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 2011

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 2011, prepared on the basis set out in Note 2, together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Revenue	3	**1,445,117**	1,614,610
Cost of sales	5	**(841,379)**	(801,907)
Gross profit		**603,738**	812,703
Other income	3	**27,753**	24,715
Distribution costs	5	**(468,298)**	(491,021)
Administrative expenses	5	**(143,921)**	(118,705)
Operating profit		**19,272**	227,692
Share of loss of an associate		**(83)**	(1,372)
Profit before income tax		**19,189**	226,320
Income tax expense	6	**(17,003)**	(69,259)
Profit for the year		**2,186**	157,061
Attributable to:			
Owners of the Company		**4,267**	158,808
Non-controlling interests		**(2,081)**	(1,747)
		2,186	157,061
Dividends	7	**18,723**	76,035
Earnings per share of profit attributable to the owners of the Company			
		HK cents	*HK cents*
– Basic and diluted earnings per share	8	**0.34**	12.74

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 *HK$'000*	2010 *HK$'000*
Profit for the year	**2,186**	157,061
Other comprehensive income		
Currency translation differences	**89,718**	60,660
Total comprehensive income for the year	**91,904**	217,721
Total comprehensive income attributable to:		
Owners of the Company	**92,693**	218,510
Non-controlling interests	**(789)**	(789)
	91,904	217,721

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	**2011**	2010
		HK$'000	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**605,124**	599,332
Leasehold land and use rights		**65,166**	63,576
Goodwill		**9,421**	9,421
Investment in an associate		**12,356**	11,855
Deferred income tax assets		**21,578**	19,624
		713,645	703,808
Current assets			
Trade receivables	*9*	**437,298**	285,583
Other receivables, deposits and prepayments		**72,319**	52,862
Inventories		**961,972**	669,878
Prepaid income tax		**5,246**	–
Short-term deposits with maturity over three months		**45,827**	194,023
Restricted cash		**–**	14,336
Cash and cash equivalents		**357,037**	760,265
		1,879,699	1,976,947
Total assets		**2,593,344**	2,680,755
EQUITY			
Capital and reserves attributable to owners of the Company:			
Share capital		**124,820**	124,820
Other reserves		**1,184,116**	1,146,817
Retained earnings		**706,744**	705,023
		2,015,680	1,976,660
Non-controlling interests in equity		**26,000**	26,789
Total equity		**2,041,680**	2,003,449
LIABILITIES			
Current liabilities			
Trade payables	*10*	**192,243**	241,729
Other payables and accruals		**359,421**	402,350
Current income tax liabilities		**–**	33,227
Total liabilities		**551,664**	677,306
Total equity and liabilities		**2,593,344**	2,680,755
Net current assets		**1,328,035**	1,299,641
Total assets less current liabilities		**2,041,680**	2,003,449

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 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.

2 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 group has adopted the following new and amended HKFRS as of 1 January 2011:

- HKAS 24 (Revised), "Related Party Disclosures"
- Transition requirements for amendments made as a result of HKAS 27 'Consolidated and Separate Financial Statements'
- HKFRS 7 "Financial instruments: Disclosures"

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the group.

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:

	2011	2010
	HK$'000	*HK$'000*
Revenue		
Manufacturing and sale of wine products	**1,445,117**	1,614,610
Other income		
Interest income	**7,888**	12,003
Government grant	**17,942**	12,422
Others	**1,923**	290
	27,753	24,715
Total revenue and other income	**1,472,870**	1,639,325

4 SEGMENT INFORMATION

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

Other products sold by the Group include sparkling wines, brandy and icewine. These sales have not been included within the reportable operating segments, as they are not included within the reports provided to the key management team.

The key management team assesses the performance of the operating segments based on gross profit, which excludes the effects of tax, depreciation and amortisation and non-recurring expenditure from the operating segments. Other income, distribution costs and administrative expenses are also not included in management's assessment of the performance of the operating segments.

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 2011				
Revenue	**1,214,761**	**219,391**	**10,965**	**1,445,117**
Gross profit	**522,267**	**74,404**	**7,067**	**603,738**
Unallocated items:				
Depreciation and amortization	**–**	**–**	**–**	**(59,746)**
Interest income	**–**	**–**	**–**	**7,888**
Share of loss of an associate	**–**	**–**	**–**	**(83)**
Income tax expense	**–**	**–**	**–**	**(17,003)**
For the year ended 31 December 2010				
Revenue	1,331,856	276,537	6,217	1,614,610
Gross profit	694,460	114,049	4,194	812,703
Unallocated items:				
Depreciation and amortization	–	–	–	(46,846)
Interest income	–	–	–	12,003
Share of loss of an associate	–	–	–	(1,372)
Income tax expense	–	–	–	(69,259)

Measurement of total assets and reconciliation to total assets are not disclosed as key management team does not assess performance of reportable segments using information on assets.

