarily of 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. During the year, distribution costs increased and accounted for approximately 33% (2007 — 30%) of the Group's revenue. In particular, advertising and market promotion expenses to the Group's revenue also increased approximately to 21% (2007 — 17%). The increase in distribution costs was primarily attributable to the increase in expenditures on advertising and promotion which were incurred to boost market demand and expand market share outside the Eastern region of the PRC.

Administrative expenses

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

In 2008, administrative expenses as a percentage of the Group's revenue decreased to 7% from 9% in 2007. The decrease in administrative expenses was mainly because there was no functional currency exchange loss (2007 — HK$19.5 million) as the Company changed its functional currency from RMB to Hong Kong dollars following commencement of HK dollars-based sales and marketing activities (including trading activities) coupled with other intended HK dollars transactions in 2008.

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.

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the enterprise income tax rate of all the subsidiaries of the Company incorporated in the PRC had changed from either 24% or 30% to 25% with effect from 1 January 2008. For the year ended 31 December 2008, the effective tax rate of the Group increased to approximately 34% (2007 — 30%), principally due to increase in PRC enterprise income tax rate and more expenses not tax deductible for the year.

Balance sheet

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

Trade receivables amounted to HK$84.1 million (2007 — HK$106.5 million) for the year ended 31 December 2008, down by approximately 21.0% against the previous year. The decrease was a result of less 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 97.7% of the net trade receivables as at 31 December 2008 (2007 — 98.5%) and the debtors' turnover of approximately 23 days (2007 — 35 days) was in line with the credit period granted to most customers. The shorter debtors' turnover period was a result of better customer credit control during the year.

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. Generally, these credit term ranges from 30 days to 90 days. Smaller customers, with whom the Group has long-term trading relationship and who have good payment history, are also given, in general, a 30-days credit terms. All other customers are required to pay cash on delivery. Up to 31 December 2008, the Group had received deposits from customers totaling approximately HK$89.6 million (2007 — HK$83.8 million). Such amounts are recorded in the balance sheet as "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 its 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 in the future. As a result, the Group's credit policy has been effective in helping to minimize its exposure to doubtful debts.

Trade payables, payment period and creditors' turnover

Trade payables increased by approximately 101.8% during the year ended 31 December 2008 and amounted to approximately HK$89.0 million (2007 — HK$44.1 million). During the year, payments to most suppliers were subject to a payment period of two months. The creditors' turnover of approximately 64 days (2007 — 37 days) was in line with the credit period granted by most suppliers. The higher trade payable balance in 2008 was primarily due to the increased purchase of unprocessed wines toward the year end in preparation for the expected increase in sales in December 2008 and early 2009.

Inventories and inventory turnover

The Group's inventories balance amounted to approximately HK$462.7 million (2007 — HK$422.6 million) for the year ended 31 December 2008, representing an increase of approximately 9.5%. Inventories mainly comprised unprocessed wines worth approximately HK$191.4 million and finished goods valued at approximately HK$227.8 million. During the year, inventory turnover was approximately 334 days (2007 — 357 days). The shorter inventory turnover period during the year was primarily the result of faster sale of products.

Cash flow

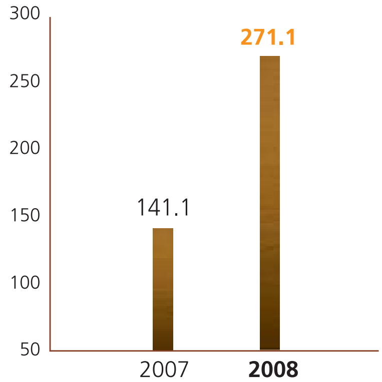
In 2008, operating activities were the Group's main source of cash flow for the year. Cash was mainly used to pay for acquisition of plant and equipment, and dividends to shareholders during the year.

The increase in cash inflow from operating activities from HK$141.1 million in 2007 to HK$271.1 million in 2008 was mainly attributable to the increase in gross profit and the effects of the changes in working capital mainly due to the increase in trade payables, other payables and accruals.

Net cash used in investing activities was HK$101.1 million (2007 — HK$63.0 million), primarily related to the acquisition of plant and equipment pursuant to our expansion plan.

Net cash outflow in financing activities constituted primarily of payment of dividends to shareholders of approximately HK$58.5 million (2007 — HK$59.8 million).

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 subject to the recommendation of the Directors in accordance with the relevant laws, rules and regulations and dependent on inter alia, the Group's operating results, 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 between approximately 30% and 50% of the net profit available for distribution in the corresponding year in the future.

Financial management and treasury policy

As at 31 December 2008, 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 Group has progressively remitted the net proceeds from Hong Kong to the PRC and converted them into RMB shortly after remittance. The remaining unremitted 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 when dividends are declared. The Company does not implement any hedging or other derivatives against foreign exchange risk. Although the Group's operation currently would not generate any significant foreign currency exposure, we will continue to closely monitor the foreign currency movement.

With sufficient financial resources and being 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 cash equivalents as at 31 December 2008 amounted to HK$999 million. It has strong cash position and net cash inflow from operating activities ample for satisfying the working capital requirement of business operations and capital expenditures. New investment opportunities, if any, will be funded by the Group's internal resources.

Capital structure

As at 31 December 2008, the Group had no borrowing and was in a significant net cash and liquid 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 2008 was approximately HK$1,444.2 million.

Gearing ratio

As at 31 December 2008, the Group had no long-term debts with shareholders' fund of the Group amounted to approximately HK$1,729 million. The Group's gearing ratio, expressed as a ratio of total long-term debts to shareholders' fund, as at 31 December 2008 was nil (2007 — nil).

Capital commitments, contingencies and charges on assets

The Group made capital expenditure commitments including approximately HK$109 million that were authorised but not contracted for and approximately HK$22 million contracted but not provided for in the financial statements as at 31 December 2008. These commitments were required mainly to support the Group's production capacity expansion. The funding of such capital commitments will be paid out of the net proceeds of the placing and public offer as stated in the prospectus dated 17 January 2005 and cash generated from operating activities.

As at 31 December 2008, the Group had no significant contingent liabilities and none of the Group's assets was pledged.

Material acquisitions and disposals of subsidiaries and associated companies

The Group did not make any other material acquisitions or disposal of subsidiaries and associated companies during the year ended 31 December 2008.

