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Dynasty Fine Wines Group Limited

王朝酒業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 828)

**PRELIMINARY ANNOUNCEMENT OF RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

The Board of Directors (the “Directors”) of Dynasty Fine Wines Group Limited (the “Company”) would like to report the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2011. The independent auditor of the Company, PricewaterhouseCoopers, has reviewed the unaudited interim results for the first half year of 2011 in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. These results have also been reviewed by the Audit Committee. All Audit Committee members, including the chairman of the committee are independent non-executive directors.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
		2011	2010
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	6	790,686	784,848
Cost of sales		(461,400)	(393,122)
Gross profit		329,286	391,726
Other income	6	20,076	17,717
Distribution costs		(215,405)	(202,633)
Administrative expenses		(61,825)	(51,725)
Operating profit	7	72,132	155,085
Share of loss of an associate		(68)	(529)
Profit before income tax		72,064	154,556
Income tax expense	8	(20,414)	(41,020)
Profit for the period		51,650	113,536
Attributable to:			
Equity holders of the Company		52,652	114,110
Non-controlling interests		(1,002)	(574)
		51,650	113,536
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
– Basic and diluted earnings per share	10	4.2	9.2
		<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends	9	18,723	41,085

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	51,650	113,536
Other comprehensive income		
Currency translation differences	<u>42,455</u>	<u>17,821</u>
Total comprehensive income for the period	<u>94,105</u>	<u>131,357</u>
Total comprehensive income attributable to:		
Equity holders of the Company	94,496	131,646
Non-controlling interests	<u>(391)</u>	<u>(289)</u>
	<u>94,105</u>	<u>131,357</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 June 2011 Unaudited HK\$'000	31 December 2010 Audited HK\$'000
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		603,828	599,332
Land use rights		64,282	63,576
Goodwill		9,421	9,421
Investment in an associate		12,057	11,855
Deferred income tax assets		18,390	19,624
		<u>707,978</u>	<u>703,808</u>
Current assets			
Trade receivables	11	350,564	285,583
Other receivables, deposits and prepayments		59,194	52,862
Inventories		882,157	669,878
Prepaid income tax		10,896	–
Short-term deposits with maturity over three months		122,665	194,023
Restricted cash		–	14,336
Cash and cash equivalents		401,663	760,265
		<u>1,827,139</u>	<u>1,976,947</u>
Total assets		<u>2,535,117</u>	<u>2,680,755</u>
EQUITY			
Capital and reserves attributable to the equity holders of the Company:			
Share capital		124,820	124,820
Other reserves		1,153,366	1,146,817
Retained earnings		758,020	705,023
		<u>2,036,206</u>	<u>1,976,660</u>
Non-controlling interests in equity		26,398	26,789
Total equity		<u>2,062,604</u>	<u>2,003,449</u>

		As at	
		30 June	31 December
		2011	2010
		Unaudited	Audited
	<i>Note</i>	HK\$'000	HK\$'000
LIABILITIES			
Current liabilities			
Trade payables	12	306,839	241,729
Other payables and accruals		165,674	402,350
Current income tax liabilities		–	33,227
Total liabilities		472,513	677,306
Total equity and liabilities		2,535,117	2,680,755
Net current assets		1,354,626	1,299,641
Total assets less current liabilities		2,062,604	2,003,449

Notes:

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. The Company together with its subsidiaries are hereafter collectively referred to as the Group.

The Group produces and sells wine products, through a network of distributors and retail shops. The Group mainly operates in PRC and Hong Kong with a registered office in Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal address of the Company is Suite 5506, 55/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The condensed consolidated financial information was approved for issue on 25 August 2011.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial information for the six months ended 30 June 2011 are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with HKFRSs.

The accounting policies of computation used in the preparation of these condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2010.