The Group's customer base is diversified and includes only one (2010: two) external customer with whom transactions have exceeded 10% of the group's revenues. Revenue of approximately HK$160 million (2010: HK$569 million) is derived from this customer.

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

	2011	2010
	HK$'000	*HK$'000*
Gross profit for reportable segments	**603,738**	812,703
Other income	**27,753**	24,715
Distribution costs	**(468,298)**	(491,021)
Administrative expenses	**(143,921)**	(118,705)
Operating profit	**19,272**	227,692
Share of loss of an associate	**(83)**	(1,372)
Profit before income tax	**19,189**	226,320

5 EXPENSE BY NATURE

	2011	2010
	HK$'000	*HK$'000*
Cost of unprocessed wines, consumables and other materials recognised as expenses included in cost of sales	**660,782**	633,519
Advertising, marketing, and other incidental promotion expenses	**277,762**	300,729
Consumption tax of domestic sales and other taxes	**114,431**	112,653
Employee costs including directors' emoluments	**204,336**	166,025
Transportation and logistics expenses	**51,721**	62,236
Travelling expenses	**18,318**	16,881
Depreciation	**58,238**	45,667
Consultancy and professional fee	**6,200**	6,257
Operating lease rentals in respect of:		
– transformation station	**2,599**	2,494
– office premises	**2,714**	2,257
Amortisation	**1,508**	1,179
Auditors' remuneration	**1,400**	1,250
Net exchange loss	**1,182**	269
Provision for impairment in trade receivables	**–**	3,940
Other expenses	**52,407**	56,277
Total of cost of sales, distribution costs and administrative expenses	**1,453,598**	1,411,633

6 INCOME TAX EXPENSE

	2011	2010
	HK$'000	*HK$'000*
Current income tax:		
– PRC income tax for the year	**17,966**	65,428
– Over provision in previous year	**–**	(2,635)
	17,966	62,793
Deferred income tax:		
– (Recognition)/reversal of temporary difference	**(963)**	6,466
	17,003	69,259

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% (2010: 25%).

7 DIVIDENDS

	2011	2010
	HK$'000	*HK$'000*
Interim dividend paid of HK1.5 cents (2010: HK3.3 cents) per ordinary share	**18,723**	41,085
Proposed final dividend, nil (2010: HK2.8 cents per ordinary share)	**–**	34,950
	18,723	76,035

8 BASIC AND DILUTED EARNINGS PER SHARE

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

	2011	2010
	HK$'000	*HK$'000*
Earnings		
Profit attributable to owners of the Company	**4,267**	158,808
	Number of shares (thousand)	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,248,200**	1,245,647
Effect of dilutive potential ordinary shares:		
– Share options *(note)*	**–**	1,441
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,248,200**	1,247,088

Note: In 2010, diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding in 2010 to assume full conversion of share options. A calculation was done to determine the number of shares that could have been acquired at fair value based on monetary value of the subscription rights attached to the outstanding share options. The calculated number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. In 2011, the share options would not have dilutive effect.

9 TRADE RECEIVABLES

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

	2011	2010
	HK$'000	*HK$'000*
Below 30 days	**106,338**	114,219
30 to 90 days	**115,517**	46,245
91 to 180 days	**55,278**	22,472
Over 180 days	**164,299**	106,587
	441,432	289,523
Less: Provision for impairment	**(4,134)**	(3,940)
	437,298	285,583

The carrying amounts of the Group's trade receivables were principally denominated in Renminbi. The balance included bill receivables amounting to about HK$222 million (2010: about HK$233 million). The fair value of trade receivables approximates their carrying values.

Trade receivables that are impaired are past due over 12 months (2010:12 months). The change in the provision balance is due to exchange difference.

Included in trade receivables are balances of HK$82 million of which the Group has received bill receivables from the customers. The Group has provided guarantees in favour of a bank issuing the bill receivables in the event the customers do not settle their amounts due to the bank. Consequently, until the customers settle the amounts of bill receivables to the bank, the Group will not derecognise the trade receivables. The Group has endorsed HK$65 million of the aforesaid bill receivables to its suppliers. The corresponding amounts of HK$82 million are disclosed as bank trade finance in other payables and accruals.

