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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 2019**

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 2019 together with the comparative figures for the corresponding period of last year. The unaudited interim results for the first half year of 2019 have 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	
		2019	2018
	Note	HK\$'000	HK\$'000
Revenue	5	132,175	165,506
Cost of sales		<u>(82,822)</u>	<u>(121,286)</u>
Gross profit		49,353	44,220
Other income, gains and losses – net		1,655	2,064
Reversal of impairment losses on financial assets – net		909	829
Distribution costs		(48,056)	(35,432)
Administrative expenses		<u>(33,390)</u>	<u>(37,233)</u>
Operating loss	6	<u>(29,529)</u>	<u>(25,552)</u>
Finance income		418	208
Finance costs		<u>(3,324)</u>	<u>(3,242)</u>
Finance costs – net		<u>(2,906)</u>	<u>(3,034)</u>
Loss before income tax		(32,435)	(28,586)
Income tax expense	7	<u>(23)</u>	<u>(36)</u>
Loss for the period		<u>(32,458)</u>	<u>(28,622)</u>
Attributable to:			
Owners of the Company		(32,191)	(28,323)
Non-controlling interests		<u>(267)</u>	<u>(299)</u>
		<u>(32,458)</u>	<u>(28,622)</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>(2.6)</u>	<u>(2.3)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Loss for the period	(32,458)	(28,622)
Other comprehensive loss:		
Currency translation differences	<u>(336)</u>	<u>(852)</u>
Total comprehensive loss for the period	<u><u>(32,794)</u></u>	<u><u>(29,474)</u></u>
Total comprehensive loss for the period is attributable to:		
Owners of the Company	(32,472)	(29,062)
Non-controlling interests	<u>(322)</u>	<u>(412)</u>
	<u><u>(32,794)</u></u>	<u><u>(29,474)</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 June	31 December
		2019	2018
		Unaudited	Audited
	Note	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		74,174	79,810
Leasehold land and land use rights		17,510	17,816
Goodwill		–	–
Right-of-use assets	10	7,034	–
Investment in an associate		–	–
Deferred income tax assets		–	–
		<u>98,718</u>	<u>97,626</u>
Current assets			
Trade and notes receivables	11	42,220	37,318
Other receivables		10,968	10,575
Prepayments		2,184	13,298
Inventories		305,561	337,052
Cash and cash equivalents		274,886	81,341
		<u>635,819</u>	<u>479,584</u>
Assets held for sale		<u>181,335</u>	<u>182,051</u>
Total assets		<u>915,872</u>	<u>759,261</u>
EQUITY			
Equity attributable to the owners of the Company			
Share capital		124,820	124,820
Other reserves		1,147,351	1,147,632
Accumulated losses		(1,163,227)	(1,131,036)
		<u>108,944</u>	<u>141,416</u>
Non-controlling interests		<u>13,417</u>	<u>13,739</u>
Total equity		<u>122,361</u>	<u>155,155</u>

		As at	
		30 June	31 December
		2019	2018
		Unaudited	Audited
	<i>Note</i>	HK\$'000	HK\$'000
LIABILITIES			
Current liabilities			
Trade payables	12	72,499	106,030
Contract liabilities		82,771	83,850
Other payables and accruals		631,176	190,396
Borrowings		–	223,830
Lease liabilities		4,807	–
Current income tax liabilities		–	–
		<u>791,253</u>	<u>604,106</u>
Non-current liability			
Lease liabilities		<u>2,258</u>	<u>–</u>
Total liabilities		<u>793,511</u>	<u>604,106</u>
Total equity and liabilities		<u><u>915,872</u></u>	<u><u>759,261</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 Rooms E and F, 16/F, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong.

The principal activities of the Company are 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. Trading of the Shares on the Stock Exchange was suspended on 22 March 2013 and has been resumed on 29 July 2019.

The condensed consolidated interim financial information was approved for issue by the Board on 30 August 2019. These condensed consolidated interim financial statements have not been audited.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

These unaudited condensed consolidated interim financial information for the six months ended 30 June 2019 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 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standard (“**HKFRSs**”).

