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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "**Board**") of directors (the "**Directors**") of Dynasty Fine Wines Group Limited (the "**Company**") announces herewith the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018, prepared on the basis set out in Note 2 below, together with the restated comparative figures for the corresponding year ended 31 December 2017 and 1 January 2017 are as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

		Year ended 31 December	
		2018	2017
			Restated
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**344,933**	383,470
Cost of sales	*4*	**(251,877)**	(295,624)
Gross profit		**93,056**	87,846
Distribution costs	*4*	**(79,629)**	(99,449)
Administrative expenses	*4*	**(85,415)**	(109,696)
Net impairment losses on financial assets	*4*	**(1,388)**	(3,712)
Other income, gains and losses – net	*5*	**1,850**	(4,727)
Operating loss		**(71,526)**	(129,738)
Finance income	*6*	**410**	517
Finance costs	*6*	**(8,056)**	(6,006)
Finance costs – net	*6*	**(7,646)**	(5,489)
Loss before income tax		**(79,172)**	(135,227)
Income tax expense	*7*	**(71)**	(27)
Loss for the year		**(79,243)**	(135,254)
Loss attributable to:			
Owners of the Company		**(78,668)**	(133,625)
Non-controlling interests		**(575)**	(1,629)
		(79,243)	(135,254)
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*	**(6.30)**	(10.71)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Year ended 31 December	
	2018	2017
		Restated
	HK$'000	*HK$'000*
Loss for the year	**(79,243)**	(135,254)
Other comprehensive (loss)/income:		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(10,993)**	19,654
Total comprehensive loss for the year	**(90,236)**	(115,600)
Total comprehensive loss for the year is attributable to:		
– Owners of the Company	**(88,966)**	(115,041)
– Non-controlling interests	**(1,270)**	(559)
	(90,236)	(115,600)

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	**As at 31 December** **2018** *HK$'000*	2017 Restated *HK$'000*	1 January 2017 Restated *HK$'000*
ASSETS				
Non-current assets		**79,810**	92,085	272,170
Property, plant and equipment		**17,816**	19,169	52,095
Leasehold land and land use rights		**–**	–	–
Goodwill		**–**	–	–
Investment in an associate		**–**	–	–
Deferred income tax assets		**–**	–	–
		97,626	111,254	324,265
Current assets				
Trade and notes receivables	*10*	**37,318**	61,597	51,311
Other receivables	*10*	**10,575**	12,264	36,812
Prepayments	*10*	**13,298**	1,963	2,326
Inventories		**337,052**	429,850	504,367
Cash and cash equivalents		**81,341**	82,510	91,408
		479,584	588,184	686,224
Assets held for sale	*11*	**182,051**	190,805	–
Total assets		**759,261**	890,243	1,010,489
EQUITY				
Equity attributable to owners of the Company				
Share capital		**124,820**	124,820	124,820
Other reserves		**1,147,632**	1,157,937	1,139,353
Accumulated losses		**(1,131,036)**	(1,052,135)	(918,510)
Capital and reserve attributable to owners of the Company		**141,416**	230,622	345,663
Non-controlling interests		**13,739**	15,009	15,568
Total equity		**155,155**	245,631	361,231
LIABILITIES				
Current liabilities				
Trade payables	*12*	**106,030**	162,893	210,424
Contract liabilities	*13*	**83,850**	126,418	119,802
Other payables and accruals	*12*	**190,396**	209,846	201,697
Borrowings		**223,830**	145,455	117,318
Current income tax liabilities		**–**	–	17
Total liabilities		**604,106**	644,612	649,258
Total equity and liabilities		**759,261**	890,243	1,010,489

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

The principal activities of the Company are 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 of Hong Kong Limited ("**Stock Exchange**") on 26 January 2005. On 22 March 2013, trading of the Shares were suspended on the Stock Exchange.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRS**") and disclosure requirements of the Hong Kong Companies Ordinance ("**HKCO**") Cap. 622.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis.

(iii) Going concern

As at 31 December 2018, the Group's current liabilities exceeded their current assets by HK$124,522,000. The Group's loss and net cash outflow from operating activities for the year ended 31 December 2018 were HK$79,243,000 and HK$93,100,000 respectively. These indicate there was a significant doubt about the ability of the Group to continue as a going concern. The directors of the Company (the "**Directors**") have reviewed the Group's cash flow projections, which cover a period of twelve months from 31 December 2018. The Directors are of the opinion that, taking into account the followings, the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the next twelve months from 31 December 2018:

- The Group entered into an agreement with Tianjin Yiyang Big Health Small Township Development Co., Ltd., a third party to dispose of a chateau and related facilities (Note 11) at a consideration of RMB400 million and the completion of which is subject to certain administrative registration procedures. The full amount of the consideration has been received on 16 May 2019.

- Tianjin Tsinlien Investment Holding Co., Ltd. (hereinafter referred to as "**Tsinlien Investment**"), the ultimate shareholder of the Company's major shareholder, has issued a financial support letter to the Company to confirm its intention to provide continuous financial support to the Group to meet its liabilities for a period of twelve months from the date of approval of these consolidated financial statements.