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 placing and public offer amounted to approximately HK$724 million. The planned usage and amounts actually 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	102
Expansion of sales and distribution network	20	—
Acquisition of Smiling East	47	47
Other acquisition opportunities and general working capital	297	38
Total	724	387

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

In addition, to cope with the Group's long term development, we will explore appropriate acquisition opportunities that offer higher returns to the Group and our shareholders.

Human resources management

Quality and dedicated staff 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 training, 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 programs and 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 2008, the Group employed a work force of 434 (including Directors) in Hong Kong and the PRC. The total salaries and related costs (including the Directors' fees) for the year ended 31 December 2008 amounted to approximately HK$108.8 million (2007 — HK$88.5 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 and the growth of the Group. As at 31 December 2008, 17,400,000 share options were granted and outstanding under the scheme.

Biography of Directors and Senior Management

Directors

Executive director

BAI Zhisheng, aged 53, was appointed as a non-executive Director of the Company in August 2004 and is an executive Director and the chairman overseeing the business development and taking up the function of formulating and managing the investment strategies of the Group. He is also an executive director of Tianjin Development Holdings Limited ("Tianjin Development"), the general manager of the Tianjin Agricultural Industrial and Commerce Company and the chairman of Tianjin Heavenly Palace Winery Co., Ltd., a subsidiary of Tianjin Development. 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 60, 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 Euronext 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.

HU Chengli, aged 52, was appointed as a non-executive Director of the Company in February 2009. He was appointed as an executive director of the Tianjin Development in July 2006. He is also a director of Tsinlien Group Company Limited ("Tsinlien"). Mr. Hu graduated from Tianjin Textile Industrial College in 1979, majoring in textile automation. In 1985, he completed professional course in business management in Tianjin Administration College and completed the postgraduate course of theory in set-up of the party at School of Tianjin Committee of the Communist Party in 2001. He obtained a master degree in business administration from the National University of South Australia in 2003. From 1979 to 1982, he was engaged in the research and development in the Tianjin Textile R&D Centre. From 1985 to 1992, he acted as the department chief and deputy head in the research & development department, news and information centre and secretarial department of Tianjin Committee Office. From 1992 to 1999, he acted as deputy head and head of the Liaison Office of The Central People's Government in the Hong Kong Special Administrative Region (formerly known as Xinhua News Agency, Hong Kong Branch). From 1999 to 2002, he acted as the chief of Second Administrative Division of Tianjin Committee Office. Mr. Hu has solid experience in administration and management for over 20 years.

ZHENG Daoquan, aged 58, was appointed as a non-executive Director of the Company in February 2009. He was appointed as an executive director of Tianjin Development in December 2006. Mr. Zheng is a senior economist and possesses tertiary academic qualification. From 1982 to 1998, he was the official, deputy head and head of administration section of Tianjin Engineering and Industrial Bureau. Besides, he was also the general manager of Tianjin Tai Guang Industrial and Trade Company during the same period. From 1998 to March 2006, he was the head of Tianjin's representative office of Tsinlien. Mr. Zheng is a director and deputy general manager of Tsinlien and the head of Tianjin's representative office of Tsinlien. Mr. Zheng has solid experience in management for over 20 years.

Jean-Marie LABORDE, aged 60, was appointed as a non-executive Director of the Company in February 2009. He joined the Remy Cointreau S.A., a substantial shareholder of the Company, as a chief executive officer in September 2004. Mr. Laborde holds a master's degree in economics from the University of Bordeaux and a master degree in business administration from the Institut Supérieur des Affaires (HEC/ISA). He held various senior positions at Pernod Ricard from 1979 to 1996 and chairman and chief executive officer of Moët et Chandon (LVMH Group) from 1996 to 2003. Mr. Laborde is a member of a number of professional organizations. He was directors of Maxxium Worldwide BV, an associate of Remy Cointreau Group and Antonin Rodet, Burgundy Wines, a wholly owned subsidiary of Sequana Capital, a company listed on the Euronext Stock Exchange (stock code: VOR). He is also a director of Finadvance S.A., a private equity firm.

ZHANG Wenlin, aged 58, 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 69, 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 Agricole by the French government in 1994 in recognition of his accomplishment in the wines and spirits industry.

ROBERT Luc, aged 52, 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 20 years.

Independent non-executive directors

LAI Ming, Joseph, aged 64, 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 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 50, was appointed as an independent non-executive Director in August 2004. He is the executive director of Hong Kong Resources Holdings Company Limited, vice chairman of the First Vanguard Private Equity Ltd and chairman of China Supply Company Ltd. 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 63, 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

GAO Feng, aged 53, is the general manager of the Company. He was an assistant to the general manager of Tianjin Agricultural Cultivation Group Company from 1995 to 2002. He has been the party committee member and the deputy general manager since 2002. Mr. Gao has been involved in the wine industry in Tianjin with solid experience in corporate management. His applied basic research in The Selection of Yeasts that Endure Low Temperature and Alcohol (耐低溫耐酒精酵母的選育) in 2003 and The Study of the Grapegrowing Characteristics of Vines (釀酒葡萄果實生長發育特性的研究) in 2004 were awarded the Municipal Technology Performance Awards (市級科技成果) by Tianjin Municipal Science and Technology Commission. Mr. Gao graduated from Tianjin Radio & TV University in 1982 specializing in Chinese. He completed a postgraduate course specializing in political economy at the School of Central Committee of the Communist Party in 1997 and a master of business administration from The University of Greenwich, Australia in 2002. Mr. Gao joined the Group in 2008.

YEUNG Chi Tat, aged 39, is the financial controller and company secretary of the Company. He holds a bachelor's degree in business administration and a master's degree in professional accounting. 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 53, 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 head 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 head of the expert committee of China Food Association (中國食品協會專家委員會). He is also the state and international level appraisal judge of the China Brewing Association 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 55, 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 19 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 51, 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 46, is a deputy general manager 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 53, 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.

YIN Jitai, aged 45, is a deputy 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, China Food Industry Association and China National Wine Appraisal Committee. Mr. Yin has also been appointed onto the board of the state grape and fruit wines appraisal 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.

