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 2012

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 2012, prepared on the basis set out in Note 2 below, together with the restated comparative figures for the corresponding years ended 31 December 2011 and 2010 are as follows:

REASON FOR DELAY IN PUBLICATION OF THE 2012 ANNUAL RESULTS

For information on the delay in publication of the 2012 annual results, please refer to the announcements of the Company dated 26 March 2013.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	Year ended 31 December **2012** *HK$'000*	2011 *HK$'000* (Restated) *(Note 2.2)*
Revenue	*3*	**1,153,700**	1,512,199
Cost of sales	*4*	**(694,402)**	(871,231)
Gross profit		**459,298**	640,968
Distribution expenses	*4*	**(368,096)**	(513,815)
Administrative expenses	*4*	**(166,943)**	(138,109)
Other income, gains and losses	*5*	**4,289**	19,865
Operating (loss)/profit		**(71,452)**	8,909
Finance income	*6*	**4,466**	7,888
Finance costs	*6*	**(3,519)**	(5,812)
Finance income – net	*6*	**947**	2,076
Share of loss of an associate	*10*	**(12,356)**	(83)
(Loss)/profit before income tax		**(82,861)**	10,902
Income tax expense	*7*	**(27,238)**	(17,003)
Loss for the year		**(110,099)**	(6,101)
Loss attributable to:			
Owners of the Company		**(106,782)**	(4,020)
Non-controlling interests		**(3,317)**	(2,081)
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*	**(8.55)**	(0.32)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Year ended 31 December	
	2012	2011
	HK$'000	*HK$'000*
		(Restated)
		(Note 2.2)
Loss for the year	**(110,099)**	(6,101)
Other comprehensive income		
Currency translation differences	**–**	76,366
Total comprehensive (loss)/income for the year	**(110,099)**	70,265
Attributable to:		
– Owners of the Company	**(106,782)**	71,054
– Non-controlling interests	**(3,317)**	(789)

CONSOLIDATED BALANCE SHEET

As at 31 December 2012

	Note	As at 31 December 2012 HK$'000	2011 HK$'000 (Restated) (Note 2.2)	As at 1 January 2011 HK$'000 (Restated) (Note 2.2)
ASSETS				
Non-current assets				
Property, plant and equipment		**556,504**	605,124	599,332
Leasehold land and use rights		**63,609**	65,166	63,576
Goodwill	*11*	**–**	9,421	9,421
Investment in an associate	*10*	**–**	12,356	11,855
Deferred income tax assets		**–**	21,578	19,624
Trade and other receivables	*12*	**4,563**	–	–
		624,676	713,645	703,808
Current assets				
Trade receivables	*12*	**202,586**	294,029	458,327
Other receivables, deposits and prepayments	*12*	**182,008**	96,980	76,364
Inventories		**1,084,437**	1,155,675	883,625
Prepaid income tax		**11,965**	5,246	–
Short-term deposits with maturity over three months		**–**	45,827	194,023
Restricted cash		**962**	–	14,336
Cash and cash equivalents		**293,946**	357,037	760,265
		1,775,904	1,954,794	2,386,940
Total assets		**2,400,580**	2,668,439	3,090,748
EQUITY				
Equity attributable to owners of the Company:				
Share capital		**124,820**	124,820	124,820
Other reserves		**1,166,066**	1,166,144	1,142,197
Retained earnings		**329,789**	436,493	443,059
		1,620,675	1,727,457	1,710,076
Non-controlling interests		**22,683**	26,000	26,789
Total equity		**1,643,358**	1,753,457	1,736,865
LIABILITIES				
Current liabilities				
Trade payables	*13*	**198,157**	192,243	241,729
Other payables and accruals	*13*	**448,092**	698,078	843,909
Borrowings		**110,973**	24,661	235,018
Current income tax liabilities		**–**	–	33,227
		757,222	914,982	1,353,883
Total liabilities		**757,222**	914,982	1,353,883
Total equity and liabilities		**2,400,580**	2,668,439	3,090,748

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 POLICES

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 judgment 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. 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 Investigation and prior year adjustments

In 2013, the Company was informed by its auditors that they had received certain anonymous allegations which might have an impact to the consolidated financial statements of the Company in relation to the sales arrangements with certain distributors and discrepancies in inventories held by the Group recognition and classification of selling expenses and certain other matters. In response to these allegations, the audit committee of the Company ("**Audit Committee**") commissioned an independent investigation ("**Investigation**") involving third party consultants to investigate certain of these allegations. The Investigation was completed in 2016.

Based on the findings of the Investigations, the directors of the Company considered it necessary to make adjustments to the Company's consolidated financial statements for the year ended 31 December 2011 and before, and consequently prior year adjustments were considered by the Group in respect of the following matters:

(i) Sales arrangements with certain distributors

In 2010, in order to stabilise the selling price of certain products of the Group in Eastern China and other reasons, the Group started a sales arrangement with a key distributor. In 2010 and 2011, the Group entered into a master distribution agreement and a number of supplemental agreements with this distributor.

Under this sales arrangement, the Group received certain advance payments from the distributor in the form of cash and bank guaranteed notes before shipments of goods. Upon receipt of the payment, the Group issued invoices and confirmation of purchases to the distributor. The goods were then shipped from the manufacturing plants to certain offsite warehouses leased by the Group in 2010 and 2011. The Group was responsible for the management of such inventories stored in the offsite warehouses and their shipments to the downstream distributors and end customers according to the instructions from the distributors. The Group bore the inventory risk before the shipments to the downstream distributors and end customers such that the Group was required to replace these inventories should any of it became obsolete or unsellable. Furthermore, the Group was obliged to assist the distributor to identify downstream distributors and end customers to further distribute the products. The goods were shipped to these downstream distributors and end customers in subsequent periods.

