DYNASTY
Since 1980

Dynasty Fine Wines Group Limited
王朝酒業集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 828)

PRELIMINARY ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board of directors (the "**Board**") of Dynasty Fine Wines Group Limited (the "**Company**") announce herewith the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2016, prepared on the basis set out in Note 2 below, together with the comparative figures for the previous year as follows:

REASON FOR DELAY IN PUBLICATION OF THE 2016 ANNUAL RESULTS

For information on the delay in publication of the 2016 annual results, please refer to the announcements of the Company dated 3 March 2017.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

		Year ended 31 December	
		2016	2015
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**452,181**	627,207
Cost of sales	*4*	**(338,824)**	(498,509)
Gross profit		**113,357**	128,698
Distribution expenses	*4*	**(125,316)**	(139,046)
Administrative expenses	*4*	**(87,457)**	(202,968)
Other income, gains and losses	*5*	**2,329**	7,000
Operating loss		**(97,087)**	(206,316)
Finance income	*6*	**954**	5,004
Finance costs	*6*	**(5,107)**	(5,637)
Finance costs – net	*6*	**(4,153)**	(633)
Loss before income tax		**(101,240)**	(206,949)
Income tax credit/(expense)	*7*	**304**	(18)
Loss for the year		**(100,936)**	(206,967)
Loss attributable to:			
Owners of the Company		**(100,632)**	(205,551)
Non-controlling interests		**(304)**	(1,416)
Loss per share attributable to owners of the Company for the year *(expressed in HK$ cents per share)*			
– Basic and diluted loss per share	*9*	**(8.06)**	(16.47)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Year ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Loss for the year	**(100,936)**	(206,967)
Other comprehensive loss		
Currency translation differences	**(26,141)**	(34,046)
Total comprehensive loss for the year	**(127,077)**	(241,013)
Attributable to:		
– Owners of the Company	**(125,702)**	(238,444)
– Non-controlling interests	**(1,375)**	(2,569)

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	Note	As at 31 December 2016 HK$'000	2015 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**272,170**	317,788
Leasehold land and land use rights		**52,095**	57,119
Goodwill		**–**	–
Investment in an associate		**–**	–
Deferred income tax assets		**–**	–
		324,265	374,907
Current assets			
Trade receivables	*10*	**51,311**	97,579
Other receivables, deposits and prepayments	*10*	**39,138**	59,985
Inventories		**504,367**	587,647
Restricted cash		**733**	34,051
Cash and cash equivalents		**90,675**	80,891
		686,224	860,153
Total assets		**1,010,489**	1,235,060
EQUITY			
Equity attributable to owners of the Company:			
Share capital		**124,820**	124,820
Other reserves		**1,139,353**	1,164,499
Accumulated losses		**(918,510)**	(817,954)
		345,663	471,365
Non-controlling interests		**15,568**	16,943
Total equity		**361,231**	488,308
LIABILITIES			
Current liabilities			
Trade payables	*11*	**210,424**	326,104
Other payables and accruals	*11*	**321,499**	354,121
Borrowings		**117,318**	66,527
Current income tax liabilities		**17**	–
		649,258	746,752
Total liabilities		**649,258**	746,752
Total equity and liabilities		**1,010,489**	1,235,060

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 Room E and F, 16/F, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding and trading of wine products. The principal activities of the subsidiaries are manufacturing and sale of wine products and unprocessed wine.

The shares of the Company ("**Shares**") were listed on the Main Board of the Stock Exchange ("**Stock Exchange**") on 26 January 2005. On 22 March 2013, trading of the Shares of the Company were suspended on the Stock Exchange.

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 the Company have been prepared in accordance with all applicable 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 Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank facilities for the foreseeable future. The Group's forecasts and projections, taking into account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

2.2 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2016:

- Accounting for acquisitions of interests in joint operations – Amendments to HKFRS 11
- Clarification of acceptable methods of depreciation and amortisation – Amendments to HKAS 16 and HKAS 38
- Annual improvements to HKFRSs 2012 – 2014 cycle, and
- Disclosure initiative – amendments to HKAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) ***New standards and interpretations not yet adopted***

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- HKFRS 9, 'Financial instruments'
- HKFRS 15, 'Revenue from contracts with customers'
- HKFRS 16, 'Leases'

There are no other HKFRSs interpretations that are not yet effective that would be expected to have a material impact on the Group.

