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: 00828)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

- Revenue amounted to approximately HK$101.1 million (30 June 2021: HK$179.6 million).
- Profit attributable to equity holders of the Company was approximately HK$10.7 million (30 June 2021: HK$19.5 million).
- Basic earnings per share were HK0.9 cents (30 June 2021: HK1.6 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 2022 together with the comparative figures for the corresponding period of 2021. The unaudited interim results for the first half year of 2022 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	
		2022	2021
	Notes	***HK$'000***	*HK$'000*
Revenue from contracts with customers	*5*	**101,113**	179,632
Cost of sales of goods		**(60,489)**	(111,851)
Gross profit		**40,624**	67,781
Other income, other gains and losses – net		**1,618**	459
Distribution costs		**(15,185)**	(28,553)
Administrative expenses		**(17,240)**	(21,526)
Operating profit	*6*	**9,817**	18,161
Finance income		**1,391**	1,376
Finance costs		**(30)**	(156)
Finance income – net		**1,361**	1,220
Profit before income tax		**11,178**	19,381
Income tax expense	*7*	**–**	(7)
Profit for the period		**11,178**	19,374
Profit/(loss) attributable to:			
Owners of the Company		**10,702**	19,485
Non-controlling interests		**476**	(111)
		11,178	19,374
Earnings per share attributable to owners of the Company for the period			
		HK$ cents	*HK$ cents*
– Basic and diluted earnings per share	*9*	**0.9**	1.6

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June 2022 HK$'000	2021 HK$'000
Profit for the period	**11,178**	19,374
Other comprehensive (expenses)/income:		
Item that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(10,274)**	3,294
Total comprehensive income for the period	**904**	22,668
Total comprehensive income/(expenses) for the period is attributable to:		
– Owners of the Company	**1,239**	22,574
– Non-controlling interests	**(335)**	94
	904	22,668

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 June 2022	31 December 2021
		Unaudited	Audited
	Notes	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**70,426**	73,993
Right-of-use assets		**17,799**	19,826
Investment in an associate		**–**	–
Deferred income tax assets		**–**	–
Total non-current assets		**88,225**	93,819
Current assets			
Trade receivables	*10*	**33,574**	13,801
Notes receivable	*11*	**3,496**	8,581
Other receivables		**5,384**	5,637
Prepayments		**22,319**	29,126
Inventories		**215,406**	250,565
Cash and cash equivalents		**162,192**	196,808
Total current assets		**442,371**	504,518
Total assets		**530,596**	598,337

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

	Notes	As at 30 June 2022 Unaudited HK$'000	As at 31 December 2021 Audited HK$'000
LIABILITIES			
Non-current liabilities			
Lease liabilities		**42**	757
Current liabilities			
Trade payables	*12*	**89,454**	99,333
Contract liabilities		**21,723**	53,882
Other payables and accruals		**159,264**	184,524
Provisions for contingent liabilities		**121**	487
Lease liabilities		**1,558**	1,824
Total current liabilities		**272,120**	340,050
Total liabilities		**272,162**	340,807
EQUITY			
Equity attributable to owners of the Company			
Share capital		**124,820**	124,820
Other reserves		**1,159,902**	1,169,365
Accumulated losses		**(1,044,088)**	(1,054,790)
Capital and reserves attributable to owners of the Company		**240,634**	239,395
Non-controlling interests		**17,800**	18,135
Total equity		**258,434**	257,530
Total equity and liabilities		**530,596**	598,337

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 26 August 2022. 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 2022 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 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standard ("**HKFRSs**") issued by the HKICPA.

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 2021, except for the adoption of amendments to HKFRSs which effective for the financial year beginning on or after 1 January 2022.

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 Amended standards adopted by the Group

Except as described below, the accounting policies applied are consistent with those of 2021 annual consolidated financial statements as described therein.

Amended standards 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 2022:

Standards	Subject
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework

The amendments did not have a material impact on the Group's financial positions and performance for the current period and/or on the disclosures set out in these condensed consolidated financial statements or are not relevant to the Group.