The Investigation has further revealed that the Group had similar sales arrangements with other distributors from 2009 to 2012. Since 2013, the Group has stopped entering into this kind of sales arrangement with the relevant distributors, although delivery of products to the downstream distributors and end customers under this sales arrangement has continued up to date.

The above-mentioned sales arrangements with the relevant distributors, inventories stored at the offsite warehouses and other relevant arrangements (including the marketing and selling activities described in (iii) below) were revealed in the Investigation, and were not previously and appropriately accounted for in the Group's financial statements up to the year ended 31 December 2011. Specifically, revenue arising from the sales transactions under these sales arrangements was previously recognised in the consolidated financial statements at the time when goods were shipped out of the manufacturing plants. Based on the findings of the Investigation, the directors of the Company now considered such revenue recognition criteria were not appropriate, because the risk of goods had not been transferred to distributors or ending customers substantially at the date when the goods were shipped out of the manufacturing plants. Instead, revenue arising from these sales arrangements should have been recognised at the time when the goods were shipped to the downstream distributors or end customers as instructed by the distributors, i.e., when the actual risks and rewards associated with these goods were transferred to parties outside of the Group.

As a result of the prior year adjustments in relation to the sales arrangement with these distributors, revenue and cost of goods sold for the year ended 31 December 2011 was increased by HK$67,082,000 and HK$29,852,000 respectively, resulting in an increase of the net profit for the year by HK$37,230,000 for the same year. The retained earnings at 31 December 2011 and 1 January 2011 was decreased by HK$224,734,000 and HK$261,964,000 respectively.

(ii) Discrepancies in inventories

Based on various internal documents addressing the quality issues of the products of the Group prepared in 2012 and 2013 identified in the Investigation, the Group became aware that there were significant balance of obsolete inventories stored in various warehouses of the Group, in particular, those offsite warehouses as mentioned in (i) above. The Investigation also identified that, as at the time when the Investigation was conducted, certain inventory records of the Group relating to 2012 and prior years were not properly maintained.

In response to the findings above, the Group reconstructed its inventory records from 31 December 2014 onwards based on the results of the physical counts of inventory balance at 31 December 2014 and 31 December 2015. The inventory records prior to 31 December 2014 could not be reconstructed by the Group as a substantial number of documents supporting the movements of inventories and other supporting documents were missing. The Group performed a reconciliation of inventory balances between the physical count results and the accounting records of inventory at 31 December 2014. The net aggregated unexplained difference of different inventory items amounted to HK$53,148,000 was recognised as stock loss at 31 December 2014 based on the judgement and estimation made by the Group.

On the other hand, the Group identified significant balances of obsolete inventories, including unsellable finished goods due to quality issue, amounted to HK$244,451,000 during the physical count of inventory balances at 31 December 2014. Provisions for inventory write-down amounting to HK$210,244,000 and HK$263,389,000 were recognised at 31 December 2013 and 2014 respectively based on the estimations made by the Group.

The directors considered that the events leading to the unexplained differences between the physical count results and the accounting records and the obsolete inventories might have happened in or prior to 2012. However, due to the missing supporting documents and records, the Group was unable to quantify the impact, if any, in or prior to 2012. Under the circumstances the directors considered that the abovementioned accounting treatments represented a pragmatic way to record the unexplained differences between the physical count results and the accounting records and the obsolete inventories identified.

As a result, no adjustment was made by the Group on the consolidated financial statements of the Group as at and for the years ended 31 December 2012 and 2011 in respect of the matters mentioned in relation to the discrepancies in inventories.

(iii) ***Recognition and classification of selling expenses***

As revealed by the findings of the Investigation, the Group provided minimum gross profit guarantee and reimbursement of marketing expenses to the distributors for the sales transactions conducted under the sales arrangements described in (i) above. In accordance with various confirmations issued by the Group to the distributors in 2011, the Group was also committed to compensating the distributors for the funding cost of the advance payments provided to the Group before shipment of goods.

Based on the findings of the Investigation, the directors considered that certain of the above-mentioned selling expenses had not been recorded in the proper reporting periods in accordance with the arrangements and confirmations described in the preceding paragraph. Also, as at the time when the Investigation was conducted, it was found the accounting records and supporting documents in relation to these selling expenses incurred in or prior to 2012 were not properly maintained. Although the Group has attempted to reconstruct its records in relation to selling expenses, due to the loss of the relevant records and documents, the Group was unable to accurately and completely reallocate these selling expenses to the proper accounting periods in or prior to 2014. Based on the limited information available, the directors estimated that distribution expenses of HK$45,517,000 had been understated in the Group's consolidated financial statements for year ended 31 December 2011.

As a result of this prior year adjustment identified, distribution expenses for the year ended 31 December 2011 was increased by HK$45,517,000, resulting in a decrease of net profit of HK$45,517,000 for the same year. The retained earnings at 31 December 2011 was decreased by HK$45,517,000 accordingly.

Besides, during the process of reconstructing the selling expenses records, the Group considered that certain marketing expenses reimbursed to the distributors or incurred in other marketing activities previously recorded as distribution expenses were related to the sales transactions with the distributors, and thus should have been adjusted and accounted for as a reduction of the revenue earned from the distributors. Due to the loss of the relevant records and documents, the Group was unable to quantify its impact, if any, in or prior to 2012. As a result, no adjustment was made by the Group in this respect on the consolidated financial statements of the Group as at and for the years ended 31 December 2012 and 2011.

These errors were adjusted and included in the Group's consolidated financial statements as at 1 January 2011.