3 SEGMENT INFORMATION

In accordance with the Group's internal reporting, management has determined the operating segments to be red wines, white wines and all other products.

The chief operating decision maker considers the business from product perspective. Management separately considers the red wines and white wines. All other segments primarily relate to the sale of sparkling wines, brandy and icewine.

The key management team assesses the performance of the operating segments based on gross profit. All revenue of the Group are from external customers.

	Red wines	**White wines**	**All other products**	**Total group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2016				
Revenue	**357,523**	**91,282**	**3,376**	**452,181**
Gross profit	**86,704**	**26,415**	**238**	**113,357**
(Provision for)/reversal of impairment in inventories	**(4,974)**	**170**	**(1,271)**	**(6,075)**
Depreciation and amortisation	**(11,338)**	**(2,895)**	**(107)**	**(14,340)**
For the year ended 31 December 2015				
Revenue	491,306	131,129	4,772	627,207
Gross profit	91,718	35,502	1,478	128,698
Provision for impairment in inventories	(27,933)	(1,895)	(2,743)	(32,571)
Depreciation and amortisation	(26,807)	(6,790)	(247)	(33,844)

A reconciliation of total segment gross profit to total loss before income tax is provided as follows:

	2016	2015
	HK$'000	*HK$'000*
Gross profit for reportable segments	**113,357**	128,698
Other income, gains and losses	**2,329**	7,000
Distribution expenses	**(125,316)**	(139,046)
Administrative expenses	**(87,457)**	(202,968)
Operating loss	**(97,087)**	(206,316)
Finance costs – net	**(4,153)**	(633)
Loss before income tax	**(101,240)**	(206,949)

The amounts of total assets and liabilities for each reportable segment are not regularly provided to the chief operating decision maker.

The Group's customer base is diversified and no (2015: nil) external customers with whom transactions have exceeded 10% of the Group's revenues. The majority of sales are within the People's Republic of China (the "**PRC**").

4 EXPENSE BY NATURE

	2016	2015
	HK$'000	*HK$'000*
Raw materials and consumables used	**155,917**	254,286
Changes in inventories of finished goods and work in progress	**49,972**	8,077
Processing and assembling expenses	**18,966**	21,592
Advertising, marketing, and other incidental promotion expenses	**27,631**	28,451
Consumption tax of domestic sales and other taxes	**47,972**	62,605
Employee costs including directors' emoluments	**131,873**	152,133
Transportation and storage expenses	**27,693**	35,376
Travelling expenses	**5,138**	7,750
Depreciation and amortisation	**28,742**	51,490
Consultancy and professional fee	**1,517**	4,597
Operating lease payments	**6,161**	8,259
Auditors' remuneration	**4,734**	5,437
(Reversal of)/provision for impairment in trade and other receivables	**(2,166)**	3,595
Provision for impairment in inventories	**6,075**	32,571
Provision for impairment in property, plant and equipment	**–**	82,317
Other expenses	**41,372**	81,987
Total cost of sales, distribution expenses and administrative expenses	**551,597**	840,523

5 OTHER INCOME, GAINS AND LOSSES

	2016	2015
	HK$'000	*HK$'000*
Write-off of long-aged trade and other payables and advance from customer	**72**	3,697
Government grants	**1,665**	1,542
Loss on disposal of property, plant and equipment	**(809)**	(472)
Service fee of chateau	**1,371**	1,120
Others	**30**	1,113
	2,329	7,000

6 FINANCE COSTS – NET

	2016	2015
	HK$'000	*HK$'000*
Finance income – Interest income	**954**	5,004
Finance costs – Interest expense on bank borrowings	**(5,107)**	(5,637)
Finance costs – net	**(4,153)**	(633)

7 INCOME TAX (CREDIT)/EXPENSE

	2016	2015
	HK$'000	*HK$'000*
Current tax:		
Current tax on profit for the year	**23**	18
Annual tax filing difference	**(327)**	–
Total current tax	**(304)**	18
Deferred tax:		
Total deferred tax	**–**	–
Income tax (credit)/expense	**(304)**	18

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

Provision for the 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% (2015: 25%).

8 DIVIDENDS

No dividend was paid in 2016 and 2015.

9 LOSS PER SHARE

(a) Basic

Basic losses per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company.

	2016	2015
	HK$'000	*HK$'000*
Loss attributable to owners of the Company	**(100,632)**	(205,551)
Weighted average number of ordinary shares in issue *(thousands)*	**1,248,200**	1,248,200

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted loss per share.