(a) New and amended standards adopted by the Group

The following new standard and amendment to standard are mandatory for the first time for the financial year beginning 1 January 2011:

- HKAS 24 (Revised), “Related Party Disclosures”
- Amendment to HKAS 34 ‘Interim financial reporting’

(b) Amendments and interpretations to existing standards effective in 2011 but not relevant to the Group

- Amendment to HKAS 32 ‘Classification of rights issues’
- Amendment to HK(IFRIC)–Int-14 ‘Prepayments of a minimum funding requirement’
- HK(IFRIC)–Int 19 ‘Extinguishing financial liabilities with equity instruments’
- Third improvements to Hong Kong Financial Reporting Standards (2010), except for amendment to HKAS 34 ‘Interim financial reporting’ as disclosed in note 2(a)

(c) **The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted**

- HKFRS 9 ‘Financial instruments’
- HKAS 12 (Amendment) ‘Deferred tax: Recovery of underlying assets’
- HKFRS 7 (Amendment) ‘Disclosures – Transfers of financial assets’

3 FINANCIAL RISK MANAGEMENT

All aspects of the Group’s financial risk management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended 31 December 2010.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements used are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal to the related actual results.

The estimates and assumptions applied in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2010.

5 SEGMENT INFORMATION

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

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

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

All revenue of the Group are from external customers.

	Unaudited			
	Red wines HK\$'000	White wines HK\$'000	All other products HK\$'000	Total group HK\$'000
Six months ended 30 June 2011				
Revenue	<u>640,301</u>	<u>146,971</u>	<u>3,414</u>	<u>790,686</u>
Gross profit	<u>279,111</u>	<u>49,047</u>	<u>1,128</u>	<u>329,286</u>
Unallocated items:				
Depreciation and amortization	—	—	—	(28,637)
Interest income	—	—	—	5,210
Share of loss of an associate	—	—	—	(68)
Income tax expense	—	—	—	(20,414)
Six months ended 30 June 2010				
Revenue	<u>660,539</u>	<u>121,991</u>	<u>2,318</u>	<u>784,848</u>
Gross profit	<u>339,364</u>	<u>51,477</u>	<u>885</u>	<u>391,726</u>
Unallocated items:				
Depreciation and amortization	—	—	—	(22,552)
Interest income	—	—	—	5,451
Share of loss of an associate	—	—	—	(529)
Income tax expense	—	—	—	(41,020)

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

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

	Unaudited	
	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Gross profit for reportable segments	329,286	391,726
Other income	20,076	17,717
Distribution costs	(215,405)	(202,633)
Administrative expenses	(61,825)	(51,725)
Operating profit	72,132	155,085
Share of loss of an associate	(68)	(529)
Profit before income tax	72,064	154,556

6 REVENUE AND OTHER INCOME

The Group is principally engaged in the manufacturing and sale of wine products. Revenue and other income recognised during the period are as follows:

	Unaudited	
	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Revenue		
Manufacture and sale of wine products	790,686	784,848
Other income		
Interest income	5,210	5,451
Government grant	14,866	12,266
	20,076	17,717
Total revenue and other income	810,762	802,565

7 OPERATING PROFIT

Operating profit is stated after charging:

	Unaudited	
	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Employee costs including directors' emoluments	71,215	49,113
Depreciation	27,900	21,825
Amortisation	737	727
Loss on disposal of equipment	3,372	–
Operating lease rentals in respect of:		
– transformation station	1,283	1,231
– office premises	1,126	1,131

8 INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Current income tax:		
– PRC income tax for the period	17,677	23,192
– Under-provision in previous year	1,503	1,142
	19,180	24,334
Deferred income tax:		
– Reversal of temporary difference	1,234	16,686
	20,414	41,020

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit in Hong Kong.

Provision for PRC income tax has been made at the applicable rate on the estimated assessable profit for the period for each of the Group's subsidiaries. The applicable rate is principally 25% (2010: 25%).

9 DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
2010 final paid, of HK2.8 cents (2009 final paid, of HK3.1 cents) per ordinary share	34,950	38,595
2011 interim declared of HK1.5 cents (2010: HK3.3 cents) per ordinary share (<i>Note</i>)	18,723	41,085
	53,673	79,680

Note:

On 25 August 2011, the board of directors declared an interim dividend of HK1.5 cents per ordinary share. This declared dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of share premium for the year ending 31 December 2011.