The effect of these adjustments to the consolidated statement of comprehensive income for the year ended 31 December 2011 is as follows:

	As previously reported	Prior year adjustments			Restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		Sales arrangement	Selling expenses	Others	
		(i)	*(iii)*	*Note (a)*	
Revenue	1,445,117	67,082	–	–	1,512,199
Cost of sales	(841,379)	(29,852)	–	–	(871,231)
Gross profit	603,738	37,230	–	–	640,968
Distribution expenses	(468,298)	–	(45,517)	–	(513,815)
Administrative expenses	(143,921)	–	–	5,812	(138,109)
Other income, gains and losses	27,753	–	–	(7,888)	19,865
Operating profit	19,272	37,230	(45,517)	(2,076)	8,909
Share of loss of an associate	(83)	–	–	–	(83)
Finance income	–	–	–	7,888	7,888
Finance costs	–	–	–	(5,812)	(5,812)
Finance income – net	–	–	–	2,076	2,076
Profit before income tax	19,189	37,230	(45,517)	–	10,902
Income tax expense	(17,003)	–	–	–	(17,003)
Profit/(Loss) for the year	2,186	37,230	(45,517)	–	(6,101)
Profit/(Loss) attributable to:					
Owners of the Company	4,267	37,230	(45,517)	–	(4,020)
Non-controlling interests	(2,081)	–	–	–	(2,081)
Earnings/ (loss) per share attributable to owners of the Company for the year *(expressed in HK$ cents per share)*					
– Basic and diluted earning /(loss) per share	0.34				(0.32)

The effect of these adjustments to the consolidated balance sheet as at 31 December 2011 is as follow:

	As previously reported	Prior year adjustments			31 December 2011 Restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		Sales arrangement *(i)*	Selling expenses *(iii)*	Others *Note (a)*	
Assets					
Non-current assets					
Property, plant and equipment	605,124	–	–	–	605,124
Leasehold land and land use rights	65,166	–	–	–	65,166
Goodwill	9,421	–	–	–	9,421
Investment in an associate	12,356	–	–	–	12,356
Deferred income tax assets	21,578	–	–	–	21,578
	713,645	–	–	–	713,645
Current assets					
Trade receivables	437,298	(143,269)	–	–	294,029
Other receivables, deposits and prepayments	72,319	–	–	24,661	96,980
Inventories	961,972	193,703	–	–	1,155,675
Prepaid income tax	5,246	–	–	–	5,246
Short-term deposits with maturity over three months	45,827	–	–	–	45,827
Cash and cash equivalents	357,037	–	–	–	357,037
	1,879,699	50,434	–	24,661	1,954,794
Total assets	2,593,344	50,434	–	24,661	2,668,439
Equity and liabilities					
Equity attributable to owners of the Company					
Share capital	124,820	–	–	–	124,820
Other reserves	1,184,116	(16,849)	(1,123)	–	1,166,144
Retained earnings	706,744	(224,734)	(45,517)	–	436,493
	2,015,680	(241,583)	(46,640)	–	1,727,457
Non-controlling interests	26,000	–	–	–	26,000
Total equity	2,041,680	(241,583)	(46,640)	–	1,753,457
Liabilities					
Current liabilities					
Trade payables	192,243	–	–	–	192,243
Other payables and accruals	359,421	292,017	46,640	–	698,078
Borrowings	–	–	–	24,661	24,661
	551,664	292,017	46,640	24,661	914,982
Total liabilities	551,664	292,017	46,640	24,661	914,982
Total equity and liabilities	2,593,344	50,434	–	24,661	2,668,439

The effect of these adjustments to the consolidated balance sheet as at 31 December 2010 is as follow:

	As previously reported *HK$'000*	Prior year adjustments *HK$'000* Sales arrangement *(i)*	*HK$'000* Others *Note (a)*	31 December 2010 Restated *HK$'000*
Assets				
Non-current assets				
Property, plant and equipment	599,332	–	–	599,332
Leasehold land and land use rights	63,576	–	–	63,576
Goodwill	9,421	–	–	9,421
Investment in an associate	11,855	–	–	11,855
Deferred income tax assets	19,624	–	–	19,624
	703,808	–	–	703,808
Current assets				
Trade receivables	285,583	(62,274)	235,018	458,327
Other receivables, deposits and prepayments	52,862	–	23,502	76,364
Inventories	669,878	213,747	–	883,625
Short-term deposits with maturity over three months	194,023	–	–	194,023
Restricted cash	14,336	–	–	14,336
Cash and cash equivalents	760,265	–	–	760,265
	1,976,947	151,473	258,520	2,386,940
Total assets	2,680,755	151,473	258,520	3,090,748
Equity and liabilities				
Equity attributable to owners of the Company				
Share capital	124,820	–	–	124,820
Other reserves	1,146,817	(4,620)	–	1,142,197
Retained earnings	705,023	(261,964)	–	443,059
	1,976,660	(266,584)	–	1,710,076
Non-controlling interests	26,789	–	–	26,789
Total equity	2,003,449	(266,584)	–	1,736,865
Liabilities				
Current liabilities				
Trade payables	241,729	–	–	241,729
Other payables and accruals	402,350	418,057	23,502	843,909
Borrowings	–	–	235,018	235,018
Current income tax liabilities	33,227	–	–	33,227
	677,306	418,057	258,520	1,353,883
Total liabilities	677,306	418,057	258,520	1,353,883
Total equity and liabilities	2,680,755	151,473	258,520	3,090,748

(a) Others primarily represent the recognition of a short-term bank loan, adjustment to trade receivables and other receivables at 1 January 2011 amounted to HK$211,516,000, the consequential impacts to the consolidated income statement for the year ended 31 December 2011 and the recognition of short-term borrowings and other receivables at 1 January 2011 and 31 December 2011 amounted to HK$23,502,000 and HK$24,661,000 respectively.

