DYNASTY
Since 1980

Dynasty Fine Wines Group Limited
王朝酒業集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 828)

PRELIMINARY ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

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 2012. The unaudited interim results for the first half year of 2012 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	
		2012	2011
	Note	***HK$'000***	*HK$'000*
Revenue	*6*	**556,439**	790,686
Cost of sales		**(309,739)**	(461,400)
Gross profit		**246,700**	329,286
Other income	*6*	**6,329**	20,076
Distribution costs		**(183,241)**	(215,405)
Administrative expenses		**(67,706)**	(61,825)
Operating profit	*7*	**2,082**	72,132
Share of loss of an associate		**(244)**	(68)
Profit before income tax		**1,838**	72,064
Income tax expense	*8*	**(8,574)**	(20,414)
(Loss)/profit for the period		**(6,736)**	51,650
Attributable to:			
Owners of the Company		**(4,697)**	52,652
Non-controlling interests		**(2,039)**	(1,002)
		(6,736)	51,650
		HK cents	*HK cents*
(Loss)/earnings per share			
– Basic and diluted (loss)/earnings per share	*10*	**(0.4)**	4.2
		HK$'000	*HK$'000*
Dividends	*9*	**–**	18,723

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
(Loss)/profit for the period	**(6,736)**	51,650
Other comprehensive (loss)/income		
Currency translation differences	**(6,959)**	42,455
Total comprehensive (loss)/income for the period	**(13,695)**	94,105
Total comprehensive (loss)/income attributable to:		
Owners of the Company	**(11,564)**	94,496
Non-controlling interests	**(2,131)**	(391)
	(13,695)	94,105

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2012 Unaudited HK$'000	31 December 2011 Audited HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**580,945**	605,124
Land use rights		**64,164**	65,166
Goodwill		**9,421**	9,421
Investment in an associate		**12,067**	12,356
Prepayment		**9,092**	–
Deferred income tax assets		**17,445**	21,578
		693,134	713,645
Current assets			
Trade receivables	*11*	**486,421**	437,298
Other receivables, deposits and prepayments		**102,067**	72,319
Inventories		**1,012,329**	961,972
Prepaid income tax		**3,881**	5,246
Short-term deposits with maturity over three months		**407**	45,827
Restricted cash		**1,278**	–
Cash and cash equivalents		**217,140**	357,037
		1,823,523	1,879,699
Total assets		**2,516,657**	2,593,344
EQUITY			
Capital and reserves attributable to the owners of the Company:			
Share capital		**124,820**	124,820
Other reserves		**1,177,172**	1,184,116
Retained earnings		**702,124**	706,744
		2,004,116	2,015,680
Non-controlling interests in equity		**23,869**	26,000
Total equity		**2,027,985**	2,041,680

		As at	
		30 June	31 December
		2012	2011
		Unaudited	Audited
	Note	***HK$'000***	*HK$'000*
LIABILITIES			
Current liabilities			
Trade payables	*12*	**269,649**	192,243
Other payables and accruals		**219,023**	359,421
Total liabilities		**488,672**	551,664
Total equity and liabilities		**2,516,657**	2,593,344
Net current assets		**1,334,851**	1,328,035
Total assets less current liabilities		**2,027,985**	2,041,680

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 hereinafter 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 29 August 2012.

These condensed consolidated interim financial statements have not been audited.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial information for the six months ended 30 June 2012 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 2011, which have been prepared in accordance with HKFRSs.

The accounting policies and methods 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 2011.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

- HKFRS 9 'Financial instruments'
- HKFRS 10 'Consolidated financial statements'
- HKFRS 12 'Disclosures of interests in other entities'
- HKFRS 13 'Fair value measurement'

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the group.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

There have been no changes in any risk management policies.

3.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

3.3 Other risk factors and fair value estimation

All other 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 2011.

4 ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011.