As at 30 June 2019, the Group’s current liabilities exceeded its current assets by HK\$155,434,000. The Group’s loss and net cash outflow from operating activities for the period ended 30 June 2019 were approximately HK\$32,458,000 and HK\$38,100,000. These indicate there was a significant doubt about the ability of the Group to continue as a going concern. The Directors have reviewed the Group’s cash flow projections, which cover a period of twelve months from 30 June 2019. 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 30 June 2019:

- 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 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 22 July 2019, the date of approval of consolidated financial statements for the year ended 31 December 2018.
- 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 amount due to 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 condensed 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 consolidated financial statements for the year ended 31 December 2018, except for the adoption of amendments to HKFRSs which effective for the financial year beginning on or after 1 January 2019.

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 the Group.

2.2 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting HKFRS 16 Leases. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's consolidated financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.35%-4.75%.

	<i>HK\$'000</i>
Operating lease commitments disclosed as at 31 December 2018	8,663
Discounted using the lessee's incremental borrowing rate of at the date of initial application and lease liabilities recognised as at 1 January 2019	7,983
Of which are:	
Lease liabilities – current portion	6,894
Lease liabilities – non-current portion	1,089

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019 <i>HK\$'000</i>	1 January 2019 <i>HK\$000</i>
Properties	7,034	7,983

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by approximately HK\$7,983,000
- lease liabilities – non-current portion – increase by approximately HK\$1,089,000
- lease liabilities – current portion – increase by approximately HK\$6,894,000

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) 4 Determining whether an Arrangement contains a Lease.

The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses and retail stores. Rental contracts are typically made for fixed periods of 1 to 3 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees, and
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

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 2018.

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 2018.

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 2018.

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 procedures, 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.

	Unaudited			
	Red wines HK\$'000	White wines HK\$'000	All other products HK\$'000	Total HK\$'000
Six months ended 30 June 2019				
Revenue	<u>98,907</u>	<u>32,554</u>	<u>714</u>	<u>132,175</u>
Gross profit	<u>34,792</u>	<u>14,128</u>	<u>433</u>	<u>49,353</u>
Unallocated items:				
Depreciation of property, plant and equipment and amortisation of leasehold land and land use rights				(5,153)
Depreciation of right-of-use assets				<u>(4,809)</u>
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>

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

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Gross profit for reportable segments	49,353	44,220
Other income, gains and losses – net	1,655	2,064
Reversal of impairment losses on financial assets – net	909	829
Distribution costs	(48,056)	(35,432)
Administrative expenses	(33,390)	(37,233)
Operating loss	(29,529)	(25,552)
Finance costs – net	(2,906)	(3,034)
Loss before income tax	<u>(32,435)</u>	<u>(28,586)</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 (2018: 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	
	2019	2018
	HK\$'000	HK\$'000
Employee costs comprising:		
– salaries, other allowance and benefits	42,312	56,591
– contributions to retirement benefits scheme	4,823	4,778
Total employee costs including directors' emoluments	47,135	61,369
Depreciation of property, plant and equipment and amortisation of leasehold land and land use rights	5,153	8,403
Depreciation of right-of-use assets	4,809	–
Loss on disposal of property, plant and equipment	86	82
Reversal of impairment allowance of inventories included in cost of sales	(4,286)	(3,150)

7 INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Current income tax:		
– Current income tax on profits for the period	23	36
Deferred income tax:		
– Total deferred income tax	<u>–</u>	<u>–</u>
Income tax expense	<u>23</u>	<u>36</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% (2018: 25%).

8 DIVIDENDS

No interim dividend was declared during the six months ended 30 June 2019 (2018: 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\$32,191,000 (2018: loss of HK\$28,323,000) and the weighted average number of 1,248,200,000 Shares in issue during the six months ended 30 June 2019 (2018: 1,248,200,000 Shares).

As the Group has no dilutive instruments during the six months ended 30 June 2019 and 2018, the Group's diluted earnings per Share equal to its basic earnings per Share for the six months ended 30 June 2019 and 2018.

10 RIGHT-OF-USE ASSETS

During the six months ended 30 June 2019, the Group recognised right-of-use assets with a cost of approximately HK\$3.9 million and the depreciation of right-of-use assets recognised in unaudited condensed consolidated statement of comprehensive income was approximately HK\$4.8 million.