Trading of the Company's shares were suspended in the stock exchange since 22 March 2013, since then the fair value of ordinary shares did not exceed exercise price of the share option, thus it did not have any dilutive effect. (2015: no dilutive effect)

10 TRADE AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**55,597**	104,693
Notes receivable	**12,705**	7,406
Less: allowance for impairment of trade receivables	**(16,991)**	(14,520)
Trade receivables – net	**51,311**	97,579
Prepayments	**2,326**	11,815
Other receivables	**46,018**	62,013
Less: allowance for impairment of other receivables	**(9,206)**	(13,843)
	90,449	157,564

The Group grants a credit period of 90 to 180 days to its customers. The ageing analysis of the trade receivables is as follows:

	2016	2015
	HK$'000	*HK$'000*
Up to 3 months	**23,621**	54,430
3 to 6 months	**8,433**	15,105
6 months to 1 year	**7,914**	13,828
1 year to 2 years	**7,333**	6,740
Over 2 years	**8,296**	14,590
	55,597	104,693

As of 31 December 2016, trade receivables of HK$6,554,000 (2015: HK$24,115,000) were past due but not impaired. The ageing analysis of the trade receivables were past due but not impaired is as follows:

	2016	2015
	HK$'000	*HK$'000*
6 months to 1 year	**5,580**	13,319
1 year to 2 years	**887**	6,405
Over 2 years	**87**	4,391
	6,554	24,115

As of 31 December 2016, trade receivables of HK$16,991,000 were impaired (2015: HK$14,520,000). The amount of the provision was HK$16,991,000 as of 31 December 2016 (2015: HK$14,520,000). The individually impaired receivables mainly relate to wholesalers. The ageing of these receivables is as follows:

	2016	2015
	HK$'000	*HK$'000*
Up to 3 months	**3**	2,688
3 to 6 months	**–**	789
6 months to 1 year	**2,334**	509
1 year to 2 years	**6,446**	335
Over 2 years	**8,208**	10,199
	16,991	14,520

The carrying amounts of the Group's trade receivables were principally denominated in Renminbi ("**RMB**"). The fair value of trade receivables approximates their carrying values.

11 TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**210,424**	326,104
Advance from customer	**119,802**	153,727
Amounts due to Tsinlien (a)	**38,932**	35,460
Payroll payable	**5,861**	17,264
Other tax payables	**11,357**	10,017
Others	**145,547**	137,653
	531,923	680,225

(a) The amounts due to Tsinlien Group Company Limited ("**Tsinlien**") are the emoluments of certain directors since 2004, who are also directors/senior management of Tianjin Food Group Co. Ltd.. Both Tsinlien and Tianjin Food Group are owned by State-owned Assets Supervision and Administration Commission of Tianjin Municipal People's Government ("**Tianjin SASAC**"). These directors emoluments will be paid to them through Tsinlien.

At 31 December 2016, the ageing analysis of the trade payables based on invoice date was as follows:

	2016	2015
	HK$'000	*HK$'000*
0-30 days	**40,866**	97,755
31-90 days	**22,687**	26,733
Over 90 days	**146,871**	201,616
	210,424	326,104

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

PricewaterhouseCoopers were engaged to audit the consolidated financial statements of the Group and a qualified opinion was issued. The section below sets out an extract of the independent auditor's report regarding the consolidated financial statements of the Group for the year ended 31 December 2016:

"Our qualified opinion

In our opinion, except for the possible effects on the corresponding figures of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

Due to the loss of substantial accounting records and supporting documents in relation to sales transactions, discrepancies in inventories as well as recognition and classification of selling expenses for the year ended 31 December 2014 and prior years, we were not able to obtain sufficient appropriate audit evidence and there were no alternative audit procedures that we could perform to satisfy ourselves as to whether any adjustments to the related receivable, payable balances and retained earnings as at 1 January 2015 were necessary. Since these opening balances of the consolidated balance sheet affect the determination of the Group's financial performance and cash flows, we were unable to determine whether adjustments to the consolidated income statement and consolidated cash flows statement for the year ended 31 December 2015 were necessary.