2.3 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 or after 1 January 2012:

- Amendment to HKAS 12 "Income taxes"

The Group has adopted this amendment retrospectively for the financial year ended 31 December 2012.

(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 2012, 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:

- Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income
- HKFRS 13, 'Fair value measurement'
- Amendment to HKAS 19, 'Employee benefits'
- HKFRS 9, 'Financial instruments'
- HKFRS 10, 'Consolidated financial statements'
- HKFRS 12, 'Disclosures of interests in other entities'
- HKFRS 15, 'Revenue from contracts with customers'
- HKFRS 16, 'Leases'

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 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 ice wine.

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 2012				
Revenue	**972,633**	**172,594**	**8,473**	**1,153,700**
Gross profit	**391,236**	**66,740**	**1,322**	**459,298**
Depreciation and amortisation	**(31,316)**	**(4,872)**	**(239)**	**(36,427)**
For the year ended 31 December 2011 (Restated)				
Revenue	1,281,843	219,391	10,965	1,512,199
Gross profit	559,497	74,404	7,067	640,968
Depreciation and amortisation	(27,415)	(4,692)	(235)	(32,342)

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

	2012	2011
	HK\$'000	*HK\$'000*
		(Restated)
Gross profit for reportable segments	**459,298**	640,968
Other income, gains and losses	**4,289**	19,865
Distribution expenses	**(368,096)**	(513,815)
Administrative expenses	**(166,943)**	(138,109)
Operating (loss)/profit	**(71,452)**	8,909
Share of loss of an associate	**(12,356)**	(83)
Finance income – net	**947**	2,076
(Loss)/profit before income tax	**(82,861)**	10,902

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 (2011: 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 EXPENSES BY NATURE

	2012 *HK$'000*	2011 *HK$'000* (Restated)
Raw materials and consumables used	**508,965**	684,989
Changes in inventories of finished goods and work in progress	**(14,684)**	(61,455)
Processing and assembling expenses	**25,224**	33,348
Advertising, marketing, and other incidental promotion expenses	**182,570**	220,850
Consumption tax of domestic sales and other taxes	**83,254**	114,431
Employee costs including directors' emoluments	**180,700**	204,336
Transportation and storage expenses	**56,737**	51,721
Travelling expenses	**18,734**	18,318
Depreciation and amortisation	**63,632**	59,746
Consultancy and professional fee	**4,948**	6,200
Operating lease payments	**34,115**	24,138
Auditors' remuneration	**4,764**	1,400
Provision for impairment in trade and other receivables	**7,455**	194
Provision for impairment of goodwill	**9,421**	–
Other expenses	**63,606**	164,939
Total of cost of sales, distribution expenses and administrative expenses	**1,229,441**	1,523,155

5 OTHER INCOME, GAINS AND LOSSES

	2012 *HK$'000*	2011 *HK$'000*
Government grants	**2,561**	17,942
Gain on disposal of property, plant and equipment	**45**	–
Others	**1,683**	1,923
	4,289	19,865

6 FINANCE INCOME – NET

	2012 *HK$'000*	2011 *HK$'000* (Restated)
Finance income – Interest income	**4,466**	7,888
Finance costs – Interest expense on bank borrowings	**(3,519)**	(5,812)
Finance income – net	**947**	2,076

7 INCOME TAX EXPENSE

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% (2011: 25%).

	2012	2011
	HK$'000	*HK$'000*
Current tax:		
– Current tax on profits for the year	**1,529**	17,966
– Additional tax charges on prior year taxable income	**4,131**	–
Total current tax	**5,660**	17,966
Deferred tax:		
– Origination and reversal of temporary differences	**21,578**	(963)
Income tax expense	**27,238**	17,003

8 DIVIDENDS

No dividend was paid in 2012 (2011: HK$18,723,000).

9 LOSS PER SHARE

(a) Basic

Basic loss 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.

	2012	2011
	HK$'000	*HK$'000*
Loss attributable to owners of the Company	**(106,782)**	(4,020)
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.

During 2011 and 2012, the average market price of ordinary shares did not exceed exercise price of share option scheme, so it did not have any dilutive effect.

10 INVESTMENT IN AN ASSOCIATE

Set out below is the associate of the Group as at 31 December 2012. The associate as listed below has share capital consisting solely of ordinary shares, which is held directly by the Group; the country of incorporation or registration is also its principal place of business.

Nature of investment in associate as at 31 December 2012 and 2011:

Name of entity	**Place of business/ country of incorporation**	**% of ownership interest**	**Nature of the relationship**	**Measurement method**
Dynasty Yuma Vineyard (Ning Xia) Co. Ltd. ("**Yuma**")	PRC/PRC	25	Associate	Equity pick up

As at 31 December 2012, the Group held a 25% equity interest of Dynasty Yuma Vineyard (Ning Xia) Co. Ltd. ("**Yuma**"), an unlisted company established and operating in the PRC as manufacturer and distributor of unprocessed wines with a paid up capital of RMB40 million.

The Group's share of the assets, liabilities and results of its associate is as follows:

	2012	2011
	HK$'000	*HK$'000*
Assets	**2,077**	17,593
Liabilities	**8,805**	5,237
Revenue	**78**	2,339
Loss	**(14,656)**	(83)

As at 31 December 2012, the Yuma's liabilities exceeded its assets, the investment had zero carrying value and there was no remaining obligations.

