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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)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

The board (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 2018 together with the restated comparative figures for the corresponding year ended 31 December 2017 and 1 January 2017. The unaudited interim results for the first half year of 2018 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	
		2018	2017
			Restated
	Note	HK\$'000	HK\$'000
Revenue	5	165,506	235,740
Cost of sales		<u>(121,286)</u>	<u>(158,209)</u>
Gross profit		44,220	77,531
Other income, gains and losses – net		2,064	479
Net impairment losses on financial assets		829	(3,712)
Distribution costs		(35,432)	(50,672)
Administrative expenses		<u>(37,233)</u>	<u>(48,385)</u>
Operating loss	6	(25,552)	(24,759)
Finance income		208	232
Finance costs		<u>(3,242)</u>	<u>(2,938)</u>
Finance costs – net		<u>(3,034)</u>	<u>(2,706)</u>
Loss before income tax		(28,586)	(27,465)
Income tax expense	7	<u>(36)</u>	<u>(26)</u>
Loss for the period		<u>(28,622)</u>	<u>(27,491)</u>
Attributable to:			
Owners of the Company		(28,323)	(26,701)
Non-controlling interests		<u>(299)</u>	<u>(790)</u>
		<u>(28,622)</u>	<u>(27,491)</u>
Loss per share attributable to owners of the Company for the period (expressed in HK cents per share)			
– Basic and diluted loss per share	9	<u>(2.3)</u>	<u>(2.1)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2018	2017
		Restated
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period	(28,622)	(27,491)
Other comprehensive (loss)/income:		
Currency translation differences	<u>(852)</u>	<u>15,325</u>
Total comprehensive loss for the period	<u>(29,474)</u>	<u>(12,166)</u>
Total comprehensive loss for the period is attributable to:		
Owners of the Company	(29,062)	(11,921)
Non-controlling interests	<u>(412)</u>	<u>(245)</u>
	<u>(29,474)</u>	<u>(12,166)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
	30 June	31 December	1 January
	2018	2017	2017
	Unaudited	Audited	Audited
		Restated	Restated
<i>Note</i>	HK\$'000	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	86,497	92,085	272,170
Leasehold land and land use rights	18,287	19,169	52,095
Goodwill	–	–	–
Investment in an associate	–	–	–
Deferred income tax assets	–	–	–
	104,784	111,254	324,265
Current assets			
Trade receivables and notes receivables	42,909	61,597	51,311
Other receivables	10,474	12,264	36,812
Prepayments	1,615	1,963	2,326
Inventories	385,646	429,850	504,367
Cash and cash equivalents	46,336	82,510	91,408
	486,980	588,184	686,224
Assets held for sale	189,221	190,805	–
Total assets	780,985	890,243	1,010,489
EQUITY			
Equity attributable to the owners of the Company			
Share capital	124,820	124,820	124,820
Other reserves	1,157,191	1,157,937	1,139,353
Accumulated losses	(1,080,691)	(1,052,135)	(918,510)
	201,320	230,622	345,663
Non-controlling interests	14,597	15,009	15,568
Total equity	215,917	245,631	361,231

		As at	
	30 June	31 December	1 January
	2018	2017	2017
	Unaudited	Audited	Audited
		Restated	Restated
<i>Note</i>	HK\$'000	HK\$'000	HK\$'000
LIABILITIES			
Current liabilities			
Trade payables	<i>11</i> 126,268	162,893	210,424
Contract liabilities	110,852	126,418	119,802
Other payables and accruals	180,617	209,846	201,697
Borrowings	147,331	145,455	117,318
Current income tax liabilities	<u>–</u>	<u>–</u>	<u>17</u>
Total liabilities	<u>565,068</u>	<u>644,612</u>	<u>649,258</u>
Total equity and liabilities	<u>780,985</u>	<u>890,243</u>	<u>1,010,489</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 Rooms E and F, 16/F, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding and trading of wine products. The principal activities of the subsidiaries are manufacturing and sale of wine products and unprocessed wine.

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.

The condensed consolidated interim financial information was approved for issue by the Board on 22 July 2019.

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 2018 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 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standard (“**HKFRSs**”).