HUANG Yaqiang, aged 35, is a 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. He is also a member of Chinese Institute of Certified Public Accountants. Mr. Huang has solid experience in financial accounting and management for over ten years. Mr. Huang joined the Group in 1996.

LI Wei, aged 51, is a chief economist 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.

ZHANG Chunya, aged 55, 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 17 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.

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 sustainable growth and 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") except that from 23 January 2008 to 8 September 2008, the roles of chairman and chief executive officer was not separate and was performed by the same individual, Mr. Bai Zhisheng. Mr. Bai was the chairman and general manager (which is equivalent to the chief executive officer) of the Company since the decease of the late Chen Naiming, the formal general manager on 23 January 2008. In order to ensure the compliance with Code A.2.1 the Company has been locating suitable person for the position of general manager. Mr. Gao Feng was appointed as the general manager with effect from 9 September 2008. Save as disclosed above, 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 regarding directors' securities transactions throughout the financial year ended 31 December 2008.

Board of directors

Composition of the board

As at 31 December 2008, the Board comprised one executive Director, namely Mr. Bai Zhisheng (Chairman), five non-executive Directors, namely Mr. Heriard-Dubreuil Francois, 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. 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. Gao Feng, the general manager as at 31 December 2008.

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, full board meetings were held. Their individual attendance records, on a named basis, during the year ended 31 December 2008 is set out in the table as follows:

Board Members	Meetings attended/held
Executive Director	
Bai Zhisheng	5/5
Nie Jiansheng (resigned on 14 January 2008)	N/A
Chen Naiming (passed away on 23 January 2008)	0/1
Non-executive Director	
Heriard-Dubreuil Francois	5/5
Wang Guanghao (resigned on 14 January 2008)	N/A
Cheung Wai Ying, Benny	5/5
Zhang Wenlin	5/5
Wong Ching Chung	5/5
Robert Luc	5/5
Independent non-executive Director	
Lai Ming, Joseph	5/5
Hui Ho Ming, Herbert	5/5
Chau Ka Wah, Arthur	5/5

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 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.

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 2008, 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. Gao Feng 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. As at 31 December 2008, the chairman of the Remuneration Committee was Mr. Chau Ka Wah, Arthur, an independent non-executive Director and the other members comprised 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 2008, 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 2007; 2) the salary and fee adjustment available to the Hong Kong staff, non-executive Directors and independent non-executive Directors respectively; and 3) the remuneration package of newly appointed general manager. 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 (resigned on 14 January 2008)	1/1
Wong Ching Chung	3/3
Lai Ming, Joseph	3/3
Hui Ho Ming, Herbert	3/3

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 Director 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 Director 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 2008 are set out in note 10 to the financial statements and details of the Share Option Scheme and grant/cancellation 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 2008 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 2008, 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 2009. 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 internal control system is designed to provide reasonable, though not absolute, assurance against material misstatement or loss, and manage rather than eliminate risks of failure to achieve business strategies. 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 Director 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 Director and senior management have specific responsibilities for monitoring the performance, conduct and operations of each subsidiary within the Group by the review of the disparity between actual results and yearly budgets.

Monthly financial reporting is provided to the executive Director, non-executive Directors and Group's management. 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.

Although the Company has no longer been required to retain a post of "Qualified Accountant" as defined in the Listing Rules since 1 January 2009, the Company continues to maintain a team of qualified accountants to oversee its accounting and financial reporting function in accordance with the relevant laws, rules and regulations.

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 2008 includes the following:

(i) a review of the draft annual financial statements for the year ended 31 December 2007 and interim financial statements for the period ended 30 June 2008 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 developments of accounting standards in conjunction with the external auditors;

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

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

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

During the year ended 31 December 2008, the Audit Committee met two times together with an executive Director, 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	2/2
Hui Ho Ming, Herbert	2/2
Chau Ka Wah, Arthur	2/2

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 2008, the remuneration paid/payable to the auditors in respect of audit and non-audit services provided by the auditors to the Group were set out as below:

Nature of services	Amount (HK$'000)
Audit services	1,265
Non-audit services	
(i) Tax services	24
(ii) Internal control review	542

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, the management and the external auditors 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 Director and senior management 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 2008 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 2008, executive Director and senior management visited several major international investment centres to meet with institutional investors. All their discussions were limited to explanations of previously published material and general discussion of non-price sensitive information. In addition, the Company has organized several winery visits in Tianjin for financial analysts and fund managers. 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 "Honors award for overall annual report" regarding the 2007 annual report in International ARC Awards competition to recognize Dynasty's success in communicating its story. It is the largest international annual competition and one of the most prestigious financial media events honoring excellence in annual reports around the world.

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 20 clear business days before the AGM and is included with the notice to Shareholders of any future AGM. It sets out the procedures for conducting a poll and other relevant information of the proposed resolutions. The most recent Shareholders' meeting was the AGM held on 30 May 2008.

Market capitalisation

The market capitalisation of the Company as at 31 December 2008, the last trading day in 2008, was HK$1,444 million (issued share capital:1,245,000,000 shares at closing market price:HK$1.16 per share).

Financial Section

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 2008.

Principal activities

As at 31 December 2008, the principal activities of the Company are investment holding and sale of grape wine products. 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 44.

The Directors have declared an interim dividend of HK3.5 cents per Share. The total interim dividend of HK$43.6 million has been paid in October 2008. The Directors recommend the payment of a final dividend of HK1.9 cents per Share to shareholders whose names appear on the register of members of the Company at the close of business on 2 June 2009.

Reserves

Movements in reserves of the Group and the Company during the year and distributable reserves of the Company as at 31 December 2008 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 80.

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 12 to the financial statements.

Charitable donations

Charitable donations made by the Group during the year amounted to HK$2.3 million.

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 ("Shareholders").

