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 2020

The board (the "**Board**") of directors (the "**Directors**") of Dynasty Fine Wines Group Limited (the "**Company**") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2020 together with the comparative figures for the corresponding period of 2019. The unaudited interim results for the first half year of 2020 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	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
Revenue from contracts with customers	*5*	**89,886**	132,175
Cost of sales of goods		**(63,251)**	(82,822)
Gross profit		**26,635**	49,353
Other income, other gains and losses – net		**727**	1,655
Reversal of impairment losses on financial assets – net		**–**	909
Distribution costs		**(27,658)**	(48,056)
Administrative expenses		**(41,526)**	(33,390)
Operating loss	*6*	**(41,822)**	(29,529)
Net gain on disposal of the chateau and related facilities		**244,944**	–
Finance income		**753**	418
Finance costs		**(69)**	(3,324)
Finance income/(costs) – net		**684**	(2,906)
Profit/(loss) before income tax		**203,806**	(32,435)
Income tax expense	*7*	**(61,211)**	(23)
Profit/(loss) for the period		**142,595**	(32,458)
Profit/(loss) attributable to:			
Owners of the Company		**142,681**	(32,191)
Non-controlling interests		**(86)**	(267)
		142,595	(32,458)
Earnings/(loss) per share attributable to owners of the Company for the period			
		HK$ cents	*HK$ cents*
– Basic and diluted earnings/(loss) per share	*9*	**11.4**	(2.6)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June **2020** ***HK$'000***	 2019 *HK$'000*
Profit/(loss) for the period	**142,595**	(32,458)
Other comprehensive loss:		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(3,774)**	(336)
Total comprehensive income/(loss) for the period	**138,821**	(32,794)
Total comprehensive income/(loss) for the period is attributable to:		
– Owners of the Company	**138,818**	(32,472)
– Non-controlling interests	**3**	(322)
	138,821	(32,794)

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 June 2020 Unaudited *HK$'000*	As at 31 December 2019 Audited *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**66,652**	71,309
Right-of-use assets	*10*	**18,682**	20,460
Investment in an associate		**–**	–
Deferred income tax assets		**–**	–
Total non-current assets		**85,334**	91,769
Current assets			
Trade receivables	*11*	**29,964**	38,748
Notes receivable	*12*	**26,789**	29,868
Other receivables		**24,517**	8,917
Prepayments		**2,176**	95,248
Inventories		**265,102**	289,747
Cash and cash equivalents		**108,341**	157,932
		456,889	620,460
Assets classified as held for sale	*13*	**–**	178,068
Total current assets		**456,889**	798,528
Total assets		**542,223**	890,297
LIABILITIES			
Non-current liabilities			
Lease liabilities		**–**	1,001

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		As at	
		30 June	31 December
		2020	2019
		Unaudited	Audited
	Notes	***HK$'000***	*HK$'000*
Current liabilities			
Trade payables	*14*	**54,635**	100,598
Contract liabilities		**61,716**	66,028
Advance received for disposal of chateau assets		**–**	446,528
Other payables and accruals		**200,319**	188,779
Provisions for contingent liabilities		**1,923**	1,961
Lease liabilities		**2,083**	2,676
Total current liabilities		**320,676**	806,570
Total liabilities		**320,676**	807,571
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**124,820**	124,820
Other reserves		**1,140,956**	1,144,819
Accumulated losses		**(1,061,298)**	(1,203,979)
Capital and reserves attributable to owners of the Company		**204,478**	65,660
Non-controlling interests		**17,069**	17,066
Total equity		**221,547**	82,726
Total equity and liabilities		**542,223**	890,297

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. The principal activities of the subsidiaries are manufacturing and sale of wine products.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**").

The condensed consolidated interim financial information was approved for issue by the Board on 27 August 2020. 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 2020 are prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim Financial Reporting" as well as applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of securities on the Stock Exchange. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standard ("**HKFRSs**").

The accounting treatments, accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial information are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of amendments to HKFRSs which effective for the financial year beginning on or after 1 January 2020.

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 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 New and amended standards adopted by the Group

Except as described below, the accounting policies applied are consistent with those of the 2019 annual consolidated financial statements as described therein.

New and amended standards and interpretation adopted by the Group

The following new or amended standards and interpretation are mandatory for the first time for the financial year beginning on 1 January 2020.