10 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK\$52,652,000 (2010: HK\$114,110,000) and the weighted average number of 1,248,200,000 shares in issue during the six months to 30 June 2011 (2010: 1,245,000,000 shares).

There is no dilutive potential share for the period ended 30 June 2011 (2010: As for 2011).

11 TRADE RECEIVABLES

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

	Unaudited 30 June 2011 <i>HK\$'000</i>	Audited 31 December 2010 <i>HK\$'000</i>
Below 30 days	119,469	114,219
30 to 90 days	86,067	46,245
91 to 180 days	67,159	22,472
Over 180 days	81,899	106,587
	354,594	289,523
Less: Provision for impairment	(4,030)	(3,940)
	350,564	285,583

The carrying amounts of the Group's trade receivables were principally denominated in Renminbi. The balance included bill receivables amounting to about HK\$51 million (2010: HK\$233 million).

12 TRADE PAYABLES

The aging analysis of the trade payables is as follows:

	Unaudited 30 June 2011 <i>HK\$'000</i>	Audited 31 December 2010 <i>HK\$'000</i>
Below 30 days	253,313	189,822
30 to 90 days	35,285	47,959
91 to 180 days	6,220	3,913
Over 180 days	12,021	35
	306,839	241,729

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

During the period under review, the Group's revenue was HK\$791 million (2010 – HK\$785 million), representing a slight increase of 1% as compared with the corresponding period in 2010 and profit attributable to equity holders of the Company amounted to HK\$53 million (2010 – HK\$114 million), representing a decrease of 54%.

Earnings per share of the Company ("Share") for the six months ended 30 June 2011 amounted to HK4.2 cents (2010 – HK9.2 cents) per Share based on the weighted average number of 1,248,200,000 Shares (2010 – 1,245,000,000 Shares) in issue during the period. There is no potential dilutive share for the six months ended 30 June 2011.

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

As a reflection of the Group's solid financial position, strong equity base and generally positive outlook, the Directors have resolved to recommend payment of an interim dividend of HK1.5 cents (2010 – HK3.3 cents) per Share.

Financial review

Revenue

Revenue of the Group represents proceeds from sale of wine products and slightly increased by 1% to approximately HK\$791 million in the first half of 2011 from approximately HK\$785 million in the first half year of 2010. The mild rise in revenue was mainly attributable to an improved average ex-winery sales price despite a drop in sales volume.

The Group's average ex-winery sales price of red and white wine products during the period under review was higher than the average price of HK\$24.5 per bottle (750ml) for the corresponding period in 2010, as a result of shifting the sales mix further to high end products and lower trade discounts offered to distributors. Since consumers in the PRC have a preference for red wines, the Group is able to set higher prices for its red wine products and therefore the average ex-winery sales prices of the Group's red wines are generally higher than those of its white wines.

Cost of sales

The major components of cost of sales for the period under review are detailed as follows:

	For the six months ended 30 June	
	2011	2010
	%	%
Cost of raw materials		
– Grapes and grape juice	41	40
– Yeast and additives	2	3
– Packaging materials	24	28
– Others	1	2
Total cost of raw materials	68	73
Manufacturing overheads	19	14
Consumption tax and other taxes	13	13
Total cost of sales	100	100

The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives as well as packaging materials comprising bottles, bottle caps, labels, corks and packing boxes. Due to the increase in the average cost of grapes and grape juice, the cost of grapes and grape juice accounted for approximately 41% of the Group's total cost of sales, climbing 1% from approximately 40% in the corresponding period in 2010. The total cost of packaging materials to revenue remained relatively stable during the period under review as compared with the corresponding period in 2010.

Manufacturing overheads primarily consist of depreciation, rental of property, plant and equipment, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses in relation to production. During the period under review, manufacturing overheads as a percentage of revenue increased as compared with the corresponding period in 2010 mainly due to rising labour costs, depreciation and other overheads as a result of the completion of production capacity expansion from 50,000 tonnes to 70,000 tonnes per annum in the fourth quarter of 2010.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross invoiced sales. The overall gross profit margin declined to 42% for the six months ended 30 June 2011 from 50% in the corresponding period in 2010, mainly as a result of the impact of (i) the increase in the cost of raw materials (including grapes and grape juice) and manufacturing overheads; (ii) the decrease in the overall proportion of sales of red wine products to the Group's total revenue compared to the corresponding period in 2010 and (iii) the newly imposed city construction tax and education surcharge levied on the Group's subsidiaries in mainland China.

