DYNASTY

INTERIM REPORT 2012 中期報告

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

Stock Code 股份代號：828

王朝榮獲「第六屆都市盛世大中華超卓商譽品牌獎」
Dynasty Garners the metroBox's "Preme Awards for the Best Brand Enterprise in Greater China 2012"

王朝酒業贊助陳思思美麗之路香港演唱會
Dynasty Private Label for Chen Sisi Concert

王朝聯手澳門銀河之葡萄酒晚宴
Dynasty & Macau Galaxy Wine Dinner

2012亞太區國際葡萄酒及烈酒展
2012 Vinexpo

王朝國際酒業維港之夜游艇酒會
Tianjin Dynasty International Wine Co, Ltd, Gala Cocktail

推出「爵」字收藏系列
Dynasty "Jue" Collection

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CORPORATE PROFILE

Dynasty is a leading premier winemaker with a dominant presence in the PRC wine market. Our brand name, "Dynasty", was recognised as a well-known trademark by the State Administration for Industry and Commerce of the PRC. For thirteen of the fifteen years between 1997 and 2011, Dynasty was granted "The Certificate of Best Selling Grape Wines" in the PRC by the China Industry and Enterprise Information Centre.

Dynasty has inherited the fine traditions and state-of-the-art expertise in winemaking from Remy Cointreau, one of the world's leading wine and spirits operators and our second largest shareholder ever since Dynasty's inception. From grape growing, harvesting, to every single step of winemaking, Dynasty believes in quality. The entire production process is under stringent quality control to ensure the highest standards of our products. In recognition of our high standards, we were accredited with certificates of ISO 9002 in 1996, ISO 14001 in 2000, ISO 9001: 2000 in 2002 and HACCP Certificate in 2006.

Dynasty has a diversified product portfolio, catering to various price segments and consumer tastes and preferences. We now make and sell over 100 types of wine products in five main categories, namely red wines, white wines, sparkling wines, icewine and brandy.

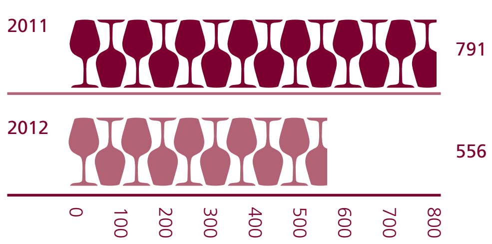
Over the years, Dynasty has sustained a good financial performance and generated reasonable returns for its shareholders. On 26 January 2005, Dynasty was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited with the stock code 828. Having strong support from our major shareholders — Tianjin Development Holdings Ltd. (882) and Remy Cointreau, Dynasty keeps on providing all consumer strata high quality and "excellent value for money" wines. With enhanced facilities and continual marketing efforts, Dynasty is well positioned to capture the robust growth potential of the Chinese wine market. We will build a stronger Dynasty for the future of all our stakeholders.

FINANCIAL HIGHLIGHTS

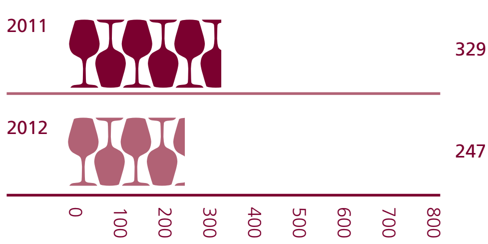
	For the six months ended 30 June (unaudited)		
	2012	2011	
	HK$'000	HK$'000	**Changes**
Revenue	**556,439**	790,686	-30%
Gross profit	**246,700**	329,286	-25%
(Loss)/profit attributable to owners of the Company	**(4,697)**	52,652	-109%

	2012	2011	**Changes in percentage point**
Gross profit margin	**44%**	42%	2%
Net profit margin	**-1%**	7%	-8%

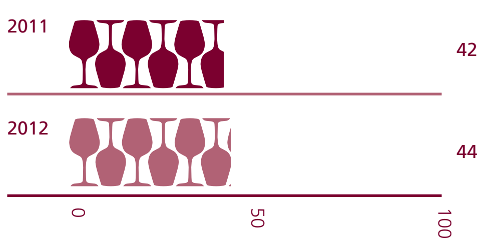
Revenue
HK$ million



Gross profit
HK$ million



Gross profit margin
%



CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. BAI Zhisheng
Mr. GAO Feng
Mr. HUANG Yaqiang

Non-Executive Directors

Mr. HERIARD-DUBREUIL Francois
Mr. Wu Xuemin
Mr. Jean-Marie LABORDE
Mr. DONG Jingrui(&)
Mr. WONG Ching Chung(&)
Mr. ROBERT Luc

