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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 2016**

The board of directors (the “**Board**”) 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 2016. The unaudited interim results for the first half year of 2016 have also been reviewed by the audit committee of the Company (the “**Audit Committee**”). All Audit Committee members, including the chairman of the Audit Committee, are independent non-executive directors.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
		2016	2015
	Note	HK\$'000	HK\$'000
Revenue	5	238,761	315,864
Cost of sales		<u>(173,590)</u>	<u>(239,171)</u>
Gross profit		65,171	76,693
Other income, gains and losses – net		727	2,068
Distribution expenses		(92,975)	(52,693)
Administrative expenses		<u>(44,927)</u>	<u>(61,999)</u>
Operating loss	6	(72,004)	(35,931)
Finance income		1,942	2,327
Finance costs		<u>(4,318)</u>	<u>(479)</u>
Finance (costs)/income – net		<u>(2,376)</u>	<u>1,848</u>
Loss before income tax		(74,380)	(34,083)
Income tax credit	7	<u>329</u>	<u>–</u>
Loss for the period		<u><u>(74,051)</u></u>	<u><u>(34,083)</u></u>
Attributable to:			
Owners of the Company		(73,917)	(32,984)
Non-controlling interests		(134)	(1,099)
Loss per share attributable to owners of the Company			
for the period (<i>expressed in HK cents per share</i>)			
– Basic and diluted loss per share	9	<u><u>(5.9)</u></u>	<u><u>(2.6)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Loss for the period	(74,051)	(34,083)
Other comprehensive income		
Currency translation differences	<u>28,882</u>	<u>1,168</u>
Total comprehensive loss for the period	<u>(45,169)</u>	<u>(32,915)</u>
Attributable to:		
Owners of the Company	(43,028)	(29,327)
Non-controlling interests	<u>(2,141)</u>	<u>(3,588)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 June	31 December
		2016	2015
		Unaudited	Audited
Note		HK\$'000	HK\$'000
ASSETS			
Non-current assets			
		298,320	317,788
		55,257	57,119
		–	–
		–	–
		–	–
		<u>–</u>	<u>–</u>
		353,577	374,907
		-----	-----
Current assets			
	10	66,280	97,579
		82,201	59,985
		528,561	587,647
		30,036	–
		11,843	34,051
		83,562	80,891
		<u>83,562</u>	<u>80,891</u>
		802,483	860,153
		-----	-----
Total assets		1,156,060	1,235,060
		<u><u>1,156,060</u></u>	<u><u>1,235,060</u></u>
EQUITY			
Equity attributable to the owners of the Company:			
		124,820	124,820
		1,195,388	1,164,499
		(891,871)	(817,954)
		<u>(891,871)</u>	<u>(817,954)</u>
		428,337	471,365
Non-controlling interests		14,802	16,943
		<u>14,802</u>	<u>16,943</u>
Total equity		443,139	488,308
		-----	-----
LIABILITIES			
Current liabilities			
	11	198,520	326,104
		414,986	354,121
		99,415	66,527
		<u>99,415</u>	<u>66,527</u>
Total liabilities		712,921	746,752
		-----	-----
Total equity and liabilities		1,156,060	1,235,060
		<u><u>1,156,060</u></u>	<u><u>1,235,060</u></u>

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, whilst the principal office is Room E and F, 16/F, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong.

The Company together with its subsidiaries is hereinafter collective referred to as the Group. The principal activity of the Company is investment holding and trading of wine products.

The shares of the Company (“**Shares**”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) on 26 January 2005. On 22 March 2013, trading of the Shares was suspended on the Stock Exchange.

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 2016 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 2015, which have been prepared in accordance with HKFRSs.

The accounting treatments, accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2015. The Company’s auditor issued a qualified opinion on the annual financial statements for the year ended 31 December 2015 in its report dated 8 December 2017.

The preparation of these condensed consolidated interim financial information has also taken into account of all relevant information of the consolidated financial statements for the year ended 31 December 2016. The accounting treatments and methods of computation used in the preparation are consistent with those used in the annual financial statements for the year ended 31 December 2016.

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.

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2016:

- Accounting for acquisitions of interests in joint operations – Amendments to HKFRS 11
- Clarification of acceptable methods of depreciation and amortisation – Amendments to HKAS 16 and HKAS 38
- Annual improvements to HKFRSs 2012 – 2014 cycle, and
- Disclosure initiative – amendments to HKAS 1

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated interim financial statements.