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 managements 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 2012				
Revenue	474,621	74,487	7,331	556,439
Gross profit	224,046	19,259	3,395	246,700
Unallocated items:				
Depreciation and amortization	–	–	–	(27,923)
Interest income	–	–	–	2,475
Share of loss of an associate	–	–	–	(244)
Income tax expense	–	–	–	(8,574)
Six months ended 30 June 2011				
Revenue	640,301	146,971	3,414	790,686
Gross profit	279,111	49,047	1,128	329,286
Unallocated items:				
Depreciation and amortization	–	–	–	(28,637)
Interest income	–	–	–	5,210
Share of loss of an associate	–	–	–	(68)
Income tax expense	–	–	–	(20,414)

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	
	2012 ***HK$'000***	2011 *HK$'000*
Gross profit for reportable segments	**246,700**	329,286
Other income	**6,329**	20,076
Distribution costs	**(183,241)**	(215,405)
Administrative expenses	**(67,706)**	(61,825)
Operating profit	**2,082**	72,132
Share of loss of an associate	**(244)**	(68)
Profit before income tax	**1,838**	72,064

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	
	2012	2011
	HK$'000	*HK$'000*
Revenue		
Manufacture and sale of wine products	**556,439**	790,686
Other income		
Interest income	**2,475**	5,210
Government grant	**1,696**	14,866
Others	**2,158**	–
	6,329	20,076
Total revenue and other income	**562,768**	810,762

7 OPERATING PROFIT

Operating profit is stated after charging:

	Unaudited Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Employee costs including directors' emoluments	**64,786**	71,215
Depreciation	**27,159**	27,900
Amortisation	**764**	737
Loss on disposal of equipment	**1,174**	3,372
Provision for inventories	**6,158**	–

8 INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Current income tax:		
– PRC income tax for the period	**4,441**	17,677
– Under-provision in previous year	**–**	1,503
	4,441	19,180
Deferred income tax:		
– Reversal of temporary difference	**4,133**	1,234
	8,574	20,414

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% (2011: 25%).

9 DIVIDENDS

	Unaudited Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
2011 final paid, nil (2010 final paid, of HK2.8 cents per ordinary share)	**–**	34,950
Proposed interim dividend, nil (2011: HK1.5 cents per ordinary share)	**–**	18,723
	–	53,673

10 (LOSS)/EARNINGS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to owners of the Company of HK$4,697,000 (2011: profit of HK$52,652,000) and the weighted average number of 1,248,200,000 shares in issue during the six months to 30 June 2012 (2011: 1,248,200,000 shares).

There is no dilutive potential share for the period ended 30 June 2012 (2011: As for 2012).The share options would not have diluted effect.

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 2012	Audited 31 December 2011
	HK$'000	*HK$'000*
Below 30 days	**145,194**	106,338
30 to 90 days	**31,053**	115,517
91 to 180 days	**62,400**	55,278
Over 180 days *(note (c))*	**251,893**	164,299
	490,540	441,432
Less: Provision for impairment *(note (b))*	**(4,119)**	(4,134)
	486,421	437,298

Notes:

(a) The carrying amounts of the Group's trade receivables were principally denominated in Renminbi. The balance included bill receivables amounting to about HK$65 million (2011: about HK$222 million). The fair value of trade receivables approximates their carrying values.

(b) Trade receivables that are impaired are past due over 12 months (2011:12 months). The change in the provision balance is due to exchange difference.

(c) Ageing for trade receivables of the Group which are past due but not impaired are as set out below:

	Unaudited 30 June 2012 *HK$'000*	Audited 31 December 2011 *HK$'000*
Over 180 days	**247,774**	160,165

(d) Included in trade receivables are balances of HK$0.9 million (2011: HK$82 million) of which the Group has received bill receivables from the customers. The Group has provided guarantees in favour of a bank issuing the bill receivables in the event the customers do not settle their amounts due to the bank. Consequently, until the customers settle the amounts of bill receivables to the bank, the Group will not derecognise the trade receivables. The Group has not endorsed any of the aforesaid bill receivables to its suppliers (2011: HK$65 million). The corresponding amounts of HK$0.9 million (2011: HK$82 million) are included in other payables and accruals as bank trade finance.

12 TRADE PAYABLES

The aging analysis of the trade payables is as follows:

	Unaudited 30 June 2012 *HK$'000*	Audited 31 December 2011 *HK$'000*
Below 30 days	**113,045**	92,761
30 to 90 days	**37,025**	69,583
91 to 180 days	**31,034**	15,786
Over 180 days	**88,545**	14,113
	269,649	192,243

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group's revenue for the six months ended 30 June 2012 amounted to HK$556 million (2011 – HK$791 million), representing a decrease of 30% compared with the same period last year and loss attributable to owners of the Company was HK$4.7 million (2011 – profit of HK$53 million). The loss in the first half year of 2012 has clearly recovered to a certain extent when compared to the loss amounting to HK$48 million recorded during the second half year of 2011.