11 GOODWILL

	Goodwill
	HK$'000
As at 31 December 2011	9,421
At 1 January 2012	
Cost	9,421
Impairment for current year	(9,421)
Year ended 31 December 2012	–

Goodwill relates to acquisition of Tianyang Group in prior years, which manufactures raw wines.

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

The key assumptions, long term growth rate and discount rate used in the value-in-use calculations in 2012 are as follows.

	Tianyang Group
Sales volume *(% annual growth rate)*	20%
Sales price *(% annual growth rate)*	N/A
Gross margin *(% of revenue)*	17%-23%
Other operating costs *(HK$'000)*	2,566
Annual capital expenditure *(HK$'000)*	20
Long term growth rate	2%
Pre-tax discount rate	10%

These assumptions have been used for the analysis of Tianyang Group.

Sales volume is the average annual growth rate over the five-year forecast period. It is based on past performance and management's expectations of market development.

Sales price is the average annual growth rate over the five-year forecast period. It is based on current industry trends and includes long term inflation forecasts for each territory.

Gross margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the current sales margin levels and sales mix.

Other operating costs are the fixed costs of Tianyang Group, which do not vary significantly with sales volumes or prices. Management forecasts these costs based on the current structure of the business, adjusting for inflationary increases and these do not reflect any future restructurings or cost saving measures. The amounts disclosed above are the average operating costs for the five-year forecast period.

Annual capital expenditure is the expected cash costs in fixed assets. This is based on the historical experience of management. No incremental revenue or cost savings are assumed in the value-in-use model as a result of this expenditure.

The long term growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

The management considered the goodwill was fully impaired at 31 December 2012 as the subsidiaries has been making continuous losses since 2011.

The carrying amount of Tianyang Group has been reduced to its recoverable amount through recognition of an impairment loss against goodwill. In 2012, HK$9,421,000 loss has been recognised in 'administrative expenses' in the income statement.

12 TRADE AND OTHER RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Trade receivables	**177,120**	272,290
Notes receivable	**36,005**	25,873
Less: allowance for impairment of trade receivables	**(10,539)**	(4,134)
Trade receivables – net	**202,586**	294,029
Prepayments	**97,274**	19,579
Other receivables	**93,479**	80,533
Less: allowance for impairment of other receivables	**(4,182)**	(3,132)
	389,157	391,009
Less non-current portion: prepayments	**4,563**	–
Current portion	**384,594**	391,009

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

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Up to 3 months	**129,266**	78,585
3 to 6 months	**12,186**	33,540
6 months to 1 year	**23,945**	148,016
1 year to 2 years	**11,723**	12,149
	177,120	272,290

As of 31 December 2012, trade receivables of HK$25,129,000 (2011: HK$156,031,000) were past due but not impaired. The ageing analysis of the trade receivables were past due but not impaired is as follows:

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
6 months to 1 year	**14,817**	148,016
1 year to 2 years	**10,312**	8,015
	25,129	156,031

As of 31 December 2012, trade receivables of HK$10,539,000 were impaired (2011: HK$4,134,000). The amount of the provision was HK$10,539,000 as of 31 December 2012 (2011: HK$4,134,000). The individually impaired receivables mainly relate to wholesalers. The ageing of these receivables is as follows:

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
6 months to 1 year	**9,128**	–
1 year to 2 years	**1,411**	4,134
	10,539	4,134

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

13 TRADE AND OTHER PAYABLES

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Trade payables	**198,157**	192,243
Advance from customer	**188,411**	405,524
Payroll payable	**42,025**	39,892
Other tax payables	**36,322**	44,196
Others	**181,334**	208,466
	646,249	890,321

At 31 December 2012, the ageing analysis of the trade payables based on invoice date was as follows:

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
0-30 days	**77,358**	92,761
31-90 days	**42,963**	85,369
Over 90 days	**77,836**	14,113
	198,157	192,243

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

PricewaterhouseCoopers were engaged to audit the consolidated financial statements of the Group and disclaimer of 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 2012:

"Basis for Disclaimer of Opinion

1. Issues Arising from the Investigation and Scope Limitations

As disclosed in note 2.2 to the consolidated financial statements, the Company was informed in 2013 of certain anonymous allegations which might have an impact to the consolidated financial statements of the Group in relation to the sales arrangements with certain distributors, discrepancies in inventories held by the Group, recognition and classification of selling expenses and certain other matters. In response to these allegations, the audit committee of the Company ("**Audit Committee**") commissioned an independent investigation ("**Investigation**") involving third party consultants to investigate certain of these allegations. The Investigation was completed in 2016. The Investigation has identified certain sales agreements and arrangements, storage of inventories in the offsite warehouses and other arrangements, as described in note 2.2(i) to the consolidated financial statements, that were not previously identified and accounted for by the Group and not disclosed to us during or prior to our audit of the Group's consolidated financial statements for the year ended 31 December 2011.

Based on the findings of the Investigation, the directors considered it necessary to make adjustments to the Company's consolidated financial statements for the year ended 31 December 2011 and before, and consequently prior year adjustments were considered by the Group in respect of the following matters:

(i) Sales arrangements with certain distributors

Revenues arising from the sales transactions under the sales arrangements with certain key distributors from 2009 to 2011 were previously recognised in the consolidated financial statements at the time when goods were shipped out of the Group's manufacturing plants. As described in note 2.2(i) to the consolidated financial statements, the Investigation revealed that the goods were in fact shipped to certain offsite warehouses. The Group was responsible for the continuing management of such inventories, bore the inventory risk before the shipments to the downstream distributors and end customers, and was obliged to assist the distributors to identify downstream distributors and end customers to further distribute the goods. Some of these goods were shipped to these downstream distributors and end customers in subsequent periods.