As at 30 June 2018, the Group’s current liabilities exceeded their current assets by HK\$78,088,000. The Group’s loss and net cash outflow from operating activities for the period ended 30 June 2018 were approximately HK\$28,622,000 and HK\$54,355,000. These indicate there was a significant doubt about the ability of the Group to continue as a going concern. The directors of the Company have reviewed the Group’s cash flow projections, which cover a period of twelve months from 31 December 2018. The directors are of the opinion that, taking into account the followings, the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the next twelve months from 31 December 2018:

- The Group entered into an agreement with Tianjin Yiyang Big Health Small Township Development Co., Ltd., a third party to dispose of a chateau and related facilities at a consideration of RMB400 million and the completion of which is subject to certain administrative registration procedures. The full amount of the consideration has been received on 16 May 2019.
- Tianjin Tsinlien Investment Holding Co., Ltd. (hereinafter referred to as “Tsinlien Investment”), the ultimate shareholder of the Company’s major shareholder, has issued a financial support letter to the Company to confirm its intention to provide continuous financial support to the Group to meet its liabilities for a period of twelve months from the date of approval of these consolidated financial statements.
- Tsinlien Investment has also issued a letter to the Company to confirm that the Company’s major shareholder, a wholly-owned subsidiary of Tsinlien Investment, will not request for the Group’s repayment of the amounts due it of HK\$42,404,000 within the next fifteen months from 1 January 2019.

Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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 2017, except for the adoption of amendments to HKFRSs which effective for the financial year beginning 1 January 2018.

Except as disclosed below, 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 Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers.
- Annual Improvements 2014-2016 cycle

The impact of the adoption of these amendment has been stated in below.

As a result of the changes in the Group's accounting policies, prior year financial statements had to be restated. As explained below, HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

	31 December 2017			31 December 2017		1 January 2018
Balance sheet (extract)	As originally presented HK\$'000	HKFRS 9 HK\$'000	HKFRS 15 HK\$'000	Restated HK\$'000	HKFRS 9 HK\$'000	Restated HK\$'000
Trade and notes receivables	61,597	—	—	61,597	(240)	61,357
Other payables and accruals	336,264	—	(126,418)	209,846	—	209,846
Contract liabilities	—	—	126,418	126,418	—	126,418
Current liabilities	397,861	—	—	397,861	(240)	397,621
Reserves	1,157,937	—	—	1,157,937	(7)	1,157,930
Accumulated losses	(1,052,135)	—	—	(1,052,135)	(233)	(1,052,368)

**Income statement and statement
of comprehensive income
(extract) 2017**

	As originally presented HK\$'000	HKFRS 9 HK\$'000	HKFRS 15 HK\$'000	Restated HK\$'000
Revenue	235,740	—	—	235,740
Cost of sales	(154,414)	—	(3,795)	(158,209)
Gross profit	81,326	—	(3,795)	77,531
Distribution costs	(54,467)	—	3,795	(50,672)
Administrative expenses	(52,097)	3,712	—	(48,385)
Net impairment losses on financial assets	—	(3,712)	—	(3,712)
Operating loss	(24,759)	—	—	(24,759)

HKFRS 9 Financial Instruments

HKFRS 9 replaces the impairment allowance of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional impairment allowance in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

The total impact on the Group's accumulated losses as at 1 January 2018 is as follows:

	2018 HK\$'000
Closing accumulated loss as at 31 December – HKAS 39/HKAS 18	(1,052,135)
Increase in impairment allowance for trade receivables	<u>(233)</u>
Opening accumulated loss as at 1 January – HKFRS 9 (before restatement for HKFRS 15)	<u>(1,052,368)</u>
Adjustments made to line items in the consolidated income statement and the consolidated statement of other comprehensive income for the 2017 reporting period relate to:	
	2017 HK\$'000
Decrease in administrative expenses	3,712
Increase in net impairment losses on financial assets	<u>(3,945)</u>
Increase in operating loss	<u>(233)</u>

(i) Classification and instrument

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

Current financial assets	Measurement category		Carrying amount		
	Original (HKAS 39)	New (HKFRS 9)	Original HK\$000	New HK\$000	Difference HK\$000
Trade receivables	Amortised cost	Amortised cost	48,200	47,960	(240)
Notes receivables (Note)	Amortised cost	Fair value through other comprehensive income ("FVOCI")	13,397	13,397	–
Other receivables	Amortised cost	Amortised cost	12,264	12,264	–

Note:

Notes receivables where the contractual cash flow were solely principal and interest were reclassified from financial assets at amortised cost to financial assets of FVOCI as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The Group has adopted the HKFRS 9 in accordance with the transitional provisions and the related comparative financial information as at 31 December 2017 has not been restated accordingly. Due to the consideration as set out in Note 10, the notes receivable has been presented within "trade receivables and notes receivables" in the balance sheet. These notes receivables are all bank acceptance bills with maturity dates within six months. The fair value of these notes receivables approximate to their carrying amounts due to the short maturities.

