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 2021

FINANCIAL HIGHLIGHTS

- Revenue increased by 28% to approximately HK$306.0 million (2020: HK$238.7 million).
- Gross profit doubled to approximately HK$121.9 million (2020: HK$60.1 million).
- Profit attributable to the owners of the Company was approximately HK$32.8 million (2020: HK$116.4 million, including non-recurring net gain (after tax) on the disposal of chateau and related facilities of approximately HK$183.7 million and employee compensation pursuant to the employee reform plan of approximately HK$26.7 million).
- Basic earnings per share were HK2.63 cents (2020: HK9.32 cents).

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 2021 together with comparative figures for the year ended 31 December 2020, prepared on the basis set out in Note 2 below:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2021

	Notes	Year ended 31 December 2021 HK$'000	2020 HK$'000
Revenue from contracts with customers	3	**305,950**	238,673
Cost of sales of goods	4	**(184,019)**	(178,554)
Gross profit		**121,931**	60,119
Distribution costs	4	**(48,428)**	(53,456)
Administrative expenses	4	**(51,801)**	(75,696)
Net impairment losses on financial assets		**655**	(613)
Other income, other gains and losses – net	5	**7,973**	246,732
Operating profit		**30,330**	177,086
Finance income	6	**2,702**	1,143
Finance costs	6	**(77)**	(107)
Finance income – net	6	**2,625**	1,036
Profit before income tax		**32,955**	178,122
Income tax expense	7	**(20)**	(62,430)
Profit for the year		**32,935**	115,692
Profit attributable to:			
Owners of the Company		**32,811**	116,378
Non-controlling interests		**124**	(686)
		32,935	115,692
		HK$ cents	*HK$ cents*
Profit per share attributable to the owners of the Company			
– Basic and diluted earnings per share	9	**2.63**	9.32

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Year ended 31 December	
	2021	2020
	HK$'000	*HK$'000*
Profit for the year	**32,935**	115,692
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**9,438**	16,739
Total comprehensive income for the year	**42,373**	132,431
Total comprehensive income for the year is attributable to:		
– Owners of the Company	**41,721**	132,014
– Non-controlling interests	**652**	417
	42,373	132,431

CONSOLIDATED BALANCE SHEET

As at 31 December 2021

		As at 31 December	
		2021	2020
	Notes	***HK$'000***	*HK$'000*
Assets			
Non-current assets			
Property, plant and equipment		**73,993**	70,835
Right-of-use assets		**19,826**	21,460
Investment in an associate		**–**	–
Deferred income tax assets		**–**	–
Total non-current assets		**93,819**	92,295
Current assets			
Trade receivables	*10*	**13,801**	29,124
Notes receivable	*11*	**8,581**	13,897
Other receivables	*10*	**5,637**	9,064
Prepayments	*10*	**29,126**	2,728
Inventories		**250,565**	257,315
Cash and cash equivalents		**196,808**	182,541
Total current assets		**504,518**	494,669
Total assets		**598,337**	586,964

CONSOLIDATED BALANCE SHEET (CONTINUED)
As at 31 December 2021

		As at 31 December	
		2021	2020
	Notes	***HK$'000***	*HK$'000*
Liabilities			
Non-current liabilities			
Lease liabilities		**757**	2,094
Current liabilities			
Trade payables	*12*	**99,333**	94,531
Contract liabilities	*13*	**53,882**	96,242
Other payables and accruals	*12*	**184,524**	174,182
Provisions for contingent liabilities	*14*	**487**	2,738
Lease liabilities		**1,824**	2,020
Total current liabilities		**340,050**	369,713
Total liabilities		**340,807**	371,807
Equity			
Equity attributable to owners of the Company			
Share capital		**124,820**	124,820
Other reserves		**1,169,365**	1,160,455
Accumulated losses		**(1,054,790)**	(1,087,601)
Capital and reserves attributable to owners of the Company		**239,395**	197,674
Non-controlling interests		**18,135**	17,483
Total equity		**257,530**	215,157
Total equity and liabilities		**598,337**	586,964

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 ("**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 (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 amendments for the first time for their annual reporting period commencing 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2 – amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16

The Group also elected to adopt the following amendments early.