The Group has not applied any new standard or amendments 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 2021.

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 2021.

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 2021.

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 2022				
Revenue from contracts with customers	**45,718**	**52,536**	**2,859**	**101,113**
Gross profit	**15,990**	**23,232**	**1,402**	**40,624**
Unallocated items:				
Depreciation of property, plant and equipment				**(1,551)**
Depreciation of right-of-use assets				**(1,245)**
Impairment allowance of inventories				**(1,854)**
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)
Impairment allowance of inventories				(382)

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

	Unaudited Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
Gross profit for reportable segments	**40,624**	67,781
Other income, other gains and losses – net	**1,618**	459
Distribution costs	**(15,185)**	(28,553)
Administrative expenses	**(17,240)**	(21,526)
Operating profit	**9,817**	18,161
Finance income – net	**1,361**	1,220
Profit before income tax	**11,178**	19,381

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

(b) During the period, the following three (2021: Nil) external customers contributed more than 10% of the total revenue of the Group. These revenues were attributed to the red wine and white wine segments.

	Unaudited Six months ended 30 June 2022
	HK$'000
Customer A	**16,487**
Customer B	**15,693**
Customer C	**14,891**

(c) 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	
	2022	2021
	HK$'000	*HK$'000*
Employee costs comprising:		
– salaries, other allowance and benefits	**21,105**	24,610
– contributions to retirement benefits scheme	**2,794**	2,580
Total employee costs including directors' emoluments	**23,899**	27,190
Depreciation of property, plant and equipment	**1,551**	2,477
Depreciation of right-of-use assets	**1,245**	1,273
Loss on disposal of property, plant and equipment	**–**	100
Impairment allowance of inventories	**1,854**	382
(Reversal of)/provision for impairment losses of financial assets	**(1,402)**	225

7 INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
Current income tax:		
Corporate income tax	**–**	7
Deferred income tax	**–**	–
Income tax expense	**–**	7

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% (2021: 25%).

8 DIVIDENDS

No interim dividend was paid, declared or proposed during the six months ended 30 June 2022 (2021: 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$10,702,000 (2021: HK$19,485,000) and the weighted average number of 1,248,200,000 Shares in issue during the six months ended 30 June 2022 (2021: 1,248,200,000 Shares).

As the Group has no dilutive instruments during the six months ended 30 June 2022 and 2021, the Group's diluted earnings per Share equal to its basic earnings per Share for the six months ended 30 June 2022 and 2021.

10 TRADE RECEIVABLES

The Group granted a credit period of 90 days (31 December 2021: 90 days) to its customers. The ageing analysis of the trade receivables is as follows:

	Unaudited 30 June 2022 *HK$'000*	Audited 31 December 2021 *HK$'000*
Up to 90 days	**27,278**	1,035
More than 30 days past due	**159**	13,134
More than 90 days past due	**6,828**	321
More than 270 days past due	**18,964**	20,368
	53,229	34,858
Less: Bad debt provision	**(19,655)**	(21,057)
Trade receivables – net	**33,574**	13,801

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.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The loss allowance decreased by HK$1,402,000 to HK$19,655,000 during the current reporting period.

11 NOTES RECEIVABLE

	Unaudited 30 June 2022 ***HK$'000***	Audited 31 December 2021 *HK$'000*
Bank acceptance bill	**3,496**	8,581

As of 30 June 2022, notes receivable amounted to HK$3,496,000 (31 December 2021: HK$8,581,000) were bank acceptance notes with maturity date within 6 months, which were classified as financial assets at fair value through other comprehensive income.

12 TRADE PAYABLES

The ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date is as follows:

	Unaudited 30 June 2022 ***HK$'000***	Audited 31 December 2021 *HK$'000*
0–30 days	**16,194**	22,000
31–90 days	**437**	6,886
91–180 days	**1,048**	820
Over 180 days	**71,775**	69,627
	89,454	99,333

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group's revenue for the six months ended 30 June 2022 decreased by 44% to HK$101.1 million (2021: HK$179.6 million) and the Group's profit attributable to the owners of the Company decreased by 45% to HK$10.7 million (2021: HK$19.5 million).

