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 2020

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 2020 together with comparative figures for the year ended 31 December 2019, prepared on the basis set out in Note 2 below:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

		Year ended 31 December	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
Revenue from contracts with customers	*3*	**238,673**	302,333
Cost of sales of goods	*4*	**(178,554)**	(224,284)
Gross profit		**60,119**	78,049
Distribution costs	*4*	**(53,456)**	(76,853)
Administrative expenses	*4*	**(75,696)**	(74,550)
Net impairment losses on financial assets		**(613)**	1,782
Other income, other gains and losses – net	*5*	**246,732**	5,031
Operating profit/(loss)		**177,086**	(66,541)
Finance income	*6*	**1,143**	1,984
Finance costs	*6*	**(107)**	(4,687)
Finance income/(costs) – net	*6*	**1,036**	(2,703)
Profit/(loss) before income tax		**178,122**	(69,244)
Income tax expense	*7*	**(62,430)**	(64)
Profit/(loss) for the year		**115,692**	(69,308)
Profit/(loss) attributable to:			
Owners of the Company		**116,378**	(72,943)
Non-controlling interests		**(686)**	3,635
		115,692	(69,308)
		HK$ cents	*HK$ cents*
Profit/(loss) per share attributable to the owners of the Company			
– Basic and diluted earnings/(loss) per share	*9*	**9.32**	(5.84)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Year ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
Profit/(loss) for the year	**115,692**	(69,308)
Other comprehensive income/(loss):		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**16,739**	(3,121)
Total comprehensive income/(loss) for the year	**132,431**	(72,429)
Total comprehensive income/(loss) for the year is attributable to:		
– Owners of the Company	**132,014**	(75,756)
– Non-controlling interests	**417**	3,327
	132,431	(72,429)

CONSOLIDATED BALANCE SHEET

As at 31 December 2020

		As at 31 December	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
Assets			
Non-current assets			
Property, plant and equipment		**70,835**	71,309
Right-of-use assets		**21,460**	20,460
Investment in an associate		**–**	–
Deferred income tax assets		**–**	–
Total non-current assets		**92,295**	91,769
Current assets			
Trade receivables	*10*	**29,124**	38,748
Notes receivable	*11*	**13,897**	29,868
Other receivables	*10*	**9,064**	8,917
Prepayments	*10*	**2,728**	95,248
Inventories		**257,315**	289,747
Cash and cash equivalents		**182,541**	157,932
		494,669	620,460
Assets classified as held for sale	*12*	**–**	178,068
Total current assets		**494,669**	798,528
Total assets		**586,964**	890,297

CONSOLIDATED BALANCE SHEET (CONTINUED)
As at 31 December 2020

		As at 31 December	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
Liabilities			
Non-current liabilities			
Lease liabilities		**2,094**	1,001
Current liabilities			
Trade payables	*13*	**94,531**	100,598
Contract liabilities	*14*	**96,242**	66,028
Advance received for disposal of chateau assets	*12*	**–**	446,528
Other payables and accruals	*13*	**174,182**	188,779
Provisions for contingent liabilities	*15*	**2,738**	1,961
Lease liabilities		**2,020**	2,676
Total current liabilities		**369,713**	806,570
Total liabilities		**371,807**	807,571
Equity			
Equity attributable to owners of the Company			
Share capital		**124,820**	124,820
Other reserves		**1,160,455**	1,144,819
Accumulated losses		**(1,087,601)**	(1,203,979)
Capital and reserves attributable to owners of the Company		**197,674**	65,660
Non-controlling interests		**17,483**	17,066
Total equity		**215,157**	82,726
Total equity and liabilities		**586,964**	890,297

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 Company is an investment holding entity and the principal activities of the subsidiaries are manufacturing and sales of wine products.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited.

On 9 September 2020, the entire issued share capital of the immediate shareholder of the Company, Famous Ever Group Limited ("**Famous Ever**"), was transferred from its original shareholder, Tsinlien Group Company Limited ("**Tsinlien Group**"), to Tianjin Food Group Company Limited ("**Tianjin Food**"). Upon completion of the transaction, Tianjin Food indirectly held 44.70% of the share capital of the Company. Both Tsinlien Group and Tianjin Food are indirectly wholly-owned by Tianjin Tsinlien Investment Holdings Limited ("**Tsinlien Investment**"), which in turn is ultimately wholly-owned by the Tianjin Municipal People's Government of the People's Republic of China (the "**PRC**").