Independent Non-Executive Directors

Dr. HUI Ho Ming, Herbert(#)(&)
Mr. YEUNG Ting Lap Derek Emory(#)(&)

Audit committee members
& *Remuneration committee members*

Company Secretary

Mr. YEUNG Chi Tat

Authorised Representatives

Mr. HUANG Yaqiang
Mr. YEUNG Chi Tat

Legal Advisers

Hong Kong

K&L Gates

Cayman

Conyers Dill & Pearman, Cayman

The People's Republic of China

Global Law Office

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business

Hong Kong Office

Suite 5506, 55/F, Central Plaza,
18 Harbour Road, Wanchai
Hong Kong

Tianjin Office & Chateau Dynasty

No. 29 Jinwei Road, Bei Chen District
Tianjin City, PRC

Self-operated Retail shops

Dynasty Club

273 Heng Shan Road, Xu Hui District, Shanghai

Shanghai Retail Shop

61A Beijing West Road, Huangpu District,
Shanghai

Tianjin Retail Shops

1) 1-7, Ground Floor Store of Haitu Apartment,
12 Hebei Road, Tanggu District, Tianjin

2) 18 Shiying Road, Nankai District, Tianjin

Principal Share Registrar and Transfer Office

HSBC Trustee (Cayman) Limited
P.O. BOX 484, HSBC House
68 West Bay Road
Grand Cayman, KY1-1106
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

Principal Bankers

Bank of China
China Construction Bank
China Everbright Bank
Industrial and Commercial Bank of China
The Hongkong & Shanghai Banking Corporation

Investor Relations Consultant

Strategic Financial Relations (China) Limited

Company Website

http://www.dynasty-wines.com

Direct Sales Website

http://www.i9wang.com (王朝愛酒網)

Share Information

Listing date	26 January 2005
Stock name	Dynasty Wines
Nominal value	HK$0.1
Number of issued shares	As at 30 June 2012 1,248,200,000 shares
Board Lot	2,000 shares

Stock Code

The Stock Exchange of Hong Kong	00828
Reuters	0828.HK
Bloomberg	828:HK

Financial year-end date

31 December

MANAGEMENT DISCUSSION AND ANALYSIS

Our business scale, operating platform and professionals will enable us to achieve operational efficiency along with the completion of the reform of our sales and distribution model in the future.

Interim results

The board (the "Board") of directors (the "Directors") of Dynasty Fine Wines Group Limited (the "Company") presents herewith the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012. The unaudited interim results for the six months ended 30 June 2012 have been reviewed by the audit committee of the Company (the "Audit Committee"). All Audit Committee members, including the chairman of the committee, are independent non-executive Directors.

The Group's revenue for the six months ended 30 June 2012 amounted to HK$556 million (2011 — HK$791 million), representing a decrease of 30% compared with the same period last year and loss attributable to owners of the Company was HK$4.7 million (2011 — profit of HK$53 million). The loss in the first half year of 2012 has clearly recovered to a certain extent when compared to the loss amounting to HK$48 million recorded during the second half year of 2011.

Loss per share ("Share") of the Company for the six months ended 30 June 2012 was HK0.4 cents (2011 earnings per Share — HK4.2 cents) based on the weighted average number of 1,248,200,000 Shares (2011 —1,248,200,000 Shares) issued during the period under review. There are no potential dilutive shares for the six months ended 30 June 2012.

The financial results in the first half year of 2012 were attributable to a decrease in sales volume as a result of (1) the impact of the reform of its sales and distribution model; and (2) weaker demand of domestic wine products amidst the slower economic growth in the People's Republic of China (the "PRC") and impact of imported wines.

Financial review

Income Statement

Revenue

Revenue of the Group represents proceeds from sale of wine products. For the six months ended 30 June 2012, it decreased by 30% to approximately HK$556 million from approximately HK$791 million for the corresponding period in 2011. The drop in revenue was the result of a decrease in sales volume despite the increase in average ex-winery sales price.

The Group's average ex-winery sales price of red and white wine products during the period under review was higher than the average price of HK$27.8 per bottle (750ml) for the whole year of 2011, as a result of shifting the sales mix further to high end segment by launching more high end products such as a cask collection of premium wines. The rise in the Group's average ex-winery sales price was an indicator that we are moving in the right direction, and pricing structure has been optimized. Since consumers in the PRC have a preference for red wines, the Group is able to set higher prices for its red wine products and therefore the average ex-winery sales prices of the Group's red wines are generally higher than those of its white wines.