- Tsinlien Investment has also issued a letter to the Company to confirm that the Company's major shareholder, a wholly-owned subsidiary of Tsinlien Investment, will not request for the Group's repayment of the amounts due it of HK$42,404,000 (Note 12(a)) within the next fifteen months from 1 January 2019.

Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

(iv) ***New and amended standards adopted by the Group***

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- HKFRS 9 Financial Instruments,
- HKFRS 15 Revenue from Contracts with Customers, and
- Annual Improvements 2014-2016 cycle

The impact of the adoption of these amendment has been stated in Note 2.2.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below.

HKFRS 16 'Leases'

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by leasees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of HK$8,663,000. The Group expects to recognise right-of-use assets of approximately HK$7,983,000 on 1 January 2019, lease liabilities of HK$7,983,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Net current assets will be HK$6,894,000 lower due to the presentation of a portion of the liability as a current liability. The group expects that net profit after tax will decrease by approximately HK$101,000 for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately HK$7,431,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to the first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the leases liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies

2.2(a) Impact on the financial statements

As a result of the changes in the Group's accounting policies, prior year financial statements had to be restated. As explained in Note 2.2(b) below, HKFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Balance sheet (extract)	**31 December 2017 As originally presented**	**HKFRS 9**	**HKFRS 15**	**31 December 2017 Restated**	**HKFRS 9**	**1 January 2018 Restated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and notes receivables	61,597	–	–	61,597	(240)	61,357
Other payables and accruals	336,264	–	(126,418)	209,846	–	209,846
Contract liabilities	–	–	126,418	126,418	–	126,418
Current liabilities	397,861	–	–	397,861	(240)	397,621
Reserves	1,157,937	–	–	1,157,937	(7)	1,157,930
Accumulated losses	(1,052,135)	–	–	(1,052,135)	(233)	(1,052,368)

Income statement and statement of comprehensive income (extract) 2017	**As originally presented**	**HKFRS 9**	**HKFRS 15**	**Restated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	383,470	–	–	383,470
Cost of sales	(284,107)	–	(11,517)	(295,624)
Gross profit	99,363	–	(11,517)	87,846
Distribution costs	(110,966)	–	11,517	(99,449)
Administrative expenses	(113,408)	3,712	–	(109,696)
Net impairment losses on financial assets	–	(3,712)	–	(3,712)
Operating loss	(129,738)	–	–	(129,738)

2.2(b) *HKFRS 9 Financial Instruments*

HKFRS 9 replaces the impairment allowance of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional impairment allowance in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated with the exception of certain aspects of hedge accounting.

The total impact on the Group's accumulated losses as at 1 January 2018 is as follows:

	2018
	HK$'000
Closing accumulated loss as at 31 December – HKAS 39/HKAS 18	**(1,052,135)**
Increase in impairment allowance of trade receivables	**(233)**
Opening accumulated loss as at 1 January – HKFRS 9 (before restatement for HKFRS 15)	**(1,052,368)**

Adjustments made to line items in the consolidated income statement and the consolidated statement of other comprehensive income for the 2017 reporting period relate to:

	2017
	HK$'000
Decrease in administrative expenses	3,712
Increase in net impairment losses on financial assets	(3,945)
Increase in operating loss	(233)

(i) Classification and instrument

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

	Measurement category		**Carrying amount**		
Current financial assets	**Original (HKAS 39)**	**New (HKFRS 9)**	**Original**	**New**	**Difference**
			HK$000	*HK$000*	*HK$000*
Trade receivables	Amortised cost	Amortised cost	48,200	47,960	(240)
Notes receivables *(Note)*	Amortised cost	Fair value through other comprehensive income (FVOCI)	13,397	13,397	–
Other receivables	Amortised cost	Amortised cost	12,264	12,264	–

Note:

Notes receivables where the contractual cash flow were solely principal and interest were reclassified from financial assets at amortised cost to FVOCI as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The Group has adopted the HKFRS 9 in accordance with the transactional provisions and the related comparative financial information as at 31 December 2017 has not been restated accordingly. Due to the consideration as set out in Note 10(a), the notes receivable has been presented within "trade and notes receivable" in the balance sheet. These notes receivables are all bank acceptance bills with maturity dates within six months. The fair value of these notes receivables approximate to their carrying amounts due to the short maturities.

(ii) *Impairment of financial assets*

The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- trade receivables for sales of inventories
- other receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This resulted in an increase of the loss allowance on 1 January 2018 by HK$240,000 for trade receivables.