The directors carried out an impairment assessment of its property, plant and equipment at 31 December 2015 and recognised HK$82,317,000 as an impairment charge to the consolidated income statement for the year ended 31 December 2015. Since there had been indicators of impairment for the Group's property, plant and equipment in the past years, the directors believed that the impairment might have happened in and/or prior to 2015. However, the directors were not able to quantify the impact of the appropriate impairment charges that should be recorded in and prior to 2015 due to the loss of the relevant records and documents. There were no alternative audit procedures that we could perform to enable us to determine the amount of adjustment, if any, to the impairment provision charged to the Group's consolidated income statement for the year ended 31 December 2015.

Because of the abovementioned scope of limitations encountered, we issued a qualified opinion on the consolidated financial statements of the Group as at and for the year ended 31 December 2015. These scope limitations remained unresolved up to date of this report. Our opinion on the consolidated financial statements of the Group as at and for the year ended 31 December 2016 is also qualified because of the possible effect of these matters on the comparability of certain current period's figures and the corresponding figures of the consolidated income statement and consolidated cash flows statement.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Management response on Qualified Opinion

As at the date of this announcement and based on the current available information, the directors consider that the abovementioned matters described in the Basis for Qualified Opinion paragraphs solely affect the comparability of certain current period's figures and the corresponding figures of the consolidated income statement and consolidated cash flows statement and have no further impact on the preparation of the consolidated financial statements of the Company for the year ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group's revenue for the year ended 31 December 2016 decreased by 27.9% to HK$452.2 million (2015 – HK$627.2 million) and the Group's loss attributable to owners of the Company declined to HK$100.6 million (2015 – HK$205.6 million), representing a decrease of 51.1%.

Loss per share of the Company was HK$8.06 cents per Share (2015 – HK16.47 cents per Share) based on the weighted average number of 1,248 million Shares (2015 – 1,248 million Shares) in issue during the year. There was no potential dilutive share for the year ended 31 December 2016.

The decline in loss attributable to owners of the Company in 2016 was mainly attributable to decrease in administrative expenses. The decrease was due to i) no provision in impairment in property, plant and equipment in 2016; and ii) decrease in depreciation of property, plant and equipment after impairment and staff costs.

Financial review

Revenue

Revenue of the Group represents proceeds from sale of wine products. Our total revenue decreased by 27.9% to approximately HK$452.2 million in 2016 from approximately HK$627.2 million in 2015. The decrease in revenue was mainly attributable to (1) more cautious consuming sentiments amid the impact of economic slowdown in China; (2) unsatisfactory sales performance in the nationwide supermarket channel which is one of main off-trade channels of the Group and (3) impact of imported wines especially low to medium end imported wines which grab the market shares of domestic wines.

The Group's average ex-winery sales price of red and white wine products during the year was lower than the average price of HK$23.7 per bottle (750ml) in 2015, as a result of shifting the sales mix to low-to-medium end products. Since consumers in the PRC have a 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 wines is generally higher than that of its white wines.

Cost of sales

The following table sets forth the major components of our cost of sales (before impact of provision for impairment in inventories) for the year:

	2016	2015
	%	%
Cost of raw materials		
– Grapes and grape juice	**44**	42
– Yeast and additives	**2**	2
– Packaging materials	**20**	19
– Others	**1**	1
Total cost of raw materials	**67**	64
Manufacturing overheads	**21**	22
Consumption tax and other taxes	**12**	14
Total cost of sales	**100**	100

The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives as well as packaging materials including bottles, bottle caps, labels, corks and packing boxes. During the year, the cost of grapes and grape juice was the key component of cost of sales and accounted for approximately 44% of the Group's total cost of sales, representing an increase of 2% from approximately 42% in 2015, due to the increase in purchase of grapes and grape juice. The total cost of packaging materials to the Group's revenue was stable during the year as compared with 2015.

Manufacturing overheads primarily consist of depreciation, rental of property, plant and equipment, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses in relation to production. During the year, manufacturing overheads as a percentage of revenue remained stable as compared with 2015.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross invoiced sales. The overall gross profit margin increased to 25% in 2016 from 21% in 2015, mainly as a result of the decrease in impact of provision for impairment in inventories.

The gross margin of red wine products and white wine products in 2016 were 24% and 29% respectively (2015 – 19% and 27% respectively).

Other income, gains and losses

Other income, gains and losses for the year ended 31 December 2016 decreased by 67% to HK$2.3 million (2015 – HK$7.0 million), mainly attributable to decrease in write-off of long-aged trade and other payables and advance from customer in the year.