- Annual improvements to HKFRS Standards 2018-2020 Cycle
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to HKAS 12; and
- Covid-19-Related Rent Concessions beyond 30 June 2021

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 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*
2021				
Revenue from contracts with customers	**156,113**	**123,534**	**26,303**	**305,950**
Gross profit	**57,226**	**58,413**	**6,292**	**121,931**
Impairment allowance of inventories	**(870)**	**(688)**	**(146)**	**(1,704)**
Depreciation	**(3,241)**	**(2,564)**	**(546)**	**(6,351)**
Reversal of impairment losses on financial assets	**335**	**264**	**56**	**655**
2020				
Revenue from contracts with customers	154,935	77,005	6,733	238,673
Gross profit	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)

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

	2021	2020
	HK$'000	*HK$'000*
Gross profit for reportable segments	**121,931**	60,119
Distribution costs	**(48,428)**	(53,456)
Administrative expenses	**(51,801)**	(75,696)
Net impairment losses on financial assets	**655**	(613)
Other income, other gains and losses – net	**7,973**	246,732
Operating profit	**30,330**	177,086
Finance income – net	**2,625**	1,036
Profit before income tax	**32,955**	178,122

3 **SEGMENT INFORMATION (CONTINUED)**

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

(b) During the year, the following three (2020: Nil) external customers contributed more than 10% of total revenue of the Group. Those revenues were attributed to red wines and white wines segments.

	2021
	HK$'000
Customer A	**34,835**
Customer B	**32,857**
Customer C	**31,588**

(c) The majority of sales of the Group were made within the PRC.

4 **EXPENSES BY NATURE**

	2021	2020
	HK$'000	*HK$'000*
Raw materials and consumables used	**114,554**	100,307
Changes in finished goods and work in progress	**8,197**	11,893
Processing and assembling expenses	**–**	425
Advertising, marketing, and other promotion expenses	**15,819**	11,084
Consumption tax of domestic sales and other taxes	**26,310**	23,901
Employee benefit expenses *(Note (a))*	**68,469**	99,789
Storage expenses	**1,531**	2,903
Transportation	**8,572**	9,237
Travelling expenses	**4,918**	3,988
Depreciation of property, plant and equipment	**3,632**	7,162
Depreciation of right-of-use assets	**2,719**	3,223
Consultancy and professional fee	**4,128**	4,972
Operating lease payments	**95**	393
Maintenance expenses	**3,454**	4,781
Auditors' remuneration	**2,651**	2,532
Impairment allowance of inventories	**1,704**	6,098
Other expenses	**17,495**	15,018
Total cost of sales of goods, distribution costs, administrative expenses	**284,248**	307,706

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

5 OTHER INCOME, OTHER GAINS AND LOSSES – NET

	2021	2020
	HK$'000	*HK$'000*
Government grants	**5,469**	3,172
Provision for potential compensation to employees *(Note 14)*	**2,296**	(630)
Gain on disposal of Chateau	**–**	246,136
Compensation to suppliers related to contractual obligation for purchasing raw wines	**–**	(132)
Loss on disposal of property, plant and equipment, net	**(347)**	(1,092)
Others	**555**	(722)
	7,973	246,732

6 FINANCE INCOME – NET

	2021	2020
	HK$'000	*HK$'000*
Finance income – interest income	**2,702**	1,143
Finance costs – interest paid for lease liabilities	**(77)**	(107)
Finance income – net	**2,625**	1,036

7 INCOME TAX EXPENSE

	2021	2020
	HK$'000	*HK$'000*
Current income tax	**20**	27
Deferred income tax	**–**	–
Corporate income tax	**20**	27
Land appreciation tax (LAT) *(Note (a))*	**–**	62,403
	20	62,430

(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 DIVIDEND

No dividend was declared or paid in 2021 and 2020.