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in HKFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018) and the beginning of the earliest period presented (1 January 2017):

	HKAS 18 carrying amount 31 December 2017	**Reclassification**	**Remeasurement**	**HKFRS 15 carrying amount 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables and accruals	336,264	(126,418)	–	209,846
Contract liabilities	–	126,418	–	126,418

	HKAS 18 carrying amount 31 December 2016	**Reclassification**	**Remeasurement**	**HKFRS 15 carrying amount 1 January 2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables and accruals	321,499	(119,802)	–	201,697
Contract liabilities	–	119,802	–	119,802

(i) Accounting for costs to fulfil a contract

In 2017, costs amounting to HK$11,517,000 related to delivery for the inventories were expensed as they did not qualify for recognition as an asset under any of the other accounting standards. However, the costs relate directly to the contract, generate resources used in satisfying the contract and are expected to be recovered. They were therefore capitalised as costs to fulfil a contract following the adoption of HKFRS 15 and reclassified to cost of sales of goods in the income statement in 2017.

(ii) Presentation of assets and liabilities related to contracts with customers

The Group has also voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of HKFRS 15 and HKFRS 9:

- Contract liabilities were previously included in other payables and accruals (HK$126,418,000 as at 31 December 2017; HK$119,802,000 as at 1 January 2017).

3 SEGMENT INFORMATION

In accordance with the Group's internal reporting, the chief operating decision-maker considers the business from product perspective and has determined the operating segments to be red wines, white wines and all other products primarily related to the sale of sparkling wines, brandy and icewine. The executive Directors assesses the performance of the operating segments based on gross profit. All revenue of the Group are from external customers.

	Red wines *HK$'000*	White wines *HK$'000*	All other products *HK$'000*	Total *HK$'000*
For the year ended 31 December 2018				
Revenue	**260,719**	**81,784**	**2,430**	**344,933**
Gross profit	**68,675**	**22,455**	**1,926**	**93,056**
Impairment allowance of inventories	**(588)**	**(200)**	**(6)**	**(794)**
Depreciation and amortisation	**(7,885)**	**(2,473)**	**(73)**	**(10,431)**
Impairment losses on financial assets	**(1,049)**	**(329)**	**(10)**	**(1,388)**
For the year ended 31 December 2017				
Revenue	273,736	107,817	1,917	383,470
Gross profit	57,250	29,602	994	87,846
Impairment allowance of inventories	(24,986)	(2,740)	(1,258)	(28,984)
Depreciation and amortisation	(18,057)	(7,112)	(126)	(25,295)
Impairment losses on financial assets	(2,649)	(1,044)	(19)	(3,712)
Impairment allowance of property, plant and equipment	(14,286)	(5,627)	(100)	(20,013)

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

	2018 ***HK$'000***	2017 Restated *HK$'000*
Gross profit for reportable segments	**93,056**	87,846
Other income, gains and losses – net	**1,850**	(4,727)
Distribution costs	**(79,629)**	(99,449)
Administrative expenses	**(85,415)**	(109,696)
Net impairment losses on financial assets	**(1,388)**	(3,712)
Operating loss	**(71,526)**	(129,738)
Finance costs – net	**(7,646)**	(5,489)
Loss before income tax	**(79,172)**	(135,227)

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 external customers (2017: Nil) with whom transactions have exceeded 10% of the Group's revenues. The majority of sales are within the People's Republic of China (the "**PRC**").

4 EXPENSE BY NATURE

	2018	2017
	HK$'000	*HK$'000*
Raw materials and consumables used	**59,350**	165,692
Changes in inventories of finished goods and work in progress	**119,048**	(11,672)
Processing and assembling expenses	**2,816**	12,332
Advertising, marketing, and other incidental promotion expenses	**7,745**	14,461
Consumption tax of domestic sales and other taxes	**31,800**	37,932
Employee benefit expense	**106,242**	115,059
Transportation and storage expenses	**24,422**	27,896
Travelling expenses	**4,297**	5,349
Depreciation	**9,946**	23,730
Amortisation	**485**	1,565
Consultancy and professional fee	**9,975**	4,769
Operating lease payments	**5,159**	7,497
Maintenance expense	**2,107**	14,270
Auditors' remuneration	**5,840**	5,727
Impairment allowance of financial assets	**1,388**	3,712
Impairment allowance of inventories	**794**	28,984
Impairment allowance of property, plant and equipment	**–**	20,013
Other expenses	**26,895**	31,165
Total of cost of sales of goods, distribution costs and administrative expenses and net impairment losses on financial assets	**418,309**	508,481

5 OTHER INCOME, GAINS AND LOSSES – NET

	2018	2017
	HK$'000	*HK$'000*
Government grants	**351**	1,224
Write-off of long-aged trade and other payables	**–**	1,083
Service fee income	**239**	496
Gains/(loss) on disposal of property, plant and equipment	**153**	(194)
Stock loss *(Note)*	**–**	(7,182)
Others	**1,107**	(154)
	1,850	(4,727)

Note:

As detailed in the Company's public announcement dated 8 August 2018 (the "**Announcement**"), a subsidiary of the Company (the "**Subsidiary**") (as the plaintiff) filed a civil claim against a distributor which bypassed the established procedures and took the Group's inventories of finished goods with estimated sales values of HK$16,111,000 and costs of HK$7,182,000 (the "**Lost Inventories**"). The Announcement has also revealed that part of the Lost Inventories with estimated sales values of HK$8,013,000 and costs of HK$2,834,000 were deemed under a bill-and-hold arrangement with another single distributor connected with matters disclosed in the Company's Announcement (the "**Bill-and-Hold Arrangement**"). The Bill-and-Hold Arrangement referred to the arrangement between the Company and this single distributor for temporary inventory storage in the warehouse leased by the Subsidiary due to demolition of the warehouse of this single distributor. The audit committee of the Company conducted an independent investigation with the assistance of its legal adviser and a professional third party (the "**Investigation**") on the above case to understand and obtain evidence on how these incidents occurred, evaluate its impact on the Group's consolidated financial statements based on the findings.

After the Investigation, the Directors of the Company are of the view that the controls, risks and rewards associated with the inventories under the Bill-and-Hold Arrangement had not yet been transferred out of the Group and therefore no revenue was recognised by the Group in respect of these inventories during the year ended 31 December 2017. Based on the results of the Investigation, the Group has recognised a full impairment allowance against the Lost Inventories of HK$7,182,000 in the year ended 31 December 2017.

6 FINANCE COSTS – NET

	2018 *HK$'000*	2017 *HK$'000*
Finance income – interest income	**410**	517
Finance costs – interest expense on bank borrowings	**(8,056)**	(6,006)
Finance costs – net	**(7,646)**	(5,489)

7 INCOME TAX EXPENSE

	2018 *HK$'000*	2017 *HK$'000*
Current income tax:		
Current income tax on profits for the year	**71**	27
Total current income tax expense	**71**	27
Deferred income tax:		
Total deferred income tax	**–**	–
Income tax expense	**71**	27

8 DIVIDENDS

No dividend was declared or paid in 2018 and 2017.

9 LOSS PER SHARE

(a) Basic loss per Share

Basic loss per Share is calculated by dividing:

- the loss attributable to owners of the Company.
- by the weighted average number of ordinary Shares outstanding during the financial year.

	2018 *HK$'000*	2017 *HK$'000*
Loss attributable to owners of the Company	**(78,668)**	(133,625)
Weighted average number of ordinary Shares in issue *(thousands)*	**1,248,200**	1,248,200

	2018 *HK$ Cents*	2017 *HK$ Cents*
Loss attributable to the ordinary equity holders of the Company	**(6.30)**	(10.71)

(b) Diluted loss per Share

As the Group has no dilutive instruments during the year ended 31 December 2018 and 2017, the Group's diluted earnings per share equal to its basic earnings per share for the years ended 31 December 2018 and 2017.

10 TRADE AND NOTE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENT

(a) Trade and notes receivables

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**48,380**	68,971
Loss allowance for trade receivables	**(19,416)**	(20,771)
Trade receivables – net	**28,964**	48,200
Note receivables	**8,354**	13,397
	37,318	61,597

The Group grants a credit period of 90 days (2017: 90-180 days) to its customers. The ageing analysis of the trade receivables is as follows:

	2018	2017
	HK$'000	*HK$'000*
Up to 90 days	**25,972**	44,164
More than 30 days past due	**2,542**	3,039
More than 90 days past due	**641**	1,008
More than 270 days past due	**19,225**	20,760
	48,380	68,971

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

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This resulted in an increase of the loss allowance on 1 January 2018 by HK$240,000 for trade receivables.

The loss allowance for trade receivables decreased from HK$21,011,000 as of 1 January 2018 to HK$19,416,000 as of 31 December 2018.

Notes receivables where the contractual cash flow were solely principal and interest were previously classified as financial assets at amortised costs. Considering the Group's business model comprised both collecting contractual cash flows upon the expiry of the notes receivables or selling of these notes receivables, notes receivables should be classified from financial assets at amortised cost to financial assets at FVOCI upon the adoption of HKFRS 9 (with effect from 1 January 2018). No such reclassification has been made in this announcement as the Directors of the Company considered that the exiting presentation can ensure comparability of financial information and adequate disclosure has been made in this disclosure note.

(b) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group. Interest may be charged at commercial rates where the terms of repayment exceed six months. Collateral is not normally obtained.

	2018	2017
	HK$'000	*HK$'000*
Loan to related parties	**5,706**	5,981
Tax recoverable	**4,975**	4,270
Deposits paid	**4,088**	4,272
Advance of promotion expense	**2,853**	–
Loan to employees	**651**	1,421
Other receivables	**4,183**	5,458
	22,456	21,402
Less: loss allowance for other receivables	**(11,881)**	(9,138)
	10,575	12,264

(c) Prepayments

	2018	2017
	HK$'000	*HK$'000*
Prepayments		
– related parties *(Note)*	**10,256**	72
– third parties	**3,042**	1,891
	13,298	1,963

Note:

Prepayments to related parties represent the amounts of processing and assembling expenses as prepaid to the subsidiaries of Tianjin Food Group. All of these prepayments have been recovered as at the date of this announcement.