(ii) *Impairment of financial assets*

The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- trade receivables for sales of inventories
- other receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This resulted in an increase of the loss allowance on 1 January 2018 by HK\$240,000 for trade receivables.

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in HKFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018) and the beginning of the earliest period presented (1 January 2017):

	HKAS 18 carrying amount 31 December			HKFRS 15 carrying amount 1 January
	2017	Reclassification	Remeasurement	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other payables and accruals	336,264	(126,418)	–	209,846
Contract liabilities	–	126,418	–	126,418

	HKAS 18 carrying amount 31 December			HKFRS 15 carrying amount 1 January
	2016	Reclassification	Remeasurement	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other payables and accruals	321,499	(119,802)	–	201,697
Contract liabilities	–	119,802	–	119,802

HKFRS 15 Revenue from Contracts with Customers

(i) *Accounting for costs to fulfil a contract*

In 2017, costs amounting to HK\$3,795,000 related to delivery for the inventories were expensed as they did not qualify for recognition as an asset under any of the other accounting standards. However, the costs relate directly to the contract, generate resources used in satisfying the contract and are expected to be recovered. They were therefore capitalised as costs to fulfil a contract following the adoption of HKFRS 15 and reclassified to cost of sales of goods in the income statement in 2017.

(ii) *Presentation of assets and liabilities related to contracts with customers*

The Group has also voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of HKFRS 15 and HKFRS 9:

- Contract liabilities were previously included in other payables and accruals (HK\$126,418,000 as at 31 December 2017; HK\$119,802,000 as at 1 January 2017).

(b) Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

HKFRS 16 'Leases'

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by leases, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$8,663,000. The Group expects to recognise right-of-use assets of approximately HK\$7,983,000 on 1 January 2019, lease liabilities of HK\$7,983,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Net current assets will be HK\$6,894,000 lower due to the presentation of a portion of the liability as a current liability. The Group expects that net loss after tax will increase by approximately HK\$101,000 for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately HK\$7,431,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to the first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the leases liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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 for the year ended 31 December 2017.

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 2017.

4 ESTIMATES

The preparation of interim financial statements requires the management of the Company 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 the management of the Company 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 2017.

In addition, the loss allowances for trade receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

5 SEGMENT INFORMATION

In accordance with the Group's internal reporting, the chief operating decision-maker considers the business from product perspective and has determined the operating segments to be red wines, white wines and all other products primarily related to the sale of sparkling wines, brandy and icewine. The executive Directors assess the performance of the operating segments based on gross profit. All revenue of the Group are from external customers.

	Red wines <i>HK\$'000</i>	White wines <i>HK\$'000</i>	Unaudited All other products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2018				
Revenue	<u>125,165</u>	<u>39,393</u>	<u>948</u>	<u>165,506</u>
Gross profit	<u>30,465</u>	<u>13,713</u>	<u>42</u>	<u>44,220</u>
Unallocated items:				
Depreciation and amortisation				<u>(8,403)</u>
Six months ended 30 June 2017				
Revenue	<u>150,668</u>	<u>84,372</u>	<u>700</u>	<u>235,740</u>
Gross profit	<u>52,617</u>	<u>24,474</u>	<u>441</u>	<u>77,531</u>
Unallocated items:				
Depreciation and amortisation				<u>(17,612)</u>

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

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	Restated HK\$'000
Gross profit for reportable segments	44,220	77,531
Other income, gains and losses – net	2,064	479
Net impairment losses on financial assets	829	(3,712)
Distribution costs	(35,432)	(50,672)
Administrative expenses	(37,233)	(48,385)
Operating loss	(25,552)	(24,759)
Finance costs – net	(3,034)	(2,706)
Loss before income tax	<u>(28,586)</u>	<u>(27,465)</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 (2017: 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	
	2018	2017
	HK\$'000	HK\$'000
Employee costs comprising:		
– salaries, other allowance and benefits	56,591	53,976
– contributions to retirement benefits scheme	4,778	4,248
Total employee costs including directors' emoluments	61,369	58,224
Depreciation and amortisation	8,403	17,612
Loss on disposal of property, plant and equipment	82	10
Reversal of impairment allowance of inventories included in cost of sales	(3,150)	(10,818)

7 INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Current income tax:		
– Current income tax on profits for the period	36	26
Deferred income tax:		
– Total deferred income tax	–	–
Income tax expense	<u>36</u>	<u>26</u>

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% (2017: 25%).