Cost of sales

The following table sets forth the major components of cost of sales for the period under review:

	For the six months ended 30 June	
	2012	2011
	%	%
Cost of raw materials		
— Grapes and grape juice	**37**	41
— Yeast and additives	**2**	2
— Packaging materials	**23**	24
— Others	**1**	1
Total cost of raw materials	**63**	68
Manufacturing overheads	**25**	19
Consumption tax and other taxes	**12**	13
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 comprising bottles, bottle caps, labels, corks and packing boxes. Owing to the tight control of the average purchase cost of grapes and grape juice, the cost of grapes and grape juice accounted for approximately 37% of the Group's total cost of sales and decreased by 4 percentage point compared with same period last year. During the period under review, the cost of packaging materials to total cost of sales also decreased as compared with the corresponding period in 2011.

Manufacturing overheads primarily consist of depreciation, rental of property, plant and equipment, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses in relation to production. During the period under review, manufacturing overheads as a percentage of total cost of sales increased as compared with the corresponding period in 2011 primarily because of an increase in unit cost of manufacturing overheads (including labour costs, depreciation and other overheads) due to lower utilization rate of production capacity.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and other taxes, and gross invoiced sales. The overall gross profit margin of the Group was 44% for the six months ended 30 June 2012, an increase of 2 percentage points from 42% for the corresponding period in 2011. This increase was mainly a result of gradual improvement in product mix with a higher margin partially offset by the impact of increase in unit cost of manufacturing overheads due to lower utilization rate of production capacity.

During the period under review, the gross margin of red wine products and white wine products were 47% and 26% respectively (2011 — 44% and 33% respectively). The higher sales prices of red wine products explained the higher gross margin compared with white wine products.

Other income
Other income for the six months ended 30 June 2012 dropped by 69% to HK$6.3 million (2011 — HK$20.1 million), mainly attributable to:

(1) a decrease in government grant to HK$1.7 million (2011 — HK$14.9 million), which was received for a subsidiary in the PRC; and

(2) a decline in interest income due to a decrease in bank deposits.

Distribution costs
Distribution costs comprise mainly advertising and market promotion expenses, transportation and delivery charges in connection with the sales of grape wine products, salaries and related personnel expenses of the sales and marketing functions and other incidental expenses. For the six months ended 30 June 2012, distribution costs accounted for approximately 33% (2011 — 27%) of the Group's revenue and this percentage increased because the decrease in revenue was more than the decrease in distribution costs in terms of percentage points. In particular, the advertising and market promotion expenses accounted for approximately 18% (2011 — 18%) of the Group's revenue and this percentage was stable since focus on marketing has slightly shifted from brand promotion to sales promotion activities which better enhance sales. During the period under review, the Group continued to promote and market the Chateau Dynasty, brand and products effectively through a range of joint-promotional activities with wedding planner companies and local distributors, print and outdoor advertisements, wine dinners, wine tasting events, digital communications, event sponsorships and exhibitions. The Group intends to ensure that our promotional strategy is responsive to market dynamics as well as the competition.

Administrative expenses
Administrative expenses primarily consist of salaries and related personnel expenses of the administrative, finance and human resources departments, provision for inventories, depreciation and amortisation expenses and other incidental administrative expenses.

During the period under review, administrative expenses as a percentage of the Group's revenue accounted for 12% (2011 — 8%) and increased compared with the corresponding period in 2011 due to higher staff costs to support the business development of imported wine and e-commerce businesses, management and control on shop expansion, implementation of the reform and provision for inventories.

Income tax expense
Under the current laws of the Cayman Islands and the British Virgin Islands ("BVI"), neither the Company nor its subsidiaries incorporated in the BVI are subject to tax on its income or capital gains. In addition, any payment of dividends by them is not subject to withholding tax under those jurisdictions.

Pursuant to the PRC Enterprise Income Tax Law passed by the Tenth National People's Congress on 16 March 2007, the enterprise income tax rate for all the subsidiaries of the Company incorporated in the PRC was unified at 25% effective from 1 January 2008. During the period under review, the effective tax rate of the Group rose to approximately 466% (2011 — 28%) mainly due to more expenses not allowed to deduct for the period in terms of profit before income tax.

Balance sheet

Trade receivables

Trade receivables for the period ended 30 June 2012 amounted to HK$486.4 million (31 December 2011 — HK$437.3 million), increasing by approximately 11% against the year end balance of previous year. The increase was primarily due to more credit sales made at period end. During the period, customers with whom the Group has a long-term trading relationship and who have a good payment history, are given, in general, credit period of one to six months, except for those with bills receivable clauses, and receivables with an age of less than six months accounted for approximately 49.1% of the net trade receivables as at 30 June 2012 (31 December 2011 — 63.4%) All other customers are required to pay cash on delivery. As a result, the Group's credit policy has proven effective in helping to minimize its exposure to doubtful debts. The longer debtors' turnover period was mainly a result of an increase in trade receivables at period end while, except for two customers, credit control has been largely maintained during the period.