Standards	**Subject**
Amendments to HKAS 1 and HKAS 8	Definition of Material
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The standards, amendments and interpretation did not have a material impact or are not relevant to the Group.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and 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 consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

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 consolidated financial statements for the year ended 31 December 2019.

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 unaudited 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 2019.

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.

	Unaudited			
	Red wines *HK$'000*	**White wines** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Six months ended 30 June 2020				
Revenue from contracts with customers	**57,061**	**31,138**	**1,687**	**89,886**
Gross profit	**17,090**	**9,500**	**45**	**26,635**
Unallocated items:				
Depreciation of property, plant and equipment and amortisation of land use rights				**(2,997)**
Depreciation of right-of-use assets				**(1,652)**
Six months ended 30 June 2019				
Revenue from contracts with customers	98,907	32,554	714	132,175
Gross profit	34,792	14,128	433	49,353
Unallocated items:				
Depreciation of property, plant and equipment and amortisation of land use rights				(5,153)
Depreciation of right-of-use assets				(4,809)

5 SEGMENT INFORMATION (CONTINUED)

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

	Unaudited Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Gross profit for reportable segments	**26,635**	49,353
Other income, other gains and losses – net	**727**	1,655
Reversal of impairment losses on financial assets – net	**–**	909
Distribution costs	**(27,658)**	(48,056)
Administrative expenses	**(41,526)**	(33,390)
Operating loss	**(41,822)**	(29,529)
Net gain on disposal of chateau and related facilities	**244,944**	–
Finance income/(costs) – net	**684**	(2,906)
Profit/(loss) before income tax	**203,806**	(32,435)

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 external customers (2019: Nil) with whom transactions have exceeded 10% of the Group's revenues. The majority of sales of the Group were made within the People's Republic of China (the "**PRC**").

6 OPERATING LOSS

Operating loss is stated after charging/(crediting):

	Unaudited Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Employee costs comprising:		
– salaries, other allowance and benefits *(note)*	**46,433**	42,312
– contributions to retirement benefits scheme	**1,559**	4,823
Total employee costs including directors' emoluments	**47,992**	47,135
Depreciation of property, plant and equipment and amortisation of land use rights	**2,997**	5,153
Depreciation of right-of-use assets	**1,652**	4,809
Loss on disposal of property, plant and equipment	**–**	86
Reversal of impairment allowance of inventories included in cost of sales	**–**	(4,286)

Note: Salaries, other allowance and benefit included the payment of employee compensation due to implementation of staff reform plan of HK$13,349,000.

7 INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Current income tax:		
Corporate income tax	**1**	23
Land appreciation tax	**61,210**	–
	61,211	23
Deferred income tax	**–**	–
Income tax expense	**61,211**	23

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% (2019: 25%).

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land, sales charges and all property development expenditures.

8 DIVIDENDS

No interim dividend was paid, declared or proposed during the six months ended 30 June 2020 (2019 – Nil).

9 EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings per share of the Company (the "**Share**") is based on the profit attributable to the owners of the Company of HK$142,681,000 (2019 – loss of HK$32,191,000) and the weighted average number of 1,248,200,000 Shares in issue during the six months ended 30 June 2020 (2019: 1,248,200,000 Shares).

As the Group has no dilutive instruments during the six months ended 30 June 2020 and 2019, the Group's diluted earnings/(loss) per Share equal to its basic earnings/(loss) per Share for the six months ended 30 June 2020 and 2019.

10 RIGHT-OF-USE ASSETS

During the six months ended 30 June 2020, the Group did not recognise additional right-of-use assets (2019: assets recognised 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$1.7 million (2019: approximately HK$4.8 million).

11 TRADE RECEIVABLES

The Group granted a credit period of 90 days (2019: 90 days) to its customers. The ageing analysis of the trade receivables is as follows:

	Unaudited 30 June 2020	Audited 31 December 2019
	HK$'000	*HK$'000*
Up to 90 days	**20,532**	30,781
More than 30 days past due	**819**	7,402
More than 90 days past due	**9,558**	1,039
More than 270 days past due	**17,268**	17,410
	48,177	56,632
Less: Provision for impairment	**(18,213)**	(17,884)
Trade receivables – net	**29,964**	38,748

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 NOTES RECEIVABLE

	Unaudited 30 June 2020	Audited 31 December 2019
	HK$'000	*HK$'000*
Bank acceptance bill	**26,789**	29,868

As of 30 June 2020 and 31 December 2019, notes receivable amounted to HK$26,789,000 and HK$29,868,000 were all bank acceptance notes with maturity date within 6 months and are classified as financial assets at fair value through other comprehensive income.