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 (Cap. 622) ("**HKCO**").

(ii) Historical cost convention

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

(iii) 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 periods commencing 1 January 2020:

- Definition of Material – Amendments to HKAS 1 and HKAS 8
- Definition of a Business – Amendments to HKFRS 3
- Interest Rate Benchmark Reform – Amendments to HKFRS 9, HKAS 39 and HKFRS 7
- Revised Conceptual Framework for Financing Reporting

The Group also elected to adopt the following amendments early.

- Annual improvements to HKFRS Standards 2018-2020 Cycle

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 ice wine. The executive Directors assess the performance of the operating segments based on gross profit. All revenue of the Group are from external customers.

	Red wines	White wines	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2020				
Revenue from contracts with customers	**154,935**	**77,005**	**6,733**	**238,673**
Gross profit/(loss)	**37,846**	**23,678**	**(1,405)**	**60,119**
Impairment allowance of inventories	**(3,959)**	**(1,967)**	**(172)**	**(6,098)**
Depreciation	**(6,741)**	**(3,351)**	**(293)**	**(10,385)**
Impairment losses on financial assets	**(398)**	**(198)**	**(17)**	**(613)**
For the year ended 31 December 2019				
Revenue from contracts with customers	221,097	76,164	5,072	302,333
Gross profit	54,883	19,653	3,513	78,049
Impairment allowance of inventories	(3,088)	(1,064)	(71)	(4,223)
Depreciation	(9,086)	(3,130)	(208)	(12,424)
Reversal of impairment losses on financial assets	1,303	449	30	1,782

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

	2020	2019
	HK$'000	*HK$'000*
Gross profit for reportable segments	**60,119**	78,049
Other income, other gains and losses – net	**246,732**	5,031
Distribution costs	**(53,456)**	(76,853)
Administrative expenses	**(75,696)**	(74,550)
Net impairment losses on financial assets	**(613)**	1,782
Operating profit/(loss)	**177,086**	(66,541)
Finance income/(costs) – net	**1,036**	(2,703)
Profit/(loss) before income tax	**178,122**	(69,244)

3 SEGMENT INFORMATION (CONTINUED)

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 customer (2019 – Nil) with whom transactions have exceeded 10% of the Group's revenue.

The majority of sales of the Group were made within the PRC.

4 EXPENSES BY NATURE

	2020	2019
	HK$'000	*HK$'000*
Raw materials and consumables used	**100,307**	108,254
Changes in finished goods and work in progress	**11,893**	38,460
Processing and assembling expenses	**425**	3,821
Advertising, marketing, and other promotion expenses	**11,084**	16,059
Consumption tax of domestic sales and other taxes	**23,901**	26,027
Employee benefit expenses *(Note (a))*	**99,789**	96,274
Storage expenses	**2,903**	7,599
Transportation	**9,237**	11,332
Travelling expenses	**3,988**	4,345
Depreciation of property, plant and equipment	**7,162**	8,933
Depreciation of right-of-use assets	**3,223**	3,491
Consultancy and professional fee	**4,972**	11,122
Operating lease payments	**393**	2,180
Maintenance expense	**4,781**	3,402
Auditors' remuneration	**2,532**	3,386
Impairment allowance of inventories	**6,098**	4,223
Other expenses	**15,018**	26,779
Total cost of sales of goods, distribution costs, administrative expenses	**307,706**	375,687

(a) The Group's subsidiaries implemented employee reform plan in 2020, which led to compensation for termination of employment contracts and early retirement amounted to HK$23,062,000 and HK$3,644,000 respectively.

5 OTHER INCOME, OTHER GAINS AND LOSSES – NET

	2020	2019
	HK$'000	*HK$'000*
Gain on disposal of Chateau *(Note 12)*	**246,136**	–
Government grants	**3,172**	917
Compensation received for inventory loss *(Note (a))*	**–**	4,768
Gain on disposal of obsolete products, net *(Note (b))*	**–**	1,645
Compensation to suppliers related to contractual obligation for purchasing raw wines *(Note (c))*	**(132)**	(1,146)
Provision for potential compensation to employees *(Note 15)*	**(630)**	(1,983)
Loss on disposal of property, plant and equipment, net	**(1,092)**	(71)
Others	**(722)**	901
	246,732	5,031

(a) As announced by the Company on 8 August 2018, a subsidiary of the Company filed a civil claim against a distributor which bypassed the established procedures and took the Group's products with estimated sales value of HK$16.11 million and costs of HK$7.18 million. The Group has made a full impairment allowance against the lost inventories in 2017. In 2019, the subsidiary received the compensation with total value of about HK$4.77 million by judgement of the court, in the form of cash, a residential property and certain physical assets.