Directors

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

Executive Directors:
Mr. Bai Zhisheng
Mr. Nie Jiansheng (resigned on 14 January 2008)
Mr. Chen Naiming (passed away on 23 January 2008)

Non-executive Directors:
Mr. Heriard-Dubreuil Francois
Mr. Hu Chengli (appointed on 10 February 2009)
Mr. Zheng Daoquan (appointed on 10 February 2009)
Mr. Jean-Marie Laborde (appointed on 10 February 2009)
Mr. Zhang Wenlin
Mr. Wong Ching Chung
Mr. Robert Luc
Mr. Wang Guanghao (resigned on 14 January 2008)
Mr. Cheung Wai Ying, Benny (resigned on 10 February 2009)

Independent non-executive Directors:
Mr. Lai Ming, Joseph
Dr. Hui Ho Ming, Herbert
Mr. Chau Ka Wah, Arthur

In accordance with Article 86 of the Company's Articles of Association, the office of directorship of each of Mr. Zheng Daoquan and Mr. Jean-Marie Laborde will end at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

Directors' service contracts

Each of the executive Director 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 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 believes 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 26 January 2005, the date on which shares of the Company ("Share") commenced trading on the Stock Exchange, 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 2008, the Company has granted share options representing the right to subscribe for 26,450,000 Shares under the Scheme of which share options representing the right to subscribe for 9,050,000 Shares have been cancelled. The Company may further grant share options to subscribe for 93,550,000 Shares, representing approximately 7.5% of the total number of Shares in issue as at the date of this report.

(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 2008 *(Note 1)*	Granted *(Note 2)*	Exercised	Forfeited	Outstanding options held at 31 December 2008	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 (resigned on 14 January 2008)	1,950,000	—	—	(1,950,000)	—	—
Mr. Chen Naiming (passed away on 23 January 2008) *(Note 3)*	2,100,000	—	—	—	2,100,000	0.17%
Non-executive Directors:						
Mr. Heriard-Dubreuil Francois	1,200,000	—	—	—	1,200,000	0.10%
Mr. Wang Guanghao (resigned on 14 January 2008)	900,000	—	—	(900,000)	—	—
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%
Independent Non-executive Directors:						
Mr. Lai Ming, Joseph	—	500,000	—	—	500,000	0.04%
Dr. Hui Ho Ming, Herbert	—	500,000	—	—	500,000	0.04%
Mr. Chau Ka Wah, Arthur	—	500,000	—	—	500,000	0.04%
Other employees	8,000,000	—	—	(1,300,000)	6,700,000	0.54%
Total	20,050,000	1,500,000	—	(4,150,000)	17,400,000	1.39%

Note 1: These share options (except for the 1,200,000 share options granted to Mr. Bai Zhisheng and 150,000 share options granted to Mr. Chen Naiming) 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. 150,000 share options were granted to Mr. Chen Naiming on 27 August 2007 with an exercise price of HK$3.00 and are exercisable from 17 March 2008 to 26 August 2017.

Note 2: These share options were granted on 16 January 2008, with an exercise price of HK$2.91 and are exercisable from 6 August 2008 to 15 January 2018.

Note 3: Mr. Chen Naiming passed away on 23 January 2008 and his personal representatives may exercise the share options within 12 months of the date of his death in accordance with the Scheme.

Directors' interests and short positions in the shares, underlying shares and debentures of the Company

As at 31 December 2008, 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 2008, 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 2008, 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%
Remy Cointreau S.A. *(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
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%
The Hamon Investment Group Pte Limited	Investment manager	74,048,000	5.95%

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 53.21% 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 52.35% 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 78.11% 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 2008, 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 fellows:

Sales	
— the largest customer	11.6%
— five largest customers combined	43.1%
Purchases	
— the largest supplier	10.8%
— five largest suppliers combined	37.1%

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 10.8% of the consolidated purchases of the Group.

Purchase, sale or redemption of shares of the Company

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Shares of the Company during the year ended 31 December 2008.

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
Bai Zhisheng
Chairman

Hong Kong, 22 April 2009

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 44 to 79, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 to 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 2008 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, 22 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Revenue	3	**1,360,859**	1,123,327
Cost of sales	5	**(639,148)**	(544,454)
Gross profit		**721,711**	578,873
Other income	3	**28,660**	46,569
Distribution costs	5	**(442,272)**	(339,211)
Administrative expenses	5	**(90,823)**	(105,015)
Operating profit		**217,276**	181,216
Share of (loss)/profit of an associate	16	**(65)**	67
Profit before income tax		**217,211**	181,283
Income tax expense	6	**(73,270)**	(54,668)
Profit for the year		**143,941**	126,615
Attributable to:			
Equity holders of the Company	7	**143,079**	126,326
Minority interests		**862**	289
		143,941	126,615
Dividends	8	**67,230**	59,760
Earnings per share of profit attributable to the equity holders of the Company			
		HK cents	HK cents
— Basic and diluted earnings per share	9	**11.5**	10.1

The Notes on pages 49 to 79 are an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	440,302	361,928
Land use rights	13	63,787	61,698
Goodwill	14	9,421	9,421
Investment in an associate	16	13,237	12,536
Deferred income tax assets	17	—	1,373
		526,747	446,956
Current assets			
Trade receivables	18	84,093	106,504
Other receivables, deposits and prepayments		80,692	61,428
Inventories	19	462,655	422,564
Cash and cash equivalents	20	999,006	830,346
		1,626,446	1,420,842
Total assets		2,153,193	1,867,798
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	21	124,500	124,500
Other reserves	22	1,172,589	1,115,891
Retained earnings			
— Proposed final dividend		—	14,940
— Others		431,782	305,285
		1,728,871	1,560,616
Minority interests in equity		35,501	32,616
Total equity		1,764,372	1,593,232
LIABILITIES			
Current liabilities			
Trade payables	23	89,015	44,121
Other payables and accruals		274,905	218,703
Current income tax liabilities		24,901	11,742
Total liabilities		388,821	274,566
Total equity and liabilities		2,153,193	1,867,798
Net current assets		1,237,625	1,146,276
Total assets less current liabilities		1,764,372	1,593,232

BAI Zhisheng
Director

ZHANG Wenlin
Director

The Notes on pages 49 to 79 are an integral part of these financial statements.