During the period, two customers, which are related to state owned entities with large operational scale and nationwide good reputation, had a longer aging receivables of more than six months amounting HK$226.8 million but not impaired. No impairment allowance is necessary in respect of these two balances as there has not been a significant change in their credit quality and they have a good business track record with the Group and/or have good financial strength, so the balances are considered fully recoverable and the Group has accepted more flexibility in their repayment schedules. As at 10 August 2012, the Group received a bank acceptance amounting RMB10 million from a customer via a bank for settlement of outstanding trade receivables at 30 June 2012. After the date of the report, the Group will further discuss with these two customers in order to come up with a feasible and acceptable repayable plan. In accordance to the terms of the plan, the Group will chase the customers to settle due balances and monitor the settlement progress on an ongoing basis. The Group will continue to review the situation and make impairment allowance, if necessary, when deemed appropriate in the future.

Inventories

The Group's inventories balance for the period ended 30 June 2012 amounted to approximately HK$1,012.3 million (31 December 2011 — HK$962.0 million), representing an increase of approximately 5%. The higher inventories balance was primarily the result of stocking up of finished goods in preparation of the increase in sales demand for Dynasty wines and imported wines in the forthcoming festival season.

In order to improve the logistics efficiency and the quality of the Group's inventory systems, the Group engaged China Merchants Logistics Holding Co., Ltd. to manage all its external warehouses at different stages of implementation in April 2012. The Group considers that outsourcing the warehouse and logistic functions to such a professional and esteemed company in the industry will lower operating costs in the long run and eliminate or reduce the amount of discrepancies between physical inventory list and book records of inventories, to which a lot of management attention has been focused.

Cash flow

In the first half year of 2012, operating activities were the Group's main source of cash outflow.

The cash outflow derived from operating activities decreased from HK$414.3 million in the first half year of 2011 to HK$173.3 million in the first half year of 2012. The cash outflow was mainly attributable to (i) decrease in gross profit, (ii) increase in prepayment for imported wines and advertisement, and (iii) decrease in other payables and accruals due to payments to various other creditors in accordance with the payment and settlement terms during the period under review.

Net cash inflow in investing activities amounted to approximately HK$37.8 million (2011 — HK$63.5 million), primarily related to reduced placement of fixed deposits with maturity over 3 months and offset by acquisition of plant and equipment during the period under review as compared with corresponding period in 2011.

Net cash outflow in financing activities was primarily attributable to the payment of dividends to shareholders of HK$ Nil (2011 — HK$34.9 million).

Financial management and treasury policy

As at 30 June 2012, except for the net proceeds from the placing and public offer, the Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB"). The Group has remitted the net listing proceeds from Hong Kong to the PRC and converted them into RMB shortly after remittance. The remaining unremitted net proceeds not used for the intended purposes have been placed on short-term deposits (denominated in US dollars or Hong Kong dollars) with authorised financial institutions. The Company also pays dividends in Hong Kong dollars when dividends are declared. The Company does 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 which will affect the Group's business, we continue to closely monitor foreign currency movements and adopt prudent measures as appropriate.

Armed with sufficient financial resources and in a net cash position with no borrowing, the Group is 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.

Liquidity and financial resources

The liquidity and financial position remain strong as the Group continues to adopt a prudent approach in managing its financial resources. As at 30 June 2012, the Group's cash and cash equivalents, and fixed deposits amounted to HK$218 million. It has sufficient financial resources and a strong cash position for satisfying working capital requirements of business development, operations and capital expenditures. New investment opportunities, if any, would be funded by the Group's internal resources.

The Group had no debts, with total equity before non-controlling interests of the Group amounting to approximately HK$2,004 million as at 30 June 2012 ensuring solvency and the Group's ability to continue as a going concern. The Group's gearing ratio, expressed as a ratio of total debts to total equity before non-controlling interests, as at 30 June 2012 was nil (2011 — nil).

Capital structure
The Group had no borrowings and was in a net cash and liquid position as at 30 June 2012, reflecting its sound capital structure. We expect our cash to be sufficient to support our operating and capital expenditure requirements in the foreseeable future.

The market capitalisation of the Company as at 30 June 2012 was approximately HK$1,585 million.

Capital commitments, contingencies and charges on assets
The Group made capital expenditure commitments, including approximately HK$17.0 million that were authorised but not contracted for and approximately HK$3.4 million contracted but not provided for in the financial statements as at 30 June 2012. These commitments were mainly required to support auxiliary facilities as part of the Group's production capacity expansion and extending the sales and distribution network. These capital commitments will be partly funded by the net proceeds of the placing and public offer as stated in our prospectus dated 17 January 2005 and partly from the internally generated funds of the Group.