Earnings per Share for the six months ended 30 June 2022 was HK0.9 cents per Share (2021: HK1.6 cents per Share) based on the weighted average number of 1,248 million Shares (2021: 1,248 million Shares) in issue during the period under review. There was no potential dilutive Share for the period ended 30 June 2022.

The decrease in profit attributable to the owners of the Company in the first half of 2022 was mainly attributable to drop in gross profit resulting from a decrease in the revenue of the Group for the period. The decrease in revenue was primarily due to i) control and lockdown measures imposed on consuming places as a result of the resurgence of the novel coronavirus pneumonia ("**COVID-19**") in various cities in the People's Republic of China (the "**PRC**"); and ii) adverse impact of the COVID-19 pandemic on consumer sentiment in the first half of 2022.

Financial review

Income Statement

Revenue

Revenue of the Group represents proceeds from sale of wine products. For the six months ended 30 June 2022, total revenue of the Group decreased by 44% to approximately HK$101.1 million from approximately HK$179.6 million in the corresponding period in 2021. The drop in revenue was mainly attributable to the decrease in sales volume of products, especially middle to high end wine products. The total number of bottles of wine sold decreased to approximately 3.9 million (2021: approximately 6.9 million) during the period, while the Group's average ex-winery sale price of red and white wine products under the "Dynasty" brand (in Renminbi ("**RMB**")) during the period under review remained stable with a mild drop.

With consumers' growing interest of white wine products of the Group, especially in coastal regions of the PRC, sales of white wine products transcended red wines products as the Group's primary revenue contributor for the first time, accounted for approximately 52% of the Group's revenue for the period under review (2021: 41%), demonstrated the Group's effort in capturing growth opportunities in the dry white wine market over the years.

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	
	2022	2021
	%	*%*
Cost of raw materials		
– Grapes and grape juice	**46**	45
– Yeast and additives	**2**	2
– Packaging materials	**20**	21
– Others	**2**	1
Total cost of raw materials	**70**	69
Manufacturing overheads	**18**	20
Consumption tax and other taxes	**12**	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 46% of the Group's total cost of sales, remained stable when compared with approximately 45% in the corresponding period in 2021.

Manufacturing overheads primarily consist of depreciation, 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 when compared with approximately 20% in the corresponding period in 2021 mainly due to decrease in delivery charge.

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 slightly to 40% for the six months ended 30 June 2022 from 38% for the corresponding period in 2021, mainly as a result of the impact of refinement of production process compared with the corresponding period in 2021.

During the period under review, the gross profit margin of red wine products and white wine products were 35% and 44% respectively (2021: 39% and 35% respectively).

Other income, other gains and losses – net

Other income, other gains and losses mainly comprises of gain on disposal of obsolete products, and government subsidies related to enterprise development and COVID-19.

Other income, other gains and losses for the six months ended 30 June 2022 represented a net gain of HK$1.6 million (2021: approximately HK$0.5 million). The increase in net gain was mainly due to the increase of government subsidies of approximately HK$0.5 million during the period under review.

Distribution costs

Distribution costs principally include advertising and market promotion expenses, storage 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 15% (2021: 16%) of the Group's revenue. The distribution costs to revenue ratio remained stable for the period. 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 are comprised of 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 17% (2021: 12%). The increase in ratio was mainly attributable to reduced revenue during the period. The administrative expenses still recorded a decrease compared with the corresponding period in 2021 primarily as a result of effective cost control measures and certain saving in repair and maintenance expenses.

Finance income – net

During the period under review, there was an increase in finance income – net, which was mainly due to a decrease in finance costs compared with the corresponding period in 2021.

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.

Financial management and treasury policy

For the six months ended 30 June 2022, 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 achieving the highest practicable returns while heeding to the need to preserve capital and assure liquidity.