Balance Sheet

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	2,204	3,459
Investments in subsidiaries	15	960,352	882,666
		962,556	886,125
Current assets			
Trade receivables	18	310	—
Other receivables, deposits and prepayments		2,162	2,347
Inventories	19	353	—
Dividend receivable		205,000	149,000
Cash and cash equivalents	20	163,813	306,471
		371,638	457,818
Total assets		1,334,194	1,343,943
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	21	124,500	124,500
Other reserves	22	1,092,932	1,137,504
Retained earnings			
— Proposed final dividend		—	14,940
— Others		84,446	37,221
Total equity		1,301,878	1,314,165
LIABILITIES			
Current liabilities			
Other payables and accruals		22,230	20,137
Amount due to subsidiaries	24	10,086	9,641
Total liabilities		32,316	29,778
Total equity and liabilities		1,334,194	1,343,943
Net current assets		339,322	428,040
Total assets less current liabilities		1,301,878	1,314,165

BAI Zhisheng
Director

ZHANG Wenlin
Director

The Notes on pages 49 to 79 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	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 2007		124,500	1,005,481	269,819	30,098	1,429,898
Share options scheme	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
Share options scheme	22	—	592	—	—	592
Profit for the year		—	—	143,079	862	143,941
Transfers		—	16,582	(16,582)	—	—
Currency translation differences	22	—	83,099	—	2,023	85,122
Dividends		—	(43,575)	(14,940)	—	(58,515)
Balance at 31 December 2008		124,500	1,172,589	431,782	35,501	1,764,372

The Notes on pages 49 to 79 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Cash generated from operations	26	308,020	157,708
Income tax paid		(58,709)	(47,157)
Interest received		21,739	30,563
Net cash generated from operating activities		271,050	141,114
Cash flows from investing activities			
Purchase of property, plant and equipment		(101,482)	(64,623)
Proceeds from disposal of equipment		357	1,639
Net cash used in investing activities		(101,125)	(62,984)
Cash flows from financing activities			
Dividends paid to the Company's equity holders		(58,515)	(59,760)
Net cash used in financing activities		(58,515)	(59,760)
Net increase in cash and cash equivalents		111,410	18,370
Cash and cash equivalents at the beginning of the year		830,346	764,394
Change in exchange rate		57,250	47,582
Cash and cash equivalents at the end of the year		999,006	830,346

The Notes on pages 49 to 79 are an integral part of these 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 trading of wine products. 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 22 April 2009.

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, amendments and interpretations effective in 2008 and relevant to the Group*

HK(IFRIC)-Int 11, "HKFRS 2 — Group and treasury share transactions", provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

(b) *Standard and interpretations effective in 2008 but not relevant to the Group*

HKAS 39 (Amendment)	Financial instruments: Recognition and measurement
HK(IFRIC)-Int 12	Service concession arrangements
HK(IFRIC)-Int 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(c) *Standards and amendments to the existing standards that are not yet effective but relevant and have not been early adopted by the Group*

HKAS 1 (Revised), "Presentation of financial statements" (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009.

HKAS 27 (Revised), "Consolidated and separate financial statements" (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

HKFRS 1 (Amendment), "First time adoption of HKFRS" and HKAS 27 "Consolidated and separate financial statements" (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply HKAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements.

HKFRS 2 (Amendment), "Share-based payment" (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

HKFRS 3 (Revised), Business combinations (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(c) Standards and amendments to the existing standards that are not yet effective but relevant and have not been early adopted by the Group (continued)

HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, "Segment reporting", and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The Group will apply HKFRS 8 from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

— HKICPA's improvements to HKFRS published in October 2008

HKAS 28 (Amendment), Investments in associates (and consequential amendments to HKAS 32, "Financial instruments: Presentation" and HKFRS 7, "Financial instruments: Disclosures") (effective from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the HKAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

HKAS 36 (Amendment), Impairment of assets (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

In addition, there are a number of minor amendments to HKAS 8, "Accounting policies, changes in accounting estimates and errors", HKAS 10, "Events after the balance sheet date", HKAS 18, "Revenue" and HKAS 34, "Interim financial reporting".

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2008.

(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.

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(a) Subsidiaries (continued)

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 consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. 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 identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated 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 investments in associates are recognised in the consolidated income statement.

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

2 Summary of significant accounting policies *(continued)*

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.

2.4 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 Company changed its functional currency from RMB to HK dollars at the beginning of the year following commencement of HK dollars-based trading activities coupled with other intended HK dollars transactions. The Company applies the translation procedures applicable to the new functional currency prospectively from the date of the change. The functional currency of the 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 or valuation where items are remeasured. 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 consolidated income statement.

Translation differences on non-monetary items, such as equities 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, 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 consolidated 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 consolidated 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 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 consolidated income statement.

2.6 Land use rights

The upfront prepayments made for such right are treated as prepayment for operating lease and recorded as land use rights, which are expensed in the consolidated income statement on a straight-line basis over the period of the rights or when there is impairment, the impairment is expensed in the consolidated income statement.

2.7 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 at least annually for impairment or more frequently if there is indication of impairment and carried at cost less accumulated impairment losses. Impairment loss on goodwill are not reversed. 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.

2.8 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, and are at least tested annually for impairment. Assets 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)*

2.9 Financial assets

The Group classifies loans and receivables 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. The Group's loans and receivables are classified as "trade and other receivables" and "cash and cash equivalents" in the consolidated balance sheet. The Company's receivables from subsidiaries are included in "loan to" and "amount due from subsidiaries".

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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. 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 original 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 consolidated 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 consolidated income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents includes 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 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 estimated sales price less estimated cost to completion and selling expenses.

2.13 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.

2.14 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 Summary of significant accounting policies *(continued)*

2.15 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 and its 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.

Deferred income tax is recognised, 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, the deferred income tax is not accounted for if it 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. 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 only 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 and associates, 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.

2.16 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.

2.17 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 is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. 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.

2.18 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.

2 Summary of significant accounting policies *(continued)*

2.18 Employee benefits *(continued)*

(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 vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

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.

2.19 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 consolidated income statement on a straight-line basis over the period of the lease.

2.20 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.

2.21 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 Revenue and other income

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

	2008 HK$'000	2007 HK$'000
Revenue		
Manufacturing and sale of wine products	**1,360,859**	1,123,327
Other income		
Interest income	**22,939**	31,105
Government grant	**5,721**	15,464
	28,660	46,569
Total revenue and other income	**1,389,519**	1,169,896

4 Segment information

Manufacturing and sale of wine products is the only business segment of the Group for the year ended 31 December 2007 and 2008.