As at 30 June 2012, the Group had no material contingent liabilities and the Group's assets were free from any charge.

Material acquisitions and disposals of subsidiaries and associated companies
The Group had not made any other material acquisitions or disposal of subsidiaries and associated companies during the six months ended 30 June 2012.

Use of proceeds
The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2005. The net proceeds from the placing and public offer amounted to approximately HK$724 million. As at 30 June 2012, the planned usage and actual amounts had been spent as follows:

Use	**Usage as announced** HK$ million	**Actual progress** HK$ million
Expansion of existing production facilities	200	200
Establishment of new production facilities	160	160
Expansion of sales and distribution network	20	3
Acquisition of Smiling East	47	47
Other acquisition opportunities and general working capital	297	128
Total	724	538

Unutilised net proceeds have been placed as bank deposits with authorised financial institutions.

Future plans for material investments or capital assets
To ensure its long term development, the Group will explore appropriate acquisition or investment opportunities that offer reasonable returns to the Group and its shareholders.

We are in discussion with and review on a boutique wine company, including its two brands and three related vineyards, located in the Marlborough grape-growing region on New Zealand's South Island, which we consider as a possible acquisition target in the future in order to diversify and enrich our product portfolio and brand, and expand the source of supply of grapes and grape juice from overseas. Apart from New Zealand's domestic market, this wine company's overseas sales were to Australia, the United Kingdom, Belgium, Hong Kong, Malaysia and Singapore. Its product portfolio includes Sauvignon Blanc, Pinot Noir, Pinot Gris and Albarino. The owners of the wine company are independent third parties who are not connected with (within the meaning of the Rules governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) any director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates. As at the date of this report, no agreement or memorandum of understanding was entered into between the Group and such party in this regard. Announcement(s) will be made in compliance with the Listing Rules (if required) when the formal agreement is reached but it is expected that the transaction contemplated therein will not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

Business review

Sales analysis

A) *Existing sales channels*

For the six months ended 30 June 2012, in spite of the increase in the average ex-winery sales price of the Group's wine products as a result of shifting the sales mix further to high end products, the sales revenue has still recorded a decrease compared with the same period last year mainly because a decrease in sales volume compared with same period last year as a result of (1) the impact of its reform of its sales and distribution model as disclosed in the Company's 2011 annual report intended to improve the operational efficiency of the Group, to overhaul the distribution channel structure and to restore long-term, sustained profitability. During the period under review, we proactively integrated less efficient distributors as part of the reform while we stepped up the efforts to support our committed distributors who have aligned with our reform and strategies. The reform continues to progress on track but the pace was slower than expected, especially in Zhejiang province and Shanghai city, and will take time to implement; and (2) weaker demand of domestic wine products amidst the slower economic growth in the PRC and impact of imported wines. As Zhejiang province and Shanghai city are parts of the Huadong region which was the Group's strongest market in mainland China, the decrease in sales of that region had an impact on the overall sales volume of the Group.

The total number of bottles of wine sold decreased from approximately 30.9 million in the first half year of 2011 to approximately 16.9 million in the first half year of 2012. Sales of red wines continued to be the Group's primary revenue contributor accounting for approximately 85% of the Group's revenue for the period (2011 — 81%).

In order to consolidate the Group's position in the Huadong region (i.e., the eastern region of the PRC including Shanghai City, Zhejiang and Jiangsu provinces) and win market share in other regions, the Group devoted significant resources to accelerate the expansion and to strengthen our extensive nationwide sales and distribution network, and sales efficiency during the period under review. This network supports sales of the Group's products throughout all provinces and autonomous regions and the four directly-administered municipalities under the Central Government of the PRC. We have also extended the sales network to other regional markets such as the south-western region, and sales in those markets also grew. Moreover, the Group reported export sales accounting for 0.1% (2011 — 0.1%) of its total revenue during the period.

The Group produces a wide range of more than 100 wine products under the "Dynasty" brand to meet the demands and preferences of different consumer groups mainly in the medium to high end segments in the PRC wine market. With effective product strategies and a high quality and diversified product portfolio, the Group firmly believes that the "Dynasty" brand is able to attract savvy consumers with an appreciation for fine wines by offering Dynasty's premium high end products. Sales of premium wine products, such as "Jue" (Noble) Cask Collection (Dynasty Merlot Dry Red Wine) — Elegance and Imperial, and Chateau Dynasty — Grand Wine 2005 were greeted enthusiastically and recorded encouraging growth during the period under review. These premium Dynasty wines gained exposure in leading wine magazines and high profile exhibitions attracting much attention, and were delivering higher gross profit margin and average ex-winery sales price per purchase order.