(b) During 2019, two of the Group's subsidiaries disposed of obsolete products totalling 14.5 million bottles to a third party at a total price of HK$1,645,000. The related products had been fully impaired in previous years.

(c) 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 purchase contract signed in May 2015. According to the first-instance judgement of Tianjin Beichen District People's Court on 2 December 2019, the Group should honour the commitment to buy the raw wine amounted to HK$5,931,000. A total loss amounted to HK$132,000 (2019 – HK$1,146,000) was resulted from this lawsuit to the Group.

6 FINANCE INCOME/(COSTS) – NET

	2020	2019
	HK$'000	*HK$'000*
Finance income – interest income	**1,143**	1,984
Finance costs – interest paid for lease liabilities	**(107)**	(204)
Finance costs – interest expense on bank borrowings	**–**	(4,483)
Finance income/(costs) – net	**1,036**	(2,703)

7 INCOME TAX EXPENSE

	2020	2019
	HK$'000	*HK$'000*
Current income tax	**27**	64
Deferred income tax	**–**	–
Corporate income tax	**27**	64
Land appreciation tax ("**LAT**") *(Note (a))*	**62,403**	–
	62,430	64

(a) LAT

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including lease charges for land use rights and all property development expenditures. LAT is included in the income statement as income tax expense.

8 DIVIDENDS

No dividend was declared or paid in 2020 and 2019.

9 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing:

- the profit/(loss) attributable to owners of the Company,
- by the weighted-average number of ordinary shares outstanding during the financial year.

	2020	2019
Profit/(loss) attributable to owners of the Company *(HK$'000)*	**116,378**	(72,943)
Weighted-average number of ordinary shares in issue *('000)*	**1,248,200**	1,248,200
Profit/(loss) attributable to the ordinary equity holders of the Company *(HK$ Cents)*	**9.32**	(5.84)

(b) Diluted earnings/(loss) per share

The Group had no dilutive instruments during the years ended 31 December 2020 and 2019 and the Group's diluted earnings/(loss) per share equal to its basic earnings/(loss) per share for the years ended 31 December 2020 and 2019.

10 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

(a) Trade receivables

	2020	2019
	HK$'000	*HK$'000*
Trade receivables from contracts with customers	**48,668**	56,632
Bad debt provision for trade receivables	**(19,544)**	(17,884)
Trade receivables – net	**29,124**	38,748

The Group grants a credit period of 90 days (2019 – 90 days) to its customers. The ageing analysis of the trade receivables is as follows:

	2020	2019
	HK$'000	*HK$'000*
Up to 90 days	**22,158**	30,781
More than 30 days past due	**6,472**	7,402
More than 90 days past due	**909**	1,039
More than 270 days past due	**19,129**	17,410
	48,668	56,632

The carrying amounts of the Group's trade receivables were principally denominated in Renminbi.

(i) Fair value of trade receivables

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

(ii) Trade 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. The loss allowance increased by HK$1,660,000 to HK$19,544,000 during the current reporting period.

10 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(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.

	2020	2019
	HK$'000	*HK$'000*
Taxes to be offset	**4,470**	3,255
Advance for promotion agreements	**2,970**	2,791
Deposits paid	**3,790**	4,098
Cash advance to employees	**349**	200
Loan to related parties	**–**	5,582
Other receivables	**3,980**	4,622
	15,559	20,548
Less: Loss allowance for other receivables	**(6,495)**	(11,631)
	9,064	8,917

(c) Prepayments

	2020	2019
	HK$'000	*HK$'000*
Prepayments to		
– third parties *(Note (i))*	**2,305**	88,059
– related parties	**423**	7,189
	2,728	95,248

(i) As at 31 December 2019, prepayments to relevant taxes and transaction fee of transferring the Chateau were HK$84,573,000 and HK$2,178,000 respectively.

11 NOTES RECEIVABLE

	2020	2019
	HK$'000	*HK$'000*
Bank acceptance bill	**13,897**	29,868

As of 31 December 2020, notes receivable amounted to HK$6,768,000 and HK$7,129,000 (2019 – HK$29,868,000 and Nil) were all bank acceptance notes with maturity date within 6 months and 12 months, which are classified as financial assets at FVOCI.