Business review

Sales analysis

A. Distributorship

For the six months ended 30 June 2022, the decrease in revenue was primarily due to:

(a) control and lockdown measures imposed on consuming places as a result of the resurgence of COVID-19 in various cities in the PRC, distribution of wine products were reduced with consumption scenario; and

(b) adverse impact of the COVID-19 pandemic, coupling with slowdown of economy, on consumer sentiment.

During the period under review, the Group continued in implementing a sales and marketing reform, as well as product and channel strategies. Following the relaxation of control and lockdown measures, the Group will press ahead with its mass-scale marketing campaign showcasing 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 tasting and business events this February and June, during which the Group actively promoted its latest product mix that covered all product lines, and received enthusiastic market response. Close to the end of the first half of the year, the pandemic has subsided in most regions of the PRC, the business and sales of the Group has a gradual recovery to normal.

The Group has been actively pursuing innovation, embracing the "5+4+N" product strategy, with "N" standing for developing various customized products and continuously creating new products to meet the diverse needs of different Chinese consumer groups. During the period under review, the Group launched another round of product upgrade. The product upgrade in 2022 entailing the launch of new products more convenient to enjoy, young and chic. Such product upgrade also agreed to the trend of supporting domestic products, with an aim to invigorating the brand, strengthening the deployment of products for young consumers, as well as consolidating the image of Dynasty as a representative domestic grape wine brand.

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 Ren Yin Year of Tiger, integrating the high quality with the Chinese zodiac culture and the leading rise of Chinese-style fashionable products. A grape wine series of entry-level prices, Pleasant Color (怡色) targeting at young consumers has been well received since its debut last year. During this period, a gift box had been created for the collection, making it a gift option ideal for gatherings with family and friends and festive celebrations. In addition, the ready-to-drink series is designed to be easy to pair and goes well with hot pot, fusion and private kitchen dishes etc., thus is popular among young people. With such attributes and support of new media marketing on social media platforms including Xiaohongshu, Douyin, Kuaishou and Weibo, the series has become a hot choice on the Internet.

During the period, the Group also has launched the innovative 373ml and 180ml Dynasty dry red and semi-dry white series, to tap into the young consumer market. Unlike the traditional 750ml bottles the Group offers, the new sizes come with screw caps to make them more convenient to enjoy and better suit the lifestyle of the younger generation nowadays "Enjoy the wines anytime, anywhere". The 180ml wine comes in boxes of six, giving young people another choice of drinks in gatherings than beers. As for the 373ml size, with online-to-offline (O2O) platform support, consumers can scan the product QR code and get rewards, not only promoting interaction between consumers and the brand, but also giving consumers direct benefits and surprise offers, and ultimately allowing Dynasty's products to reach wider consumer groups.

Moreover, the Group also sold chateau wine imported from France and other foreign branded wines in the PRC through the Group's existing distribution network to introduce some classic "old world" and "new world" varietals to cater for consumers preferring the taste of foreign premium wines.

The Group believes that the trend of increasing wealth and disposable income of consumers for a medium-term, as well as the rise of Chinese-style fashion, would steadily benefit the demand of domestic-made Dynasty wines.

B. Online sales

The e-commerce team of the Group started insourcing to operate online stores on the traditional e-commerce platforms, such as JD.com (京東商城), Tmall (天貓商城) and Pinduoduo (拼多多) for product sales, as well as comprehensive innovation on its brand, product categories, and business systems, procedures and models via new retail platforms, including Weibo, RED (小紅書app), Kuai (快手app) and TikTok (抖音app) other than cooperation with distributors during the period under review. Such efforts facilitated the Group's autonomous brand communications so that it could continue to gain the attention of mainstream consumer groups and demographic segments, and enhance effective market penetration of the Group's products targeted at young consumers. The e-commerce team also 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 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 emerging marketing channels, such as live broadcasting, To strengthen brand awareness, the Group has launched a "Chinese style" edition showing its name in Chinese "王朝", to bring home its position as a domestic grape wine brand and also to attract mainstream e-commerce consumers who love domestic makes and favours. The Group promotes the series via e-commerce channels and, on top of presence on mainstream e-commerce platforms, efforts have been made to exploit new retail channels using such supplementary promotional means as live streaming or videos. 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.