Based on the findings of the Investigation, the directors considered that revenue arising from these sales arrangements should have been booked when the goods were shipped to the downstream distributors or end customers as instructed by the distributors, i.e., when the actual risks and rewards associated with these goods were transferred to the downstream distributors or end customers. As a result, a prior year adjustment was recorded in the consolidated financial statements of the Group as at and for the year ended 31 December 2011.

(ii) Discrepancies in inventories

As described in note 2.2(ii) to the consolidated financial statements, the Investigation has identified that, as at the time when the Investigation was conducted, certain of the Group's inventory records in 2012 and prior years were not properly maintained and a substantial number of documents supporting the movements of inventories prior to 31 December 2014 and other supporting documents were missing. During management's process of reconstructing the Group's inventory records as at 31 December 2014, a net aggregated unexplained difference made up by different inventory items between the physical count result and the accounting records of inventory amounting to HK$53,148,000 was recognised as stock loss for the year ended 31 December 2014 based on the judgement and estimation made by the Group.

Besides, during the physical count of inventory balances at 31 December 2014 the Group identified significant balances of obsolete inventories amounting to HK$244,451,000 for unsellable finished goods due to quality issue. Together with other adjustments, provisions for inventory write-down of HK$210,244,000 was charged to the Group's consolidated financial statements for the year ended 31 December 2013, while the related balance as at 31 December 2014 was HK$263,389,000.

The directors considered that the events leading to the discrepancies in inventories might have happened in and/or prior to 2012. However, due to the missing supporting documents and inventory records, the Group was unable to quantify the impact, if any, in and prior to 2012. As a result, no adjustment was made by the Group on the consolidated financial statements of the Group as at and for the years ended 31 December 2012 and 2011 in respect of the discrepancies in inventories relating to the unexplained difference and obsolete inventories mentioned.

(iii) Recognition and classification of selling expenses

As described in note 2.2(iii) to the consolidated financial statements, the Investigation has identified certain arrangements with respect to selling and other expenses payable to the distributors in respect of the sales transactions conducted under the sales arrangements described in (i) above. The directors considered that certain selling expenses had not been recorded in the proper reporting periods. Also, as at the time when the Investigation was conducted, it was found that the accounting records and supporting documents in relation to these selling expenses incurred in and prior to 2012 were not properly maintained. Although the Group has attempted to reconstruct its records in relation to selling expenses, due to the loss of the relevant records and documents the Group was unable to accurately and completely reallocate these selling expenses to the relevant accounting periods in and prior to 2012. Based on the limited information available, the directors estimated that distribution expenses of HK$45,517,000 had been understated in the Group's consolidated financial statements for year ended 31 December 2011 and a prior year adjustment was recorded accordingly.

Further, during the process of reconstructing the selling expenses records, the Group considered that certain marketing expenses reimbursed to the distributors or incurred in other marketing activities previously recorded as distribution expenses were related to the sales transactions with the distributors, and thus should have been adjusted and accounted for as a reduction of the revenue earned from the distributors. Due to the loss of the relevant records and documents, the Group was unable to quantify the impact, if any, in and prior to 2012. As a result, no adjustment was made by the Group in this respect on the consolidated financial statements of the Group as at and for the years ended 31 December 2012 and 2011.

The details of the above prior year adjustments together with their impacts are more fully described in note 2.2 to the Group's consolidated financial statements.

As explained above, during or prior to our audit of the Group's consolidated financial statements for the year ended 31 December 2011, we were not provided by management or the directors with the aforementioned sales agreements and other supporting documents governing the terms of sales arrangement, inventory management and the relevant selling activities entered into between the Group and certain key distributors as mentioned above, nor were we informed of the existence of the inventories stored in the offsite warehouses. In response to such matters identified in the Investigation, we have planned to conduct extended procedures in the audit of the Group's consolidated financial statements as at and for the year ended 31 December 2012. However, there were scope limitations encountered in our audit as outlined below.

Management did not maintain adequate accounting records and supporting documents, in particular, the sales agreements and shipping documents, for a substantial portion of the sales transactions to enable us to assess the sales transactions for the year ended 31 December 2012. The management was also not able to provide adequate supporting documents to enable us to satisfactorily complete the independent confirmation procedures in relation to the trade receivables balances as at 31 December 2012 and the sales transactions for the year then ended.

Management did not maintain adequate accounting records and supporting documents to support the calculation of the costing of the inventory balances together with the related costs of goods sold as at and for the year ended 31 December 2012. Management was also not able to provide any satisfactory evidence and explanation to the unexplained differences in the accounting records of inventory balance as at 31 December 2012. In addition, the management did not perform proper physical count of inventory balance at 31 December 2012 to cover the quantity of the inventory stored in all of the offsite warehouses and identify any obsolete inventories. Moreover, although the directors considered that the events leading to the significant unexplained differences of HK$53,148,000 between the physical count results at 31 December 2014 and the accounting records and the obsolete inventories described in note 2.2(ii) to the consolidated financial statements might have happened in and/or prior to 2012, the directors were unable to quantify the impact of these matters, if any, in and prior to 2012 due to the missing supporting documents and inventory records.

Management did not maintain adequate accounting records and supporting documents for the selling expenses incurred in and prior to 2012 to enable us to assess whether the marketing activities were carried out in the same period in which the selling expenses were recorded. Further, although the directors considered that certain marketing expenses reimbursed to the distributors or incurred in other marketing activities previously recorded as distribution expenses should have been adjusted and accounted for as a reduction of the revenue earned from the distributors, the directors were unable to quantify the impact of this, if any, in and prior to 2012 due to the loss of the relevant records and documents. Management was also not able to provide adequate supporting documents to enable us to satisfactorily complete the independent confirmation procedures in relation to the selling expenses for the year ended 31 December 2012.