12 ASSETS CLASSIFIED AS HELD FOR SALE

	2020	2019
	HK$'000	*HK$'000*
Assets held for sale – Chateau and related facilities		
Buildings	**–**	145,421
Land use right	**–**	32,647
	–	178,068

On 23 July 2018, a subsidiary of the Company, Sino-French Joint-Venture Dynasty Winery Ltd. ("**Dynasty Tianjin**"), entered into an asset transaction agreement with a third party (the "**Buyer**") to dispose of the land use rights and aboveground buildings covering a chateau and the related facilities of Dynasty Tianjin to the Buyer (the "**Disposal**") at a total consideration of RMB400 million.

Dynasty Tianjin received the consideration of RMB400 million (equivalent to HK$446.5 million) on 16 May 2019. This Disposal was completed on 23 January 2020. The related gains HK$246,136,000 from the Disposal was recognised in the profit or loss for the year of 2020 (Note 5).

13 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2020	2019
	HK$'000	*HK$'000*
Trade payables	**94,531**	100,598
Other payables and accruals		
– Accruals for sales promotion expenditures	**35,327**	56,307
– Amount due to major shareholder of the Company *(Note (a))*	**42,404**	42,404
– Other taxes payables	**19,283**	10,931
– Payroll payable	**14,457**	6,364
– Others	**62,711**	72,773
	174,182	188,779
	268,713	289,377

(a) The amount due to major shareholder of the Company are arisen in connection with the emoluments payable for certain directors as accumulated since 2004. The amounts due to major shareholder are unsecured, interest free and have no fixed terms of repayment.

(b) The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

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

	2020	2019
	HK$'000	*HK$'000*
0-30 days	**55,031**	55,370
31-90 days	**592**	2,263
91 to 180 days	**149**	2,227
Over 180 days	**38,759**	40,738
	94,531	100,598

14 CONTRACT LIABILITIES

	2020	2019
	HK$'000	*HK$'000*
Advance received from distributors	**96,242**	66,028

15 PROVISIONS FOR CONTINGENT LIABILITIES

	2020	2019
	HK$'000	*HK$'000*
Provision for potential compensation to employees	**2,738**	1,961

(a) In December 2019, four employees of the Group lodged a labour arbitration with Tianjin Beichen District Labour Dispute Arbitration Committee against two subsidiaries of the Company for claiming for a total compensation of RMB3.5 million (equivalent to HK$3.95 million) regarding the termination of their employment contracts, which were for the purpose of changing their employment to other subsidiaries within the Group. As at 31 December 2019, based on the understanding of the related laws and regulations and the consultation with an external legal counsel, the Directors were of the view that the potential compensation amount was not likely to be higher than RMB1.76 million (equivalent to HK$1.96 million). Therefore, a provision for this contingent liability was made.

Up to the approval date of this announcement, this arbitration is still in progress except one of the employees returned to work since 1 January 2021, and the Directors are of the view that the potential compensation amount is not likely to be higher than RMB1.39 million (equivalent to HK$1.65 million). Therefore, the provision for this contingent liability decreased to HK$1.65 million as at 31 December 2020.

(b) After the implementation of employee reform plan (Note 4(a)), nine employees of the Group lodged labour arbitrations with Tianjin Beichen District Labour Dispute Arbitration Committee against two subsidiaries of the Company, claiming a total compensation of RMB0.91 million (equivalent to HK$1.09 million) regarding the terminations of their employment contracts. Up to the approval date of this announcement, based on the understanding of the related laws and regulations and the consultation with an external legal counsel, the Directors are of the view that the potential compensation amount is not likely to be higher than the aforesaid claimed amount of RMB0.91 million (equivalent to HK$1.09 million). Therefore, a provision for this contingent liability was made.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The revenue of the Group for the year ended 31 December 2020 decreased by 21% to HK$238.7 million (2019 – HK$302.3 million) and the Group's profit attributable to owners of the Company increased to HK$116.4 million (2019 – loss of HK$72.9 million).

Earnings per share of the Company (the "**Share**") was HK9.32 cents per Share (2019 – loss of HK5.84 cents per Share) based on the weighted average number of 1,248 million Shares (2019 – 1,248 million Shares) in issue during the year. There was no potential dilutive Share for the year ended 31 December 2020.