Loss per share ("Share") of the Company for the six months ended 30 June 2012 was HK0.4 cents (2011 earnings per Share – HK4.2 cents) based on the weighted average number of 1,248,200,000 Shares (2011 – 1,248,200,000 Shares) issued during the period under review. There are no potential dilutive shares for the six months ended 30 June 2012.

The financial results in the first half year of 2012 were attributable to a decrease in sales volume as a result of (1) the impact of the reform of its sales and distribution model; and (2) weaker demand of domestic wine products amidst the slower economic growth in the People's Republic of China (the "PRC") and impact of imported wines.

Financial review

Income Statement

Revenue

Revenue of the Group represents proceeds from sale of wine products. For the six months ended 30 June 2012, it decreased by 30% to approximately HK$556 million from approximately HK$791 million for the corresponding period in 2011. The drop in revenue was the result of a decrease in sales volume despite the increase in average ex-winery sales price.

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$27.8 per bottle (750ml) for the whole year of 2011, as a result of shifting the sales mix further to high end segment by launching more high end products such as a cask collection of premium wines. The rise in the Group's average ex-winery sales price was an indicator that we are moving in the right direction, and pricing structure has been optimized. 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 following table sets forth the major components of cost of sales for the period under review:

	For the six months ended 30 June	
	2012	2011
	%	%
Cost of raw materials		
– Grapes and grape juice	**37**	41
– Yeast and additives	**2**	2
– Packaging materials	**23**	24
– Others	**1**	1
Total cost of raw materials	**63**	68
Manufacturing overheads	**25**	19
Consumption tax and other taxes	**12**	13
Total cost of sales	**100**	100

The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives as well as packaging materials comprising bottles, bottle caps, labels, corks and packing boxes. Owing to the tight control of the average purchase cost of grapes and grape juice, the cost of grapes and grape juice accounted for approximately 37% of the Group's total cost of sales and decreased by 4 percentage point compared with same period last year. During the period under review, the cost of packaging materials to total cost of sales also decreased as compared with the corresponding period in 2011.

Manufacturing overheads primarily consist of depreciation, rental of property, plant and equipment, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses in relation to production. During the period under review, manufacturing overheads as a percentage of total cost of sales increased as compared with the corresponding period in 2011 primarily because of an increase in unit cost of manufacturing overheads (including labour costs, depreciation and other overheads) due to lower utilization rate of production capacity.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and other taxes, and gross invoiced sales. The overall gross profit margin of the Group was 44% for the six months ended 30 June 2012, an increase of 2 percentage points from 42% for the corresponding period in 2011. This increase was mainly a result of gradual improvement in product mix with a higher margin partially offset by the impact of increase in unit cost of manufacturing overheads due to lower utilization rate of production capacity.

During the period under review, the gross margin of red wine products and white wine products were 47% and 26% respectively (2011 – 44% and 33% respectively). The higher sales prices of red wine products explained the higher gross margin compared with white wine products.

Other income

Other income for the six months ended 30 June 2012 dropped by 69% to HK$6.3 million (2011 – HK$20.1 million), mainly attributable to:

(1) a decrease in government grant to HK$1.7 million (2011 – HK$14.9 million), which was received for a subsidiary in the PRC; and

(2) a decline in interest income due to a decrease in bank deposits.

Distribution costs

Distribution costs comprise mainly 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. For the six months ended 30 June 2012, distribution costs accounted for approximately 33% (2011 – 27%) of the Group's revenue and this percentage increased because the decrease in revenue was more than the decrease in distribution costs in terms of percentage points. In particular, the advertising and market promotion expenses accounted for approximately 18% (2011 – 18%) of the Group's revenue and this percentage was stable since focus on marketing has slightly shifted from brand promotion to sales promotion activities which better enhance sales. During the period under review, the Group continued to promote and market the Chateau Dynasty, brand and products effectively through a range of joint-promotional activities with wedding planner companies and local distributors, print and outdoor advertisements, wine dinners, wine tasting events, digital communications, event sponsorships and exhibitions. The Group intends to ensure that our promotional strategy is responsive to market dynamics as well as the competition.