9 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

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

	2021	2020
Profit attributable to owners of the Company *(HK$'000)*	**32,811**	116,378
Weighted-average number of ordinary shares in issue *('000)*	**1,248,200**	1,248,200
Profit attributable to the ordinary equity holders of the Company *(HK Cents)*	**2.63**	9.32

(b) Diluted earnings per share

The Group had no dilutive instruments during the years ended 31 December 2021 and 2020 and the Group's diluted earnings per share equal to its basic earnings per share for the years ended 31 December 2021 and 2020.

10 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

(a) Trade receivables

	2021	2020
	HK$'000	*HK$'000*
Trade receivables from contracts with customers	**34,858**	48,668
Bad debt provision for trade receivables	**(21,057)**	(19,544)
Trade receivables – net	**13,801**	29,124

The Group grants a credit period of 90 days (2020: 90 days) to its customers. The ageing analysis of the trade receivables is as follows:

	2021	2020
	HK$'000	*HK$'000*
Up to 90 days	**1,035**	22,158
More than 30 days past due	**13,134**	6,472
More than 90 days past due	**321**	909
More than 270 days past due	**20,368**	19,129
	34,858	48,668

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

10 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(a) Trade receivables (Continued)

(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$1,513,000 to HK$21,057,000 during the current year.

(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.

	2021	2020
	HK$'000	*HK$'000*
Taxes to be offset	**3,570**	4,470
Cash advance to employees	**329**	349
Deposits paid	**100**	3,790
Other receivables	**2,995**	3,980
	6,994	12,589
Less: Loss allowance for other receivables	**(1,357)**	(3,525)
	5,637	9,064

(c) Prepayments

	2021	2020
	HK$'000	*HK$'000*
Prepayments to		
– third parties	**28,685**	2,305
– related parties	**441**	423
	29,126	2,728

11 NOTES RECEIVABLE

	2021	2020
	HK$'000	*HK$'000*
Bank acceptance bill	**8,581**	13,897

As at 31 December 2021, notes receivable amounted to HK$8,581,000 were all bank acceptance notes with maturity date within 6 months (2020: HK$6,768,000 and HK$7,129,000 with maturity date within 6 months and 12 months respectively), which are classified as financial assets at FVOCI.

12 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2021	2020
	HK$'000	*HK$'000*
Trade payables	**99,333**	94,531
Other payables and accruals		
– Accruals for sales promotion expenditures	**55,735**	35,327
– Amount due to a shareholder of the Company *(Note (a))*	**42,404**	42,404
– Other taxes payables	**13,665**	19,283
– Payroll payable	**32,635**	14,457
– Others	**40,085**	62,711
	184,524	174,182
	283,857	268,713

(a) The amount due to a shareholder of the Company was arisen in connection with the emoluments payable for certain directors as accumulated since 2004. The amounts due to the 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:

	2021	2020
	HK$'000	*HK$'000*
0-30 days	**22,000**	55,031
31-90 days	**6,886**	592
91 to 180 days	**820**	149
Over 180 days	**69,627**	38,759
	99,333	94,531

13 CONTRACT LIABILITIES

	2021	2020
	HK$'000	*HK$'000*
Advance received from distributors	**53,882**	96,242

14 PROVISIONS FOR CONTINGENT LIABILITIES

	2021	2020
	HK$'000	*HK$'000*
Provision for potential compensation to employees	**487**	2,738

Up to the date of the announcement, three employee's arbitrations against subsidiaries of the Company regarding the termination of their employment contracts are still in progress, and the Directors are of the view that the potential compensation amount is not likely to be higher than HK$0.49 million (2020: HK$2.74 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The revenue of the Group for the year ended 31 December 2021 increased by 28% to HK$306.0 million (2020 – HK$238.7 million) and the Group's profit attributable to owners of the Company decreased to HK$32.8 million (2020 – HK$116.4 million).

Earnings per share of the Company ("**Share**") was HK2.63 cents per Share (2020 – HK9.32 cents per Share) based on the weighted average number of 1,248 million Shares (2020 – 1,248 million Shares) in issue during the year. There was no potential dilutive Share for the year ended 31 December 2021.