11 ASSETS HELD FOR SALE

	2018	2017
	HK$'000	*HK$'000*
Non-current assets held for sale		
Buildings	**148,674**	155,823
Land use right	**33,377**	34,982
	182,051	190,805

In February 2017, the Directors of the Company indicated its intention to dispose a chateau and related facilities held by a subsidiary, Sino-French Joint-Venture Dynasty Winery Ltd. (referred to as the "**Tianjin factory**"). On 27 June 2017, the Board announced that Tianjin factory would dispose of a chateau and related facilities through a public auction on Tianjin Property Rights Transaction Centre ("**TPRTC**") in the PRC pursuant to the relevant PRC laws and regulations in relation to transfer of PRC state-owned assets. The reserve price for the proposed sale and transfer of a chateau and related facilities was RMB400 million. On 24 October 2017, Tianjin Yiyang Big Health Small Township Development Co., Ltd., an independent third party, (the "**purchaser**"), registered with TPRTC regarding the purchase of the chateau and related facilities. Accordingly, the land use right and buildings in relation to this chateau were classified as assets held for sale as at 31 December 2017.

On 23 July 2018, the Tianjin factory formally entered into an Asset Transaction Agreement with the purchaser to dispose the land use right and buildings in relation to the chateau at consideration of RMB400 million (the "**Disposal**"). The Disposal was approved by the shareholders of the Company at the extraordinary general meeting on 5 December 2018. On 16 May 2019, the Tianjin factory received the consideration of RMB400 million from the purchaser through TPRTC. As of the date of this announcement, the Disposal has not yet completed pending for certain administrative registration procedures.

Certain bank borrowings was secured by the chateau and related facilities (classified as assets held for sale) with carrying amount of HK$190,805,000 in 2017. In June 2017, statements were issued by the China CITIC Bank and China Minsheng Bank to the TPRTC to confirm their agreement to put the mortgaged chateau and related facilities for sale through the TPRTC before the Group repaying the secured bank borrowings. And the aforesaid mortgage were all released along with the repayment of the borrowings prior to September 2018.

The movement in assets classified as held for sale during the year ended 31 December 2018 is due to the exchange difference as arisen from the retranslation of the foreign operation which owns the related assets.

12 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**106,030**	162,893
Amounts due to Tsinlien *(a)*	**42,404**	42,404
Payroll payable	**5,890**	6,553
Other tax payables	**8,042**	12,537
Others payables and accruals	**134,060**	148,352
Other payables and accruals	**190,396**	209,846
	296,426	372,739

Note:

(a) The amounts due to Tsinlien Group Company Limited ("**Tsinlien**") are arisen in connection with the emoluments payable for certain directors as accumulated since 2004. The amounts due to Tsinlien are unsecured, interest free and have no fixed terms of repayment. In June 2019, the ultimate shareholder of Tsinlien has issued a letter to the Company to confirm that Tsinlien will not request for the Group's repayment of the aforesaid amounts due it within the next fifteen months from 1 January 2019.

The ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	2018	2017
	HK$'000	*HK$'000*
0-30 days	**31,418**	32,113
31-90 days	**19,583**	16,784
91 to 180 days	**3,147**	10,796
Over 180 days	**51,882**	103,200
	106,030	162,893

13 CONTRACT LIABILITIES

	2018	2017
	HK$'000	*HK$'000*
Advance payments from distributors	**83,850**	126,418

Upon the adoption of HKFRS 15 on 1 January 2018, the Group has reclassified retrospectively the non-refundable advance from customers from "other payables and accruals" to "contract liabilities" in view of the Group's obligation to transfer goods to the customers.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group's revenue for the year ended 31 December 2018 decreased by 10% to HK$344.9 million (2017 – HK$383.5 million) and the Group's loss attributable to owners of the Company declined to HK$78.7 million (2017 – HK$133.6 million), representing a decrease of 41%.

Loss per Share was HK6.30 cents per Share (2017 – HK10.71 cents per Share) based on the weighted average number of 1,248 million Shares (2017 – 1,248 million Shares) in issue during the year. There was no potential dilutive Share for the year ended 31 December 2018.

The decline in loss attributable to owners of the Company in 2018 was mainly attributable to the decrease in distribution costs and administrative expenses.

Financial review

Revenue

Revenue of the Group represents proceeds from sale of wine products. The Group's total revenue decreased by 10% to approximately HK$344.9 million in 2018 from approximately HK$383.5 million in 2017. The decrease in revenue was mainly attributable to the deteriorating operating condition for certain distributors in Eastern and Southeast regions of the PRC during the year.