The gross margin of red wine products and white wine products in the first half year of 2011 were 44% and 33% respectively (2010 – 51% and 42% respectively). The higher sales prices and lower cost of raw materials of red wine products explained the higher gross margin of the products.

Other income

Other income for the six months ended 30 June 2011 rose by 13% to HK\$20.1 million (2010 – HK\$17.7 million), mainly attributable to:

- (1) an increase in government grant to HK\$14.9 million (2010 – HK\$12.3 million) for a subsidiary in the PRC to encourage technological development and improvement in winemaking, and to support enterprise development; which was offset by
- (2) a decline in interest income from decrease in bank deposits.

Distribution costs

Distribution costs principally include advertising and market promotion expenses, transportation and delivery charges in connection with the sales of grape wine products, salaries and related personnel expenses of the sales and marketing functions and other incidental expenses. During the period under review, distribution costs accounted for approximately 27% (2010 – 26%) of the Group's revenue. In particular, the advertising and market promotion expenses accounted for approximately 18% (2010 – 18%) of the Group's revenue. This percentage remained stable, reflecting the effective management in monitoring and controlling sales and marketing expenditures exactly where they should be by a targeted approach. During the period under review, the Group continued to promote and market the Chateau Dynasty, brand and products effectively through a range of joint promotion with wedding planner companies and local distributors, event sponsorships and exhibitions.

Administrative expenses

Administrative expenses primarily consist of salaries and related personnel expenses of the administrative, finance and human resources departments, net exchange loss, depreciation and amortisation expense and other incidental administrative expenses.

During the period under review, administrative expenses as a percentage of the Group's revenue accounted for 8% (2010 – 7%) and remained relatively stable compared with the corresponding period in 2010.

Income tax expense

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

Pursuant to the PRC Enterprise Income Tax Law passed by the Tenth National People's Congress on 16 March 2007, the enterprise income tax rate for all the subsidiaries of the Company incorporated in the PRC had been unified at 25% effective from 1 January 2008. During the period under review, the effective tax rate of the Group remained relatively stable at approximately 28% (2010 – 27%).

Cash flow

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

The increase in cash outflow derived from operating activities from HK\$6.1 million in the first half year of 2010 to HK\$414.3 million in the first half year of 2011 was mainly attributable to (i) the decrease in gross profit, (ii) higher inventories (stocking up of unprocessed wines to reduce the impact of anticipated increase purchase costs of grape juice in 2011 and finished goods in preparation of the increase in sales demand for imported wines), and (iii) decrease in other payables and accruals due to payments to various other creditors in accordance with the payment and settlement terms during the period under review.

Net cash inflow in investing activities amounted to approximately HK\$63.5 million (2010 – HK\$5.4 million), primarily related to reduced placement of fixed deposits with maturity over 3 months and offset by acquisition of plant and equipment during the period under review as compared with corresponding period in 2010.

Net cash outflow in financing activities was primarily attributable to the payment of dividends to shareholders of approximately HK\$34.9 million (2010 – HK\$38.6 million).

Financial management and treasury policy

As at 30 June 2011, except for the net proceeds from the placing and public offer, the Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB"). The Group has progressively remitted the net listing proceeds from Hong Kong to the PRC and converted them into RMB shortly after remittance. The remaining unremitted net proceeds not used for the intended purposes have been placed on short-term deposits (denominated in US dollars or Hong Kong dollars) with authorised financial institutions. The Company also pays dividends in Hong Kong dollars when dividends are declared. The Company does not implement any hedging or other derivatives against foreign exchange risk. Although the Group's operation currently would not generate any significant foreign currency exposure which will affect the Group's operation, we continue to closely monitor the foreign currency movements and adopt prudent measures as appropriate.

Armed with sufficient financial resources and in a net cash position with no borrowing, the Group is exposed to minimal financial risk from interest rate fluctuation.