The decrease in profit attributable to the owners of the Company in 2021 was primarily due to the recognition of a gain (after land appreciation tax) of approximately HK$183.7 million from the disposal of a Chateau and related facilities (the "**Disposal**") which was completed in January 2020. Excluding such non-recurring gain on the Disposal as well as a non-recurring employee compensation of approximately HK$26.7 million due to the implementation of employee reform plan in 2020, there would have been an adjusted consolidated loss of approximately HK$41.3 million for the year ended 31 December 2020. The Group recorded a turnaround from the adjusted consolidated loss and achieved a consolidated profit for the year, benefited from the increase in the sales of medium to high end wine products and the improvement in gross profit margin.

Financial review

Revenue

Revenue of the Group represents proceeds from sale of wine products. The Group's total revenue increased from approximately HK$238.7 million in 2020 by 28% to approximately HK$306.0 million in 2021. The growth in revenue was mainly due to the prominent increase in sales volume of products, especially middle to high end wine products after optimisation of product mix, as well as the increase in market price of certain upgraded and custom-made products during the year. Following the occurrences of flooding and heavy rain and resurgence of more sporadic COVID-19 cases in certain regions in the PRC, which adversely affected consumer sentiment in the second half of 2021, the growth in revenue of the Group slowed down 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 during the year increased. 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 was generally higher than that of its white wines.

The total number of bottles of wine sold increased to approximately 11.9 million in 2021 (2020 – approximately 9.9 million). Sales of red wines continued to be the Group's primary revenue contributor accounted for approximately 51% of the Group's revenue for the year (2020 – 65%), but sales of white wines were a growth driver of the Group's revenue, with a year-on-year increase by approximately 60%, benefited from an increase in average sale price of certain upgraded white wine products and capture of the growth of dry white wine market during the year.

Cost of sales of goods

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

	2021	2020
	%	*%*
Cost of raw materials		
– Grapes and grape juice	**46**	44
– Yeast and additives	**2**	2
– Packaging materials	**21**	20
– Others	**1**	1
Total cost of raw materials	**70**	67
Manufacturing overheads	**19**	23
Consumption tax and other taxes	**11**	10
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 46% of the Group's total cost of sales, and increased during the year as compared with approximately 44% in 2020 mainly due to purchase price hike of grapes and grape juice.

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 2020 mainly due to refinement of the production and a drop in repair and maintenance costs and supplies consumed.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross sales. The overall gross profit margin significantly increased to 40% in 2021 from 25% in 2020, mainly as a result of an increase in average sale price of certain upgraded and custom-made red and white wine products compared with 2020, as well as improvement in product sales mix and refinement of the production.

The gross margin of red wine products and white wine products in 2021 were 37% and 47% respectively (2020 – 24% and 31% respectively).

Other income, other gains and losses – net

Other income, other gains and losses mainly comprises of gain on the Disposal, government grants related to enterprise development and provision for potential compensation to employees.

Pursuant to the Disposal at the consideration of RMB400 million (equivalent to HK$446.5 million), the Disposal was completed on 23 January 2020, therefore a net gain on the Disposal (before LAT) of HK$246.1 million was recognised in 2020.

Other income, other gains and losses for the year ended 31 December 2021 represented a net gain of HK$8.0 million (2020 – approximately HK$246.7 million). The drop in net gain was mainly due to the Disposal was being a one-off transaction and therefore no such gain on the Disposal during the year.

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 16% (2020 – 22%) of the Group's revenue. The decrease in distribution costs to revenue ratio was due to a decrease in storage charges resulting from the optimisation of warehouses and staff costs pursuant to the employee reform plan in 2020. 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, impairment allowance and other incidental administrative expenses.

During the year, administrative expenses as a percentage of the Group's revenue accounted for approximately 17% (2020 – 32%) of the Group's revenue. The decrease in ratio was mainly attributable to the non-recurring payment of employee compensation due to the implementation of employee reform plan in 2020. Excluding such non-recurring payments, the administrative expenses still recorded a decrease compared with 2020 primarily as a result of effective cost control measures and a decrease in staff cost after the implementation of the employee reform plan in 2020.

