DYNASTY
Since 1980

Dynasty Fine Wines Group Limited
王 朝 酒 業 集 團 有 限 公 司

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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

- Revenue amounted to approximately HK$179.6 million (30 June 2020: HK$89.9 million).
- Profit attributable to the owners of the Company was approximately HK$19.5 million (30 June 2020: HK$142.7 million, including non-recurring net gain (after tax) on the disposal of chateau and related facilities of approximately HK$184 million and employee compensation pursuant to the employee reform plan of approximately HK$13.3 million).
- Basic earnings per share were HK1.6 cents (30 June 2020: HK11.4 cents).

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 2021 together with the comparative figures for the corresponding period of 2020. The unaudited interim results for the first half year of 2021 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	
		2021	2020
	Notes	***HK$'000***	*HK$'000*
Revenue from contracts with customers	*5*	**179,632**	89,886
Cost of sales of goods		**(111,851)**	(63,251)
Gross profit		**67,781**	26,635
Other income, other gains and losses – net		**459**	245,671
Distribution costs		**(28,553)**	(27,658)
Administrative expenses		**(21,526)**	(41,526)
Operating profit	*6*	**18,161**	203,122
Finance income		**1,376**	753
Finance costs		**(156)**	(69)
Finance income – net		**1,220**	684
Profit before income tax		**19,381**	203,806
Income tax expense	*7*	**(7)**	(61,211)
Profit for the period		**19,374**	142,595
Profit/(loss) attributable to:			
Owners of the Company		**19,485**	142,681
Non-controlling interests		**(111)**	(86)
		19,374	142,595
Earnings per share attributable to owners of the Company for the period			
		HK cents	*HK cents*
– Basic and diluted earnings per share	*9*	**1.6**	11.4

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Profit for the period	**19,374**	142,595
Other comprehensive income/(loss):		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**3,294**	(3,774)
Total comprehensive income for the period	**22,668**	138,821
Total comprehensive income for the period is attributable to:		
– Owners of the Company	**22,574**	138,818
– Non-controlling interests	**94**	3
	22,668	138,821

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 June	31 December
		2021	2020
		Unaudited	Audited
	Notes	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**68,164**	70,835
Right-of-use assets	*10*	**20,159**	21,460
Investment in an associate		**–**	–
Deferred income tax assets		**–**	–
Total non-current assets		**88,323**	92,295
Current assets			
Trade receivables	*11*	**46,456**	29,124
Notes receivable	*12*	**2,028**	13,897
Other receivables		**11,577**	9,064
Prepayments		**9,449**	2,728
Inventories		**201,115**	257,315
Cash and cash equivalents		**237,378**	182,541
Total current assets		**508,003**	494,669
Total assets		**596,326**	586,964

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		As at	
		30 June	31 December
		2021	2020
		Unaudited	Audited
	Notes	***HK$'000***	*HK$'000*
LIABILITIES			
Non-current liabilities			
Lease liabilities		**1,175**	2,094
Current liabilities			
Trade payables	*13*	**84,046**	94,531
Contract liabilities		**67,643**	96,242
Other payables and accruals		**201,276**	174,182
Provisions for contingent liabilities		**2,769**	2,738
Lease liabilities		**1,592**	2,020
Total current liabilities		**357,326**	369,713
Total liabilities		**358,501**	371,807
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**124,820**	124,820
Other reserves		**1,163,544**	1,160,455
Accumulated losses		**(1,068,116)**	(1,087,601)
Capital and reserves attributable to owners of the Company		**220,248**	197,674
Non-controlling interests		**17,577**	17,483
Total equity		**237,825**	215,157
Total equity and liabilities		**596,326**	586,964

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 were approved for issue by the Board on 23 August 2021. 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 2021 are prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as well as applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**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 2020, except for the adoption of amendments to HKFRSs which effective for the financial year beginning on or after 1 January 2021.

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

Except as described below, the accounting policies applied are consistent with those of the 2020 annual consolidated financial statements as described therein.

Amended standards and interpretation adopted by the Group

The Group has applied the following amended standards issued by HKICPA which were effective for the Group's financial year beginning on 1 January 2021:

Standards	**Subject**
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest rate benchmark reform – Phase 2

The standards and amendments 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 2020.

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 2020.

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 2020.