8 DIVIDENDS

No interim dividend was declared during the six months ended 30 June 2018 (2017: 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\$28,323,000 (2017: loss of HK\$26,701,000) and the weighted average number of 1,248,200,000 Shares in issue during the six months ended 30 June 2018 (2017: 1,248,200,000 Shares).

As the Group has no dilutive instruments during the six months ended 30 June 2018 and 2017, the Group's diluted earnings per Share equal to its basic earnings per Share for the six months ended 30 June 2018 and 2017.

10 TRADE AND NOTES RECEIVABLES

The Group grants a credit period of 90 days (2017: 90 to 180 days) to its customers. The ageing analysis of the trade receivables is as follows:

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Up to 3 months	25,792	44,164
3 to 6 months	8,812	3,039
6 months to 1 year	1,810	1,008
1 year to 2 years	5,059	6,328
Over 2 years	<u>14,261</u>	<u>14,432</u>
	55,734	68,971
Less: Provision for impairment	<u>(19,942)</u>	<u>(20,771)</u>
	35,792	48,200
Notes receivables	<u>7,117</u>	<u>13,397</u>
Trade and notes receivables	<u><u>42,909</u></u>	<u><u>61,597</u></u>

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

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

Notes receivables where the contractual cash flow were solely principal and interest were previously classified as financial assets at amortised costs. Considering the Group's business model comprised both collecting contractual cash flows upon the expiry of the notes receivables or selling of these notes receivable, notes receivable should be classified from financial assets at amortised cost to financial assets of FVOCI upon the adoption of HKFRS 9 (with effect from 1 January 2018). No such reclassification has been made in these consolidated financial statements as the directors considered that the exiting presentation can ensure comparability of financial information and adequate disclosure has been made in this disclosure note.

11 TRADE PAYABLES

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

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
0-30 days	30,438	32,113
31-90 days	21,722	16,784
Over 90 days	74,108	113,996
	<u>126,268</u>	<u>162,893</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group's revenue for the six months ended 30 June 2018 decreased by 30% to HK\$166 million (2017 – HK\$236 million) and the Group's loss attributable to owners of the Company increased to HK\$28.3 million (2017 – HK\$26.7 million).

Loss per Share for the six months ended 30 June 2018 as HK\$2.3 cents per Share (2017 – HK\$2.1 cents per Share) based on the weighted average number of 1,248 million Shares (2017 – 1,248 million Shares) in issue during the period under review. There was no potential dilutive Share for the period ended 30 June 2018.

The increase in loss attributable to owners of the Company in the first half of 2018 was primarily due to decrease in sales volume and gross margin, but offset by a decrease in distribution costs and administrative expenses due to the cost saving following the effective implementation of cost control policy during the period.

Financial review

Income Statement

Revenue

Revenue of the Group represents proceeds from sale of wine products. For the six months ended 30 June 2018, total revenue decreased by 30% to approximately HK\$166 million from approximately HK\$236 million for the corresponding period in 2017. The decrease in revenue was mainly attributable to deteriorating operating conditions for certain distributors in Eastern and Southeast regions of the PRC during the period.

The Group's average ex-winery sales price of red and white wine products during the period was higher than the average price of HK\$21.4 per bottle (750ml) for the whole year of 2017.

Cost of sales

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

	For the six months ended 30 June	
	2018	2017
	%	%
Cost of raw materials		
– Grapes and grape juice	43	45
– Yeast and additives	2	2
– Packaging materials	19	21
– Others	1	1
Total cost of raw materials	65	69
Manufacturing overheads	24	22
Consumption tax and other taxes	11	9
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 decrease of 2% from approximately 45% compared with the same period last year, due to the decrease in purchase price of grapes and grape juice.

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 cost of sales increased as compared with the corresponding period in 2017 because there was an increase in overhead costs as a result of decreased utilisation of production capacity.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross invoiced sales. The overall gross profit margin decreased to 27% for the six months ended 30 June 2018 from 33% for the corresponding period in 2017, mainly as a result of decrease in consumption tax deduction in the PRC and reversal of impairment allowance of inventory, resulting in an increase in cost of sales.