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

5 Expenses by nature

	2008 HK$'000	2007 HK$'000
Cost of unprocessed wines, consumables and other materials recognised as expenses included in cost of sales	**456,085**	385,511
Advertising, marketing, and other incidental promotion expenses	**307,585**	214,795
Consumption tax at 10% of domestic sales	**132,811**	112,104
Employee costs:		
— salaries, other allowance and benefits	**100,300**	87,682
— contributions to retirement benefits scheme	**7,907**	7,118
— share-based payments	**592**	474
— government subsidy	**—**	(6,800)
Total employee costs including directors' emoluments	**108,799**	88,474
Transportation and logistics expenses	**83,014**	77,832
Depreciation	**45,681**	37,673
Consultancy and professional fees	**2,868**	2,677
Operating lease rentals in respect of:		
— transformation station	**2,376**	2,227
— office premises	**2,262**	2,130
Amortisation	**1,638**	1,786
Auditors' remuneration	**1,265**	1,150
Net exchange loss	**337**	19,806
Other expenses	**27,522**	42,515
Total of cost of sales, distribution costs and administrative expenses	**1,172,243**	988,680

6 Income tax expense

	2008 HK$'000	2007 HK$'000
Current income tax:		
— PRC income tax for the year	69,952	52,703
— Under provision in previous year	1,904	1,965
	71,856	54,668
Deferred income tax:		
— Reversal of temporary difference	1,414	—
	73,270	54,668

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 25% (2007: 24%, being the preferential rate for foreign investment production enterprises established in a coastal economic development zone).

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

	2008 HK$'000	2007 HK$'000
Profit before income tax	217,211	181,283
Calculated at applicable rates	54,735	44,961
Expenses not allowed to deduct for the year	17,870	11,876
Income not subject to tax	(1,239)	(3,972)
Utilisation of previously unrecognised tax losses	—	(162)
Under provision in previous year	1,904	1,965
Income tax for the year	73,270	54,668

7 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 about HK$46 million (2007: HK$96 million).

8 Dividends

	2008 HK$'000	2007 HK$'000
Interim dividend paid of HK3.5 cents (2007: HK3.6 cents) per ordinary share	43,575	44,820
Proposed final dividend of HK1.9 cents (2007: HK1.2 cents) per ordinary share *(Note)*	23,655	14,940
	67,230	59,760

Note: On 22 April 2009, the board of directors declared final dividend of HK1.9 cents per ordinary share. This declared dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of share premium for the year ending 31 December 2009.

9 Basic and diluted earnings per share

The calculation of the basic and diluted earnings per share was based on the following data:

	2008 HK$'000	2007 HK$'000
Earnings		
Profit attributable to equity holders of the Company	143,079	126,326

	Number of ordinary shares (thousand)	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,245,000	1,245,000
Effect of dilutive potential ordinary shares:		
— Share options	—	1,298
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,245,000	1,246,298

10 Emoluments for directors and five highest paid individuals

Directors' emoluments

	2008 HK$'000	2007 HK$'000
Fees	2,888	2,160
Salaries, allowances and other benefits	1,996	5,652
Share-based payments	592	306
Contributions to retirement benefits scheme	81	230
	5,557	8,348

10 Emoluments for directors and five highest paid individuals *(continued)*

Directors' emoluments *(continued)*

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

	For the year ended 31 December 2008						
	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	—	75	1,911
Mr. Nie Jiansheng (i)	—	42	—	10	—	2	54
Mr. Chen Naiming (ii)	—	87	—	21	16	4	128
Non-executive director							
Mr. Heriard-Dubreuil Francois	360	—	—	—	—	—	360
Mr. Wang Guanghao (i)	8	—	—	—	—	—	8
Mr. Cheung Wai Ying, Benny	360	—	—	—	—	—	360
Mr. Zhang Wenlin	360	—	—	—	—	—	360
Mr. Wong Ching Chung	360	—	—	—	—	—	360
Mr. Robert Luc	360	—	—	—	—	—	360
Independent non-executive director							
Mr. Lai Ming, Joseph	360	—	—	—	192	—	552
Dr. Hui Ho Ming, Herbert	360	—	—	—	192	—	552
Mr. Chau Ka Wah, Arthur	360	—	—	—	192	—	552
	2,888	1,629	—	367	592	81	5,557

10 Emoluments for directors and five highest paid individuals *(continued)*

Directors' emoluments *(continued)*

	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 (i)	—	1,200	—	300	—	60	1,560
Mr. Chen Naiming (ii)	—	1,529	433	354	—	95	2,411
Non-executive director							
Mr. Heriard-Dubreuil Francois	240	—	—	—	—	—	240
Mr. Wang Guanghao (i)	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

Note:

(i) *Resigned on 14 January 2008.*

(ii) *Deceased on 23 January 2008.*

10 Emoluments for directors and five highest paid individuals *(continued)*

Senior management's emoluments

The five highest paid individuals included three directors for the year ended 31 December 2008 (2007: three) whose emoluments are reflected above. The emoluments payable to the remaining two (2007: two) individuals during the year are summarised as follows:

	2008 **HK$'000**	2007 HK$'000
Salaries and allowances	**2,639**	2,265
Contributions to retirement benefits scheme	**132**	113
Share-based payments	**—**	128
	2,771	2,506

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
Emolument bands		
HK$1,000,001–HK$1,500,000	**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 2008 (2007: Nil).

11 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 5.

12 Property, plant and equipment

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 2007	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
Exchange differences	9,963	16,195	6,101	2,121	3,318	37,698
Additions	639	5,497	955	1,859	92,532	101,482
Transfers	—	2,476	4,834	—	(7,310)	—
Disposals	—	(127)	(239)	(1,344)	—	(1,710)
As at 31 December 2008	183,349	292,631	104,339	33,936	101,814	716,069
Accumulated depreciation						
As at 1 January 2007	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
Exchange differences	3,021	7,808	2,499	1,356	—	14,684
Charge for the year	7,790	22,393	12,400	3,098	—	45,681
Disposals	—	(77)	(180)	(1,012)	—	(1,269)
As at 31 December 2008	54,130	146,493	50,746	24,398	—	275,767
Net book value						
As at 31 December 2008	129,219	146,138	53,593	9,538	101,814	440,302
As at 31 December 2007	129,428	152,221	56,661	10,344	13,274	361,928