Administrative expenses

Administrative expenses primarily consist of salaries and related personnel expenses of the administrative, finance and human resources departments, provision for inventories, depreciation and amortisation expenses and other incidental administrative expenses.

During the period under review, administrative expenses as a percentage of the Group's revenue accounted for 12% (2011 – 8%) and increased compared with the corresponding period in 2011 due to higher staff costs to support the business development of imported wine and e-commerce businesses, management and control on shop expansion, implementation of the reform and provision for inventories.

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 was unified at 25% effective from 1 January 2008. During the period under review, the effective tax rate of the Group rose to approximately 466% (2011 – 28%) mainly due to more expenses not allowed to deduct for the period in terms of profit before income tax.

Balance Sheet

Trade receivables

Trade receivables for the period ended 30 June 2012 amounted to HK$486.4 million (31 December 2011 – HK$437.3 million), increasing by approximately 11% against the year end balance of previous year. The increase was primarily due to more credit sales made at period end. During the period, customers with whom the Group has a long-term trading relationship and who have a good payment history, are given, in general, credit period of one to six months, except for those with bills receivable clauses, and receivables with an age of less than six months accounted for approximately 49.1% of the net trade receivables as at 30 June 2012 (31 December 2011 – 63.4%) All other customers are required to pay cash on delivery. As a result, the Group's credit policy has proven effective in helping to minimize its exposure to doubtful debts. The longer debtors' turnover period was mainly a result of an increase in trade receivables at period end while, except for two customers, credit control has been largely maintained during the period.

During the period, two customers, which are related to state owned entities with large operational scale and nationwide good reputation, had a longer aging receivables of more than six months amounting HK$226.8 million but not impaired. No impairment allowance is necessary in respect of these two balances as there has not been a significant change in their credit quality and they have a good business track record with the Group and/or have good financial strength, so the balances are considered fully recoverable and the Group has accepted more flexibility in their repayment schedules. As at 10 August 2012, the Group received a bank acceptance amounting RMB10 million from a customer via a bank for settlement of outstanding trade receivables at 30 June 2012. After the date of the announcement, the Group will further discuss with these two customers in order to come up with a feasible and acceptable repayable plan. In accordance to the terms of the plan, the Group will chase the customers to settle due balances and monitor the settlement progress on an ongoing basis. The Group will continue to review the situation and make impairment allowance, if necessary, when deemed appropriate in the future.

Inventories

The Group's inventories balance for the period ended 30 June 2012 amounted to approximately HK$1,012.3 million (31 December 2011 – HK$962.0 million), representing an increase of approximately 5%. The higher inventories balance was primarily the result of stocking up of finished goods in preparation of the increase in sales demand for Dynasty wines and imported wines in the forthcoming festival season.

In order to improve the logistics efficiency and the quality of the Group's inventory systems, the Group engaged China Merchants Logistics Holding Co., Ltd. to manage all its external warehouses at different stages of implementation in April 2012. The Group considers that outsourcing the warehouse and logistic functions to such a professional and esteemed company in the industry will lower operating costs in the long run and eliminate or reduce the amount of discrepancies between physical inventory list and book records of inventories, to which a lot of management attention has been focused.

Cash flow

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

The cash outflow derived from operating activities decreased from HK$414.3 million in the first half year of 2011 to HK$173.3 million in the first half year of 2012. The cash outflow was mainly attributable to (i) decrease in gross profit, (ii) increase in prepayment for imported wines and advertisement, 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$37.8 million (2011 – HK$63.5 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 2011.

Net cash outflow in financing activities was primarily attributable to the payment of dividends to shareholders of HK$Nil (2011 – HK$34.9 million).