None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- HKFRS 9, 'Financial instruments'
- HKFRS 15, 'Revenue from contracts with customers'
- HKFRS 16, 'Leases'

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 and cash flow interest rate 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 2015.

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 2015.

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 2015.

5 SEGMENT INFORMATION

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

The chief operating decision maker considers the business from product perspective. Management separately considers the red wines and white wines. All other segments primarily relate to the sale of sparkling wines, brandy and icewine.

The key management team assesses the performance of the operating segments based on gross profit. All revenue of the Group are from external customers.

	Red wines <i>HK\$'000</i>	White wines <i>HK\$'000</i>	Unaudited All other products <i>HK\$'000</i>	Total group <i>HK\$'000</i>
Six months ended 30 June 2016				
Revenue	<u>184,765</u>	<u>53,499</u>	<u>497</u>	<u>238,761</u>
Gross profit	<u>53,709</u>	<u>11,602</u>	<u>(140)</u>	<u>65,171</u>
Unallocated items:				
Depreciation and amortisation				<u>(16,506)</u>
Six months ended 30 June 2015				
Revenue	<u>245,849</u>	<u>69,649</u>	<u>366</u>	<u>315,864</u>
Gross profit	<u>65,071</u>	<u>11,240</u>	<u>382</u>	<u>76,693</u>
Unallocated items:				
Depreciation and amortisation				<u>(21,013)</u>

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

	Unaudited Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Gross profit for reportable segments	65,171	76,693
Other income, gains and losses – net	727	2,068
Distribution expenses	(92,975)	(52,693)
Administrative expenses	<u>(44,927)</u>	<u>(61,999)</u>
Operating loss	(72,004)	(35,931)
Finance (costs)/income – net	<u>(2,376)</u>	<u>1,848</u>
Loss before income tax	<u>(74,380)</u>	<u>(34,083)</u>

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

The Group's customer base is diversified and no (2015: Nil) external customers with whom transactions have exceeded 10% of the Group's revenues. The majority of sales are within the People's Republic of China (the "PRC").

6 OPERATING LOSS

Operating loss is stated after charging:

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Employee costs comprising:		
– salaries, other allowance and benefits	59,440	68,511
– contributions to retirement benefits scheme	6,105	7,372
	65,545	75,883
Total employee costs including directors' emoluments	65,545	75,883
Depreciation and amortisation	16,506	21,013
Loss on disposal of property, plant and equipment	10	404
(Reversal of)/provision for impairment of inventories included in cost of sales	(18,008)	19,943

7 INCOME TAX CREDIT

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Current tax:		
– Current tax on profits for the period	–	–
– Annual tax filing difference	329	–
Total current tax	329	–
Deferred tax:		
– Reversal of temporary difference	–	–
Income tax credit	329	–

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

Provision for the 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% (2015: 25%).

8 DIVIDENDS

No interim dividend was declared during the six months ended 30 June 2016 (2015: Nil)

9 LOSS PER SHARE

The calculation of the basic loss per Share is based on the loss attributable to owners of the Company of HK\$73,917,000 (2015: loss of HK\$32,984,000) and the weighted average number of 1,248,200,000 Shares in issue during the six months ended 30 June 2016 (2015: 1,248,200,000 Shares).

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the period) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted loss per share.

Trading of the Shares were suspended in the Stock Exchange since 22 March 2013, since then the fair value of ordinary Shares did not exceed exercise price of the share option, thus it did not have any dilutive effect (2015: no dilutive effect).

10 TRADE RECEIVABLES

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

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Up to 3 months	23,734	54,430
3 to 6 months	21,476	15,105
6 months to 1 year	21,354	13,828
1 year to 2 years	3,512	6,740
Over 2 years	6,413	14,590
	<u>76,489</u>	104,693
Less: Provision for impairment	<u>(15,063)</u>	<u>(14,520)</u>
	61,426	90,173
Notes receivables	<u>4,854</u>	<u>7,406</u>
Trade receivables, net	<u><u>66,280</u></u>	<u><u>97,579</u></u>

The carrying amounts of the Group's trade receivables were principally denominated in Renminbi ("RMB"). The fair value of trade receivables approximates their carrying values.

11 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice date is as follows:

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
0-30 days	92,196	97,755
31-90 days	15,280	26,733
Over 90 days	91,044	201,616
	<u><u>198,520</u></u>	<u><u>326,104</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group's revenue for the six months ended 30 June 2016 decreased by 24% to HK\$238.8 million (2015 – HK\$315.9 million) and the Group's loss attributable to owners of the Company increased to HK\$73.9 million (2015 – HK\$33.0 million)

Loss per Share for the six months ended 30 June 2016 as HK\$5.9 cents per Share (2015 – HK2.6 cents per Share) based on the weighted average number of 1,248 million Shares (2015 – 1,248 million Shares) in issue during the period under review. There was no potential dilutive share for the period ended 30 June 2016.