13 ASSETS CLASSIFIED AS HELD FOR SALE

	Unaudited 30 June 2020	Audited 31 December 2019
	HK$'000	*HK$'000*
Assets held for sale – Chateau		
Buildings	–	145,421
Land use rights	–	32,647
	–	178,068

Pursuant to the disposal of land use rights and aboveground buildings covering a Chateau and the related facilities of the Group (the "**Disposal**") in July 2018, the Group received the consideration of RMB400 million (equivalent to HK$446.5 million) in May 2019. As at 31 December 2019, the consideration received was recorded as a current liability. The Disposal completed on 23 January 2020, a net gain on the Disposal and related land appreciation tax were recognised during the period under review.

14 TRADE PAYABLES

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

	Unaudited 30 June 2020	Audited 31 December 2019
	HK$'000	*HK$'000*
0–30 days	**7,063**	55,370
31–90 days	**1,593**	2,263
91–180 days	**4,634**	2,227
Over 180 days	**41,345**	40,738
	54,635	100,598

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group's revenue for the six months ended 30 June 2020 decreased by 32% to HK$89.9 million (2019 – HK$132.2 million) and the Group's profit attributable to the owners of the Company increased to HK$142.7 million (2019 – loss of HK$32.2 million).

Earnings per Share for the six months ended 30 June 2020 was HK11.4 cents per Share (2019 – loss of HK2.6 cents per Share) based on the weighted average number of 1,248 million Shares (2019 – 1,248 million Shares) in issue during the period under review. There was no potential dilutive Share for the period ended 30 June 2020.

The increase in profit attributable to the owners of the Company in the first half of 2020 was primarily contributed by the net gain on the Disposal. Excluding such gain on the Disposal, the Group had a operating loss which was mainly attributable to (i) the drop in gross profit resulting from a decrease in the revenue of the Group; and (ii) the payment of employee compensation due to the implementation of staff reform plan during the period under review.

Financial review

Income Statement

Revenue

Revenue of the Group represents proceeds from sale of wine products. For the six months ended 30 June 2020, total revenue of the Group decreased by 32% to approximately HK$89.9 million from approximately HK$132.2 million due to the effect on novel coronavirus pneumonia ("**COVID-19**") since January 2020 as well as restrictions on consuming places imposed by the government in the PRC and adverse impact of the epidemic on consumer sentiment.

The Group's average ex-winery sales price of red and white wine products under the "Dynasty" brand (in RMB) during the period under review remained stable. Since consumers in the PRC have a preference for red wines, the Group was able to set higher prices for its red wine products and therefore the average ex-winery sales price of the Group's red wines was generally higher than that of its white wines.

Cost of sales of goods

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

	For the six months ended 30 June	
	2020	2019
	%	%
Cost of raw materials		
– Grapes and grape juice	**44**	42
– Yeast and additives	**2**	2
– Packaging materials	**20**	19
– Others	**2**	1
Total cost of raw materials	**68**	64
Manufacturing overheads	**24**	30
Consumption tax and other taxes	**8**	6
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 44% of the Group's total cost of sales, representing an increase of 2% from approximately 42% in 2019, due to the increase in purchase 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 process. During the period under review, manufacturing overheads decreased as compared with the corresponding period in 2019 due to the decrease in production staff cost resulting from the implementation of staff reform plan, and the decrease in transportation and utilities charges related to the production.

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 30% for the six months ended 30 June 2020 from 37% for the corresponding period in 2019, mainly as a result of the increase in raw material costs and decrease in average selling price of certain white wine and promotional products compared with the corresponding period.

During the period under review, the gross profit margin of red wine products and white wine products were 30% and 31% respectively (2019 – 35% and 43% respectively).

Other income, other gains and losses – net

Other income, other gains and losses mainly comprises of gain on disposal of obsolete products, government subsidies related to enterprise development and compensation.

Other income, other gains and losses for the six months ended 30 June 2020 represented a net gain of HK$0.7 million (2019 – gain of HK$1.7 million). The drop was mainly due to the decrease in gain on disposal of obsolete products.