Financial management and treasury policy

As at 30 June 2012, except for the net proceeds from the placing and public offer, the Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB"). The Group has remitted the net listing proceeds from Hong Kong to the PRC and converted them into RMB shortly after remittance. The remaining unremitted net proceeds not used for the intended purposes have been placed on short-term deposits (denominated in US dollars or Hong Kong dollars) with authorised financial institutions. The Company also pays dividends in Hong Kong dollars when dividends are declared. The Company does not implement any hedging or other derivatives against foreign exchange risk. Although the Group's operations currently would not generate any significant foreign currency exposure which will affect the Group's business, we continue to closely monitor 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

For the six months ended 30 June 2012, in spite of the increase in the average ex-winery sales price of the Group's wine products as a result of shifting the sales mix further to high end products, the sales revenue has still recorded a decrease compared with the same period last year mainly because a decrease in sales volume compared with same period last year as a result of (1) the impact of its reform of its sales and distribution model as disclosed in the Company's 2011 annual report intended to improve the operational efficiency of the Group, to overhaul the distribution channel structure and to restore long-term, sustained profitability. During the period under review, we proactively integrated less efficient distributors as part of the reform while we stepped up the efforts to support our committed distributors who have aligned with our reform and strategies. The reform continues to progress on track but the pace was slower than expected, especially in Zhejiang province and Shanghai, and will take time to implement; and (2) weaker demand of domestic wine products amidst the slower economic growth in the PRC and impact of imported wines. As Zhejiang province and Shanghai city are parts of the Huadong region which was 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 30.9 million in the first half year of 2011 to approximately 16.9 million in the first half year of 2012. Sales of red wines continued to be the Group's primary revenue contributor accounting for approximately 85% of the Group's revenue for the period (2011 – 81%).

In order to consolidate the Group's position in the Huadong region (i.e., the eastern region of the PRC including Shanghai City, Zhejiang and Jiangsu provinces) and win market share in other regions, the Group devoted significant resources to accelerate the expansion and to strengthen our extensive nationwide sales and distribution network, and sales efficiency 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-western region, and sales in those markets also grew. Moreover, the Group reported export sales accounting for 0.1% (2011 – 0.1%) of its total revenue during the period.

The Group produces a wide range of more than 100 wine products under the "Dynasty" brand to meet the demands and preferences of different consumer groups mainly in the medium to high end segments in the PRC wine market. With effective product strategies and a high quality and diversified product portfolio, the Group firmly believes that the "Dynasty" brand is able to attract savvy consumers with an appreciation for fine wines by offering Dynasty's premium high end products. Sales of premium wine products, such as "Jue" (Noble) Cask Collection (Dynasty Merlot Dry Red Wine) – Elegance and Imperial, and Chateau Dynasty – Grand Wine 2005 were greeted enthusiastically and recorded encouraging growth during the period under review. These premium Dynasty wines gained exposure in leading wine magazines and high profile exhibitions attracting much attention, and were delivering higher gross profit margin and average ex-winery sales price per purchase order.

In addition, the Group also sold foreign brand wines mainly imported from France, Italy, Germany, the United States, Chile, Spain and New Zealand in the PRC wine market through the Group's existing distribution network. This business introduces 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 foreign brands' business enjoys synergies with Dynasty's distribution resources, marketing and research information, retail shop network, and also in support functions such as media buying and other marketing investment. The Group currently carries approximately 420 imported products under 90 brands. The sales volume of these imported products in the first half year of 2012 was higher than that in the second half year of 2011. We believe that the trends of increasing wealth and rising disposable income of consumers aspiring to a higher status as well as the pursuit of upper-class leisure enjoyment will boost demand for premium Dynasty and imported wines would become major growth drivers for our future development. To increase its market share and sustain its growth, the Group is determined to continue its marketing efforts in sharpening and raising 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 a 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 100 franchised retail shops across various provinces and cities in the PRC directly 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 2012. However we strongly believe that through these sales channels we can attract more people to embrace the grape wine culture and lead the trend of rising wine consumption. At the same time we could also expand our sales presence, extend our market influence, create greater awareness of the brand and consolidate our leading presence in the PRC because Dynasty Club and retail shops are amongst the best vehicles to convey our brand image and messages, and to enhance customers' experience in buying and drinking wines. Consumers are increasingly interest in the background of the wines that they purchase. Deeper experience and greater knowledge enhance their interaction with our Dynasty brand and build long-term loyalty, thus we have become more customer-focused than ever before. Therefore, we believe that both the Dynasty Club and retail shops can enable the Group to better understand and respond more quickly to developments in the external environment, such as consumption trends, the emergence of new customer segments and new challenges for Dynasty brand and wines.