The increase in loss attributable to owners of the Company in the first half of 2016 was mainly attributable to increase in distribution expenses, but offset by decrease in depreciation of property, plant and equipment after impairment and staff costs.

Financial review

Income Statement

Revenue

Revenue of the Group represents proceeds from sale of wine products. For the six months ended 30 June 2016, total revenue decreased by 24% to approximately HK\$238.8 million from approximately HK\$315.9 million for the corresponding period in 2015. The decrease in revenue was mainly attributable to (1) more cautious consuming sentiments amid the impact of economic slowdown in the PRC; (2) unsatisfactory sales performance in the nationwide supermarket channel which is one of main off-trade channels of the Group and (3) impact of imported wines especially low-to-medium end imported wines which grab the market shares of domestic wines.

The Group's average ex-winery sales price of red and white wine products during the period was lower than the average price of HK\$23.7 per bottle (750ml) for the whole year of 2015, as a result of shifting the sales mix to low-to-medium end products. Since consumers in the PRC have a preference for red wines, the Group was able to set higher prices for its red wine products and therefore the average ex-winery sales price of the Group's red wines was generally higher than that of its white wines.

Cost of sales

The following table sets forth the major components of cost of sales (before impact of provision for impairment in inventories) for the period under review:

	For the six months ended 30 June	
	2016	2015
	%	%
Cost of raw materials		
– Grapes and grape juice	43	42
– Yeast and additives	2	2
– Packaging materials	19	19
– Others	1	1
Total cost of raw materials	65	64
Manufacturing overheads	21	20
Consumption tax and other taxes	14	16
Total cost of sales	100	100

The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives as well as packaging materials including bottles, bottle caps, labels, corks and packing boxes. During the period under review, the cost of grapes and grape juice was the key component of cost of sales and accounted for approximately 43% of the Group's total cost of sales, representing a mild increase of 1% from approximately 42% compared with the same period last year, due to the increase in purchase of grapes and grape juice. The total cost of packaging materials to the Group's revenue was stable during the period under review as compared with the corresponding period in 2015.

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 remained stable as compared with the corresponding period in 2015.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross invoiced sales. The overall gross profit margin increased to 27% for the six months ended 30 June 2016 from 24% for the corresponding period in 2015, mainly as a result of the decrease in impact of the provision made for impairment in inventories.

During the period under review, the gross margin of red wine products and white wine products were 29% and 22% respectively (2015 – 26% and 16% respectively).

Distribution expenses

Distribution expenses 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 expenses accounted for approximately 39% (2015 – 17%) of the Group’s revenue. The increase in the percentage was primarily due to continuous increase in investment in brand building, re-adjustment of sales and marketing channels in response to the market change and sustainable development of the Company. During the period, the Group continued to promote and market the Chateau Dynasty, brand and products effectively through a range of joint promotions with wedding planner companies and local distributors, print and outdoor advertisements, wine dinners, wine tasting events, digital communication, event sponsorships and exhibitions. The Group will ensure that our promotional strategy is responsive to market dynamics and competition.

Administrative expenses

Administrative expenses comprise salaries and related personnel expenses for administrative, finance and human resources departments, depreciation and amortisation expenses, provision for impairment and other incidental administrative expenses.

During the period under review, administrative expenses as a percentage of the Group’s revenue accounted for 19% (2015 -20%). This percentage remained stable during the period under review.

Income tax expense

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

Pursuant to the PRC Enterprise Income Tax Law passed by the Tenth National People’s Congress on 16 March 2007, the enterprise income tax rate for all the subsidiaries of the Company incorporated in the PRC had been unified at 25% effective from 1 January 2008. The income tax credit was because of annual tax filing difference during the period.

Financial management and treasury policy

As at 30 June 2016 except for the net proceeds from the placing and public offer, the Group’s revenues, expenses, assets and liabilities were substantially denominated in 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 were placed on short-term deposits (denominated in US dollars or Hong Kong dollars) with authorised financial institutions. The Company also paid dividends in Hong Kong dollars when dividends were declared. The Company did not implement any hedging or other derivatives against foreign exchange risk. Although the Group’s operations currently would not generate any significant foreign currency exposure, we will continue to closely monitor foreign currency movements and adopt prudent measures as appropriate.