Finance income – net

During the year, there was an increase in finance income – net, which was mainly due to an increase in bank interest income compared with 2020.

Income tax expense

No provision for taxation in Hong Kong has 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 decrease in income tax expense was mainly due to LAT related to the Disposal during the year.

Cash flow

In 2021, the Group has strengthened management of cash flow, operating activities were the Group's main source of cash inflow.

The slight increase in cash flow from operating activities from approximately HK$12.1 million in 2020 to approximately HK$12.6 million in 2021 was mainly contributed by the increase in interest income received.

The increase in net cash outflow in investing activities from approximately HK$2.4 million in 2020 to approximately HK$4.6 million in 2021 was mainly because of additions to machinery and improvement in facilities during the year.

The net cash outflow from financing activities decreased from approximately HK$2.8 million in 2020 to approximately HK$2.1 million in 2021 was primarily attributable to less lease payments during the year.

Financial management and treasury policy

For the year ended 31 December 2021, the Group's revenue, expenses, assets and liabilities were substantially denominated in RMB. The funding from the operations 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 had no borrowings and 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

For the year ended 31 December 2021, the increase in revenue was primarily:

(a) due to the recovery of sales resulting from the resumption of consumption occasions and consumer sentiment after government's relaxation of restrictions on the places of consumption, as well as growth of economy, following the containment of spread of the novel coronavirus pneumonia ("**COVID-19**") in the PRC; however, the recovery slowed down due to occurrences of flooding and heavy rain and resurgence of more sporadic COVID-19 cases in certain regions in the PRC, which adversely affected consumer sentiment in the second half of 2021;

(b) driven by an increase in sales of medium to high end wine products during the year as a result of improvement in sales mix after brand and product upgrade, when compared with last year's sales; and

(c) contributed by strengthened cooperation between sales team of the Group and distributors as well as purchase of goods from distributors before festivals during the year, which also showcased the stage results subsequent to the implementation of sales and marketing reform.

During the year, the Group continued in implementing a sales and marketing reform, as well as product and channel strategies. Regarding product strategy, the Group has been building a portfolio of high-quality products that can satisfy different consumption scenarios, and cover all product categories and price ranges in achieving an optimised product layout which was in line with its "5+4+N product strategy" to exploit the full potential of the consumer market. Regarding channel strategy, the Group strengthened its promotion, in particular title sponsorship of high-speed train since March of 2021 and advertising on online media in order to increase product and brand exposure and strengthen brand image. Furthermore, the Group pushed to expand distribution channels, including tobacco and liquor shops, convenience stores and medium and large supermarkets, catering outlets and social community. In addition to fortify the foundation of traditional sales channels, the Group has been penetrating social community through flexible interactive and thematic activities, and engaging opinion leaders plus content marketing, so that it may have the benefit of diverse yet all-connected channels. The Group will press ahead with its mass-scale marketing campaign with a goal to showcasing in 20,000 shops, hosting 1,000 wine tasting events and organising 100 plant visits, so as to keep developing and enhancing its point-of-sale network.

Dynasty kept implementing the market demand-oriented '5+4+N product strategy' in 2021 and subsequently completed the upgrade of its organisational structure, 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. In 2021, Dynasty adjusted its layouts of product, sales channels and marketing, and achieved remarkable results in the process.