During the period under review, the gross margin of red wine products and white wine products were 27% and 37% respectively (2017 – 37% and 31% respectively).

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 21% (2017 (restated) – 21%) of the Group’s revenue. The stable distribution costs to revenue ratio is for maintaining investment in brand building and re-adjustment of sales and marketing channels in response to the market change and sustainable development of the Company. During the period under review, the Group continued to promote and market its brand and products effectively through a range of joint promotions with local distributors, print and outdoor advertisements, wine dinners, wine tasting events, digital communication, event sponsorships and exhibitions. The Group will ensure that its promotional strategy is responsive to market dynamics and competition.

Administrative expenses

Administrative expenses comprise salaries and related personnel expenses for administrative, finance and human resources departments, 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 22% (2017-22%). 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 established in the PRC had been unified at 25% effective from 1 January 2008.

Other income, gains and losses – net

Included in other income, gains and losses – net was mainly a recovery of stock loss of approximately HK\$1.3 million. As detailed in the Company’s public announcement dated 8 August 2018 (the “**Announcement**”), a subsidiary of the Company (the “**Subsidiary**”) (as the plaintiff) filed a civil claim against a distributor which bypassed the established procedures and took the Group’s inventories of finished goods with estimated sales values of HK\$16,111,000 and costs of HK\$7,182,000 (the “**Lost Inventories**”). The Announcement has also revealed that part of the Lost Inventories with estimated sales values of HK\$8,013,000 and costs of HK\$2,834,000 were deemed under a bill-and-hold arrangement with another single distributor connected with matters disclosed in the Company’s Announcement (the “**Bill-and-Hold Arrangement**”). The Bill-and-Hold Arrangement referred to the arrangement between the Company and this single distributor for temporary inventory storage in the warehouse leased by the Subsidiary due to demolition of the warehouse of this single distributor. The audit committee of the Company conducted an independent investigation with the assistance of its legal adviser and a professional third party (the “**Investigation**”) on the above case to understand and obtain evidence on how these incidents occurred, evaluate its impact on the Group’s consolidated financial statements based on the findings.

After the Investigation, the Directors of the Company are of the view that the controls, risks and rewards associated with the inventories under the Bill-and-Hold Arrangement had not yet been transferred out of the Group and therefore no revenue was recognised by the Group in respect of these inventories during the year ended 31 December 2017. Based on the results of the Investigation, the Group has recognised a full impairment allowance against the Lost Inventories of HK\$7,182,000 in the year ended 31 December 2017.

Financial management and treasury policy

As at 30 June 2018, the Group's revenues, expenses, assets and liabilities were substantially denominated in RMB. The funding from the operation and borrowings was placed on short-term deposits (denominated in RMB 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, the Group 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 2018, the decrease in revenue was attributable to the deterioration of the operating conditions for certain distributors in Eastern and Southeast regions of the PRC. The Group continued to implement a reform on its sales and distribution model intending 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) enhancement in 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 the Group's 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 76% of the Group's revenue for the period under review (2017 – 64%).

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 branded wines mainly imported from France, Italy, Germany, the United States of America, New Zealand, Chile and Spain in the PRC wine market through the Group’s existing distribution network to introduce some classic “old world” and “new world” varieties to cater for a market niche preferring the taste of foreign premium wines. The Group currently carries about 180 imported products under approximately 70 brands. The Group believes 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. Online sales

Online sales have become more important in the PRC. The Group has operated its online stores on the online platforms, Tmall (天貓商城) and JD.com (京東商城) to further expand its sales channels and develop new customer bases. The Group strategically plans and continues putting resources for future improvement of the online sales channels instead of development of franchised retail shops so as to capture the change of customer consumption behavior in the PRC. Customers can place orders via the internet on these websites for Dynasty wines the Group carry anywhere at any time. Although the online sales contribution was insignificant during the period, the Group is optimistic about the prospects of the business as research indicates that online trading business in the PRC should grow steadily in the coming years and the PRC 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 successful e-commerce model overseas.

Supplies of grapes or grape juice

Production of quality wines greatly depends on a sufficient supply of quality grapes or grape juice. Currently, the Group has more than 10 major grape juice suppliers with whom the Group has enjoyed long-term relationships, mainly located in Tianjin, 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 the Group’s expanded production capacity is a high priority of the Group. Thus, the Group’s 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 its quality requirements and conducts thorough tests on their grape juices before orders are placed. These procedures ensure the Group procures quality grape and grape juice supplies and also minimise the effect of bad harvests interrupting production.