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$20.3 per bottle (750ml) in 2017 as a result of shifting the sales mix to medium-to-high end products. Since consumers in the PRC have a preference for red wines, the Group was 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 the cost of sales (before impact of impairment allowance of inventories) for the year:

	2018	2017
		Restated
	%	*%*
Cost of raw materials		
– Grapes and grape juice	**44**	42
– Yeast and additives	**2**	2
– Packaging materials	**20**	19
– Others	**1**	1
Total cost of raw materials	**67**	64
Manufacturing overheads	**25**	27
Consumption tax and other taxes	**8**	9
Total cost of sales	**100**	100

The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives as well as packaging materials including bottles, bottle caps, labels, corks and packing boxes. During the year, the cost of grapes and grape juice was the key component of cost of sales and accounted for approximately 44% of the Group's total cost of sales, representing an increase of 2% from approximately 42% in 2017, due to the increase in purchase price of grapes and grape juice. The total cost of packaging materials to the Group's revenue slightly increased during the year as compared with 2017.

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. Manufacturing overheads as a percentage of cost of sales decreased by 2% during the year as compared with 2017 mainly as a result of the decrease in repair and maintenance costs.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross sales. The overall gross profit margin increased to 27% in 2018 from 23% in 2017, mainly as a result of decrease in unit production costs.

The gross margin of red wine products and white wine products in 2018 were 26% and 27% respectively (2017 (restated) – 21% and 27% respectively).

Other income, gains and losses – net

Other income, gains and losses mainly comprises of write-off of long-aged trade and other payables, government subsidiaries related to talent training and enterprise development, and service fee income.

Other income, gains and losses for the year ended 31 December 2018 changed to a gain of HK$1.9 million (2017 – loss of HK$4.7 million) mainly because of no stock loss during the year.

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 23% (2017 (restated) – 26%) of the Group's revenue, mainly as a result of the decrease in advertising and market promotion expenses. In particular, the advertising and market promotion expenses accounted for approximately 2% (2017 – 4%) of the Group's revenue. During the year, the Group continued to promote and market its brand and products effectively through a range of joint promotions with 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, impairment allowance and other incidental administrative expenses.

During the year, administrative expenses decrease and accounted for approximately 25% (2017 (restated) – 29%) of the Group's revenue. This percentage decreased mainly because there was no impairment allowance of property, plant and equipment during the year (2017: approximately HK$20 million).

Income tax expense

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

Pursuant to the PRC Enterprise Income Tax Law passed by the Tenth National People's Congress on 16 March 2007, the enterprise income tax rate for all the subsidiaries of the Company incorporated in the PRC had been unified at 25% effective from 1 January 2008. The increase in income tax expense was because there was more current tax on profit of a subsidiary during the year.

Cash flow

In 2018, operating activities were the Group's main source of cash outflow.

The increase in net cash outflow in operating activities from HK$18.5 million in 2017 to HK$93.1 million in 2018 was mainly attributable to increase cash used in changes of working capital during the year.

The decrease in net cash outflow in investing activities amounted to approximately HK$1.5 million (2017 – HK$12.8 million) was mainly because no remittance of amount to a distributor during the year.

Increase in net cash generated from financing activities was primarily attributable to increase in net proceeds from borrowings amounted to approximately HK$90.9 million (2017 – HK$24.8 million).

Financial management and treasury policy

As at 31 December 2018, the Group's revenues, expenses, assets and liabilities were substantially denominated in RMB. The funding from the operation and borrowings was placed on short-term deposits (denominated in RMB or Hong Kong dollars) with authorised financial institutions. The Company also paid dividends in Hong Kong dollars when dividends were declared. The Company did 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, the Group will continue to closely monitor foreign currency movements and adopt prudent measures as appropriate.

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

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

Business review

Sales analysis

A) Distributorship

Though the decrease in revenue in the year attributed to unsatisfactory sales performance in the nationwide supermarket channel which is one of main off-trade channels of the Group, the Group continued implementing a reform on its sales and distribution model intending 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) enhancement in the effective management in monitoring and controlling sales and marketing expenses; and (iii) streamlining the existing multi-layered sales and distribution system so as to strengthen the direct control over the sales channels, thereby enhancing efficiency and effectiveness.

The total number of bottles of wine sold decreased from approximately 18.9 million in 2017 to approximately 13.3 million in 2018. Sales of red wines continued to be the Group's primary revenue contributor accounted for approximately 76% of the Group's revenue for the year (2017 – 71%).

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 low-to-medium end segments in the PRC wine market. With effective product strategies and a high quality and diversified product portfolio, the Group firmly believes that the "Dynasty" brand is able to attract savvy consumers. Moreover, the Group also sold foreign branded wines mainly imported from France, Italy, Germany, the United States of America, New Zealand, Australia, Chile and Spain in the PRC wine market through the Group's existing distribution network to introduce some classic "old world" and "new world" varietals to cater for a market niche preferring the taste of foreign premium wines. The Group currently carries about 120 imported products under approximately 30 brands. The Group believes that with the trend of increasing wealth and the disposable income of consumers, the demand for Dynasty and imported wines should increase. To boost its market share and sustain its growth, the Group is determined to continue to actively promote and raise the visibility of these wines to the market.