11 TRADE AND NOTES RECEIVABLES

The Group grants a credit period of 90 days (2018: 90 days) to its customers. The ageing analysis of the trade receivables is as follows:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Up to 90 days	35,166	25,972
More than 30 days past due	7,073	2,542
More than 90 days past due	372	641
More than 270 days past due	18,135	19,225
	60,746	48,380
Less: Provision for impairment	(18,526)	(19,416)
	42,220	28,964
Notes receivables	–	8,354
Trade and notes receivables	42,220	37,318

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.

12 TRADE PAYABLES

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

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
0-30 days	2,701	31,418
31-90 days	2,124	19,583
91-180 days	6,711	3,147
Over 180 days	60,963	51,882
	72,499	106,030

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group's revenue for the six months ended 30 June 2019 decreased by 20% to HK\$132.2 million (2018 – HK\$165.5 million) and the Group's loss attributable to owners of the Company increased to HK\$32.2 million (2018 – HK\$28.3 million).

Loss per Share for the six months ended 30 June 2019 was HK\$2.6 cents per Share (2018 – HK\$2.3 cents per Share) based on the weighted average number of 1,248 million Shares (2018 – 1,248 million Shares) in issue during the period under review. There was no potential dilutive Share for the period ended 30 June 2019.

The increase in loss attributable to owners of the Company in the first half of 2019 was primarily due to increase in distribution costs pertaining to the sales and marketing reform through mass-scale campaign during the period under review, but offsetting by the increase in gross margin and decrease in administrative expenses.

Financial review

Income Statement

Revenue

Revenue of the Group represents proceeds from sale of wine products. For the six months ended 30 June 2019, total revenue decreased by 20% to approximately HK\$132.2 million from approximately HK\$165.5 million for the corresponding period in 2018. The decrease in revenue was mainly due to the decrease in sales volume as a result of optimisation of product portfolio and increase in market price of the products in certain Eastern region of the PRC during the reporting 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 approximately RMB19.6 per bottle (750 ml) for the same period in 2018.

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	
	2019	2018
	%	%
Cost of raw materials		
– Grapes and grape juice	42	43
– Yeast and additives	2	2
– Packaging materials	19	19
– Others	1	1
Total cost of raw materials	64	65
Manufacturing overheads	30	24
Consumption tax and other taxes	6	11
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 42% of the Group's total cost of sales, and remained stable during the period as compared to the same period in 2018.

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 2018 because there was an increase in overhead costs as a result of decreased utilisation of production capacity.

Consumption tax and other taxes decreased due to applicable tax deduction for the unprocessed wine during the period.

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 37% for the six months ended 30 June 2019 from 27% for the corresponding period in 2018, mainly as a result of decrease in consumption tax and other taxes and increase in sales of products with higher margin.

During the period under review, the gross margin of red wine products and white wine products were 35% and 43% respectively (2018 – 27% and 37% respectively).

Distribution costs

Distribution costs principally include advertising and market promotion expenses, transportation and delivery charges in connection with the sales of wine products, salaries and related personnel expenses of the sales and marketing functions and other incidental expenses. During the period under review, distribution costs accounted for approximately 36% (2018 – 21%) of the Group's revenue. The prominent increase in distribution costs to revenue ratio is for strengthening investment in brand building and sales and marketing reform through mass-scale promotion campaign. During the period under review, the Group continued to promote and market its brand and new 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 25% (2018 – 22%). The increase in ratio was mainly due to the decrease in revenue during the period under review.

Finance costs – net

During the period under review, decrease in finance costs – net was mainly due to decrease in bank loan interest for full repayment of borrowings and increase in bank interest income.

Income tax expense

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 gain on disposal of obsolete goods of approximately HK\$1.3 million.

Financial management and treasury policy

As at 30 June 2019, 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 2019, the decrease in revenue was attributable to the decrease in sales volume as a result of optimization of product portfolio and increase in market price of the products in certain Eastern region 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. The reform remains in progress during the period.

Sales of red wines continued to be the Group's primary revenue contributor accounted for approximately 75% of the Group's revenue for the period under review (2018 – 76%).