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	**White wines**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 30 June 2021				
Revenue from contracts with customers	**104,483**	**73,231**	**1,918**	**179,632**
Gross profit	**41,134**	**25,691**	**956**	**67,781**
Unallocated items:				
Depreciation of property, plant and equipment				**(2,477)**
Depreciation of right-of-use assets				**(1,273)**
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				(2,997)
Depreciation of right-of-use assets				(1,652)

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

	Unaudited Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Gross profit for reportable segments	**67,781**	26,635
Other income, other gains and losses – net	**459**	245,671
Distribution costs	**(28,553)**	(27,658)
Administrative expenses	**(21,526)**	(41,526)
Operating profit	**18,161**	203,122
Finance income – net	**1,220**	684
Profit before income tax	**19,381**	203,806

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 (2020: 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 PROFIT

Operating profit is stated after charging/(crediting):

	Unaudited Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Employee costs comprising:		
– salaries, other allowance and benefits *(note (a))*	**24,610**	46,433
– contributions to retirement benefits scheme	**2,580**	1,559
Total employee costs including Directors' emoluments	**27,190**	47,992
Gain on disposal of chateau and related facilities included under Other income, other gains and losses – net *(note (b))*	**–**	(244,944)
Depreciation of property, plant and equipment	**2,477**	2,997
Depreciation of right-of-use assets	**1,273**	1,652
Loss on disposal of property, plant and equipment	**100**	–
Impairment allowance of inventories	**382**	–

Notes:

(a) Salaries, other allowance and benefit included the payment of employee compensation due to the implementation of employee reform plan of HK$ nil (2020: HK$13,349,000).

(b) The disposal of the land use rights and aboveground buildings covering a chateau and the related facilities (the "**Disposal**") at a total consideration of RMB400 million was completed on 23 January 2020. The related gain on the Disposal of HK$244,944,000 was recognised in the profit or loss for the six months ended 30 June 2020.

7 INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Current income tax:		
Corporate income tax	**7**	1
Land appreciation tax	**–**	61,210
	7	61,211
Deferred income tax	**–**	–
Income tax expense	**7**	61,211

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% (2020: 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 lease charges for land use rights and all property development expenditures. Land appreciation tax is included in the income statement as income tax expense.

8 DIVIDENDS

No interim dividend was paid, declared or proposed during the six months ended 30 June 2021 (2020: Nil).

9 EARNINGS 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$19,485,000 (2020: HK$142,681,000) and the weighted average number of 1,248,200,000 Shares in issue during the six months ended 30 June 2021 (2020: 1,248,200,000 Shares).

As the Group had no dilutive instruments during the six months ended 30 June 2021 and 2020, the Group's diluted earnings per Share equal to its basic earnings per Share for the six months ended 30 June 2021 and 2020.

10 RIGHT-OF-USE ASSETS

During the six months ended 30 June 2021, the Group did not recognise any addition of right-of-use assets (31 December 2020: assets recognised with a cost of approximately HK$3.1 million) and the depreciation of right-of-use assets recognised in unaudited condensed consolidated income statement was approximately HK$1.3 million (2020: approximately HK$1.7 million).

11 TRADE RECEIVABLES

The Group granted a credit period of 90 days (31 December 2020: 90 days) to its customers. The ageing analysis of the trade receivables is as follows:

	Unaudited 30 June 2021	Audited 31 December 2020
	HK$'000	*HK$'000*
Up to 90 days	**36,218**	22,158
More than 30 days past due	**5,055**	6,472
More than 90 days past due	**6,040**	909
More than 270 days past due	**18,912**	19,129
	66,225	48,668
Less: Provision for impairment	**(19,769)**	(19,544)
Trade receivables – net	**46,456**	29,124

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 2021	Audited 31 December 2020
	HK$'000	*HK$'000*
Bank acceptance notes	**2,028**	13,897

As of 30 June 2021, notes receivable amounted to HK$2,028,000 (31 December 2020: HK$6,768,000) and nil (31 December 2020: HK$7,129,000) were bank acceptance notes with maturity date within 6 months and 12 months respectively, which were classified as financial assets at fair value through other comprehensive income.

13 TRADE PAYABLES

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

	Unaudited 30 June 2021 ***HK$'000***	Audited 31 December 2020 *HK$'000*
0–30 days	**13,934**	55,031
31–90 days	**387**	592
91–180 days	**9,116**	149
Over 180 days	**60,609**	38,759
	84,046	94,531

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group's revenue for the six months ended 30 June 2021 nearly doubled to HK$179.6 million (2020: HK$89.9 million) and the Group's profit attributable to the owners of the Company decreased to HK$19.5 million (2020: HK$142.7 million).

Earnings per Share for the six months ended 30 June 2021 was HK1.6 cents per Share (2020: HK11.4 cents per Share) based on the weighted average number of 1,248 million Shares (2020: 1,248 million Shares) in issue during the period under review. There was no potential dilutive Share for the six months ended 30 June 2021.