The increase in profit attributable to owners of the Company in 2020 was primarily contributed by the net gain on the Disposal. Excluding such gain on the Disposal, the Group had an operating loss which was mainly attributable to (i) the drop in gross profit resulting from a decrease in the revenue of the Group; and (ii) the payment of employee compensation due to the implementation of employee reform plan during the year. The adjusted operating loss (after net gain on the Disposal and the employee compensation) decreased by 36% to approximately HK$42.3 million (2019 – approximately HK$66.5 million).

Financial review

Revenue

Revenue of the Group represents proceeds from sale of wine products. The Group's total revenue decreased from approximately HK$302.3 million in 2019 by 21% to approximately HK$238.7 million in 2020. The decrease in revenue was mainly attributable to the outbreak of novel coronavirus pandemic ("**COVID-19**") since January 2020 as well as restrictions on places of consumption imposed by the government of the PRC during the first four months of 2020 and adverse impact of the pandemic on consumer sentiment. Following the containment of COVID-19 in the PRC, the revenue of the Group improved in the second half of 2020 as compared to the first half of the year.

The Group's average ex-winery sales price of red and white wine products under the "Dynasty" brand (in RMB) during the year increased. Since consumers in the PRC have a preference for red wine, 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 was 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 and the previous year:

	2020	2019
	%	*%*
Cost of raw materials		
– Grapes and grape juice	**44**	43
– Yeast and additives	**2**	2
– Packaging materials	**20**	20
– Others	**1**	1
Total cost of raw materials	**67**	66
Manufacturing overheads	**23**	26
Consumption tax and other taxes	**10**	8
Total cost of sales	**100**	100

The principal raw materials required by the Group in producing wine products are grapes and 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, and remained stable during the year as compared to 43% in 2019.

Manufacturing overheads primarily consist of depreciation, 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 cost of sales decreased as compared with 2019 as a result of the decrease in depreciation of property, plant and equipment.

Consumption tax and other taxes as a percentage of cost of sales increased due to a decrease in applicable tax deduction for the unprocessed wine during the year.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross sales. The overall gross profit margin slightly decreased to 25% in 2020 from 26% in 2019, mainly as a result of an increase in impairment allowance of inventories.

The gross margin of red wine products and white wine products in 2020 were 24% and 31% respectively (2019 – 25% and 26% respectively).

Other income, other gains and losses – net

Other income, other gains and losses mainly comprises of gain on disposal of Chateau, government subsidies related to enterprise development and compensation.

Other income, other gains and losses for the year ended 31 December 2020 represented a net gain of HK$246.7 million (2019 – gain of HK$5.0 million). The increase was mainly due to a net gain on the Disposal (before LAT) of HK$246.1 million.

Distribution costs

Distribution costs principally include advertising and market promotion expenses, storage charges in connection with the sales of 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 22% (2019 – 25%) of the Group's revenue. The decrease in distribution costs to revenue ratio was due to less mass-scale promotion campaign during the COVID-19 outbreak and decrease in sales staff costs due to the implementation of employee reform plan. 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 its 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, legal and professional fee, depreciation and amortisation expenses and other incidental administrative expenses.

During the year, administrative expenses accounted for approximately 32% (2019 – 25%) of the Group's revenue. The increase in ratio was mainly attributable to the payment of compensation for termination of employment contracts and early retirement due to the implementation of employee reform plan during the year. Excluding such an employee compensation, the administrative expenses decreased to approximately 21% compared with the previous year as a result of strengthening cost control measures.

Finance income/(costs) – net

During the year, there was a change from finance costs to finance income – net to HK$1.0 million (2019 – net finance costs of HK$2.7 million) which was mainly due to there being no bank loan interest expense on bank borrowings compared to approximately HK$4.5 million in the previous year.

Income tax expense

No provision for taxation in Hong Kong had been made as the Group did not have any assessable profit arising from Hong Kong for both years.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Provision for the PRC Enterprise Income Tax was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws applicable to the subsidiaries operated in the PRC.

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including lease charges for land use rights and all property development expenditures. The increase in income tax expense was mainly due to LAT related to the Disposal during the year.

Cash flow

In 2020, the Group had strengthened the management of cash flow, and operating activities were the Group's main source of cash inflow.

The change of cash flow from operating activities from net outflow of approximately HK$46.8 million in 2019 to net inflow of approximately HK$12.1 million in 2020 was mainly due to the improvement in working capital by an increase in advance received from distributors before the year end.