Production capacity

At the end of June 2018, the Group has production and research and development facilities in its Tianjin winery with its annual production capacity of 70,000 tonnes (equivalent to approximately 93.3 million bottles).

After completion of the disposal of the chateau and related facilities, the Group's annual production capacity is expected to decrease from 70,000 tonnes to 50,000 tonnes. Such expected capacity is sufficient for the Group to promptly response to the market demand and provide a platform for sustainable earnings growth.

Prospects and future plans

Looking ahead to the second half of 2018, the Group expects to continue to face various challenges and opportunities. Going forward, in addition to increasing competition amidst fast-changing economic conditions, the Group will continue to improve its organisational structure and enhance its professionalism in its business management. Leveraging on the experience in the wine industry, the Group will continue to intensify the reform and explore new sales channels in order to reach out to a wider group of potential customers.

Human resources management

Quality and dedicated staff are the most important assets of the Group and are indispensable to its success in the competitive market. The Group strives to ensure a strong team spirit among its employees so that they identify and contribute in unison to its corporate objectives. To this end, the Group offers competitive remuneration packages commensurate with market practices and industry levels, and provides various fringe benefits including training, medical and insurance coverage as well as retirement benefits to all employees in Hong Kong and the PRC. The Group is committed to staff training and development to support the need of the business and individuals, so employees are encouraged to enroll 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 429 (including directors) (2017: 448) in Hong Kong and the PRC as at 30 June 2018. 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 2018 amounted to approximately HK\$61.4 million (2017 – HK\$58.2 million).

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 2018, the Group's cash and cash equivalents, and short-term deposits amounted to HK\$45.9 million (31 December 2017: HK\$82.1 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\$101.4 million (31 December 2017: HK\$63.4 million) (total borrowings less cash and cash equivalents), with total equity of the Group amounted to approximately HK\$215.9 million (31 December 2017: HK\$245.6 million) as at 30 June 2018 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 2018 was 32% (31 December 2017 – 21%).

Capital structure

The Group had borrowing of HK\$147.3 million (31 December 2017: HK\$145.4 million), with cash and liquid position of HK\$45.9 million (31 December 2017: HK\$82.1 million) as at 30 June 2018. The Group's expect its cash with proceeds from the disposed of the chateau and related facilities and the continuing financial support from the ultimate shareholder of its major shareholder to be sufficient to support operating and capital expenditure requirements in the foreseeable future.

Included in borrowings were unsecured entrusted bank borrowings of approximately HK\$142.3 million. Unsecured entrusted bank borrowings represented loans as advance to the Group by Tianjin Food Group through banks of HK\$142.3 million (31 December 2017: HK\$59.8 million), which are repayable in December 2019 and bear interest at fixed rate of 5.35% (31 December 2017: 5.35%) per annum.

As at 31 December 2017, included in bank borrowings were entrusted bank borrowing of approximately HK\$59.8 million, which were secured by the land and buildings of the subsidiary with carrying amount of HK\$190.8 million.

As at 30 June 2018, the market capitalisation of the Company was approximately HK\$1,797 million (31 December 2017: 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 2018, there was no capital expenditure contracted for at the end of the period but not yet incurred and no charges on assets. The Group had contingent liabilities in terms of:

In June 2018, an arbitration was lodged by a supplier against one of the Group's subsidiaries for its non-performance under a raw materials purchasing agreement as signed in November 2015. The matter is currently being considered by the Tianjin Arbitration Commission. The external lawyer as appointed by the Group and the Group's internal legal department consider it to be probable that the judgement will be in favour of the Group and has therefore not recognised a provision in relation to this case. The potential compensation that the Group could be required to make if there was an adverse decision related to the arbitration is estimated to be approximately RMB30 million.