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 31% (2019 – 36%) of the Group's revenue. The decrease in distribution costs to revenue ratio was due to less mass-scale promotion campaign during the COVID-19 outbreak. The Group would continue 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, legal and professional fees, depreciation and amortisation expenses, impairment allowance and other incidental administrative expenses.

During the period under review, administrative expenses as a percentage of the Group's revenue accounted for 46% (2019 – 25%). The increase in ratio was mainly attributable to the payment of employee compensation due to the implementation of staff reform plan during the period under review. Excluding such an employee compensation, the administrative expenses decreased compared with the corresponding period as a result of strengthening cost control measures.

Net gain on the disposal of the chateau and related facilities

Pursuant to the Disposal in July 2018 at the consideration of RMB400 million (equivalent to HK$446.5 million), the Disposal completed on 23 January 2020, a net gain on the Disposal (before land appreciation tax) of HK$244.9 million was recognised during the period under review.

Finance income/(costs) − net

During the period under review, there was a change to finance income − net, mainly due to increase in bank interest income and nil bank loan interest compared with the corresponding period.

Income tax expense

No provision for taxation in Hong Kong has been made as the Group did not have any assessable profit arising from Hong Kong for both periods.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Provision for the PRC Enterprise Income Tax was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws applicable to the subsidiaries operated in the PRC.

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land, sales charges and all property development expenditures.

Financial management and treasury policy

As at 30 June 2020, 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 would also pay any 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 net cash position, 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

The decrease in revenue was primarily attributable to the outbreak of COVID-19. Since the outbreak of COVID-19 from January 2020, the Group has adopted various prevention and control measures in accordance with the relevant national and local regulations on epidemic prevention and control, with an aim to minimise the impact of the outbreak on the Group's operations.

However, during the epidemic period, in particular from January to April 2020, business/government banquets and family gatherings in the national markets were greatly reduced due to the restrictions imposed regarding the epidemic prevention and control policies, and densely populated consuming places, such as supermarkets, tobacco and liquor stores and other retail terminals, were under strict policy control in regard to their operation during the period from January to April, which seriously affected the consumption sentiments of wine products. Following the effective containment of epidemic and recovery of operation of consuming places in the PRC, the situation gradually improved in the second quarter of the year.

During the period under review, the Group continued implementing a sales and marketing reform, which encompassed promoting two upgrades, namely product upgrade and brand upgrade, forming the third-tier markets, i.e. the core market, key market and potential market and taking the four management measures. Such measures included (i) enhancing expansion and control of the online channels, such as developing new channels and launching new products; (ii) launching of mass-scale marketing campaign including showcasing in retail shops, hosting wine tasting events and organising plant visits to strengthen the closer bonds with customers; (iii) accelerating the standardisation of the markets; and (iv) exploring new distributors and updating existing distributors to strengthen cooperation with them. The Group co-operated with distributors to strengthen the control on retail price and over the sales channels to improve the operational efficiency of the Group.

Sales of red wines continued to be the Group's primary revenue contributor accounted for approximately 63% of the Group's revenue for the period under review (2019 – 75%).

The Group produced 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 mass-market segments in the PRC wine market. During the period under review, the Group launched a new high-end product, i.e. Dynasty Chinese Zodiac Commemorative Dry Red Wine for the Geng Zi Year of the Rat, integrating the high quality with the Chinese zodiac culture and leading the rise of Chinese-style fashion products. The Group also launched Dynasty Jiuxiang Rose Liqueur series early this year. Moreover, the blockbuster products, i.e. the second generation of Dynasty Merlot Dry Red Wine series made their debut on the market in May, targeting on business banquets as a model for business use. Meanwhile, the Group released Dynasty Seven-Year Reserve Dry Red Wine series, positioning high-end appreciation as representation of the state banquet quality.

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" varietals to cater for a market niche preferring the taste of foreign premium wines. The Group currently sells about 110 imported products under approximately 20 brands. The Group believes that with the trend of increasing wealth and the disposable income of consumers for a medium-term, the demand for Dynasty and imported wines should increase.