Distribution expenses

Distribution expenses principally include advertising and market promotion expenses, transportation and delivery charges in connection with the sales of grape wine products, salaries and related personnel expenses of the sales and marketing functions and other incidental expenses. During the year, distribution expenses accounted for approximately 28% (2015 – 22%) of the Group's revenue. The increase in the percentage was primarily due to continuous increase in investment in brand building, re-adjustment of sales and marketing channels in response to the market change and sustainable development of the Company. In particular, the advertising and market promotion expenses accounted for approximately 6% (2015 – 5%) of the Group's revenue. During the year, the Group continued to promote and market the Chateau Dynasty, brand and products effectively through a range of joint promotions with wedding planner companies and local distributors, print and outdoor advertisements, wine dinners, wine tasting events, digital communication, event sponsorships and exhibitions. The Group will ensure that our promotional strategy is responsive to market dynamics and competition.

Administrative expenses

Administrative expenses comprise salaries and related personnel expenses for administrative, finance and human resources departments, depreciation and amortisation expenses, provision for impairment and other incidental administrative expenses.

During the year, administrative expenses as a percentage of the Group's revenue accounted for 19% (2015 – 32%). This percentage decreased mainly because of no provision for impairment in property, plants and equipment during the year (2015 – HK$82 million).

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 the BVI is subject to tax on its income or capital gains. In addition, any payment of dividends by them 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 for all the subsidiaries of the Company incorporated in the PRC had been unified at 25% effective from 1 January 2008. The decrease in income tax expense was because there were no adjustments in respect of prior years during the year.

Cash flow

In 2016, operating activities were the Group's main source of cash outflow.

The increase in cash used in operating activities from HK$48.4 million in 2015 to HK$66.6 million in 2016 was mainly attributable to increased cash used in changes in working capital but partly offset by less income tax paid.

Net cash outflow in investing activities amounted to approximately HK$3.0 million (2015 – HK$72.0 million), primarily related to decrease in restricted deposits held at bank for obtaining bank acceptance bill.

Net cash generated from financing activities was primarily attributable to net proceeds from borrowings amount to approximately HK$84.4 million (2015 – HK$73.6 million).

Financial management and treasury policy

As at 31 December 2016 except for the net proceeds from the placing and public offer, the Group's revenues, expenses, assets and liabilities were substantially denominated in RMB. The Group has remitted the net listing proceeds from Hong Kong to the PRC and converted them into RMB shortly after remittance. The remaining unremitted net proceeds 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. 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 operations currently would not generate any significant foreign currency exposure, we will continue to closely monitor foreign currency movements and adopt prudent measures as appropriate.

Armed with sufficient financial resources and borrowings at fixed rates, the Group is exposed to minimal financial risk from interest rate fluctuation.

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

Business review

Sales analysis

A) Distributorship

Though the decrease in revenue in the year attributable to unsatisfactory sales performance in the nationwide supermarket channel which is one of main off-trade channels of the Group, the Group continues implementing a reform on its sales and distribution model intended to improve the operational efficiency of the Group. Reform measures include, among other things, (i) co-operating with distributors to strengthen the control on retail price; (ii) enhancing the effective management in monitoring and controlling sales and marketing spending; and (iii) streamlining the existing multi-layered sales and distribution system so as to strengthen our direct control over the sales channels, thereby enhancing efficiency and effectiveness.

The total number of bottles of wine sold decreased from approximately 26.5 million in 2015 to approximately 20.7 million in 2016. Sales of red wines continued to be the Group's primary revenue contributor accounting for approximately 79% of the Group's revenue for the year (2015 – 78%).

In order to consolidate the Group's position in the Huadong region (i.e., the eastern region of the PRC including Shanghai City, Zhejiang and Jiangsu provinces) and win market share in other regions, the Group devoted significant resources to continue and accelerate the expansion and to strengthen our nationwide and extensive sales and distribution network during the year. This network supports sales of the Group's products throughout all provinces and autonomous regions and the four directly-administered municipalities under the Central Government of the PRC. We have also extended the sales network to other regional markets.

The Group produces a wide range of more than 100 wine products under the "Dynasty" brand to meet the demands and preferences of different consumer groups mainly in the medium end segments in the PRC wine market. With effective product strategies and a high quality and diversified product portfolio, the Group firmly believes that the "Dynasty" brand is able to attract savvy consumers. Moreover, the Group also sold foreign brand wines mainly imported from France, Italy, Germany, the United States of America, Chile and Spain in the PRC wine market through the Group's existing distribution network to introduce some classic "old world" and "new world" varietals to cater for a market niche preferring the taste of foreign premium wines. The Group currently carries about 350 imported products under approximately 100 brands. We believe that with the trend of increasing wealth and the disposable income of consumers, the demand for Dynasty and imported wines should increase. To boost its market share and sustain its growth, the Group is determined to continue to actively promote and raise the visibility of these wines to the market.