B) Online sales

Online sales have become more important in the PRC. The Group has operated its online stores on the online platforms, Tmall (天貓商城) and JD.com (京東商城) to further expand its sales channels and develop a new customer base. The Group strategically plans and continues putting resources for future improvement of the online sales channels instead of development of franchised retail shops so as to capture the change of customer consumption behavior in the PRC. Customers can place orders via the internet at these websites for Dynasty wines or the imported wines the Group carry anywhere and anytime. Although the online sales contribution was insignificant during the year, the Group is optimistic about the prospects of the business as research indicates that online trading business in the PRC should grow steadily in the coming years and the PRC 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 the Group 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 successful e-commerce model overseas.

Supplies of grapes or grape juice

Production of quality wines greatly depends on a sufficient supply of quality grapes or grape juice. Currently, the Group has more than 10 major grape juice suppliers with whom the Group has 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 the Group's growing business as well as its expanded production capacity is a high priority of the Group. Thus, the Group 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 2018, the Group has production and research and development facilities in its Tianjin winery with its annual production capacity of 70,000 tonnes (equivalent to approximately 93.3 million bottles).

After completion of the Disposal, the Group's annual production capacity is expected to decrease from 70,000 tonnes to 50,000 tonnes. Such expected capacity is sufficient for the Group to promptly response to the market demand and provide a platform for sustainable earnings growth.

Outlook

2019 will continue to be a reform year for Dynasty. Looking ahead to 2019, with the appointment of new management effective from 1 January 2018, the Group will continue to improve its organisational structure, cooperate with distributors, enhance its professionalism in its business management and place focused efforts on enhancing efficiency in order to steadily improve the Group's operating results. Leveraging on the experience in the wine industry, the Group will continue to intensify the reform and explore new sales channels, which will provide a solid foundation for sustainable development in the future.

Human resources management

Quality and dedicated staff are the most important assets of the Group. The Group strives to ensure a strong team spirit among its employees so that they identify and contribute in unison to its corporate objectives. To this end, the Group offers competitive remuneration packages commensurate with market practices and industry levels, and provides 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 435 (including directors) (2017: 448) in Hong Kong and the PRC as at 31 December 2018. The decrease in manpower has occurred mainly due to the internal human resources adjustment in response to the business development. The total salaries and related costs (including the directors' fees) for the year ended 31 December 2018 amounted to approximately HK$106.2 million (2017 – HK$115.1 million).

Liquidity and financial resources

The liquidity and financial position of the Group remain intact as the Group continues to adopt a prudent approach in managing its financial resources. As at 31 December 2018, the Group's cash and cash equivalents, and short-term deposits amounted to HK$81.0 million (2017: HK$82.1 million). It has sufficient financial support and resources and an adequate cash position for satisfying the working capital requirements of business development, operations and capital expenditures. New investment opportunities, if any, will be funded by the Group's internal resources.

The Group had net debt of HK$142.9 million (2017: HK$63.4 million) (total borrowings less cash and cash equivalents), with total equity of the Group amounting to approximately HK$155.2 million (2017: HK$245.6 million) as at 31 December 2018 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 2018 was 48% (2017 – 21%).

Capital structure

The Group had borrowing of HK$223.8 million (2017: HK$145.5 million) and with cash and liquid position as of HK$81.0 million (2017: HK$82.1 million) as at 31 December 2018, reflecting its intact capital structure. The Group expects its cash with proceeds from disposal of a chateau and related facilities and financial support from Tsinlien Investment, the ultimate shareholder of the company's major shareholder to be sufficient to support operating and capital expenditure requirements in the foreseeable future.

As at 31 December 2018, the market capitalisation of the Company was approximately HK$1,797 million (2017: HK$1,797 million). Trading in the Shares 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 2018, there was no capital expenditure contracted for at the end of the year but not yet incurred and no charges on assets. The Group had contingent liabilities in terms of:

In June 2018, an arbitration was lodged by a supplier against one of the Group's subsidiaries for its non-performance under a raw materials purchasing agreement as signed in November 2015. The matter is currently being considered by the Tianjin Arbitration Commission. The external lawyer as appointed by the Group and the Group's internal legal department consider it to be probable that the judgement will be in favour of the Group and has therefore not recognised a provision in relation to this case. The potential compensation that the Group could be required to make if there was an adverse decision related to the arbitration is estimated to be approximately RMB30 million.

In March 2019, a lawsuit was lodged by a supplier against one of the Group's subsidiaries for its non-performance under a raw wine purchasing supplementary agreement as signed in May 2015. The matter is currently being considered by the Tianjin Beichen District People's Court. The external lawyer as appointed by the Group and the Group's internal legal department consider it has partial possibility that the judgement will be in favour of the Group and has therefore not recognised a provision in relation to this case. The potential compensation that the Group could be required to make if there was an adverse decision related to the lawsuit is estimated to be approximately RMB0.7 million.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

For the year ended 31 December 2018, the Group had not made any other material acquisitions or disposal of subsidiaries, associates or joint ventures. On 23 July 2018, the Tianjin factory formally entered into an Asset Transaction Agreement with the purchaser to dispose the land use right and buildings in relation to the chateau. Please refer to note 11 of this announcement for details.