The decrease in profit attributable to the owners of the Company in the first half of 2021 was primarily due to the recognition of a gain (after land appreciation tax) of approximately HK$184 million from the Disposal which was completed in January 2020. Excluding such non-recurring gain on the Disposal as well as a non-recurring employee compensation of approximately HK$13.3 million due to the implementation of employee reform plan in 2020, there would have been an adjusted unaudited consolidated loss of approximately HK$27.8 million for the six months ended 30 June 2020. The Group recorded a turnaround from the adjusted consolidated loss and achieve an unaudited consolidated profit during the period under review, benefited from the increase in the sales of medium to high end wine products and the improvement in gross profit margin.

Financial review

Income Statement

Revenue

Revenue of the Group represents proceeds from sale of wine products. For the six months ended 30 June 2021, total revenue of the Group increased by nearly 100% to approximately HK$179.6 million from approximately HK$89.9 million in the corresponding period in 2020. The growth in revenue was mainly due to the prominent increase in sales volume of products, especially middle to high end wine products after optimisation of product mix, as well as the increase in market prices of certain upgraded and custom-made products during the period under review.

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

Sales of red wine products continued to be the Group's primary revenue contributor accounted for approximately 58% of the Group's revenue for the period under review (2020: 63%).

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	
	2021	2020
	%	%
Cost of raw materials		
– Grapes and grape juice	**45**	44
– Yeast and additives	**2**	2
– Packaging materials	**21**	20
– Others	**1**	2
Total cost of raw materials	**69**	68
Manufacturing overheads	**20**	24
Consumption tax and other taxes	**11**	8
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 45% of the Group's total cost of sales, remained stable when compared with approximately 44% in the corresponding period in 2020.

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 2020 mainly due to a decrease in production staff cost after the implementation of employee reform plan, and a decrease in storage charges relating 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 increased to 38% for the six months ended 30 June 2021 from 30% for the corresponding period in 2020, mainly as a result of the increase in average sale price of certain upgraded and custom-made red and white wine products compared with the corresponding period in 2020.

During the period under review, the gross profit margin of red wine products and white wine products were 39% and 35% respectively (2020: 30% and 31% respectively).

Other income, other gains and losses – net

Other income, other gains and losses were mainly comprised of gain on the Disposal, as well as disposal of obsolete products, and government subsidies related to enterprise development.

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

Other income, other gains and losses for the six months ended 30 June 2021 represented a net gain of approximately HK$0.5 million (2020: approximately HK$245.7 million). The drop in net gain was mainly due to the Disposal was a one-off transaction and therefore no gain on the Disposal during the period under review.

Distribution costs

Distribution costs principally included 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 16% (2020: 31%) of the Group's revenue. The decrease in distribution costs to revenue ratio was mainly due to a decrease in storage charges resulting from the optimisation of warehouses and staff costs pursuant to the employee reform plan in 2020, offset by an increase in promotion and advertising expenses following the recovery of economy, compared with corresponding period last year. 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 its promotional strategy is responsive to market dynamics and competition.

Administrative expenses

Administrative expenses comprised 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 12% (2020: 46%). The decrease in ratio was mainly attributable to the non-recurring payment of employee compensation due to the implementation of employee reform plan in the corresponding period in 2020. Excluding such non-recurring payments, the administrative expenses still recorded a decrease compared with the corresponding period in 2020 primarily as a result of effective cost control measures and a decrease in staff cost after the implementation of the employee reform in 2020.

Finance income – net

During the period under review, there was an increase in finance income – net, which was mainly due to an increase in bank interest income compared with the corresponding period in 2020.

Income tax expense

No provision for taxation in Hong Kong had 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 lease charges for land use rights and all property development expenditures. The decrease in income tax expense was mainly due to land appreciation tax related to the Disposal in the corresponding period last year.

Financial management and treasury policy

For the six months ended 30 June 2021, the Group's revenues, expenses, assets and liabilities were substantially denominated in RMB. The funding from the operation was placed on short-term deposits (denominated in RMB, US dollars or Hong Kong dollars) with authorised financial institutions. The Company would also pay dividends in Hong Kong dollars when dividends were declared, if any. 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

For the six months ended 30 June 2021, the increase in revenue was primarily:

(a) due to the recovery of sales resulting from the resumption of consumption occasions and consumer sentiment after government's relaxation of restrictions on the places of consumption, as well as growth of economy especially in domestic consumption, following the containment of spread of the novel coronavirus pneumonia ("**COVID-19**") in the PRC;

(b) driven by an increase in sales of medium to high end wine products during the period under review as a result of improvement in sales mix after brand and product upgrade, compared with the corresponding period last year; and

(c) contributed by strengthened cooperation between sales team of the Group and distributors as well as purchase of goods from distributors before festivals during the period under review, which also showcased the stage results subsequent to the implementation of sales and marketing reform.