The change in net cash flow in investing activities from net cash inflow in investing activities amounted to approximately HK$357.6 million in 2019 to net cash outflow of approximately HK$2.4 million in 2020 was mainly because of the one-off receipt of consideration from the Disposal and payment of related taxes and expenses in 2019.

The net cash outflow from financing activities decreased from approximately HK$229.3 million in 2019 to approximately of HK$2.8 million in 2020, which was primarily attributable to no borrowings being made during the year (2019 – net repayment of borrowings of approximately HK$221.6 million).

Financial management and treasury policy

For the year ended 31 December 2020, the Group's revenue, expenses, assets and liabilities were substantially denominated in RMB. The funding from the operation was placed on short-term deposits (denominated in RMB, US dollars or Hong Kong dollars) with authorised financial institutions. The Company would also pay dividends in Hong Kong dollars when dividends were declared, if any. 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 net cash position, 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

The decrease in revenue was primarily attributable to the outbreak of COVID-19. Since the outbreak of COVID-19 in January 2020, the Group has adopted various prevention and control measures in accordance with the relevant national and local regulations on epidemic prevention and control, with an aim to minimising the impact of the outbreak on the Group's operations. However, during the pandemic period, in particular from January to April 2020, business/government banquets and family gatherings were greatly reduced due to the restrictions imposed regarding the epidemic prevention and control policies. Places of consumption, such as supermarkets, tobacco and liquor stores and other retail terminals, were under strict policy control with regard to their operations, which seriously affected the consumption sentiments of wine products. Following the effective containment of COVID-19 and resumption of normal operation of places of consumption in the PRC, the Group's business improved in the second half of the year.

During the year, the Group further pushed forward implementing a sales and marketing reform, which encompassed (a) promoting two upgrades, namely product upgrade and brand upgrade, (b) forming the third-tier markets, i.e. the core market, key market and potential market and (c) taking four management measures. Such measures included (i) enhancing expansion and control of online channels, such as developing new channels and launching new products; (ii) the launch of mass-scale marketing campaign including showcasing in retail shops, hosting wine tasting events and organising plant visits to strengthen closer bonds with customers; (iii) accelerating the standardisation of markets; and (iv) exploring new distributors and updating existing distributors to strengthen cooperation with them. The Group co-operated with distributors to strengthen the control on retail price and over the sales channels to improve the operational efficiency of the Group.

The total number of bottles of wine sold decreased to approximately 9.4 million in 2020 (2019 – approximately 13.6 million). Sale of red wines continued to be the Group's primary revenue contributor accounted for approximately 65% of the Group's revenue for the year (2019 – 73%).

The Group produced 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 mass-market segments in the PRC wine market. During the year, the Group launched a new high end product, i.e. Dynasty Chinese Zodiac Commemorative Dry Red Wine for the Geng Zi Year of the Rat, integrating the high quality with the Chinese zodiac culture and leading the rise of Chinese-style fashion products. The Group also launched Dynasty Jiuxiang Rose Liqueur series earlier this year. Moreover, the blockbuster products, i.e. the second generation of Dynasty Merlot Dry Red Wine series, made their debut on the market in May, targeting business banquets as a model for business use. Meanwhile, the Group released Dynasty Seven-Year Reserve Dry Red Wine series, positioning high-end market with national banquet quality.

In September 2020, the Group unveiled its strategic plan for its brandy business and launched 3 new brandy products, namely Dynasty V.S.O.P. Brandy Aged 8 Years, Dynasty V.S.O.P. Brandy Aged 10 Years and Dynasty X.O. 18 Years Old Brandy. The introduction of these new products not only enriches the product matrix and culture elements of Dynasty's brandy, but also enhances its overall brand positioning. The new products are expected to become new growth drivers for Dynasty's brandy business. The current new brandy product strategic plan also plays a key role in the implementation of its "5+4+N product strategy", among which "5" represents the five key series of products namely, air dry series, seven-year reserve series, merlot series, classic series and best selling series, to achieve the goal of full coverage for all mainstream price segments; "4" refers to the four advantageous categories i.e. dry red wines, dry white wines, brandy and sparkling wines, to increase the vertical market share; and "N" stands for development of various customised products to meet the diversified needs of Chinese consumers.

Moreover, the Group also sold foreign branded wines mainly imported from France, Italy, Germany, Austria, Australia, New Zealand, Chile, Spain and the United States 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 sells about 130 imported products under approximately 20 brands. The Group believes that with the trend of increasing wealth and the disposable income of consumers for a medium-term, the demand for Dynasty and imported wines should increase.