The Group held its first brandy tasting and business fair event in January 2021 and took part in the 104th China Food & Drinks Fair (Spring Food & Drinks Fair) held in Chengdu in April 2021, during which the Group actively promoted its latest product mix that covered all product lines. The Group also held a series of activities in relation to the 105th China Food & Drinks Fair (Autumn Food & Drinks Fair) during mid-October 2021 in Tianjin. These activities include the participation in the Autumn Food & Drinks Fair, and the organisation of "Wineseer" Wine Exhibition, Dynasty Plant Open Day, Grand Opening Ceremony for the new premises of its National-level Technology Centre, wine tasting events for Dynasty air dry wines and Dynasty brandy along with the world's premier wines. These events received enthusiastic response from distributors

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 Xin Chou Year of the Ox, integrating the high quality with the Chinese zodiac culture and the leading rise of Chinese-style fashion products. The second generation of Dynasty Classic Collection – Cabernet Sauvignon Dry Red Wines made their debut on the market in June 2021, covering the mainstream price bands of mass consumption and suitable for omni-channel retail, as a result of the unified design styles and improved recognition. At its new marketing model and strategy press conference in October 2021, Dynasty unveiled two new product series which are focused on the entry-level product price range and targeted at young consumers, namely Sweet Heart ("**甘如飴**") and Pleasant Color ("**怡色**"). The former mainly offers white wines, opening a new chapter for the Group's product rejuvenation strategy.

Moreover, the Group also sold foreign branded wines mainly imported from France, Italy, Australia, Chile and United States of America 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 streamlines to sell about 50 imported products under approximately 10 brands.

The Group believes that with the trend of increasing wealth and the disposable income of consumers for a medium-term, as well as the rise of Chinese-style fashion would steadily benefit the demand of domestic-made Dynasty wines.

B) *Online sales*

The Group strengthened cooperation with distributors to operate online stores on the traditional e-commerce platforms, such as JD.com (京東商城), Tmall (天貓商城) and Pinduoduo (拼多多) for product sales, as well as comprehensive innovation across its brand, product categories, and business systems, procedures and models via new retail platforms, including Weibo, RED (Xiaohongshu app) (小紅書), Kuai (Kuaishou app) (快手) and TikTok (Douyin app) (抖音). Such efforts will facilitate the Group's brand communications so that it could continue to gain the attention of mainstream consumer groups and demographic segments, and enhance effective market penetration of the Group's products targeted at young consumers. The Group has also established an e-commerce team and actively cultivate e-commerce live broadcasting talents to further expand its sales channels so as to build up a new customer base.

The Group strategically plans and continues putting resources for future improvement of the online sales channels and optimisation of online stores interface so as to capture the change of customer consumption behavior in the PRC. During the year, apart from the existing exclusive products for e-commerce platforms, the Group had also been developing new products for emerging marketing channels, such as live broadcasting, 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 the consumers, but also an additional marketing and promotion channel for the brand. Thus, the platform should enhance the overall business potential of the Group.

Research and Technology

In October 2021, Dynasty has held a grand opening ceremony for the new premises of its National-level Technology Centre, which had been granted approval in 2020 to set up a post-doctoral work station. The work station is initially researching the selection of distinctive muscat yeast in order to brew more mellow and delicious wines. Dynasty's technology centre has also set up a winemaking and wine tasting studio in 2021. The studio has carried out five rounds of wine introduction and tasting activities to date, covering flower & fruit wine, sparkling wine, white wine, red wine and brandy. These activities have further broadened the professional competency of the studio staff and enable Dynasty's employees to gain a greater and in-depth understanding of wine products, so as to improve their technological and new product development capabilities. The completion of the new premises at the National-level Technology Centre will further promote the Group's research and development of new products as well as new winemaking techniques.

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 grape. To optimise the supply network, the Group kept identifying new suppliers that comply with the quality requirements, and the Group 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 Group Company Limited ("**Tianjin Food**") in November 2020, the procurement of grapes and grape juice (including unprocessed wines) from Tianjin Food not only maintained and stabilised 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

As at the end of December 2021, the Group's annual production capacity maintained at 50,000 tonnes (2020 – 50,000 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 2022, the Group will focus on product quality, reinvent consumption scenarios and strive to guide market spending, while continuing to build Dynasty into a brand representative of Chinese wines and its wines into iconic products. The Group will all be geared up to take the fast track on the revival journey and lead the development of Chinese wines.

The Group will also enhance its current product offerings and build the infrastructure for the market under its '5+4+N product strategy'. 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.