12 Property, plant and equipment *(continued)*

Company

	Leasehold improvements, furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost			
As at 1 January 2007	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
Additions	106	—	106
Disposals	(64)	—	(64)
As at 31 December 2008	3,901	1,601	5,502
Accumulated depreciation			
As at 1 January 2007	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
Charge for the year	1,024	288	1,312
Disposals	(15)	—	(15)
As at 31 December 2008	2,078	1,220	3,298
Net book value			
As at 31 December 2008	1,823	381	2,204
As at 31 December 2007	2,790	669	3,459

13 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	
	2008	2007
	HK$'000	HK$'000
Cost	**72,528**	68,344
Accumulated amortisation	**(8,741)**	(6,646)
	63,787	61,698
As at 1 January	**61,698**	59,186
Amortisation	**(1,638)**	(1,786)
Exchange differences	**3,727**	4,298
As at 31 December	**63,787**	61,698

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

14 Goodwill

	Group
	HK$'000
As at 31 December 2007 and 2008	9,421

Goodwill relates to a subsidiary which manufactures raw wines.

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 five-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:

	2008	2007
Growth rate	**2%**	3%
Discount rate	**6%**	8%
Gross margin	**3%**	5%

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 (2007: Nil).

15 Investments in subsidiaries

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	489,866	489,866
Loan to a subsidiary	161,309	94,747
Amount due from subsidiaries	309,177	298,053
	960,352	882,666

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.

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

16 Investment in an associate

	Group	
	2008	2007
	HK$'000	HK$'000
Share of net assets	13,237	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 RMB40 million. Goodwill arising from this acquisition was insignificant.

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

	2008	2007
	HK$'000	HK$'000
Assets	21,940	24,524
Liabilities	8,704	11,988
Revenue	7,414	10,196
(Loss)/profit	(65)	67

17 Deferred income tax

On 16 March 2007, the National People's Congress approved the China's new Corporate Income Tax Law (the "new CIT Law"). Under the new CIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation of about HK$15.1 million has not been provided in respect of the withholding tax that would be payable on the unremitted earnings of the PRC subsidiaries amounting to approximately HK$151 million as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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:

	2008 HK$'000	2007 HK$'000
Group		
Below 30 days	58,283	55,610
30 to 90 days	17,085	21,829
91 to 180 days	6,800	27,498
Over 180 days	2,247	2,610
	84,415	107,547
Less: Provision for impairment	(322)	(1,043)
	84,093	106,504
Company		
30 to 90 days	310	—

The carrying amounts of the Group's trade receivables were principally denominated in Renminbi. The balance included bill receivables amounting to about HK$21 million (2007: HK$30 million).

Trade receivables that are impaired are past due over 12 months (2007: 12 months).

Aging for past due but not impaired are as below:

	2008 HK$'000	2007 HK$'000
Group		
Over 180 days	1,925	1,567

The Group obtained sufficient deposits of HK$90 million (2007: HK$84 million) for the carrying amounts of the Group's trade receivables.

19 Inventories

	2008 HK$'000	2007 HK$'000
Group		
At cost:		
Unprocessed wines	191,363	167,646
Finished goods	227,764	227,094
Consumables	43,528	27,824
	462,655	422,564
Company		
Finished goods	353	—

20 Cash and cash equivalents

	2008 HK$'000	2007 HK$'000
Group		
Balances with banks	998,467	830,161
Balances with other financial institutions	539	185
	999,006	830,346
Company		
Balances with banks	163,813	306,471

Cash and bank balances deposited with banks and other financial institutions in the PRC were principally denominated in Renminbi ("RMB"). The conversion of these RMB 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. These deposits have a maturity of less than 90 days.

Cash and bank balances denominated in original currency are as below:

	2008 HK$'000	2007 HK$'000
Group		
Renminbi	830,535	483,086
HK dollars	14,943	14,260
US dollars	153,528	333,000
	999,006	830,346

20 Cash and cash equivalents *(continued)*

	2008 HK$'000	2007 HK$'000
Company		
HK dollars	**14,134**	8,588
US dollars	**149,679**	297,883
	163,813	306,471

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 2007 and 2008	3,000,000,000	300,000

	Number of shares	**Share capital** HK$'000
Issued and paid up:		
As at 31 December 2007 and 2008	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 2008	Options granted/ (cancelled)	Outstanding as at 31 December 2008
Options granted to directors, other than the Independent non-executive directors						
27 January 2005	17 August 2005	26 January 2015	3	10,700,000	(2,850,000)	7,850,000
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
				12,050,000	(2,850,000)	9,200,000
Options granted to independent non-executive directors						
16 January 2008	6 August 2008	15 January 2018	2.91	—	1,500,000	1,500,000
Options granted to employees						
27 January 2005	17 August 2005	26 January 2015	3	7,500,000	(1,300,000)	6,200,000
1 November 2006	22 May 2007	31 October 2016	3	500,000	—	500,000
				8,000,000	(1,300,000)	6,700,000
Total				20,050,000	(2,650,000)	17,400,000

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

	2008	2007
Date of grant	**16 January 2008**	27 August 2007
Exercise price	**HK$2.91**	HK$3
Standard deviation of expected share return	**33%**	36%
Expected option life	**2 years**	2 years
Annual risk free interest rate	**1.872%**	3.986%
Dividend pay out rate	**47%**	45%
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

Group

	Share premium *(Note i)* HK$'000	Merger reserve *(Note ii)* HK$'000	Employee share-based compensation reserve HK$'000	Reserve fund *(Note iii)* HK$'000	Enterprise expansion reserve *(Note iii)* HK$'000	Exchange reserve HK$'000	Total HK$'000
As at 1 January 2007	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
Share-based payments	—	—	592	—	—	—	592
Transfer from/(to) retained earnings	—	—	(1,589)	18,171	—	—	16,582
Currency translation differences	—	—	—	—	—	83,099	83,099
Dividend for the year	(43,575)	—	—	—	—	—	(43,575)
As at 31 December 2008	645,943	74,519	6,664	113,258	94,375	237,830	1,172,589

Notes:

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

(ii) Merger reserve

The merger reserve 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.