In March 2019, a lawsuit was lodged by a supplier against one of the Group's subsidiaries for its non-performance under a raw wine purchasing supplementary agreement as signed in May 2015. The matter is currently being considered by the Tianjin Beichen District People's Court. The external lawyer as appointed by the Group and the Group's internal legal department consider it has partial possibility that the judgement will be in favour of the Group and has therefore not recognised a provision in relation to this case. The potential compensation that the Group could be required to make if there was an adverse decision related to the lawsuit is estimated to be approximately RMB0.7 million.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

For the period ended 30 June 2018, the Group did not make any material acquisition or disposal of subsidiaries, associates or joint ventures. In February 2017, the Directors of the Company indicated its intention to dispose a chateau and related facilities held by a subsidiary, Sino-French Joint-Venture Dynasty Winery Ltd. (referred to as the "**Tianjin factory**"). On 27 June 2017, the Board announced that Tianjin factory would dispose of a chateau and related facilities through a public auction on Tianjin Property Rights Transaction Centre ("**TPRTC**") in the PRC pursuant to the relevant PRC laws and regulations in relation to transfer of PRC state-owned assets. The reserve price for the proposed sale and transfer of a chateau and related facilities was RMB400 million. On 24 October 2017, Tianjin Yiyang Big Health Small Township Development Co., Ltd., an independent third party, (the "**purchaser**"), registered with TPRTC regarding the purchase of the chateau and related facilities. Accordingly, the land use right and buildings in relation to this chateau were classified as assets held for sale as at 31 December 2017.

On 23 July 2018, the Tianjin factory formally entered into an Asset Transaction Agreement with the purchaser to dispose the land use right and buildings in relation to the chateau at consideration of RMB400 million (the "**Disposal**"). The Disposal was approved by the shareholders of the Company at the extraordinary general meeting on 5 December 2018. On 16 May 2019, the Tianjin factory received the consideration of RMB400 million from the purchaser through TPRTC. As of the date of this announcement, the Disposal has not yet completed pending for certain administrative registration procedures.

Event after the reporting period

As at the date of this announcement, all borrowings of RMB120 million has been repaid on or before the maturity date. After the period end, entrusted bank borrowings of RMB30 million and RMB130 million granted by the Tianjin Food Group through China CITIC Bank and China Merchants Bank at to the Group for a period of 1 year, bearing interest rate from 4.35% to 5.35% per annum. As the date of this announcement, all of the aforesaid borrowings of RMB160 million has been repaid.

Interim dividend

The Directors did not recommend the payment of any interim dividend to the shareholders of the Company for the period ended 30 June 2018.

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 the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code for Directors' securities transactions (the "**Model Code**"). The Company has made specific enquiry of all Directors and that all the Directors have confirmed their compliance with the required standards set out in the Model Code regarding Directors' securities transactions throughout the six months ended 30 June 2018.

Corporate governance

The Company is committed to fulfilling its responsibilities to the 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, save as disclosed below, none of the Directors was aware of any information that would reasonably indicate that the Company was not in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules for the period ended 30 June 2018. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

During the period ended 30 June 2018 and up to the date of this announcement, the number of independent non-executive Directors of the Company fell below one-third of the Board. The Company intended to look for suitable candidate of independent non-executive Director who is familiar with the fast moving consumer goods industry, and who has extensive experience in wine business. However, the Company has yet identified such suitable candidate. As such, the number of independent non-executive Directors could not represent at least one-third the Board required under Rule 3.10A of the Listing Rules.

On 15 February 2018, the Company announced the annual results for the year ended 31 December 2016. On 8 June 2018, the Company announced the interim results for the six-month periods ended 30 June 2013, 2014, 2015 and 2016.

Prior to such publication, at 30 June 2018, as additional time is required by the Company to finalise the outstanding results announcements and reports and to provide the outstanding matters to the auditor for the completion of the audit for the consolidated financial statements for the years ended 31 December 2016 and 2017, the Group has breached the financial reporting provisions under (i) Rule 13.49(1)/13.49(6) and (ii) 13.26(2)/13.48(1) of the Listing Rules in respect of (i) announcing the annual/interim results for the years ended 31 December 2016 and 2017 and for the six-month periods ended 30 June 2013, 2014, 2015, 2016 and 2017; (ii) publishing the related annual/interim reports for the years ended 31 December 2012, 2013, 2014, 2015, 2016 and 2017 and for the six-month periods ended 30 June 2013, 2014, 2015, 2016 and 2017; and (iii) convening an annual general meeting for the financial years ended 31 December 2012, 2013, 2014, 2015, 2016 and 2017.

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 of the Company for the period ended 30 June 2018, which contains all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the websites of the Company (www.dynasty-wines.com) and the Stock Exchange in due course. Further announcement will be made by the Company as and when appropriate.

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, 22 July 2019

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.