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

Business review

Sales analysis

A) Existing sales channels

During the period under review, the sales revenue has recorded a mild growth compared with the same period last year mainly because the Group is implementing a reform on its sales and distribution model with a view to improve the operational efficiency of the Group. Reform measures include, among other things, (i) co-operating with distributors to strengthen the control on retail price; (ii) enhancing the effective management in monitoring and controlling sales and marketing spending; and (iii) streamlining the existing multi-layered sales and distribution system so as to strengthen our direct control over the sales channel, thereby enhancing efficiency and effectiveness. Purchase orders for the six months ended 30 June 2011 from certain distributors which are affected by the abovementioned reform, especially those in Zhejiang province, have reduced resulting in a decrease in sales volume in that region compared with the same period last year. As Zhejiang province is part of the Huadong region which is the Group's strongest market in mainland China, the decrease in sales of that region had an impact on the overall sales volume of the Group.

The total number of bottles of wine sold decreased from approximately 32.1 million in the first half year of 2010 to approximately 30.9 million in the first half year of 2011. Sales of red wines continued to be the Group's primary revenue contributor accounting for approximately 81% of the Group's revenue for the period (2010 – 84%).

In order to consolidate the Group's position in the Huadong region (i.e., the eastern region of the PRC including Shanghai City, Zhejiang and Jiangsu provinces) and win market share in other regions, the Group continued to emphasize on expansion and strengthening of our nationwide and extensive sales and distribution network during the period under review. This network supports sales of the Group's products throughout all provinces and autonomous regions and the four directly-administered municipalities under the Central Government of the PRC. We have also extended the sales network to other regional markets such as the South-Central region including Hunan, Hubei and Jiangxi provinces, sales in those markets also grew substantially. Moreover, the Group reported export sales accounting for 0.1% (2010 – 0.1%) of its total revenue during the period.

The Group produces a wide spectrum of more than 100 wine products under the "Dynasty" brand to meet the range of demands and preferences of different consumer groups mainly in the medium to high end segments in the PRC wine market. With effective product strategies and a high quality and diversified product portfolio, the Group firmly believes that the "Dynasty" brand is able to attract savvy consumers with an appreciation for fine wines by offering Dynasty's premium high end products. Sales of premium wine products, such as Dynasty Merlot Dry Red Wine Reserve, Dynasty Merlot Series – Gold Label & Black Label and Dynasty Dry Red Wine – Reserve were greeted enthusiastically and recorded encouraging growth during the period under review. Moreover, the Group also sold foreign brand wines mainly imported from

France, Italy, Germany and the United States of America in the PRC wine market through the Group's existing distribution network to bring some classic "old world" and "new world" varietals to cater for a niche market with customers preferring the taste of foreign premium wines only. The Group currently carries more than 350 imported products under more than 100 brands. The sales amount of these imported products in the first half year of 2011 was higher than the whole year of 2010. We believe that with the increasing disposable income of consumers aspiring to a higher status as well as the trappings of upper class enjoyment, the sales of premium Dynasty and imported wines will increase and become major growth drivers for our future development. To boost its market share and sustain its growth, the Group is determined to continue to actively promote and boost the visibility of these wines to the high end market.

B) New sales channels

i) Dynasty Club and retail shops

The first "Dynasty Club" was opened in Shanghai in 2009 in order to generate higher awareness of the "Dynasty" brand, targeting the high-end market and cultivating a group of loyal and sophisticated customers. Dynasty Club offers a stylish wine tasting venue as well as spacious wine storage area to top-tier customers in Shanghai. To cater for different needs and preferences of our customers, the Group as at the date of this announcement had 2 self-operated retail shops in Tianjin, 1 self-operated retail shop in Shanghai and 18 franchised retail shops in various provinces and cities in the PRC, selling a variety of Dynasty wines and our imported wines to customers directly. The contribution from the sales at the Dynasty Club and retail shops was relatively insignificant to our revenue during the first half year of 2011. However we strongly believe that through these sales channels we can attract more people to the grape wine culture and lead the trend towards wine consumption in the regions, and at the same time expand our sales presence, extend our market influence, bring greater attention to the brand and consolidate our leading presence in the PRC. We have strategically planned to develop our franchised retail shops through a progressive and disciplined growth strategy to increase the number of similar establishments in appropriate locations and expect to establish approximately 100 franchised retail shops by the end of this year.