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

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

Business review

Sales analysis

A. Distributorship

For the six months ended 30 June 2016, the decrease in revenue is attributable to unsatisfactory sales performance in the nationwide supermarket channel which is one of main off-trade channels of the Group. The Group continued implementing a reform on its sales and distribution model intended 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 channels, thereby enhancing efficiency and effectiveness.

Sales of red wines continued to be the Group's primary revenue contributor accounted for approximately 77% of the Group's revenue for the period (2015 – 78%).

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 continue and accelerate the expansion and to strengthen 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.

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 end segment in the PRC wine market. With effective product strategies and a high quality and diversified product portfolio, the Group firmly believes that the "Dynasty" brand is able to attract savvy consumers. Moreover, the Group also sold foreign brand wines mainly imported from France, Italy, Germany, the United States of America, Chile and Spain in the PRC wine market through the Group's existing distribution network to introduce some classic "old world" and "new world" varietals to cater for a market niche preferring the taste of foreign premium wines. The Group currently carries about 350 imported products under approximately 100 brands. We believe that with the trend of increasing wealth and the disposable income of consumers, the demand for Dynasty and imported wines should increase. To boost its market share and sustain its growth, the Group is determined to continue to actively promote and raise the visibility of these wines to the market.

B. Retail shops

To cater for different needs and preferences of our customers, the Group as at 30 June 2016 had 135 franchised retail shops across various provinces and cities in the PRC, selling a variety of Dynasty wines and imported wines to customers directly. The sales contribution from the retail shops was relatively insignificant to our revenue during the period under review. However, we believe that through these sales channels and our network 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, bring greater awareness to the brand and consolidate our leading presence in the PRC because retail shops are amongst the best vehicles to communicate our brand image and message, and to enhance customers' experience of buying and drinking wines. 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. During the period under review, 135 franchised retail shops were in operation by the end of the period.

The following table sets out the number of franchised retail shops by regions as at 30 June 2016:

Region	Number of franchised retail shops
South-Central region	80
Eastern region	26
North-West region	1
North-East region	4
Northern region	24
Total	135

C. Online sales

The Group launched an e-commerce business by joining online platform, Tmall (天貓商城) to further expand our sales channels and develop a new customer base. Customers can place orders via the internet on these websites for Dynasty wines or the imported wines we carry anywhere at any time. It has been running smoothly and recording a steady income. Although the online sales contribution was insignificant during the period, we are optimistic about the prospects of the business as research indicates online trading business in the PRC 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 of quality wines greatly depends on a 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 is 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 equip their vineyards with state-of-the-art techniques for assuring quality. For super and ultra premium wines, vignerons have adopted a disciplined approach to limiting harvest yields in order to deliver higher quality grape. For optimising supply networks, the Group has also kept identifying new suppliers who comply with our quality requirements and conducts thorough tests on their grape juices before orders are placed. These procedures ensure we procure quality grape and grape juice supplies and also minimise the effect of bad harvests interrupting production. The Group has imported grape juices from overseas, applying the same stringent quality requirements as it has on suppliers in the PRC.

Production capacity

In 2016, the Group has production and research and development facilities in its Tianjin winery with annual production capacity of 70,000 tonnes (equivalent to approximately 93.3 million bottles). The current capacity has enabled the Group to promptly response to market demand and further enhance the overall cost effectiveness in term of unit cost in the long run and has provided a better platform for sustainable earnings growth after the reform.

Prospects and future plans

Looking ahead to the second half of 2016, the Group expects to continue to face various challenges, in addition to increasing competition amidst fast-changing economic conditions. Nonetheless, the Group will continue to develop proactively its sales and distributors network especially in regions where it has low market presence and areas of high potential for growth, which will provide a solid foundation for sustainable development in the future.

Human resources management

Quality and dedicated staff are the most important assets of the Group and are indispensable to our success in the competitive market. We strive to ensure a strong team spirit among our employees so that they identify and contribute in unison to our corporate objectives. To this end, we offer competitive remuneration packages commensurate with market practices and industry levels, and provide various fringe benefits including training, medical and insurance coverage as well as retirement benefits to all employees in Hong Kong and the PRC. The Group is committed to staff training and development to support the need of the business and individuals, so employees are encouraged to enrol in external professional and technical seminars, and other training programs and courses to update their technical knowledge and skills, enhance their market awareness and improve their business acumen. The Group has reviewed and adjusted its human resources and remuneration policies, especially the performance-based bonus award, with reference to local legislation, market conditions, industry practice and achievements of the Group's targets as well as the performance of individual employee.