B) *Online sales*

Online sales have become increasingly important in the PRC. The Group kept and strengthened cooperation with distributors to operate online stores on the e-commerce platforms. In addition to online stores on Tmall (天貓商城) and JD.com (京東商城), online flagship store on Pinduoduo (拼多多) platform and distribution line on Tmall Mart (天貓超市), the Group also developed new online sales channels during the year, such as the second-line sales distribution platform, social media and social group e-commerce platforms or in the form of online celebrity live delivery to further expand its sales channels and build up a new customer base.

The Group strategically plans and continues putting resources for future improvement of the online sales channels and optimization of online stores interface so as to capture the change of customer consumption behavior in the PRC. During the year, the Group also offered series of new products through launching exclusive online products on an e-commerce platform and strengthened the price management of online sales of old products. 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.

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, Hebei, Ningxia and Xinjiang. Ensuring reliable supplies of quality grapes and grape juices to meet the production needs of the Group's growing business 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 grapes. To optimise the supply network, the Group kept identifying new suppliers that comply with the quality requirements and conducted thorough tests on their grape juices before orders were placed. These procedures ensure the Group to procure quality grapes and grape juice supplies and also minimise the effect of bad harvests interrupting production.

Following the entering into the master purchase agreement with Tianjin Food in November 2020, the procurement of grapes and grape juice (including unprocessed wines) from Tianjin Food not only maintained and stabilise the quality of grapes and grape juice (including unprocessed wines), but also reduced the Group's lead time and cost of transportation and storage. Furthermore, Tianjin Food will continue to follow the guidance and advices provided by the Group in the process of grape harvesting and pressing which can ensure that the quality of grape juice (including unprocessed wines) meets the Group's standard.

Production capacity

After completion of the Disposal in January 2020 and as at the end of the year, the Group's annual production capacity decreased to 50,000 tonnes (2019 – 70,000 tonnes). Such capacity is sufficient for the Group to promptly response to the market demand and provides a platform for sustainable earnings growth.

Prospects and future plans

Looking ahead to 2021, the Group expects to continue to face various challenges from fast-changing economic conditions, and the post-stage of containment of COVID-19 in the PRC and opportunities from an increasing trend of domestic consumption backed by the government support. Going forward, following the containment of pandemic, apart from intensifying the sales and marketing reform, the Group will strive to gradually improve its performance by deepening the implementation of the "5+4+N product strategy" under a demand-driven market approach. It will increase its vertical market share through four advantageous categories and will utilise customised products, which are driven by market demand, to meet the diverse and fragmented consumer demand and achieve full coverage of all price segments. With effective product strategies and a high quality and diversified product portfolio, the Group firmly believes that the "Dynasty" brand is able to attract more consumers.

The Group will be persistent in meeting consumer demand by pursuing innovations for its wine series. Meanwhile, the Group will increase its investment in brand development to fully vitalise its brand and drive the development of its major products by steadily enhancing quality and controlling prices to boost sales volumes, with the aim of bringing Dynasty's superior wines to more consumers in the PRC. Subject to the factors including the impact of the global COVID-19 situation and the market conditions in the PRC, the Group currently expects that the revenue of the Group will steadily improve in 2021 following the rebound of economy in the PRC.

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 258 (including directors) (2019 – 390) in Hong Kong and the PRC as at 31 December 2020. The decrease in manpower was mainly due to the implementation of employee reform plan in response to the business development during the year, which led to compensation for termination of employment contracts and early retirement amounted to approximately HK$26.7 million. The total salaries and related costs (including the Directors' fees) for the year ended 31 December 2020 amounted to approximately HK$99.8 million (2019 – HK$96.3 million).

Liquidity and financial resources

The liquidity and financial position of the Group remained solid as the Group continued to adopt a prudent approach in managing its financial resources. As at 31 December 2020, the Group's cash and short-term deposits amounted to HK$182.1 million (2019 – HK$157.5 million). The increase was mainly due to an increase in advance received from distributors before the year end. It has sufficient resources and is in an adequate cash position to ensure solvency and to satisfy 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.

Capital structure

The Group had no borrowing and with cash and liquidity position of HK$182.1 million (2019 – HK$157.5 million) as at 31 December 2020, these reflecting its sound capital structure.

The Group also monitored capital on the basis of the liability-to-asset ratio. As at 31 December 2020, the Group's gearing ratio (expressed as total liabilities divided by total assets, in percentage) was approximately 63% (2019 – 91%). Subsequent to the completion of the Disposal, the Group's gearing ratio decreased to a sound level.