In addition, the Group also sold foreign brand wines mainly imported from France, Italy, Germany, the United States, Chile, Spain and New Zealand in the PRC wine market through the Group's existing distribution network. This business introduces some classic "old world" and "new world" varietals to cater for a niche market with customers preferring the taste of foreign premium wines only. The foreign brands' business enjoys synergies with Dynasty's distribution resources, marketing and research information, retail shop network, and also in support functions such as media buying and other marketing investment. The Group currently carries approximately 420 imported products under 90 brands. The sales volume of these imported products in the first half year of 2012 was higher than that in the second half year of 2011. We believe that the trends of increasing wealth and rising disposable income of consumers aspiring to a higher status as well as the pursuit of upper-class leisure enjoyment will boost demand for premium Dynasty and imported wines would become major growth drivers for our future development. To increase its market share and sustain its growth, the Group is determined to continue its marketing efforts in sharpening and raising the visibility of these wines to the high-end market.

B) *New sales channels*

i) Dynasty Club and retail shops

The first "Dynasty Club" was opened in Shanghai in 2009 in order to generate higher awareness of the "Dynasty" brand, targeting the high-end market and cultivating a group of loyal and sophisticated customers. Dynasty Club offers a stylish wine tasting venue as well as a spacious wine storage area to top-tier customers in Shanghai. To cater for different needs and preferences of our customers, the Group as at the date of this report had 2 self-operated retail shops in Tianjin, 1 self-operated retail shop in Shanghai and 100 franchised retail shops across various provinces and cities in the PRC directly selling a variety of Dynasty wines and our imported wines to customers directly. The contribution from the sales at the Dynasty Club and retail shops was relatively insignificant to our revenue during the first half year of 2012. However we strongly believe that through these sales channels we can attract more people to embrace the grape wine culture and lead the trend of rising wine consumption. At the same time we could also expand our sales presence, extend our market influence, create greater awareness of the brand and consolidate our leading presence in the PRC because Dynasty Club and retail shops are amongst the best vehicles to convey our brand image and messages, and to enhance customers' experience in buying and drinking wines. Consumers are increasingly interest in the background of the wines that they purchase. Deeper experience and greater knowledge enhance their interaction with our Dynasty brand and build long-term loyalty, thus we have become more customer-focused than ever before. Therefore, we believe that both the Dynasty Club and retail shops can enable the Group to better understand and respond more quickly to developments in the external environment, such as consumption trends, the emergence of new customer segments and new challenges for Dynasty brand and wines.

We have strategically planned to develop our franchised retail shops through a progressive and disciplined growth strategy of increasing the number of similar establishments in appropriate locations. During the period under review, we have emphasized the development of franchised retail shops and continued to support the shops that have recorded satisfactory profitability while rationalising our shop portfolio by eliminating non-productive shops. The target is to establish approximately 200 franchised retail shops by the end of the year, with 100 franchised retail shops opened as at the date of this report. The remaining shops will be opened during the second half year of 2012 but rationalisation of non-productive shops, rising property prices and rentals, and a lack of suitable shop locations for the franchise partners may cause a slight delay in reaching the target number.

The following table sets out the number of self-operated retail shops and franchised retail shops by region as at the date of this report:

Region	Number of self-operated retail shops	Number of franchised retail shops	Total
South-Central region	—	38	38
Southern region	—	26	26
Eastern region	1	16	17
North-West region	—	1	1
North-East region	—	2	2
Northern region	2	17	19
Total	3	100	103

ii) Online Sales

The Group has launched an e-commerce business by setting up an easily accessible online platform — www.i9wang.com (王朝愛酒網) to further expand our sales channels and develop a new customer base. Customers can comfortably and freely search for our product offerings and place orders via the internet at this website for Dynasty wines and the imported wines we carry anywhere and anytime. Since the operating cost for the website is relatively low, we enjoy a higher gross profit margin on the e-commerce business. It has been running smoothly and recording a steady income. Although the online sales contribution was insignificant during the period under review, we are optimistic about the prospects of this business because research findings suggest that the online trading business in China should grow steadily in the coming years and the country has the world's largest number of internet users. The Group believes that the online platform not only serves as a business-to-customer trading platform between Dynasty and consumers, but also an additional marketing and promotion channel for the brand. Thus, the platform should enhance the overall business potential of the Group because growth in online sales channels will be further exploited internationally following the successful e-commerce model in overseas.