The Group employed a work force of 591 (including directors) in Hong Kong and the PRC as at 30 June 2016. The decrease in manpower has occurred mainly due to the internal human resources adjustment in response to the business development. The total salaries and related costs (including the directors' fees) for the period ended 30 June 2016 amounted to approximately HK\$65.5 million (2015 – HK\$75.9 million).

The Company also adopted a share option scheme on 6 December 2004 for the purposes 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 2016, share options to subscribe for 200,000 shares were granted and outstanding under the scheme.

Liquidity and financial resources

The liquidity and financial position of the Group remain intact as the Group continues to adopt a prudent approach in managing its financial resources. As at 30 June 2016, the Group's cash and cash equivalents, and short-term deposits amounted to HK\$83.6 million. It has sufficient financial resources and an adequate cash position for satisfying the working capital requirements of business development, operations and capital expenditures. New investment opportunities, if any, will be funded by the Group's internal resources.

The Group had net debt of HK\$525.6 million (total borrowings, trade and other payables less cash and cash equivalents), with total equity of the Group amounting to approximately HK\$443.1 million as at 30 June 2016 ensuring solvency and the Group's ability to continue as a going concern. The Group's gearing ratio, expressed as a ratio of net debt to total capital (net debt and total equity), as at 30 June 2016 was 54% (2015 – 47%).

Capital structure

The Group had borrowings of HK\$99.4 million, with cash and liquid position of HK\$83.6 million as at 30 June 2016, reflecting its intact capital structure. We expect our cash with bank facilities to be sufficient to support operating and capital expenditure requirements in the foreseeable future.

As at 30 June 2016, the market capitalisation of the Company was approximately HK\$1,797 million. Trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 22 March 2013 and will remain suspended until further notice.

Capital commitments, contingencies and charges on assets

As at 30 June 2016, there was no capital expenditure contracted for at the end of the period but not yet incurred. The Group had no material contingent liabilities. Included in borrowings were bank borrowings of approximately HK\$82 million, which were secured by the land and buildings of a subsidiary of approximately HK\$184 million.

Material acquisitions and disposals of subsidiaries and associated companies

For the period ended 30 June 2016, the Group did not make any material acquisitions or disposal of subsidiaries and associated companies.

Event after the reporting period

The Group planned to dispose a chateau and related facilities held by one of its subsidiaries at a consideration of RMB400 million. For details, please refer to Company's announcement dated 27 June 2017.

Interim dividend

The directors of the Company did not recommend the payment of any interim dividend to shareholders of the Company for the period ended 30 June 2016.

Purchase, sale or redemption of Shares

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

Compliance with the Model Code for Securities Transactions

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 Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). On enquiries made, all directors of the Company had confirmed their compliance with the required standards set out in the Model Code throughout the six months ended 30 June 2016.

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.

Compliance with the Corporate Governance Code

Throughout the period under review, saved as disclosed below, none of the directors was aware of any information that would reasonably indicate that the Company was not in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules (the "**Code**") for the period ended 30 June 2016. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

During the period from 1 January 2016 to the date of this announcement, the number of independent non-executive directors of the Company fell below one-third of the Board. As such, the number of independent non-executive directors of the Company cannot represent at least one-third the Board required under Rule 3.10A of the Listing Rules.

As a result of the internal investigations, the Group has breached the financial reporting provisions under the Listing Rules in respect of (i) announcing the annual/interim results for the years ended 31 December 2012, 2013, 2014 and 2015 and for the six-month periods ended 30 June 2013, 2014, 2015, 2016; (ii) publishing the related annual/interim reports for the years ended 31 December 2012, 2013, 2014 and 2015 and for the six-month periods ended 30 June 2013, 2014, 2015 and 2016; and (iii) convening an annual general meeting for the financial years ended 31 December 2012, 2013, 2014 and 2015.

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 website of the Company (www.dynasty-wines.com) and the Stock Exchange.

The interim report of the Company for the period ended 30 June 2016, which contains all the information required by the Listing Rules will be dispatched to shareholders of the Company and published on the website of the Company (www.dynasty-wines.com) and the Stock Exchange in due course. Further announcement will be made by the Company as and when appropriate.

Suspension of trading

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

By order of the Board
Dynasty Fine Wines Group Limited
Sun Jun
Chairman

Hong Kong, 8 June 2018

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