Because of the above scope limitations, we were unable to obtain sufficient appropriate audit evidence and there were no alternative audit procedures that we could perform to satisfy ourselves as to:

(1) the occurrence, cut-off, accuracy, valuation, rights and obligations, existence and completeness of the sales transactions, the related receivables and payables balances and the related tax impacts as at and for the year ended 31 December 2012;

(2) the occurrence, cut-off, accuracy, valuation, rights and obligations, existence and completeness of the inventory balances together with the related cost of goods sold and the related tax impacts as at and for the year ended 31 December 2012;

(3) the occurrence, cut-off, accuracy, rights and obligations, existence and completeness of the selling and other expenses and the related payable balances and the related tax impacts as at and for the year ended 31 December 2012; and

(4) the accuracy and completeness of the prior year adjustments identified and recorded by management in relation to (1) and (3) above in all material respects.

Accordingly, we were not able to determine whether any adjustments to the consolidated financial statements were necessary.

2. Impairment of Property, Plant and Equipment

As described in note 15 to the consolidated financial statements, the Group's consolidated balance sheet included property, plant and equipment with a carrying amount of HK$556,504,000 at 31 December 2012. During the year, Group has been making losses and incurring operating cash outflows that were considered to be an indicator of impairment. However, the directors did not carry out an impairment assessment of its property, plant and equipment at 31 December 2012 because the directors were unable to estimate the recoverable amounts of these assets as at 31 December 2012 due to the loss of the relevant records and documents.

Failure to perform impairment assessment when there is an indicator of impairment is a departure from Hong Kong Accounting Standard 36, "Impairment of Assets". Had an impairment assessment been performed, an impairment loss might have been recognised in the Group's consolidated income statement for the year ended 31 December 2012. As the directors did not carry out an impairment assessment as at 31 December 2012, we were unable to determine the effects of the impairment provision, if any, on the consolidated financial statements of the Group as at and for the year ended 31 December 2012.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis of Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group's revenue for the year ended 31 December 2012 decreased by 24% to HK$1,153.7 million (2011 (restated) – HK$1,512.2 million) and the Group's loss attributable to owners of the Company was HK$106.8 million (2011 (restated) – HK$4.0 million)

Loss per share of the Company was HK8.55 cents per Share (2011 (restated) – HK0.32 cents) based on the weighted average number of 1,248 million Shares (2011 – 1,248 million Shares) in issue during the year. There was no potential dilutive share for the year ended 31 December 2012.

The decline in financial results in 2012 was attributable to i) the decrease in sales volume; and ii) the decrease in gross profit margin. The gross margin could not offset the expenses incurred, resulting in an operating loss in the year.

Financial review

Revenue

Revenue of the Group represents proceeds from sale of wine products. Our total revenue decreased by 24% to approximately HK$1,153.7 million in 2012 from approximately HK$1,512.2 million in 2011. 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 decrease in sales volume was a result of (1) the impact of reform on the Group's sales and distribution model; and (2) weaker demand of domestic wines products amidst the underperformed economic environment in the PRC and impact of imported wines.

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$28 per bottle (750ml) (restated) in 2011, 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:

	2012	2011
	%	%
		(restated)
Cost of raw materials		
– Grapes and grape juice	**42**	43
– Yeast and additives	**2**	2
– Packaging materials	**24**	25
– Others	**1**	2
Total cost of raw materials	**69**	72
Manufacturing overheads	**19**	15
Consumption tax and other taxes	**12**	13
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 42% of the Group's total cost of sales, similar to that of approximately 43% in 2011, due to the stable average cost of grapes and grape juice. The total cost of packaging materials to the Group's revenue slightly increased during the year as compared with 2011.

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 2011 mainly due to rising labour costs, depreciation and other overheads as a result of the utilisation of expanded production capacity.

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 40% in 2012 from 42% in 2011, mainly as a result of the impact of the increase in manufacturing overheads.

The gross margin of red wine products and white wine products in 2012 were 40% and 39% respectively (2011 – 44% and 34% respectively). The higher sales prices of red wine products explained the higher gross margin of the products than white wine products.

Other income, gains and losses

Other income, gains and losses for the year ended 31 December 2012 decreased by 78% to HK$4.3 million (2011 – HK$19.9 million), mainly attributable to a decrease in the government grant to HK$2.6 million (2011 – HK$17.9 million) for subsidiaries in the PRC to encourage technological development and improvement in winemaking, and to support enterprise development.

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 32% (2011 – 34%) of the Group's revenue. In particular, the advertising and market promotion expenses accounted for approximately 16% (2011 – 15%) of the Group's revenue. This percentage decreased because the decrease in distribution costs was more than the decrease in revenue 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, provision for impairment and other incidental administrative expenses.

During the year, administrative expenses as a percentage of the Group's revenue accounted for approximately 14% (2011 – 9%). The increase in administrative expenses was mainly attributable to provision for impairment in trade and other receivables and goodwill related to Tianyang, a subsidiary of the Group.

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 increase in income tax expense of the Group for the year ended 31 December 2012 was mainly due to additional tax charges on prior year taxable income.

Cash flow

In 2012, operating activities were the Group's main source of cash outflow.

The decrease in cash used from operating activities from HK$299.0 million in 2011 to HK$167.5 million in 2012 was mainly attributable to change in working capital and decrease in income tax paid.

Net cash flow in investing activities changed to approximately HK$15.4 million outflow (2011 (restated) – HK$75.9 million inflow), primarily related to reduced placement of short-term deposits with maturity over 3 months during the year as compared with 2011.