10 TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	2011	2010
	HK$'000	*HK$'000*
Below 30 days	**92,761**	189,822
30 to 90 days	**69,583**	47,959
91 to 180 days	**15,786**	3,913
Over 180 days	**14,113**	35
	192,243	241,729

OVERVIEW

The Group's revenue for the year ended 31 December 2011 decreased by 10% to HK$1,445.1 million (2010 – HK$1,614.6 million) and the Group's profit attributable to owners of the Company dropped to HK$4.3 million (2010 – HK$158.8 million), representing a decline of 97%.

Earnings per share ("Share") of the Company was HK0.34 cents per Share (2010 – HK12.74 cents per Share) based on the weighted average number of 1,248 million Shares (2010–1,246 million Shares) in issue during the year. There was no potential dilutive share for the year ended 31 December 2011.

The decline in financial results in 2011 was attributable to i) the decrease in sales volume resulting from the implementation of reform on our sales and distribution model; and ii) the decrease in our gross profit margin.

FINANCIAL REVIEW

Revenue

Revenue of the Group represents proceeds from sale of wine products. Our total revenue decreased by 10% to approximately HK$1,445.1 million in 2011 from approximately HK$1,614.6 million in 2010. The decrease in revenue was mainly attributable to a drop in sales volume despite the increase in the average ex-factory sales price of the Group's wine products as a result of shifting the sales mix further to high end products.

The Group's average ex-winery sales price of red and white wine products during the year was higher than the average price of HK$25.5 per bottle (750ml) in 2010, as a result of shifting the sales mix further to high end products and lower trade discounts offered to distributors. The rise in the Group's average ex-winery sales price was a good sign showing that we are keeping up and moving in the right direction. 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 for the year:

	2011	2010
	%	%
Cost of raw materials		
– Grapes and grape juice	**44**	43
– Yeast and additives	**2**	2
– Packaging materials	**25**	26
– Others	**1**	2
Total cost of raw materials	**72**	73
Manufacturing overheads	**14**	13
Consumption tax and other taxes	**14**	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 1% from approximately 43% in 2010, due to the rise in the average cost of grapes and grape juice. The total cost of packaging materials to the Group's revenue was relatively stable during the year as compared with 2010.

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 increased as compared with 2010 mainly due to rising labour costs, depreciation and other overheads as a result of the completion of production capacity expansion from 50,000 tonnes to 70,000 tonnes per annum in the fourth quarter of 2010.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross invoiced sales. The overall gross profit margin declined to 42% in 2011 from 50% in 2010, mainly as a result of the impact of (i) the increase in the cost of raw materials (including grapes and grape juice) and manufacturing overheads; and (ii) the newly imposed city construction tax and education surcharge levied on the Group's subsidiaries in mainland China.

The gross margin of red wine products and white wine products in 2011 were 43% and 34% respectively (2010–52% and 41% respectively). The higher sales prices of red wine products explained the higher gross margin of the products than white wine products.

Other income

Other income for the year ended 31 December 2011 increased by 12% to HK$27.8 million (2010 – HK$24.7 million), mainly attributable to:

(1) an increase in the government grant to HK$17.9 million (2010 – HK$12.4 million) for subsidiaries in the PRC to encourage technological development and improvement in winemaking, and to support enterprise development; which was offset by

(2) a decline in interest income from decrease in bank deposits.

Distribution costs

Distribution costs 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 costs accounted for approximately 32% (2010 – 30%) of the Group's revenue. In particular, the advertising and market promotion expenses accounted for approximately 18% (2010 – 18%) of the Group's revenue. This percentage slightly increased because the decrease in revenue was more than the decrease in distribution costs in term of percentage points. 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 and other incidental administrative expenses.

During the year, administrative expenses as a percentage of the Group's revenue accounted for 10% (2010 – 7%). The increase in administrative expenses was attributable to i) an increase in staff costs to support the growth of imported wine and e-commerce businesses, management and control on shop expansion, implementation of the reform and operation of new production facilities; and ii) costs associated with the full year operation of Chateau Dynasty which was completed in October 2010.

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 effective tax rate of the Group for the year ended 31 December 2011 rose to approximately 89% (2010 – 31%), mainly due to more expenses not allowed to deduct for the year in terms of profit before income tax.

Cash flow

In 2011, operating activities were the Group's main source of cash outflow.

The change in cash flow derived from operating activities from HK$71.9 million cash inflow in 2010 to HK$528.5 million cash outflow in 2011 was mainly attributable to (i) the decrease in gross profit, (ii) higher inventories (stocking up of unprocessed wines and finished goods mainly to reduce the impact of anticipated increase in purchase costs of grape juice), (iii) increase in trade receivables and (iv) decrease in other payables and accruals due to payments to various other creditors in accordance with the payment and settlement terms during the year.