During the period under review, the Group continued in implementing a sales and marketing reform, as well as product and channel strategies. Regarding product strategy, the Group has been building a portfolio of high quality products that can satisfy different consumption scenarios, and cover all product categories and price ranges in achieving an optimised product layout which was in line with its "5+4+N product strategy" to exploit the full potential of the consumer market. Regarding channel strategy, the Group strengthened its promotion, in particular title sponsorship of high-speed train since March of this year and advertising on online media in order to increase product and brand exposure and strengthen brand image. Furthermore, the Group pushed to expand distribution channels, including tobacco and liquor shops, convenience stores and medium and large supermarkets, catering outlets and social community. In addition to fortify the foundation of traditional sales channels, the Group has been penetrating social community through flexible interactive and thematic activities, and engaging opinion leaders plus content marketing, so that it may have the benefit of diverse yet all-connected channels. The Group will press ahead with its mass-scale marketing campaign that showcasing in 20,000 shops, hosting 1,000 wine tasting events and organising 100 plant visits, so as to keep developing and enhancing its point-of-sale network.

The Group held its first brandy tasting and business fair event this January and took part in the 104th China Food & Drinks Fair (Spring Food & Drinks Fair) held in Chengdu in April 2021, during which the Group actively promoted its latest product mix that covered all product lines, and received enthusiastic market response.

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 Xin Chou Year of the Ox, integrating the high quality with the Chinese zodiac culture and the leading rise of Chinese-style fashion products. The second generation of Dynasty Classic Collection – Cabernet Sauvignon Dry Red Wines made their debut on the market in June 2021, covering the mainstream price bands of mass consumption and suitable for omni-channel retail, as a result of the unified design styles and improved recognition.

Moreover, the Group also sold foreign branded wines mainly imported from France, Italy, Germany, Austria, Australia, 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 the trend of increasing wealth and the disposable income of consumers for a medium-term would steadily benefit the demand of Dynasty wines.

B. Online sales

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), during the period under review, the Group continued coupling with distributors to operate new online sales channels such as the second-line sales distribution platform, social media and social group e-commerce platforms or in the form of online live delivery etc. Meanwhile, the Group established an e-commerce team and actively cultivate e-commerce live broadcasting talents to further expand its sales channels so as to 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, apart from the existing exclusive products for e-commerce platforms, the Group had also been developing new products for emerging marketing channels, such as live broadcasting, and strengthened the price management of online sales of old products. The Group is optimistic about the prospects of the e-commerce 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 relationship, 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 expand 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. To optimise the supply network, the Group kept identifying new suppliers that comply with the quality requirements, and the Group conducted thorough tests on their grape juices before orders were placed. These procedures ensure the Group to procure quality grape and grape juice supplies and also minimise the effect of bad harvests interrupting production.

Following the entering into of the master purchase agreement with Tianjin Food Group Company Limited ("**Tianjin Food**") in November 2020, the procurement of grapes and grape juice (including unprocessed wines) from Tianjin Food not only maintained and stabilised the quality of grapes and grape juice (including unprocessed wines), but also reduced the Group's lead time and cost of transportation and storage. Furthermore, Tianjin Food will continue to follow the guidance and advices provided by the Group in the process of grape harvesting and pressing which can ensure that the quality of grape juice (including unprocessed wines) meets the Group's standard.

Production capacity

As at the end of June 2021, the Group's annual production capacity remained at 50,000 tonnes (31 December 2020: 50,000 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 2021, the Group will focus on product quality, reinvent consumption scenarios and strive to guide market spending, while continuing to build Dynasty into a brand representative of Chinese wines and its wines into iconic products. The Group will all be geared up to take the fast track on the revival journey and lead the development of Chinese wines.

The Group will also enhance its current product offerings and build the infrastructure for the market under its '5+4+N product strategy'. The Group will be persistent in meeting consumer demand by pursuing innovations for its wine series. Meanwhile, the Group will increase its investment in brand development to fully vitalise its brand and drive the development of its major products by steadily enhancing quality and controlling prices to boost sales volumes, with the aim of bringing Dynasty's superior wines to more consumers in the PRC. Subject to further preventive measures due to the emergence of ongoing sporadic COVID-19 cases in the PRC which may have impact on the business of the Group, barring any unforeseen market conditions, the Group currently expects that the revenue of the Group will keep growing on a steady trend and having a solid increase in the full year of 2021.