Net cash inflow in financing activities was primarily attributable to the net proceeds from borrowings of HK$119.8 million (2011 (restated) – HK$235.0 million cash outflow due to repayments of borrowings of approximately HK$223.7 million and payment of dividends to shareholders of approximately HK$53.7 million).

Financial management and treasury policy

As at 31 December 2012 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 net of borrowings at fixed interest 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

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 2012, the sales revenue has still recorded a decrease compared with last year mainly because the Group continued to optimize its sales and distribution model by a reform 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 inventory level and 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 2012 from certain distributors which are affected by the abovementioned reform were reduced resulting in a decrease in sales volume compared with last year. The reform is still in progress but the pace of reform was slower than expected, especially in Zhejiang province and Shanghai city, and will take time to implement. In addition, the decrease in volume is due to weaker demand of domestic wine products amidst the underperformed economic environment in the PRC and impact of imported wines.

The total number of bottles of wine sold decreased from approximately 53.8 million (restated) in 2011 to approximately 38.1 million in 2012. 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 (2011 – 85%).

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. Moreover, the Group reported export sales accounting for 0.1% (2011 – 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 were greeted enthusiastically 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 500 imported products under approximately 100 brands. 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) Retail shops

To cater for different needs and preferences of our customers, the Group as at 31 December 2012 had 2 self-operated retail shops in Tianjin, 1 self-operated retail shop in Shanghai and 114 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 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 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, 114 franchised retail shops were opened by the end of the year.

The following table sets out the number of self-operated retail shops and franchised retail shops by regions as at 31 December 2012:

Region	Number of self-operated retail shops	Number of franchised retail shops	Total
South-Central region	–	74	74
Eastern region	1	17	18
North-West region	–	1	1
North-East region	–	2	2
Northern region	2	20	22
Total	3	114	117

C) Online sales

The Group has launched an e-commerce business 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. In 2012, customers could 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.

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

The domestic wine brand owners are faced with a challenging situation in the operating environment and the macro economy, which is unlikely to turnaround for the better in the near future. Going forward, although the Group's performance is likely to undergo prevailing pressure, we will continue to improve our organizational structure and enhance our professionalism in our business management. Leveraging on the experience in the wine industry, the Group will endeavor to capture opportunities arising from the Chinese government's efforts to stimulate economic activities to provide support for the country's economic growth.

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 678 (including directors) in Hong Kong and the PRC as at 31 December 2012. 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 2012 amounted to approximately HK$180.7 million (2011 – HK$204.3 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 2012, 10,100,000 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 2012, the Group's cash and cash equivalents amounted to HK$293.9 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 net debt of HK$182.4 million (total borrowings, trade and other payables less cash and cash equivalents), with total equity of the Group amounting to approximately HK$1,643.4 million as at 31 December 2012 ensuring solvency and the Group's ability to continue as a going concern. The Group's gearing ratio, expressed as a ratio of net debt to total capital (net debt and total equity), as at 31 December 2012 was 10% (2011 – 3%).

Capital structure

The Group had borrowing of HK$111.0 million and was in a net cash and liquid position of HK$182.9 million as at 31 December 2012, 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 2012, the market capitalisation of the Company was approximately HK$1,760 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 2012, 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$74.0 million, which are secured by the land and buildings of a subsidiary of approximately HK$247.0 million.

Material acquisitions and disposals of subsidiaries and associated companies

For the year ended 31 December 2012, the Group had not made any other material acquisitions or disposal of subsidiaries and associated companies.

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 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 2012.

Compliance with the Corporate Governance Code

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 Code on Corporate Governance Practices (the "**Former Code**") formerly set out in Appendix 14 of the Listing Rules during the period from 1 January 2012 to 31 March 2012 and of the Corporate Governance Code and Corporate Governance Report (the "**New Code**") during the period from 1 April 2012 to 31 December 2012. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

On 30 May 2012, following the retirement of Mr. Chau Ka Wah, Arthur, there remains two independent non-executive directors on the Board, the number of independent non-executive directors and audit committee members falls below the minimum number required under Rule 3.10(1) and Rule 3.21 of the Listing Rules. Furthermore, the chairman position of remuneration committee has vacated and the number of independent non-executive directors of remuneration committee of the Company has fallen below a majority required under Rule 3.25 of the Listing Rules.

On 28 November 2012, following the appointment of Mr. Sun David Lee as an independent non-executive director as well as member of each of the audit committee, remuneration committee and nomination committee and appointment of Mr. Yeung Ting Lap Derek Emory as chairman of remuneration committee, 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. The remuneration committee of the Company is chaired by an independent non-executive director and comprises a majority of independent non-executive directors under Rule 3.25 of the Listing Rules.

Rule 3.10A of the Listing Rules was introduced where independent non-executive directors of a listed issuer must represent at least one-third of the board by 31 December 2012. During the period from 31 December 2012 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 of Investigations, the Group has breached the financial reporting provisions under the Listing Rules in respect of (i) announcing the annual results for the year ended 31 December 2012; (ii) publishing the related annual report for the year ended 31 December 2012; and (iii) convening an annual general meeting for the financial year ended 31 December 2012.

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 2012 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 2012 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 2012, which contains the detailed results and other information of the Company for the year ended 31 December 2012 required pursuant to Appendix 16 of the Listing Rules as well as the restated financial information of the Group for the years ended 31 December 2011 and 2010, 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 ("**AGM**") 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. Hao Feifei
Chairman

Hong Kong,
8 December 2017

As at the date of this announcement, the Board comprises three executive directors, namely, Mr. Hao Feifei, Mr. Yin Jitai 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.