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, Austria, Australia, 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 streamlined the portfolio of imported products during the period and currently carries about 120 imported products under approximately 25 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 become increasingly important in the PRC. The Group has collaborated with various online platforms, Tmall (天貓商城) and JD.com (京東商城), among others, 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 so as to capture the change of customer consumption behavior in the PRC. Customers can place orders via the internet or mobile network on these platforms for Dynasty wines they 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 remains a steady growth in the coming years and the PRC has the world's largest number of mobile 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.

Supplies of grapes or grape juice

Production of quality wines greatly depends on a sufficient supply of quality grapes or grape juice. Currently, the Group has more than 10 major grape juice suppliers with whom the Group has enjoyed long-term relationships, mainly located in Tianjin, Hebei, Ningxia and Xinjiang. Ensuring reliable supplies of quality grapes and grape juices to meet the production needs of the Group's growing business as well as the expanded production capacity is a high priority of the Group. Thus, the Group continues to actively work with vignerons to focus on their existing vineyards to enhance economic benefit 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 better quality grapes. 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 grapes and grape juice supplies and also minimise the effect of bad harvests interrupting production.

Production capacity

At the end of June 2019, 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 2019, the Group expects to continue to face various challenges from fast-changing economic conditions and opportunities from an increasing trend of domestic consumption. Going forward, in addition to increasing competition, the Group will continue to intensify the reform and 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.

The new sales and marketing reform encompasses that the Group will continue to promote two upgrades, namely product upgrade and brand upgrade, form the third-tier markets, i.e the core market, key markets and potential markets and take the four management measures. Such measures aim to i) enhance expansion and control of the online channel, such as developing new channels and launching new products; ii) facilitate the promotion of Mass-scale Marketing Campaign including showcasing in terminal shops, hosting wine tasting events and organising plant visits to strengthen the closer bonds with customers; iii) accelerate the standardisation of the market; and iv) explore new distributors and update existing distributors to strengthen cooperation with them.

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 379 (including directors) (2018: 429) in Hong Kong and the PRC as at 30 June 2019. 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 2019 amounted to approximately HK\$47.1 million (2018 – HK\$61.4 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 2019, the Group's cash and cash equivalents, and short-term deposits amounted to HK\$274.5 million (31 December 2018: HK\$81.0 million). The prominent increase was mainly due to the receipt of consideration from the disposal of a chateau and related facilities netting off with the full repayment of borrowing during the period. 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 cash position of HK\$274.5 million (31 December 2018: net borrowing of HK\$142.9 million) (total borrowings less cash and cash equivalents), with total equity of the Group amounted to approximately HK\$122.4 million (31 December 2018: HK\$155.2 million) as at 30 June 2019 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 31 December 2018 was 48%.

Capital structure

The Group had no borrowing (31 December 2018: borrowing of HK\$223.8 million), with cash and liquid position of HK\$274.5 million (31 December 2018: HK\$81.0 million) as at 30 June 2019. The Group's expect its cash 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.

As at 30 June 2019, the market capitalisation of the Company was approximately HK\$1,797 million (31 December 2018: 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 has been resumed from 9:00 a.m. on 29 July 2019.

Capital commitments, contingencies and charges on assets

As at 30 June 2019, 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. As at 30 June 2019, the matter remained considering by the Tianjin Arbitration Commission ("TAC"). 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. On 29 August 2019, the Group received an arbitration award issued by TAC on 21 August 2019, TAC has made an judgement in favour of the Group's subsidiary which dismissed all of the arbitration applications made by the supplier. Further, TAC also ordered that costs arising out of the arbitration applications shall be borne by the supplier. The arbitration award made by TAC is final and conclusive and it shall be effective from 21 August 2019.

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 2019, the Group did not make any material acquisition or disposal of subsidiaries, associates or joint ventures. In February 2017, the Directors indicated its intention to dispose a chateau and related facilities held by a subsidiary, Sino-French Joint-Venture Dynasty Winery Ltd. (“**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. (the “**Purchaser**”), an independent third party, registered with TPRTC regarding the purchase of the chateau and related facilities. Accordingly, the land use rights and the buildings in relation to the chateau were classified as assets held for sale as at 31 December 2017.