Net cash inflow in investing activities amounted to approximately HK$124.0 million (2010 – HK$58.3 million cash used), primarily related to reduced placement of fixed deposits with maturity over 3 months and offset by acquisition of plant and equipment during the year as compared with 2010.

Net cash outflow in financing activities was primarily attributable to the payment of dividends to shareholders of approximately HK$53.7 million (2010 – HK$79.7 million).

Financial management and treasury policy

As at 31 December 2011 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 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 in a net cash position with no borrowing, 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) Existing sales channels

Despite the increase in the average ex-factory sales price of the Group's wine products as a result of shifting the sales mix further to high end products during the year ended 31 December 2011, the sales revenue has still recorded a decrease compared with last year mainly because the Group is 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. Purchase orders for the year ended 31 December 2011 from certain distributors which are affected by the abovementioned reform, especially those in Zhejiang province, were reduced resulting in a decrease in sales volume in such region compared with last year. The pace of reform was slower than expected but the reform is still in progress and will take time to implement. As Zhejiang province is part of the Huadong region which is the Group's strongest market in mainland China, the decrease in sales of that region has an impact on the overall sales volume of the Group.

The total number of bottles of wine sold decreased from approximately 63.2 million in 2010 to approximately 51.9 million in 2011. Sales of red wines continued to be the Group's primary revenue contributor accounting for approximately 84% of the Group's revenue for the year (2010 – 82%).

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 such as the South-Central region including Hunan, Jiangxi, Sichuan provinces and Chongqing city, and sales in those markets also grew substantially. Moreover, the Group reported export sales accounting for 0.1% (2010 – 0.1%) of its total revenue during the year.

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 to high 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 with an appreciation for fine wines by offering Dynasty's premium high end products. Sales of premium wine products, such as Dynasty Merlot Dry Red Wine Reserve, Dynasty Merlot Series – Gold Label & Black Label and Dynasty Dry Red Wine – Reserve were greeted enthusiastically and recorded encouraging growth during the year. 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 more than 390 imported products under approximately 100 brands. Sales of these imported products in 2011 more than doubled compared with that in 2010. We believe that with the trend of increasing wealth and the disposable income of consumers aspiring to a higher status as well as the pursuit of upper class enjoyment, the demand for premium Dynasty and imported wines should increase and become major growth drivers for our future development. 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 high end market.

B) *New sales channels*

(i) Dynasty Club and retail shops

The first "Dynasty Club" was opened in Shanghai in 2009 in order to generate higher awareness of the "Dynasty" brand, targeting the high-end market and cultivating a group of loyal and sophisticated customers. Dynasty Club offers a stylish wine tasting venue as well as spacious wine storage area to top-tier customers in Shanghai. To cater for different needs and preferences of our customers, the Group as at 31 December 2011 had 2 self-operated retail shops in Tianjin, 1 self-operated retail shop in Shanghai and 71 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 Dynasty Club and retail shops was relatively insignificant to our revenue during the year. However, we strongly 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 Dynasty Club and 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, we have emphasized the development of franchised retail shops and targeted establishing approximately 100 franchised retail shops, out of which 71 franchised retail shops were opened by the end of the year. The remaining shops are under planning and renovation and will be opened in the first half of 2012.

The following table sets out the number of self-operated retail shops and franchised retail shops by regions as at 31 December 2011:

Region	Number of self-operated retail shops	Number of franchised retail shops	Total
South-Central region	–	44	44
Eastern region	1	10	11
North-West region	–	1	1
North-East region	–	2	2
Northern region	2	14	16
Total	3	71	74

(ii) Online Sales

The Group launched an e-commerce business in 2010 by setting up a convenient online platform – www.i9wang.com (王朝愛酒網) to further expand our sales channels and develop a new customer base. Customers can place orders via the internet at this website for Dynasty wines and 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.

The average cost of grape juice in 2012 is expected to increase.

Production capacity

In October 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.

Prospects and Future Plans

Looking to 2012, reform will be a key priority. Although the reform will have an impact on our performance, the management of the Company will continue in-depth negotiation with some distributors on the new cooperation terms of distributorship related to the reform on its sales and distribution model. Despite the effects on its overall sales volume in the near term future (at least until the first half of current year in general), the Group strongly believes that the programme of reform on sales and distribution model implemented by the Group together with other growth strategies, such as upgrading the product mix, expansion of sales channels and networks, evaluating appropriate acquisition opportunities and distributorships for foreign brand wines, will provide benefits in the long run. These benefits, including improving the Group's post reform operational efficiency and maximising the sales revenue and operating profit margin of the Group. This may take time but the Group believes we have the scale, operating platform and the people to make it happen.