B. *Online sales*

Online sales have become increasingly important in the PRC. The Group kept and strengthened cooperation with distributors to operate online stores on the e-commerce platforms. In addition to online stores on Tmall (天貓商城) and JD.com (京東商城), online flagship store on Pinduoduo (拼多多) platform and distribution line on Tmall Mart (天貓超市), the Group also developed new online sales channels during the period under review, such as the second-line sales distribution platform, social media and social group e-commerce platforms or in the form of online celebrity live delivery to further expand its sales channels and build up a new customer base.

The Group strategically plans and continues putting resources for future improvement of the online sales channels and optimisation of online stores interface so as to capture the change of customer consumption behavior in the PRC. During the period under review, the Group also offered series of new products through launching exclusive online products on an e-commerce platform and strengthened the price management of online sales of old products. Although the online sales contribution was not material to the Group during the period under review, the Group is optimistic about the prospects of the on-line business. The Group believes that the online platform not only serves as a business-to-customer trading platform between the Group and the consumers, but also an additional marketing and promotion channel for the brand. Thus, the platform should enhance the overall business potential of the Group.

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 is a high priority of the Group. Thus, the Group continues to actively work with vignerons to enlarge their existing vineyards in order to enjoy better economies of scale and equip their vineyards with state-of-the-art techniques for assuring quality. For super and ultra premium wines, vignerons have adopted a disciplined approach to limiting harvest yields in order to deliver higher quality grapes. For optimising supply network, the Group has also kept identifying new suppliers who comply with the quality requirements and conducts thorough tests on their grape juices before orders are placed. These procedures ensure the Group to procure quality grape and grape juice supplies and also minimise the effect of bad harvests interrupting production.

Production capacity

After completion of the Disposal in January 2020, as at the end of June 2020, the Group's annual production capacity decreased to 50,000 tonnes (equivalent to approximately 66.7 million bottles) (2019 – 70,000 tonnes). Such capacity is sufficient for the Group to promptly response to the market demand and provides a platform for sustainable earnings growth.

Prospects and future plans

Looking ahead to the second half of 2020, the Group expects to continue to face various challenges from fast-changing economic conditions, and the outbreak of COVID-19 and opportunities from an increasing trend of domestic consumption backed by the government support. Going forward, following the gradual improvement of epidemic situation, apart from intensifying the sales and marketing reform, the Group will strive to adjust the product strategy to gradually improve its performance by the implementation of the "5+4+N product strategy", among which "5" represents the five key series of products namely, air dry series, seven-year reserve series, merlot series, classic series and best selling series, to achieve the goal of full coverage for all mainstream price segments; "4" refers to the four advantageous categories i.e. dry red wines, dry white wines, brandy and sparkling wines, to increase the vertical market share; and "N" stands for development of various customised products to meet the diversified needs of Chinese consumers. With effective product strategies and a high quality and diversified product portfolio, the Group firmly believes that the "Dynasty" brand is able to attract more consumers.

The Group has been closely monitoring the market conditions and adjusted its business strategies to minimise the adverse impact on the operations, and the Group has also strengthened cost control and adopted appropriate measures in a timely manner. Subject to factors including the development of the COVID-19 situation and the market conditions, the Group currently expects that the revenue of the Group will steadily improve in the second half of 2020 as compared with the first half of the year. The Group will continue to adhere to the brand and quality, and consolidate the Group's position in the domestic wine industry in the PRC.

Human resources management

Quality and dedicated staff are the most important assets of the Group. 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 enrol in external professional and technical seminars, and other training programs and courses to update their technical knowledge and skills, enhance their market awareness and improve their business acumen. The Group has reviewed and adjusted its human resources and remuneration policies, especially the performance-based bonus award, with reference to local legislation, market conditions, industry practice and achievements of the Group's targets as well as the performance of individual employee.

During the period under review, the Group implemented a staff reform plan to streamline and optimise the personnel and business units' structure, aiming at achieving cost savings in the medium term. The Group employed a work force of 298 (including directors) (2019: 379) in Hong Kong and the PRC as at 30 June 2020. The total salaries and related costs (including the directors' fees and the employee compensation of staff reform plan) for the period ended 30 June 2020 amounted to approximately HK$48.0 million (2019 – HK$47.1 million).

Liquidity and financial resources

The liquidity and financial position of the Group remained solid as the Group continued to adopt a prudent approach in managing its financial resources. As at 30 June 2020, the Group's cash and cash equivalents, and short-term deposits amounted to HK$108.0 million (31 December 2019 – HK$157.5 million). The decrease was mainly due to the settlement of trade payables during the period under review. 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.