On 23 July 2018, Tianjin Factory formally entered into an Asset Transaction Agreement with the Purchaser to dispose the land use rights and the buildings in relation to the chateau at the consideration of RMB400 million (the “**Disposal**”). The Disposal was approved by the shareholders of the Company at the extraordinary general meeting held on 5 December 2018. On 16 May 2019, Tianjin Factory received the consideration of RMB400 million from the Purchaser through TPRTC and regarded it as receipt in advance included in “Other payables and accruals”. As of the date of this announcement, the Disposal has not yet completed pending for certain administrative registration procedures.

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 2019.

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.

Event after the period end

Resumption of trading

Trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 22 March 2013. As all the resumption conditions have been fulfilled, an application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 29 July 2019. Please refer to the Company’s announcement dated 26 July 2019 for details.

Litigation Investigation Report

During the period, the Audit Committee has conducted an internal investigation (the “**Litigation Investigation**”) with the assistance of its legal advisers and a professional third party (the “**Investigator**”) in relation to a claim lodged by the Group for the amount of RMB14,016,268.02 (equivalent to approximately HK\$16,111,000) (the “**Claim**”).

The Litigation Investigation was conducted to understand the matters leading to the Claim and the involvement of the relevant individuals, to evaluate possible impact on the Group’s consolidated financial statements, and to identify any potential weaknesses in internal controls. The review period covers 1 October 2017 to 30 June 2018.

The Company issued an announcement dated 25 July 2019 sets out, among other things, the summary of the report on the Litigation Investigation dated 19 June 2019 (the “**Litigation Investigation Report**”) prepared by the Investigator, the Audit Committee’s view and the Board’s view on the Litigation Investigation Report.

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 Rules Governing the Listing of Securities on the Stock Exchange (the “**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 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 2019.

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 2019. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

During the period ended 30 June 2019 and up to the date of this announcement, the number of independent non-executive Directors 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 of the Board as required under Rule 3.10A of the Listing Rules.

On 19 July 2019, the Company published the annual reports for the years ended 31 December 2012, 2013, 2014, 2015 and 2016 and the interim reports for the six-month periods ended 30 June 2013, 2014, 2015 and 2016. On 22 July 2019, the Company announced the annual results for the years ended 31 December 2017 and 2018 and the interim results for the six-month periods ended 30 June 2017 and 2018. On 26 July 2019, the Company published the annual reports for the years ended 31 December 2017 and 2018 and the interim reports for the six-month periods ended 30 June 2017 and 2018.

Prior to such publication, as at 30 June 2019, as additional time was 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 2017 and 2018, the Group has breached the financial reporting provisions under (i) Rule 13.49(1)/13.49(6) and (ii) 13.46(2)/13.48(1) of the Listing Rules in respect of (i) announcing the annual/interim results for the years ended 31 December 2017 and 2018 and for the six-month periods ended 30 June 2017 and 2018; (ii) publishing the related annual/interim reports for the years ended 31 December 2012, 2013, 2014, 2015, 2016, 2017 and 2018 and for the six-month periods ended 30 June 2013, 2014, 2015, 2016, 2017 and 2018; and (iii) convening an annual general meeting for the financial years ended 31 December 2012, 2013, 2014, 2015, 2016, 2017 and 2018.

According to paragraph A.4.2 of Appendix 14 to the Listing Rules, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Each of Mr. Sun Jun, Mr. Li Guanghe, Mr. Sun Yongjian, Ms. Shi Jing, Dr. Zhang Guowang and Mr. Sun David Lee was appointed to fill a casual vacancy subsequent to 30 May 2012, being the date of last annual general meeting of the Company, had not been re-elected by the shareholders at the next general meeting after their appointment.

Mr. Heriard-Dubreuil Francois, Mr. Wong Ching Chung, Mr. Jean-Marie Laborde, Mr. Robert Luc and Mr. Yeung Ting Lap Derek Emory did not retire by rotation in accordance with paragraph A.4.2 of Appendix 14 to the Listing Rules because no annual general meeting has been held by the Company since 30 May 2012.

Publication of interim results and interim report on the websites 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 2019, 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.

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

Hong Kong, 30 August 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.