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 650 (including Directors) in Hong Kong and the PRC as at 31 December 2011. The increase in manpower has occurred mainly due to the reform and growth of business, and the Group has had to recruit additional talented employees in order to cope with these changes. The total salaries and related costs (including the Directors' fees) for the year ended 31 December 2011 amounted to approximately HK$204.3 million (2010 – HK$166.0 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 long-term growth of the Group. As at 31 December 2011, 10,300,000 share options were granted and outstanding under the scheme.

LIQUIDITY AND FINANCIAL RESOURCES

The liquidity and financial position of the Group remain strong as the Group continues to adopt a prudent approach in managing its financial resources. As at 31 December 2011, the Group's cash and cash equivalents, and fixed deposits amounted to HK$402.8 million. It has sufficient financial resources and a strong 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 no debts, with total equity before non-controlling interests of the Group amounting to approximately HK$2,016 million as at 31 December 2011 ensuring solvency and the Group's ability to continue as a going concern. The Group's gearing ratio, expressed as a ratio of total debts to total equity before non-controlling interests, as at 31 December 2011 was Nil (2010 – Nil).

CAPITAL STRUCTURE

The Group had no borrowing and was in a net cash and liquid position as at 31 December 2011, reflecting its sound capital structure. We expect our cash to be sufficient to support operating and capital expenditure requirements in the foreseeable future.

As at 31 December 2011, the market capitalisation of the Company was approximately HK$2,234 million.

CAPITAL COMMITMENTS, CONTINGENCIES AND CHARGES ON ASSETS

As at 31 December 2011, the Group made capital expenditure commitments including approximately HK$17.0 million that were authorised but not contracted for and approximately HK$3.3 million contracted but not provided for in the financial statements. These commitments were mainly required to support the Group's production capacity expansion's auxiliary facilities and the expansion of the sales and distribution network. These capital commitments are to be funded by the net proceeds of the placing and public offer as stated in our prospectus dated 17 January 2005 and partly from the internally generated funds of the Group.

As at 31 December 2011, the Group had no material contingent liabilities and the Group's assets were free from any charge.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

For the year ended 31 December 2011, the Group had not made any other material acquisitions or disposal of subsidiaries and associated companies.

FINAL DIVIDEND

The Directors do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of shareholders of the Company will be closed from 28 May 2012 to 30 May 2012, both days inclusive, during which period no transfer of shares will be effected. In order to determine entitlement to attend and vote at the meeting, all transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4: 30 p.m. on 25 May 2012.

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 2011.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

During the period from 1 January 2011 to 19 January 2011, following the resignation of Mr. Lai Ming, Joseph on 1 January 2011, there had remained only two independent non-executive directors on the Board, the number of which falls below the minimum number required under Rule 3.10(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Furthermore, the number of audit committee members of the Company had also fallen below the minimum number required under Rule 3.21 of the Listing Rules.

On 20 January 2011, following the appointment of Mr. Yeung Ting Lap Derek Emory as an independent non-executive director as well as a member of the audit committee of the Company, the Company has complied with the requirement of minimum number of independent non-executive directors and audit committee members under Rules 3.10(1) and 3.21 of the Listing Rules respectively.

During the year, save as disclosed above, none of the Directors was aware of any information that would reasonably indicate that the Company was not in compliance with the Code of Corporate Governance Practices (the "Code") 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.

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 2011 in conjunction with the Company's auditor.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITE OF THE COMPANY AND OF THE STOCK EXCHANGE

All the financial and other related information required by Appendix 16 of the Listing Rules will be published on the website of the Company (www.dynasty-wines.com) and the Stock Exchange 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 during this period of reform.

By order of the Board
Mr. Bai Zhisheng
Chairman

Hong Kong,
29 March 2012

As at the date of this announcement, the Board of Directors comprises 3 executive directors, namely, Mr. Bai Zhisheng, Mr. Gao Feng and Mr. Huang Yaqiang, 6 non-executive directors, namely, Mr. Heriard-Dubreuil Francois, Mr. Wu Xuemin, Mr. Jean-Marie Laborde, Mr. Dong Jingrui, Mr. Wong Ching Chung and Mr. Robert Luc, and 3 independent non-executive directors, namely, Dr. Hui Ho Ming, Herbert, Mr. Chau Ka Wah, Arthur and Mr. Yeung Ting Lap Derek Emory.

The figures in respect of the preliminary announcement of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2011 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft 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.