Principal risks and uncertainties

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

1. Market risks

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

2. Commercial risks

The Group is facing various competition by domestic companies in the wine industry, and also finds that an increasing number of imported wines competitors entering the markets. To maintain the Group's competitiveness, it continues to strengthen research and development to launch new products or products with distinctive characteristics, such as geographically featured products to diversity product mix.

3. Operational risks

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

4. Loss of distributors/customers

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

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

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

Environmental policies and performance

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

Compliance with laws and regulation

The Board places emphasis on the Group's policies and practices on compliance with legal and regulatory requirements. External legal advisers are engaged to ensure transactions and businesses performed by the Group are within the applicable law framework. Updates on applicable laws, rules and regulations are brought to the attention of relevant employees and operation units from time to time. The Group continues to commit to comply with the relevant laws and regulations such as the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), and other applicable laws and regulations. Save as disclosed for non-compliance with Rule 3.10A of the Listing Rules, non-compliance of Code Provision A1.1 of Appendix of the Code and breach of financial reporting provisions under the Listing rules mentioned in section "Compliance with the Corporate Governance Code and Corporate Governance Report", based on information available, the Directors took the view that during the year ended 31 December 2018, the Group was not aware of any non-compliance of the relevant laws and regulations that had a significant impact on the Group.

Event after the reporting period

As at the date of this announcement, all of the Group's borrowings as at 31 December 2018 have been repaid upon their maturity dates. Subsequent to 31 December 2018, one-year term entrusted bank borrowings of RMB40 million were granted to the Group by the Tianjin Food Group through China Merchants Bank respectively which bore interests at rates ranged from 4.35% to 5.35% per annum. As the date of this announcement, all of the aforesaid borrowings of RMB40 million had been repaid by the Group.

Dividend

The Directors did not recommend the payment of any final dividend to the shareholders of the Company (the "**Shareholders**") for the year ended 31 December 2018.

Purchase, sale or redemption of the Shares

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any Shares 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 to 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 year ended 31 December 2018.

Compliance with the Corporate Governance Code and Corporate Governance Report

Save as disclosed below, none of the Directors was aware of any information that would reasonably indicate that the Company was not in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "**Code**") set out in Appendix 14 to the Listing Rules for the year ended 31 December 2018. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

During the year ended 31 December 2018 and up to the date of this announcement, the number of independent non-executive Directors fell below one-third of the Board. The Company intended to look for suitable candidate of independent non-executive Director who is familiar with the fast moving consumer goods industry, and who has extensive experience in wine business. As such, the number of independent non-executive directors could not represent at least one-third the Board required under Rule 3.10A of the Listing Rules.

Only three regular board meetings were held in 2018, thus the number of board meetings was below a minimum required under Code Provision A.1.1 of Appendix 14 "Corporate Governance Code and Corporate Governance Report" of the Listing Rules where the board should meet regularly and board meetings should be held at least 4 times a year at approximately quarterly intervals. However, the management of the Company has kept provided all members of the Board, in a timely manner, updates on any material changes to the performance and position of the Company.

On 15 February 2018, the Company announced the annual results for the year ended 31 December 2016. On 8 June 2018, the Company announced the interim results for the six-month periods ended 30 June 2013, 2014, 2015 and 2016.

Prior to such publication, at the year ended 31 December 2018, as additional time is required by the Company to address the issues for the completion of the audit for the consolidated financial statements for the year ended 31 December 2017 and 2018, and to finalise the outstanding results announcements and reports, the Group had breached the financial reporting provisions under (i) Rule 13.49(1)/13.49(6) and (ii) 13.26(2)/13.48(1) of the Listing Rules in respect of (i) announcing the annual/interim results for the years ended 31 December 2016 and 2017 and for the six-month periods ended 30 June 2013, 2014, 2015, 2016, 2017 and 2018; (ii) publishing the related annual/interim reports for the years ended 31 December 2012, 2013, 2014, 2015, 2016 and 2017 and for the six-month periods ended 30 June 2013, 2014, 2015, 2016, 2017 and 2018; and (iii) convening an annual general meeting for the financial years ended 31 December 2012, 2013, 2014, 2015, 2016 and 2017.

Audit committee

As at 31 December 2018, the audit committee of the Company 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 2018 in conjunction with the Company's auditor and reviewed internal controls of the Group.

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 2018 as set out in this announcement have been agreed by the Company'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 to the Listing Rules, is published on the websites of the Company (www.dynasty-wines.com) and the Stock Exchange.

The annual report of the Company for the year ended 31 December 2018, which contains the detailed results and other information of the Group for the year ended 31 December 2018 required pursuant to Appendix 16 to the Listing Rules will be despatched to the Shareholders and published on the websites 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.

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

Suspension of trading

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

By order of the Board
Mr. Sun Jun
Chairman

Hong Kong, 22 July 2019

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