The following table sets out the number of franchised retail shops by regions as at the date of this announcement:

Region	Number of franchised retail shops
South-Central region	13
Eastern region	3
North-West region	1
Northern region	1
Total	18

ii) Online Sales

The Group launched a e-commerce business in 2010 by setting up an efficient online platform – www.i9wang.com (王朝愛酒網) to further expand our sales channels and develop a new customer base. Customers can place orders via the internet at this website for Dynasty wines and the imported wines we carry anywhere and anytime. Since the operating cost for the website is relatively low, we enjoy a higher gross profit margin on e-commerce business. It has been running smoothly and recording a steady income. Although the online sales contribution was insignificant during the period under review, we are optimistic of the outlook of the business because research suggests the online trading business in China should grow steadily in the coming years and the country has the world's largest number of internet users. The Group believes that the online platform not only serves as a business-to-customer trading platform between Dynasty and consumers, but also an additional marketing and promotion channel for the brand, therefore it should enhance the overall business potential of the Group.

Supplies of grapes or grape juice

Production for quality wines highly depends on sufficient supply of quality grapes or grape juice. Currently, we have more than 10 major grape juice suppliers with whom we have enjoyed long-term relationships, mainly located in Tianjin, Shandong, Hebei, Ningxia and Xinjiang. To ensure we have reliable and solid supplies of quality grapes and grape juices to meet the production needs of our growing business as well as our expanded production capacity, 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. The Group has also kept identifying new suppliers who comply with our quality requirements and thorough tests are conducted on their grape juices before orders are placed. These procedures ensure we procure quality grape and grape juice supplies and also minimise the effect of bad harvests interrupting production. The Group has imported grape juices from overseas, applying the same stringent quality requirements as it has on suppliers in the PRC.

Production capacity

The Group had built and completed in October 2010 the construction of new production and research and development facilities in its Tianjin winery. By then its annual production capacity has been increased to 70,000 tonnes (equivalent to approximately 93.3 million bottles). The expansion has enabled the Group to promptly response to market demand and will also further enhance the overall cost effectiveness in term of unit cost in the long run.

Prospects and future plans

In the second half year of 2011, the management of the Company will continue in-depth negotiation with some distributors in respect of new cooperation terms of distributorship related to the reform on its sales and distribution model. Despite the impact on its overall sales volume in the near term future, the Group strongly believes that the programme of reform on sales and distribution model implemented by the Group together with other growth

strategies, such as upgrading the product mix, expansion of sales channels and networks, evaluating appropriate acquisition opportunities and distributorships for foreign brand wines, will improve the Group's operational efficiency and maximize the sales revenue of the Group in the long run.

Employees and remuneration policies

The Group employed a workforce of 601 (including Directors) in Hong Kong and the PRC. The increase in manpower occurred mainly due to the reform and growth of business, the Group has to recruit more talented employees in order to cope with these changes. The Group offers competitive remuneration packages commensurate with industry levels and provides various fringe benefits including trainings, medical and insurance coverage as well as retirement benefits to all employees in Hong Kong and the PRC. Employees are encouraged to attend external professional and technical seminars, and other training programmes and courses to improve their business acumen, technical knowledge, professional skills and market awareness. The Group has reviewed and adjusted its human resources and remuneration policies, especially the performance-based bonus award, with reference to local legislations, market conditions, industry practice and achievements of the Group's targets as well as the performance of individual employee.

The Company also adopted a share option scheme ("Share Option Scheme") on 6 December 2004 for the purpose of providing incentives and rewards to eligible participants to encourage contribution to the business success and growth of the Group. As at 30 June 2011, 10,300,000 share options were granted and remained outstanding under the scheme.

Liquidity and financial resources

The liquidity and financial resources position remain strong as the Group continues to adopt a prudent approach in managing its financial resources. The Group's cash and cash equivalents, and fixed deposits as at 30 June 2011 amounted to HK\$524 million. It has sufficient financial resources and a strong cash position for satisfying working capital requirements of business development, operations and capital expenditures. New investment opportunities, if any, would be funded by the Group's internal resources.