We have strategically planned to develop our franchised retail shops through a progressive and disciplined growth strategy of increasing the number of similar establishments in appropriate locations. During the period under review, we have emphasized the development of franchised retail shops and continued to support the shops that have recorded satisfactory profitability while rationalising our shop portfolio by eliminating non-productive shops. The target is to establish approximately 200 franchised retail shops by the end of the year, with 100 franchised retail shops opened as at the date of this announcement. The remaining shops will be opened during the second half year of 2012 but rationalisation of non-productive shops, rising property prices and rentals, and a lack of suitable shop locations for the franchise partners may cause a slight delay in reaching the target number.

The following table sets out the number of self-operated retail shops and franchised retail shops by region as at the date of this announcement:

Region	**Number of self-operated retail shops**	**Number of franchised retail shops**	**Total**
South-Central region	–	38	38
Southern region	–	26	26
Eastern region	1	16	17
North-West region	–	1	1
North-East region	–	2	2
Northern region	2	17	19
Total	3	100	103

ii) Online Sales

The Group has launched an e-commerce business by setting up an easily accessible online platform – www.i9wang.com (王朝愛酒網) to further expand our sales channels and develop a new customer base. Customers can comfortably and freely search for our product offerings and 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 the 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 about the prospects of this business because research findings suggest that the online trading business in China should grow steadily in the coming years and the country has the world's largest number of internet users. The Group believes that the online platform not only serves as a business-to-customer trading platform between Dynasty and consumers, but also an additional marketing and promotion channel for the brand. Thus, the platform should enhance the overall business potential of the Group because growth in online sales channels will be further exploited internationally following the successful e-commerce model in overseas.

Supplies of grapes or grape juice

Production for quality wines greatly 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. Ensuring reliable supplies of quality grapes and grape juices to meet the production needs of our growing business as well as our expanded production capacity remains a high priority of the Group. Thus, it continues to actively work with vignerons to enlarge their existing vineyards in order to enjoy better economies of scale and manage their vineyards with state-of-the-art techniques for assuring quality. For super and ultra premium wines, vignerons have adopted a disciplined approach to limiting harvest yields in order to deliver higher quality grapes so that we are able to surpass others in the same market category in terms of the experience we provide, in quality and in taste. For optimising supply networks, the Group has also been identifying new suppliers who comply with our quality requirements, and then conducts thorough tests on their grape juices before orders are placed. These procedures ensure we procure quality grape and grape juice supplies and also minimise the effect of bad harvests interrupting production. The Group has also imported grape juices from overseas, applying the same stringent quality requirements as it has on the suppliers in the PRC.

Production capacity

The Group's annual production capacity at the Tianjin winery is 70,000 tonnes (equivalent to approximately 93.3 million bottles) which enables the Group to promptly response to market demand and will also further enhance the overall cost-effectiveness in terms of unit cost in the long run and provide a better platform for sustainable earnings growth after the reform.

Outlook

Moving into the second half year of 2012, the wine industry will benefit from the transformation of China's economy from investment-driven expansion to consumption-driven growth. With the increasing desire for quality of wines among the population, the wine industry is expected to maintain its steady overall growth.

Moreover, the Chinese government has recently introduced policies to encourage domestic wineries to upgrade their product quality while at the same time to set rigid requirements on the industry in terms of capacity and other aspects. Industry experts believe that small and low-end wineries will suffer or be eliminated under these new policies but overall will help to improve the standards of the industry.

The Group believes that the market environment will continue to be challenging in the near future because competition within the wine industry will remain intense and the pressure of costs will persist. These developments will have an impact on our business and expansion.

The Group will overcome these challenges by conducting its business pragmatically and will continue systematic and in-depth negotiation with some distributors on the new cooperation terms of distributorship in relation to the reform of its sales and distribution model. The reform will be closely monitored and adjusted in a flexible way if and when needed.

Moreover, in order to reduce the pressure of costs, the Group informed distributors that we decided to raise our ex-winery sales price of certain wines in the second quarter of 2012. Due to inventory levels kept by distributors and lead times inherent to place purchase orders by them, the impact of this price upward adjustment on our financial results will only become visible in the second half year of 2012.