Research and Technology

The Group is committed to maintaining high standard of research and technology which are essential to the sustainable growth of the Company. The post-doctoral work station in the National-level Technology Centre of the Group was set up for researching the selection of distinctive muscat yeast in order to brew more mellow and delicious wines. The centre has also set up a winemaking and wine tasting studio which has carried out rounds of wine introduction and tasting activities to date, with event focuses covering floral and fruit wine, sparkling wine, white wine, red wine and brandy. These activities have further broadened the professional competency of the studio staff and enable Dynasty's employees to gain a greater and in-depth understanding of wine products, so as to improve their technological and new product development capabilities. The new premises at the National-level Technology Centre opened in October 2021 further promote the Group's research and development of new products as well as new winemaking techniques.

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 juice 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 grapes and grape juice supplies and also minimise the effect of bad harvests interrupting production. The Group also strengthened presence by setting up subsidiaries in Ningxia and Xinjiang during the period under review targeted to enhance the supply and procurement of quality grapes and grape juice in those regions with premium vineyards.

Following the entering into of the master purchase agreement with Tianjin Food Group Co. Ltd. ("**Tianjin Food**"), 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 2022, the Group's annual production capacity maintained at 50,000 tonnes (31 December 2021: 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 2022, 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 also be persistent in meeting consumer demand by pursuing innovations for its wine series. Meanwhile, the Group will invest more resources in brand development to fully vitalise its brand and drive the development of its major products, with the aim of bringing Dynasty's superior wines to more consumers in the PRC.

As one of key players in domestic wine market in the PRC, the Group will further strengthen presence in Ningxia and Xinjiang to secure the supply of quality grapes and grape juice, and plan for the development of local production bases of grape juice in these regions in the long term.

Subject to further development of the COVID-19 pandemic in the PRC, the Board currently remains cautiously optimistic on the business in the second half of 2022 and the Group will continue to be well prepared to tackle the uncertainties associated with the pandemic, proactively develop the market, improve quality and boost sales volume, following the gradual containment of the COVID-19 situation and relaxation of control and lockdown measures at the end of the second quarter of 2022, as well as the policy support for the recovery of economy.

No significant events have taken place after the six months ended 30 June 2022 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 243 (including directors) (30 June 2021: 241) in Hong Kong and the PRC as at 30 June 2022. The total salaries and related costs (including the directors' fees) for the period ended 30 June 2022 amounted to approximately HK$23.9 million (2021: HK$27.2 million). During the period under review, the staff costs decreased mainly as a result of the drop in performance-based remuneration.

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 2022, the Group's cash and cash equivalents, and short-term deposits amounted to HK$161.8 million (31 December 2021: HK$196.1 million). The decrease was mainly attributable to settlement of trade and other 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 or proceeds from issue of shares, if any.

Capital structure

The Group had cash and liquidity position of HK$161.8 million (31 December 2021: HK$196.1 million) as at 30 June 2022, reflecting its sound capital structure. The Group expects its cash 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 2022, the Group's gearing ratio (expressed as total liabilities divided by total assets, in percentage) was approximately 51% (31 December 2021: 57%). The Group's gearing ratio maintained at a sound level.

The market capitalisation of the Company as at 30 June 2022 was approximately HK$449.4 million (31 December 2021: approximately HK$505.5 million).

Capital commitments, contingencies and charges on assets

As at 30 June 2022, the Group had no capital commitment contracted but not recognised as liabilities for property, plant and equipment (31 December 2021: Nil) and there was no charge on assets.

The Group had contingent liabilities in relation to a labour arbitration. As at the date of the announcement, there is one employee's arbitration against a subsidiary of the Company regarding the termination of employment contract in progress, and based on the understanding of the related 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 HK$0.12 million (31 December 2021: HK$0.49 million).

Material acquisitions and disposals of subsidiaries, associates and joint ventures

For the six months ended 30 June 2022, 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 2022.

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 2022.

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

The Company has complied 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 2022. 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 six months ended 30 June 2022, 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, 26 August 2022

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.