In the future, in line with the industry development trend, Dynasty will strengthen its presence in mass-market and mid-range products as well as those targeted at young consumers. We will also expand our distribution channels, with the aim to deploy 100,000 point-of-sales, add 1,000 distributors and vigorously develop new channels via retail platforms during the next three years, so as to seize the opportunities from the growing consumption market of young adults and strive to achieve the annual sales target exceeding RMB1 billion at that time.

In addition, Dynasty will prioritise three "New"s so as to capture the young adult consumer market from three aspects. The first is "new products". Dynasty will launch products with a sweeter and more subtle taste and with packaging accenting a youthful Chinese style. The second is "new channels". While insisting to integrate the manufacturing, distribution and retail businesses into one, Dynasty will continue to focus on ready-to-drink channels, beer sales channels and Business & Customer-end catering channels. The third is "new prices". Dynasty will price its new products by focusing more on the mid-range to mass-market young market segments. Moreover, Dynasty has also noted the huge room for growth in dry white wines as their consumption is far lower than that of dry red wines in the PRC. Hence, the Group will vigorously develop the dry white wine series within which it boasts strong advantages.

Subject to further preventive measures due to the emergence of sporadic COVID-19 cases in the PRC which may have impact on the business of the Group, barring any unforeseen market conditions, the Group currently expects that the annual revenue of the Group will keep growing on a steady trend in 2022.

No significant events have taken place after the year ended 31 December 2021 to the date of this announcement.

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 231 (including directors) (2020 – 258) in Hong Kong and the PRC as at 31 December 2021. The total salaries and related costs (including the Directors' fees and the employee compensation pursuant to the employee reform plan) for the year ended 31 December 2021 amounted to approximately HK$68.5 million (2020 – HK$99.8 million). During the year, the staff cost decreased mainly as a result of the implementation of the employee reform plan to streamline and optimise the personnel and business units' structure in 2020.

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 2021, the Group's cash and short-term deposits amounted to HK$196.1 million (2020 – HK$182.1 million). The increase was mainly due to effect of exchange rate changes on cash and cash equivalents. It has sufficient resources and adequate cash position 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 or proceeds from issue of Shares, if any.

Capital structure

The Group had cash and liquidity position of HK$196.1 million (2020 – HK$182.1 million) as at 31 December 2021, reflecting its sound capital structure. The Group expects its cash to be sufficient to support its operating and capital expenditure requirements in the foreseeable future.

The Group also monitored capital on the basis of the liability-to-asset ratio. As at 31 December 2021, the Group's gearing ratio (expressed as total liabilities divided by total assets, in percentage) was approximately 57% (2020 – 63%). The Group's gearing ratio decreased and maintained at a sound level.

As at 31 December 2021, the market capitalisation of the Company was approximately HK$505.5 million (2020 – approximately HK$636.6 million).

Capital commitments, contingencies and charges on assets

As at 31 December 2021, there was no capital expenditure contracted for at the end of the year (2020: nil) but not yet incurred and no charge on assets.

The Group had contingent liabilities in relation to labour arbitrations (see note 14).

Material acquisitions and disposals of subsidiaries, associates and joint ventures

For the year ended 31 December 2021, except for completion of the liquidation of a non-wholly owned and non-major subsidiary in Shanghai, 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 foreign exchange risk and 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 a number of imported wines competitors entered the markets, 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; and product series which are focused on the entry-level product price range and targeted at young consumers, opening a new chapter for the Group's product rejuvenation strategy.

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 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 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. Based on the information available, the Directors took the view that during the year ended 31 December 2021, 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 2021.

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 2021.

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 2021.

Compliance with the Corporate Governance Code and Corporate Governance Report

The Company has complied 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 2021. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

Audit Committee

During the year ended 31 December 2021, 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 2021 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 2021 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 2021, which contains the detailed results and other information of the Group for the year ended 31 December 2021 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.

Acknowledgement

The chairman of the Board 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.

The chairman of the Board 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 the year.

By order of the Board
Mr. Wan Shoupeng
Chairman

Hong Kong, 29 March 2022

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.