B) Retail shops

To cater for different needs and preferences of our customers, the Group as at 31 December 2016 had 135 franchised retail shops across various provinces and cities in the PRC, selling a variety of Dynasty wines and our imported wines to customers directly. The contribution from the sales at the retail shops was relatively insignificant to our revenue during the year. However, we believe that through these sales channels and our network we can attract more people to embrace the grape wine culture and lead the trend of rising wine consumption. At the same time we could also expand our sales presence, extend our market influence, bring greater awareness to the brand and consolidate our leading presence in the PRC because retail shops are amongst the best vehicles to communicate our brand image and message, and to enhance customers' experience of buying and drinking wines. We have strategically planned to develop our franchised retail shops through a progressive and disciplined growth strategy to increase the number of similar establishments in appropriate locations. During the year under review, 135 franchised retail shops were opened by the end of the year.

The following table sets out the number of franchised retail shops by regions as at 31 December 2016:

Region	**Number of franchised retail shops**
South-Central region	80
Eastern region	26
North-West region	1
North-East region	4
Northern region	24
Total	135

C) *Online sales*

The Group has launched an e-commerce business by joining online platforms, Tmall (天貓商城) in 2015 and JD.com (京東商城) in 2016 to further expand our sales channels and develop a new customer base. Customers can place orders via the internet at these websites for Dynasty wines or the imported wines we carry anywhere and anytime. Since the operating cost of the website is relatively low, we enjoy a higher gross profit margin on e-commerce business. It has been running smoothly and recording a steady income. Although the online sales contribution was insignificant during the year, we are optimistic about the prospects of the business as research indicates that the online trading business in China should grow steadily in the coming years and the country has the world's largest number of internet users. The Group believes that the online platform not only serves as a business-to-customer trading platform between Dynasty and consumers, but also an additional marketing and promotion channel for the brand. Thus, the platform should enhance the overall business potential of the Group because growth in online sales channels will be further exploited internationally following the successful e-commerce model in overseas.

Supplies of grapes or grape juice

Production of quality wines greatly depends on a sufficient supply of quality grapes or grape juice. Currently, we have more than 10 major grape juice suppliers with whom we have enjoyed long-term relationships, mainly located in Tianjin, Shandong, Hebei, Ningxia and Xinjiang. Ensuring reliable supplies of quality grapes and grape juices to meet the production needs of our growing business as well as our expanded production capacity is a high priority of the Group. Thus, it continues to actively work with vignerons to enlarge their existing vineyards in order to enjoy better economies of scale and equip their vineyards with state-of-the-art techniques for assuring quality. For super and ultra premium wines, vignerons have adopted a disciplined approach to limiting harvest yields in order to deliver higher quality grape. For optimising supply networks, the Group has also kept identifying new suppliers who comply with our quality requirements and conducts thorough tests on their grape juices before orders are placed. These procedures ensure we procure quality grape and grape juice supplies and also minimise the effect of bad harvests interrupting production. The Group has imported grape juices from overseas, applying the same stringent quality requirements as it has on suppliers in the PRC.

Production capacity

In 2010, the Group completed the construction of new production and research and development facilities in its Tianjin winery increasing its annual production capacity to 70,000 tonnes (equivalent to approximately 93.3 million bottles). The expansion has enabled the Group to promptly response to market demand and further enhance the overall cost effectiveness in term of unit cost in the long run and has provided a better platform for sustainable earnings growth after the reform.

Outlook

Looking ahead to 2017, the Group expects to continue to face various challenges, in addition to increasing competition amidst fast-changing economic conditions. Nonetheless, the Group will continue to develop proactively its sales and distributors network especially in regions where it has low market presence and areas of high potential for growth, which will provide a solid foundation for sustainable development in the future.