Supply of grapes or grape juice

Production for quality wines greatly depends on sufficient supply of quality grapes or grape juice. Currently, we have more than 10 major grape juice suppliers with whom we have enjoyed long-term relationships, mainly located in Tianjin, Shandong, Hebei, Ningxia and Xinjiang. Ensuring reliable supplies of quality grapes and grape juices to meet the production needs of our growing business as well as our expanded production capacity remains a high priority of the Group. Thus, it continues to actively work with vignerons to enlarge their existing vineyards in order to enjoy better economies of scale and manage 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 so that we are able to surpass others in the same market category in terms of the experience we provide, in quality and in taste. For optimising supply networks, the Group has also been identifying new suppliers who comply with our quality requirements, and then conducts thorough tests on their grape juices before orders are placed. These procedures ensure we procure quality grape and grape juice supplies and also minimise the effect of bad harvests interrupting production. The Group has also imported grape juices from overseas, applying the same stringent quality requirements as it has on the suppliers in the PRC.

Production capacity

The Group's annual production capacity at the Tianjin winery is 70,000 tonnes (equivalent to approximately 93.3 million bottles) which enables the Group to promptly response to market demand and will also further enhance the overall cost-effectiveness in terms of unit cost in the long run and provide a better platform for sustainable earnings growth after the reform.

Employees and remuneration policies

The Group employed a workforce of 620 (including Directors) in Hong Kong and the PRC. The increase in manpower was mainly due to the reform and the growth of business, and the Group has had to recruit additional talented employees in order to cope with these changes. 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 needs of the business and professionalism of individuals, so employees are encouraged to attend external professional and technical seminars, and other training programs and courses to improve their business acumen, update their technical knowledge and skills and enhance market awareness. The Group will review and adjust 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 in order to motivate employees to flourish and dedicate themselves towards achieving our common goals.

The Company also adopted a share option scheme ("Share Option Scheme") on 6 December 2004 for the purpose of providing incentives and rewards to eligible participants who have contributed to the success of our operations and the long-term growth of the Group. As at 30 June 2012, certain options to subscribe for 10,100,000 Shares were granted and remained outstanding under the Share Option Scheme.

Outlook

Moving into the second half year of 2012, the wine industry will benefit from the transformation of China's economy from investment-driven expansion to consumption-driven growth. With the increasing desire for quality of wines among the population, the wine industry is expected to maintain its steady overall growth.

Moreover, the Chinese government has recently introduced policies to encourage domestic wineries to upgrade their product quality while at the same time to set rigid requirements on the industry in terms of capacity and other aspects. Industry experts believe that small and low-end wineries will suffer or be eliminated under these new policies but overall will help to improve the standards of the industry.

The Group believes that the market environment will continue to be challenging in the near future because competition within the wine industry will remain intense and the pressure of costs will persist. These developments will have an impact on our business and expansion.

The Group will overcome these challenges by conducting its business pragmatically and will continue systematic and in-depth negotiation with some distributors on the new cooperation terms of distributorship in relation to the reform of its sales and distribution model. The reform will be closely monitored and adjusted in a flexible way if and when needed.

Moreover, in order to reduce the pressure of costs, the Group informed distributors that we decided to raise our ex-winery sales price of certain wines in the second quarter of 2012. Due to inventory levels kept by distributors and lead times inherent to place purchase orders by them, the impact of this price upward adjustment on our financial results will only become visible in the second half year of 2012.

We are confident that Dynasty is definitely moving in the right direction. Looking beyond this year, the Group strongly believes that the reform programme of the sales and distribution model implemented by the Group combined with other growth strategies, such as upgrading the product mix, expansion of sales channels and networks, evaluating appropriate acquisition opportunities and distributorships for foreign brand wines, will provide benefits in the long run. These benefits would include improving the Group's post reform operational efficiency, and maximizing the sales revenue and operating profit margin of the Group. This may take time but the Group is confident that we have the scale, operating platform and people to realise these benefits, and the Group will successfully lay a solid foundation for future growth with sustained profits and for strengthening our leadership in the market.

Interim Dividend

The Directors do not recommend the payment of any interim dividend to shareholders of the Company for the six months ended 30 June 2012.

Share Option Scheme

Details of the Share Option Scheme are set out in the published annual report of the Company for the year ended 31 December 2011. Share options are granted to Directors and employees of the Group to provide incentives and/or rewards for their contribution to, and continuing efforts to promote the interest of, the Group. Details of the share options granted, exercised, lapsed and cancelled under the Share Option Scheme during the period and outstanding as at 30 June 2012 are as follows:

	The number of Shares to be subscribed under the outstanding options granted as at 1 January 2012 (Note)	Granted	Exercised	Lapsed/ cancelled	The number of Shares to be subscribed under the outstanding options granted as at 30 June 2012 (Note)
Executive Director:					
Mr. Bai Zhisheng	2,300,000	—	—	—	2,300,000
Non-executive Directors:					
Mr. Heriard-Dubreuil Francois	1,200,000	—	—	—	1,200,000
Mr. Wong Ching Chung	200,000	—	—	—	200,000
Independent Non-executive Director:					
Mr. Chau Ka Wah, Arthur	200,000	—	—	(200,000)	—
Other employees	6,400,000	—	—	—	6,400,000
Total	10,300,000	—	—	(200,000)	10,100,000