As at 31 December 2020, the market capitalisation of the Company was approximately HK$636.6 million (2019 – approximately HK$405.7 million).

Capital commitments, contingencies and charges on assets

As at 31 December 2020, there was no capital expenditure contracted for in relation to equipment (2019 – HK$391,000) but not yet incurred, and there was no charge on assets.

The Group had contingent liabilities in relation to labour arbitrations (see note 15).

Material acquisitions and disposals of subsidiaries, associates and joint ventures

For the year ended 31 December 2020, the Group had not made any material acquisitions or disposal of subsidiaries, associates or joint ventures.

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 competitions by domestic and overseas companies in the wine industry, and also finds that an increasing number of imported wines competitors entering the market, while local competitors grab the market with lower selling prices and counterfeit wines. To maintain the Group's competitiveness, it continues to strengthen the brand value, quality of products and research and development to launch new products or products with distinctive characteristics, such as festival featured products to diversity product mix.

3. Operational risks

The production lines of the Group have been in use for years, resulting in ageing of certain machines and a decline in productivity. Failure to respond effectively to the decline in capacity may affect the sales plan of the Group. The production department has continuously researched to upgrade the technology of the production lines and to introduce suitable equipment to enable the Group to maintain a high level of production so as to cater for the customers' demand.

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.

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 or upgrading of heating boiler and energy-saving transformer, 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 regulations

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 complying 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 (i) Rule 3.10A of the Listing Rules, (ii) code provision A.4.2 of Appendix 14 to the Listing Rules and (iii) failure to hold an annual general meeting ("**AGM**") during part of the year but later re-compiled during the year, based on the information available, the Directors took the view that during the year ended 31 December 2020, the Group was not aware of any non-compliance of the relevant laws and regulations that had a significant impact on 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 2020.

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 ended 31 December 2020.

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 of conduct 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 2020.

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 2020. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

1) During the period from 1 January 2020 to 30 September 2020, 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. However, the Company had yet identified such suitable candidate, including but not limited to, by screening and selecting from the database or register of relevant associations and making informal enquiry or approaching potential candidates through various channels. The outbreak of COVID-19 in early 2020 further affected and delayed the Company's recruitment efforts. As such, the number of independent non-executive Directors could not represent at least one-third the Board as required under Rule 3.10A of the Listing Rules.

Following the changes to the composition of the Board effective from 1 October 2020, the Board has nine Directors comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. As such, the number of independent non-executive Directors represented at least one-third of the Board as required, the Company re-complied with the requirement of Rule 3.10A of the Listing Rules.

2) According to code provision A.4.2 of the Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Each of Mr. Sun Jun, Mr. Li Guanghe, Mr. Sun Yongjian, Ms. Shi Jing, Dr. Zhang Guowang and Mr. Sun David Lee was appointed to fill a casual vacancy subsequent to 30 May 2012, being the date of last annual general meeting of the Company before their appointment, had not been re-elected by the Shareholders at the next general meeting after their appointment which was held on 5 December 2018 in accordance with code provision A.4.2 of the Code.

Mr. Heriard-Dubreuil Francois, Mr. Wong Ching Chung, Mr. Jean-Marie Laborde, Mr. Robert Luc and Mr. Yeung Ting Lap Derek Emory did not retire by rotation in accordance with code provision A.4.2 of the Code because no annual general meeting had been held by the Company since 30 May 2012 until 30 June 2020.

On 30 June 2020, the Company held an annual general meeting for the financial year ended 31 December 2019. All the Directors had been re-elected by the Shareholders at such annual general meeting to comply with the code provision A.4.2 of the Code.

Audit Committee

During the year ended 31 December 2020, the Audit Committee comprised 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 2020 in conjunction with the Company's auditor and discussed the matters concerning the internal controls and risk management system of the Group.

Review of Results Announcement

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this results 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 this 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 2020, which contains the detailed results and other information of the Group for the year ended 31 December 2020 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 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.

Acknowledgement

I would like to take this opportunity to acknowledge the support of the 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 challenging times.

By order of the Board
Mr. Wan Shoupeng
Chairman

Hong Kong, 29 March 2021

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Wan Shoupeng, Mr. Li Guanghe and Mr. Huang Manyou, three non-executive Directors, namely, Mr. Heriard-Dubreuil Francois, 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.