Human resources management

Quality and dedicated staff are the most important assets of the Group and are indispensable to our success in the competitive market. We strive to ensure a strong team spirit among our employees so that they identify and contribute in unison to our corporate objectives. To this end, we offer competitive remuneration packages commensurate with market practices and industry levels, and provide various fringe benefits including training, medical and insurance coverage as well as retirement benefits to all employees in Hong Kong and the PRC. The Group is committed to staff training and development to support the need of the business and individuals, so 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 has reviewed and adjusted its human resources and remuneration policies, especially the performance-based bonus award, with reference to local legislation, market conditions, industry practice and achievements of the Group's targets as well as the performance of individual employee.

The Group employed a work force of 429 (including directors) in Hong Kong and the PRC as at 31 December 2016. The decrease in manpower has occurred mainly due to the internal human resources adjustment in response to the business development. The total salaries and related costs (including the directors' fees) for the year ended 31 December 2016 amounted to approximately HK$131.9 million (2015 – HK$152.1 million).

Liquidity and financial resources

The liquidity and financial position of the Group remain intact as the Group continues to adopt a prudent approach in managing its financial resources. As at 31 December 2016, the Group's cash and cash equivalents, and fixed deposits amounted to HK$90.7 million. It has sufficient financial resources and an adequate cash position for satisfying the working capital requirements of business development, operations and capital expenditures. New investment opportunities, if any, will be funded by the Group's internal resources.

The Group had net debt of HK$372.1 million (total borrowings, trade and other payables less cash and cash equivalents), with total equity of the Group amounting to approximately HK$361.2 million as at 31 December 2016 ensuring solvency and the Group's ability to continue as a going concern. The Group's gearing ratio, expressed as a ratio of total debt to total capital (net debt and total equity), as at 31 December 2016 was 51% (2015 – 47%).

Capital structure

The Group had borrowing of HK$117.3 million and with cash and liquid position as of HK$90.7 million at 31 December 2016, reflecting its intact capital structure. We expect our cash with bank facilities to be sufficient to support operating and capital expenditure requirements in the foreseeable future.

As at 31 December 2016, the market capitalisation of the Company was approximately HK$1,797 million. Trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 22 March 2013 and will remain suspended until further notice.

Capital commitments, contingencies and charges on assets

As at 31 December 2016, there are no capital expenditure contracted for at the end of the year but not yet incurred. The Group had no material contingent liabilities. Inclusive borrowings are bank borrowings of approximately HK$100.6 million, which are secured by the land and buildings of a subsidiary of approximately HK$191.6 million.

Material acquisitions and disposals of subsidiaries and associated companies

For the year ended 31 December 2016, the Group had not made any other material acquisitions or disposal of subsidiaries and associated companies.

Principal risks and uncertainties

The following section lists out the principal risks and uncertainties faced by the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. The Group will further improve its risk management, closely monitor the following risks and seek to adopt responsive measures.

1. Market risks

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

2. Commercial risks

The Group is facing various competition by domestic companies in the wine industry, and also finds that an increasing number of imported wines competitors entering the markets. To maintain the Group's competitiveness, the management uses product diversification strategy as well as cost leadership strategy to tackle other competitors.

3. Operational risks

The Group's operations are subject to a broad range of laws and regulations governing various matters. In particular, the continuance of the Group's operations depends upon compliance with applicable environmental, health and safety and other regulations. The in-house lawyer assists in identifying, monitoring and providing support to identify and manage legal risks across the legal and seek external legal advisers as and when appropriate.

4. Loss of distributors/customers

Loss of distributors/customers could adversely affect our business. The Group keeps in close touch with our distributors/customers and markets and focuses effort on delivery high quality wines to them in order to meet their purchase intention and satisfaction.

5. *Loss of key individuals or the inability to attract and retain high-calibre personnel*

Production of quality wines depends on the expertise and experienced human resources. Loss of key individuals could result in an adverse impact on our operation and profitability. The risk of the loss of key personnel is mitigated by regular reviews of human resource management system, remuneration packages, share option scheme and succession planning within the management team.

Environmental policies and performance

The Group is fully aware of the importance of the environmental sustainability throughout its business operations. As a responsible corporation, we strive to ensure minimal environmental impacts by carefully managing our pollutant emissions, energy consumption and water usage level, including the establishment of gas supply equipment, sewage station expansion and other initiatives. The Group promotes environmental protection by raising the employees' awareness of resources saving and efficient use of energy, aiming at reducing resources consumption and saving costs which are beneficial to the environment and meet the commercial goals of the Group.