We are confident that Dynasty is definitely moving in the right direction. Looking beyond this year, the Group strongly believes that the reform programme of the sales and distribution model implemented by the Group combined 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 provide benefits in the long run. These benefits would include improving the Group's post reform operational efficiency, and maximizing the sales revenue and operating profit margin of the Group. This may take time but the Group is confident that we have the scale, operating platform and people to realise these benefits, and the Group will successfully lay a solid foundation for future growth with sustained profits and for strengthening our leadership in the market.

Employees and remuneration policies

The Group employed a workforce of 620 (including Directors) in Hong Kong and the PRC. The increase in manpower was mainly due to the reform and the growth of business, and the Group has had to recruit additional talented employees in order to cope with these changes. 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 needs of the business and professionalism of individuals, so employees are encouraged to attend external professional and technical seminars, and other training programs and courses to improve their business acumen, update their technical knowledge and skills and enhance market awareness. The Group will review and adjust 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 in order to motivate employees to flourish and dedicate themselves towards achieving our common goals.

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 who have contributed to the success of our operations and the long-term growth of the Group. As at 30 June 2012, certain options to subscribe for 10,100,000 Shares were granted and remained outstanding under the Share Option Scheme.

Liquidity and financial resources

The liquidity and financial position remain strong as the Group continues to adopt a prudent approach in managing its financial resources. As at 30 June 2012, the Group's cash and cash equivalents, and fixed deposits amounted to HK$218 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$2,004 million as at 30 June 2012 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 2012 was nil (2011 – nil).

Capital structure

The Group had no borrowings and was in a net cash and liquid position as at 30 June 2012, 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 2012 was approximately HK$1,585 million.

Capital commitments, contingencies and charges on assets

The Group made capital expenditure commitments, including approximately HK$17.0 million that were authorised but not contracted for and approximately HK$3.4 million contracted but not provided for in the financial statements as at 30 June 2012. These commitments were mainly required to support auxiliary facilities as part of the Group's production capacity expansion and extending the sales and distribution network. These capital commitments will be partly funded by the net proceeds of the placing and public offer as stated in our prospectus dated 17 January 2005 and partly from the internally generated funds of the Group.

As at 30 June 2012, 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 not made any other material acquisitions or disposal of subsidiaries and associated companies during the six months ended 30 June 2012.

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 in discussion with and review on a boutique wine company, including its two brands and three related vineyards, located in the Marlborough grape-growing region on New Zealand's South Island, which we consider as a possible acquisition target 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. Apart from New Zealand's domestic market, this wine company's overseas sales were to Australia, the United Kingdom, Belgium, Hong Kong, Malaysia and Singapore. Its product portfolio includes Sauvignon Blanc, Pinot Noir, Pinot Gris and Albarino. The owners of the wine company are independent third parties who are not connected with (within the meaning of the Rules governing the Listing of Securities on the Stock Exchange (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 Chapter 14 of the Listing Rules.

Interim Dividend

The Directors do not recommend the payment of any interim dividend to shareholders of the Company for the six months ended 30 June 2012.

Purchase, Sale or Redemption of Shares of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any Shares during the 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 30 May 2012 to 30 June 2012, following the retirement of Mr. Chau Ka Wah, Arthur on 30 May 2012, there remains two independent non-executive Directors on the Board, the number of independent non-executive Directors and Audit Committee members falls below the minimum number required under Rule 3.10(1) and Rule 3.21 of the Listing Rules. Furthermore, the chairman position of remuneration committee has vacated and the number of independent non-executive Directors of remuneration committee of the Company has fallen below a majority required under Rule 3.25 of the Listing Rules. The Company is identifying a suitable candidate to fill the vacancies with a view to fulfilling the requirements of the Listing Rules as soon as practicable within 3 months from 30 May 2012 pursuant to Rules 3.11, 3.23 and 3.27 of the Listing Rules respectively.

Throughout the 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 to 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 to the Listing Rules. On enquiries made, all Directors had confirmed their compliance with the required standards set out in the Model Code throughout the six months ended 30 June 2012.

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 2012.

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

Hong Kong, 29 August 2012

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 2 independent non-executive directors, namely, Dr. Hui Ho Ming, Herbert and Mr. Yeung Ting Lap Derek Emory.