(iii) Reserve fund and enterprise expansion reserve

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)*

Company

	Share premium *(Note i)* HK$'000	Employee share-based compensation reserve HK$'000	Capital reserve *(Note ii)* HK$'000	Exchange reserve HK$'000	Total HK$'000
As at 1 January 2007	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
Share-based payments	—	592	—	—	592
Transfer to retained earnings	—	(1,589)	—	—	(1,589)
Dividend for the year	(43,575)	—	—	—	(43,575)
As at 31 December 2008	645,943	6,664	331,286	109,039	1,092,932

Notes:

(i) *Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.*

(ii) *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	
	2008 HK$'000	2007 HK$'000
Below 30 days	**77,545**	40,351
30 to 90 days	**2,003**	—
91 to 180 days	**7,582**	1,562
Over 180 days	**1,885**	2,208
	89,015	44,121

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 2008, the Group had capital expenditure commitments related to purchase of equipment and production facilities as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Authorised but not contracted for	**109,383**	131,091
Contracted but not provided for	**22,237**	42,052
	131,620	173,143

(b) Operating lease commitments

At 31 December 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Transformation station		
— Not later than one year	**2,376**	2,227
— Later than one year but not later than five years	**1,386**	3,526
	3,762	5,753

	Group and Company	
	2008	2007
	HK$'000	HK$'000
Office premises		
— Not later than one year	**2,262**	2,262
— Later than one year but not later than five years	**1,319**	3,581
	3,581	5,843

26 Note to consolidated cash flow statement

Cash generated from operations

	2008 **HK$'000**	2007 HK$'000
Profit before taxation	**217,211**	181,283
Interest income	**(22,939)**	(31,105)
Depreciation	**45,681**	37,673
Amortisation	**1,638**	1,786
Net exchange loss	**337**	19,806
Loss on disposal of equipment	**84**	218
Share-based payments	**592**	474
Share of loss/(profit) of an associate	**65**	(67)
Decrease/(increase) in trade receivables	**22,411**	(8,983)
Increase in other receivables, deposits and prepayments	**(18,064)**	(30,346)
Increase in inventories	**(40,091)**	(36,529)
Increase in trade payables	**44,894**	121
Increase in other payables and accruals	**56,201**	23,377
Cash generated from operations	**308,020**	157,708

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.

	2008 **HK$'000**	2007 HK$'000
Purchase of unprocessed wine from an associate *(Note 16)*	**33,469**	38,406
Key management compensation		
Salaries and other short-term employee benefits	**8,748**	11,474
Other long-term benefits	**487**	805
Share-based payments	**16**	474
	9,251	12,753

	As at December 31	
	2008 **HK$'000**	2007 HK$'000
Balance of advance for unprocessed wine due to an associate *(Note (i))*	**15,884**	6,077

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 are the Group's principal subsidiaries at 31 December 2008:

	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 wine products
Established and operating in the PRC			
Sino-French Joint-Venture Dynasty Winery Ltd.	RMB407,499,000	100	Manufacturing and sale of wine products
Shandong Yu Huang Grape Wine Co., Ltd.	RMB6,866,812	65	Manufacturing and sale of unprocessed wine
Tianjin Tianyang Grape Winery Co., Ltd. *(Note i)*	RMB66,532,000	60	Manufacturing and sale of unprocessed wine
Shanghai Dynasty Grape Winery Sales Co., Ltd.	RMB1,000,000	100	Sale of wine products

Shares held directly by the Company

Note:

(i) The board of directors of Tianjin Tianyang Grape Winery Co., Ltd. approved the decrease of paid in capital from RMB66,532,000 to RMB41,532,000 on 17 October 2008. The legal process for the capital reduction was still in progress as at 31 December 2008.

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 2008, 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, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

There is no material foreign exchange risk noted for the Group as:

— the transactions of the Company are mainly denominated in HK$, which is the functional currency of the Company, and

— 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, which is the functional currency of the Group's subsidiaries.

(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 2008.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of cash and cash equivalents, trade receivables, other receivables included in the consolidated balance sheet 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.

The Group mitigates its exposure to credit risk by placing deposits with stated-owned banks in the PRC and other financial institutions with established credit rating.

29 Financial risk management *(continued)*

29.1 Financial risk factors *(continued)*

(c) *Liquidity risk*

The Group has minimal liquidity risk as the Group maintains sufficient cash in banks in the PRC and liquid assets to meet it's liquid liabilities.

Management monitors the Group's liquidity reserve which comprises cash and cash equivalents.

The Group's financial liabilities are analysed into relevant maturity groupings based on the remaining period at the respective balance sheet dates to the contractual maturity dates, using the contractual undiscounted cash flows, as follows:

	Less than one year or on demand	
	2008	2007
	HK$'000	HK$'000
Group		
Trade payables	**89,015**	44,121
Other payables and accruals	**169,976**	120,204
	258,991	164,325
Company		
Other payables and accruals	**22,230**	20,137
Amount due to subsidiaries	**10,086**	9,641
	32,316	29,778

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; and financial liabilities including trade payables, other payables, 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 14.

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

Following is a summary of the consolidated results and of the consolidated assets, liabilities and minority interests in equity 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				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**1,360,859**	1,123,327	1,114,145	947,489	804,629
Profit before income tax	**217,211**	181,283	151,413	229,012	223,664
Income tax expense	**(73,270)**	(54,668)	(37,694)	(47,604)	(57,187)
Profit after income tax	**143,941**	126,615	113,719	181,408	166,477
Minority interests	**(862)**	(289)	1,084	(2,417)	(522)
Profit attributable to equity holders of the Company	**143,079**	126,326	114,803	178,991	165,955
Dividends	**67,230**	59,760	52,290	70,965	74,340

Consolidated assets, liabilities and minority interests in equity

	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**526,747**	446,956	382,920	322,095	207,668
Current assets	**1,626,446**	1,420,842	1,290,534	1,270,277	593,018
Current liabilities	**(388,821)**	(274,566)	(243,556)	(255,121)	(377,330)
Minority interests in equity	**(35,501)**	(32,616)	(30,098)	(31,107)	(3,072)
Shareholder's equity	**1,728,871**	1,560,616	1,399,800	1,306,144	420,284

Note: The summary of the proforma consolidated results and proforma consolidated assets, liabilities and minority interests of the Group as at and for the financial year 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 year presented.

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