Compliance with laws and regulation

The Board places emphasis on the Group's policies and practices on compliance with legal and regulatory requirements. External legal advisers are engaged to ensure transactions and businesses performed by the Group are within the applicable law framework. Updates on applicable laws, rules and regulations are brought to the attention of relevant employees and operation units from time to time. The Group continues to commit to comply with the relevant laws and regulations such as the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), Listing Rules, and other applicable laws and regulations. Based on information available, the directors take the view that during the year ended 31 December 2016, the Group is not aware of any non-compliance of the relevant laws and regulations that have a significant impact on the operations of the Group.

Event after the reporting period

The Group planned to dispose a chateau and related facilities held by one of its subsidiaries at a consideration of RMB400 million, for details, please also refer to Company's announcement dated 27 June 2017.

Dividend

The directors do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2016.

Purchase, sale or redemption of shares of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any Shares of the Company during the year.

Compliance with the Model Code for 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 2016.

Compliance with the Corporate Governance Code and Corporate Governance Report

Saved as disclosed below, none of the directors was aware of any information that would reasonably indicate that the Company was not in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "**Code**") set out in Appendix 14 of the Listing Rules for the year ended 31 December 2016. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

During the period from 31 December 2016 to the date of announcement, the number of independent non-executive directors of the Company fell below one-third of the Board. As such, the number of independent non-executive directors of the Company cannot represent at least one-third the Board required under Rule 3.10A of the Listing Rules.

As a result of the internal investigations, the Group has breached the financial reporting provisions under the Listing Rules in respect of (i) announcing the annual/interim results for the year ended 31 December 2016 and for the six-month period ended 30 June 2016; (ii) publishing the related annual/interim reports for the year ended 31 December 2016 and for the six-month period ended 30 June 2016; and (iii) convening an annual general meeting for the financial year ended 31 December 2016.

Audit committee

The audit committee comprises of three independent non-executive directors who together have substantial experience in fields of auditing, legal matters, business, accounting, corporate internal control and regulatory affairs. The audit committee has reviewed the Group's financial statements for the year ended 31 December 2016 in conjunction with the Company's auditor.

In addition, a review of the internal control system of the Group including the findings shown in the Final Investigation Report by an internal control advisor is in progress. Further announcement will be made by the Company as and when appropriate.

Scope of work of PricewaterhouseCoopers

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

Publication of annual results and annual report on the website of the Company and of the Stock Exchange

This annual results announcement, required by Appendix 16 of the Listing Rules, is published on the website of the Company (www.dynasty-wines.com) and the Stock Exchange.

The annual report of the Company for the year ended 31 December 2016, which contains the detailed results and other information of the Company for the year ended 31 December 2016 required pursuant to Appendix 16 of the Listing Rules will be dispatched to Shareholders and published on the website of the Company (www.dynasty-wines.com) and the Stock Exchange in due course. Further announcement will be made by the Company as and when appropriate.

Annual general meeting

The notice of the annual general meeting will be published on the Company's website and the Stock Exchange's website and sent to the Shareholders in due course after the date of the forthcoming AGM has been determined. The Company will also publish further announcement in respect of the closure of register of members for AGM in due course.

Acknowledgement

I would like to take this opportunity to acknowledge the support of my Board members and to commend them for their sage guidance and the enthusiasm they have demonstrated.

I would also like to express my sincere gratitude to our valued shareholders, customers, distributors, grape growers, suppliers, business associates and all other stakeholders who have supported us through the years.

Thanks also must go to our staff and the management team who have shown great dedication and teamwork throughout these difficult times.

Suspension of trading

At the Company's request, trading in the Shares was suspended from 9:00 a.m. on 22 March 2013, and will remain suspended until further notice. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares. The publication of this announcement does not warrant any approval from the Stock Exchange on the resumption of trading of the Shares. The Company will keep the public informed of the latest development by making further announcements as and when appropriate.

By order of the Board
Mr. Sun Jun
Chairman

Hong Kong,
15 February 2018

As at the date of this announcement, the Board comprises three executive directors, namely, Mr. Sun Jun, Mr. Li Guanghe and Mr. Sun Yongjian, five non-executive Directors, namely, Mr. Heriard-Dubreuil Francois, Ms. Shi Jing, Mr. Jean-Marie Laborde, Mr. Wong Ching Chung and Mr. Robert Luc, and three independent non-executive directors, namely, Dr. Zhang Guowang, Mr. Yeung Ting Lap Derek Emory and Mr. Sun David Lee.