No significant events have taken place after the six months ended 30 June 2021 to the date of this announcement.

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.

The Group employed a work force of 241 (including Directors) (30 June 2020: 298) in Hong Kong and the PRC as at 30 June 2021. The total salaries and related costs (including the Directors' fees and the employee compensation pursuant to the employee reform plan) for the six months ended 30 June 2021 amounted to approximately HK$28.2 million (2020: HK$48.0 million). During the period under review, the staff cost decreased mainly as a result of the implementation of the employee reform plan to streamline and optimise the personnel and business units' structure in 2020.

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 2021, the Group's cash and cash equivalents, and short-term deposits amounted to HK$237.0 million (31 December 2020: HK$182.1 million). The increase was mainly due to operating profit and a decrease in purchase of raw materials during the period under review. It has sufficient financial resources and an adequate cash position to satisfy 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 or proceeds from issue of shares, if any.

Capital structure

The Group had cash and liquidity position of HK$237.0 million (31 December 2020: HK$182.1 million) as at 30 June 2021, reflecting its sound capital structure. The Group expects its cash to be sufficient to support its operating and capital expenditure requirements in the foreseeable future.

The Group also monitored capital on the basis of the liability-to-asset ratio. As at 30 June 2021, the Group's gearing ratio (expressed as total liabilities divided by total assets, in percentage) was approximately 60% (31 December 2020: 63%). The Group's gearing ratio maintained at a sound level.

The market capitalisation of the Company as at 30 June 2021 was approximately HK$649.1 million (31 December 2020: approximately HK$636.6 million).

Capital commitments, contingencies and charges on assets

As at 30 June 2021, the Group has capital commitments contracted but not provided for property, plant and equipment were approximately HK$1.93 million (31 December 2020: HK$ nil) and there was no charge on assets.

The Group had contingent liabilities in relation to the following labour arbitrations:

1) In December 2019, four employees of the Group lodged a labour arbitration with Tianjin Beichen District Labour Dispute Arbitration Committee against two subsidiaries of the Company claiming for a total compensation of RMB3.5 million (equivalent to HK$3.95 million) regarding the termination of their employment contracts, which were for the purpose of changing their employment to other subsidiaries within the Group. As at 31 December 2020, the arbitration was still in progress except one of the employees returned to work since 1 January 2021. Based on the understanding of the related laws and regulations and the consultation with an external legal counsel, the Directors were of the view that the potential compensation amount was not likely to be higher than RMB1.39 million (equivalent to HK$1.67 million). Therefore, a provision for this contingent liability was made.

   As at the date of this announcement, the arbitration was still in progress. Therefore, the provision for this contingent liability of RMB1.39 million (equivalent to HK$1.67 million) remained as at 30 June 2021.

2) After the implementation of the employee reform plan in 2020, nine employees of the Group lodged labour arbitrations with Tianjin Beichen District Labour Dispute Arbitration Committee against two subsidiaries of the Company, claiming for a total compensation of RMB0.91 million (equivalent to HK$1.10 million) regarding the termination of their employment contracts. As at 31 December 2020, based on the understanding of the related laws and regulations and the consultation with an external legal counsel, the Directors were of the view that the potential compensation amount was not likely to be higher than the aforesaid claimed amount of RMB0.91 million (equivalent to HK$1.10 million). Therefore, a provision for this contingent liability was made.

   As at the date of this announcement, the arbitration is still in progress. Therefore, the provision for this contingent liability of RMB0.91 million (equivalent to HK$1.10 million) remained as at 30 June 2021.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

For the six months ended 30 June 2021, the Group had not made any material acquisition or disposal of subsidiaries, associates or joint ventures.

Interim dividend

The Directors did not recommend the payment of any interim dividend to the shareholders of the Company for the six months ended 30 June 2021.

Purchase, sale or redemption of Shares

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

Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code for Directors' securities transactions (the "**Model Code**"). The Company has made specific enquiry of all Directors and that all 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 2021.

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, 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 six months ended 30 June 2021. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

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 2021, 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
Wan Shoupeng
Chairman

Hong Kong, 23 August 2021

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Wan Shoupeng, Mr. Li Guanghe and Mr. Huang Manyou, three non-executive Directors, namely, Mr. Heriard-Dubreuil Francois, 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.