The Group had no debts, with total equity before non-controlling interests of the Group amounting to approximately HK\$2,036 million as at 30 June 2011 ensuring solvency and the Group's ability to continue as a going concern. The Group's gearing ratio, expressed as a ratio of total debts to total equity before non-controlling interests, as at 30 June 2011 was nil (2010 – nil).

Capital structure

The Group had no borrowing and was in a net cash and liquid position as at 30 June 2011, reflecting its sound capital structure. We expect our cash to be sufficient to support our operating and capital expenditure requirements in the foreseeable future.

The market capitalisation of the Company as at 30 June 2011 was approximately HK\$2,858 million.

Capital commitments, contingencies and charges on assets

As at 30 June 2011, the Group made capital expenditure commitments, including approximately HK\$20.9 million that were authorised but not contracted for and approximately HK\$71,000 contracted but not provided for in the financial statements. These commitments were mainly required to support the Group's production capacity expansion's auxiliary facilities and the expansion of sales and distribution network. These capital commitments will be partly funded by the net proceeds from placing and public offer as stated in the listing prospectus dated 17 January 2005 and partly from the internally generated funds of the Group.

As at 30 June 2011, the Group had no material contingent liabilities and the Group's assets were free from any charge.

Material acquisitions and disposals of subsidiaries and associated companies

The Group had no material acquisitions or disposal of subsidiaries and associated companies during the six months ended 30 June 2011.

Future plans for material investments or capital assets

To ensure its long term development, the Group will explore appropriate acquisition or investment opportunities that offer reasonable returns to the Group and its shareholders. We are currently in discussion with and review on a boutique wine company located at the top of New Zealand's South Island, which we consider as possible target of acquisition in the future in order to diversify and enrich our product portfolio and brand, and expand the source of supply of grapes and grape juice from overseas. The owners of the wine company are independent third parties who are not connected with (within the meaning of the Listing Rules) any director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates. As at the date of this announcement, no agreement or memorandum of understanding was entered into between the Group and such party in this regard. Announcement(s) will be made in compliance with the Listing Rules (if required) when the formal agreement is reached but it is expected that the transaction contemplated therein will not constitute a notifiable transaction under the definition of Chapter 14 of the Listing Rules.

Interim Dividend

The Directors are pleased to declare an interim dividend of HK1.5 cents per Share. The interim dividend will be paid on 13 October 2011 to shareholders whose names appear on the Register of Members on 29 September 2011.

Closure of Register of Members

The Register of Members of the Company will be closed from Tuesday, 27 September 2011 to Thursday, 29 September 2011, both days inclusive, during which period no transfer of shares will be effected. To become entitled for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration no later than 4:30 pm on Monday, 26 September 2011.

Purchase, Sale or Redemption of Shares of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's Shares during the financial period under review.

Corporate Governance

The Company is committed to fulfilling its responsibilities to shareholders and protecting and enhancing shareholder value through solid corporate governance. It devotes considerable efforts in identifying and formalising best practices. It also exerts its best efforts to ensure optimum transparency and the best quality of disclosures. The Board has been and will continue to uphold the appropriate standards of corporate governance within the Group, thereby ensuring all businesses are conducted in an honest, ethical and responsible manner and the proper processes for oversight of its businesses are in place, in operation and are regularly reviewed.

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

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

Throughout the financial period under review, save as disclosed above, none of the Directors was aware of information that would reasonably indicate that the Company was not in compliance with the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted procedures governing Directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. On enquiries made, all Directors had confirmed that they had complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2011.

Publication of Interim Results and Interim Report on the Website of the Company and of the Stock Exchange

The interim results announcement is published on the websites of the Company (www.dynasty-wines.com) and the Stock Exchange. The interim report containing all the information required by the Listing Rules will be dispatched to shareholders and will be available at the above websites in September 2011.

By order of the Board
Dynasty Fine Wines Group Limited
Bai Zhisheng
Chairman

Hong Kong, 25 August 2011

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