Capital structure

The Group had cash and liquidity position of HK$108.0 million (2019 – HK$157.5 million) as at 30 June 2020, reflecting its sound capital structure. The Group expects its cash and financial support from the ultimate controlling party of the Company's major shareholder to be sufficient to support operating and capital expenditure requirements in the foreseeable future.

The Group also monitors capital on the basis of the liability-to-asset ratio. As at 30 June 2020, the Group's gearing ratio (expressed as total liabilities divided by total assets, in percentage) was approximately 59% (2019 – 91%). The Group's gearing ratio decreased to a certain sound level.

The market capitalisation of the Company as at 30 June 2020 was approximately HK$262 million (issued share capital: 1,248,200,000 shares at closing market price: HK$0.210 per share) (2019 – HK$406 million).

Capital commitments, contingencies and charges on assets

As at 30 June 2020, there were no capital expenditure contracted for at the end of the period but not yet incurred (2019 – HK$391,000) and no charges on assets.

The Group had contingent liabilities in relation to a labour arbitration. In December 2019, four employees of the Group lodged a labour arbitration to Tianjin Beichen District Labour Dispute Arbitration Committee ("**Arbitration Committee**") against two subsidiaries of the Company for claiming a total compensation of RMB3.5 million regarding the termination of their employment contracts, which were for the purpose of changing their employment to other subsidiaries within the Group. Based on the understanding of the related local laws and regulations and the consultation with an external legal counsel, the Directors are of the view that the potential compensation amount is not likely to be higher than RMB1.76 million (equivalent to HK$1.92 million). Therefore, a provision for this contingent liability has been made as at 30 June 2020. Pursuant to the arbitral awards issued by the Arbitration Committee dated 17 August 2020 and 21 August 2020 respectively, the total amount of approximately RMB61,300 (equivalent to approximately HK$67,700) shall be payable by the Company, while other arbitration applications made by the applicant were dismissed. As at the date of this announcement, the arbitral awards become effective from the above dates of issue, but subject to appeal lodged by the parties to the People's Court within a period of 15 days after the awards were received.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

For the period ended 30 June 2020, the Group had not made any material acquisition or disposal of subsidiaries, associates or joint ventures.

Events after the reporting period

1) ***COVID-19***

In view of the ongoing COVID-19 epidemic, the temporary economic slowdown resulted from the epidemic may lead to a reduction in the overall consumption of wines in the market which might indirectly affect the Group's financial performance. It is not possible to precisely estimate the full financial effect that the epidemic will have had on the Group's operations as of the date of this announcement. The Group will closely monitor the development of the COVID-19 epidemic and continue to evaluate its impact on the financial position and operating results of the Group accordingly. The related impact will be reflected in the Company's 2020 annual consolidated financial statements.

2) ***Proposed change of shareholding structure of the intermediate controlling shareholder of the Company***

Pursuant to the announcements of the Company dated 18 June 2020 and 20 August 2020, the Company has been informed by shareholder of Famous Ever Group Limited ("**Famous Ever**") that it has entered into a conditional agreement with 天津食品集團有限公司 (Tianjin Food Group Company Limited) ("**Tianjin Food**") pursuant to which the entire issued share capital of Famous Ever would be transferred to Tianjin Food. Completion of such transfer (the "**Completion**") will take place upon fulfillment of the conditions precedent set out the aforesaid agreement. Completion has yet taken place and Famous Ever is interested in approximately 44.70% of the issued share capital of the Company as at the date of this announcement.

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 2020.

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 Rules Governing the Listing of Securities on the Stock Exchange (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 2020.

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 (the "**Code**") as set out in Appendix 14 to the Listing Rules for the period ended 30 June 2020. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

1) During the period ended 30 June 2020 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.

2) According to code provision A.4.2 of the Code, 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 of the Company at the next general meeting after their appointment held on 5 December 2018 in accordance with code provision A.4.2 of the Code.

   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 code provision A.4.2 of the Code because no annual general meeting has been held by the Company since 30 May 2012.

On 30 June 2020, the Company held an annual general meeting for the financial year ended 31 December 2019. All the Directors had been re-elected by the shareholders of the Company at the annual general meeting to comply with the code provision A.4.2 of the Code.

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 2020, 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, 27 August 2020

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.