Note: These share options (except for the 1,200,000 share options granted to Mr. Bai Zhisheng) were granted on 27 January 2005, with an exercise price of HK$3.00 and are exercisable from 17 August 2005 to 26 January 2015. Share option to subscribe for 1,200,000 Shares was granted to Mr. Bai Zhisheng on 1 November 2006 with an exercise price of HK$3.00 and are exercisable from 22 May 2007 to 31 October 2016.

Directors' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company

As at 30 June 2012, the interests or short positions of the Directors, chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), and as recorded in the register required to be kept under Section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(i) Interest in the Company

Name of Directors	Personal interests in shares	Number of underlying shares held pursuant to share options	Total interests	Approximate percentage of the Company's issued share capital
Executive Director:				
Mr. Bai Zhisheng	—	2,300,000	2,300,000	0.18%
Non-executive Directors:				
Mr. Heriard-Dubreuil Francois	—	1,200,000	1,200,000	0.10%
Mr. Wong Ching Chung	—	200,000	200,000	0.02%
Independent Non-executive Director:				
Dr. Hui Ho Ming, Herbert	300,000	—	300,000	0.02%

(ii) Rights to acquire Shares

The interests of the Directors in the share options of the Company as beneficial owner are set out in the section headed "Share Option Scheme" above.

Save as disclosed above, as at 30 June 2012, none of the Directors, chief executive and their respective associates has any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), and as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as disclosed in this report, at no time during the period was the Company, its subsidiaries, its fellow subsidiaries or its holding company, a party to any arrangements to enable the Directors or any of their spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at 30 June 2012, so far as was known to the Directors or chief executive of the Company, the interests or short positions of those persons, other than the Directors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO are as follows:

Long position in Shares

Name	Nature of interest	Number of Shares held	Approximate percentage of the Company's issued share capital
Famous Ever Group Limited (Note 1)	Beneficial owner	558,000,000	44.70%
Tianjin Development Holdings Limited (Note 1)	Interest of a controlled corporation	558,000,000	44.70%
Tianjin Investment Holdings Limited (Note 2)	Interest of a controlled corporation	558,000,000	44.70%
Tsinlien Group Company Limited (Note 3)	Interest of a controlled corporation	558,000,000	44.70%
Remy Pacifique Limited (Note 4)	Beneficial owner	336,528,000	26.96%
Remy Concord Limited (Note 4)	Interest of a controlled corporation	336,528,000	26.96%
Remy Cointreau Services S.A.S. (Note 4)	Interest of a controlled corporation	336,528,000	26.96%
Remy Cointreau S.A. (Note 4)	Interest of a controlled corporation	336,528,000	26.96%
Orpar S.A. (Note 4)	Interest of a controlled corporation	336,528,000	26.96%
Andromede S.A. (Note 4)	Interest of a controlled corporation	336,528,000	26.96%

Notes:

(1) Famous Ever Group Limited is a wholly owned subsidiary of Tianjin Development Holdings Limited ("Tianjin Development"). By virtue of the SFO, Tianjin Development is deemed to be interested in the Shares held by Famous Ever Group Limited.

(2) Tianjin Investment Holdings Limited ("Tianjin Investment") owns 57.08% shareholdings in Tianjin Development. By virtue of the SFO, Tianjin Investment is deemed to be interested in the interest of Tianjin Development in the Shares.

(3) Tianjin Investment is a wholly owned subsidiary of Tsinlien Group Company Limited, the ultimate holding company of Tianjin Development. By virtue of the SFO, Tsinlien Group Company Limited is deemed to be interested in the interest of Tianjin Investment in the Shares.

(4) Remy Concord Limited is entitled to exercise or control the exercise of all the voting power at general meetings of Remy Pacifique Limited. Remy Cointreau Services S.A.S. is entitled to exercise or control the exercise of all the voting power at general meetings of Remy Concord Limited. Remy Cointreau S.A. is entitled to exercise or control the exercise of all the voting power at general meetings of Remy Cointreau Services S.A.S. Orpar S.A. is entitled to exercise or control the exercise of approximately 54.14% of the voting power at general meetings of Remy Cointreau S.A. Orpar S.A. is also entitled to exercise or control the exercise of approximately 61% of the voting power at general meetings of Recopart, which is entitled to exercise or control the exercise of approximately 17.82% of the voting power at general meetings of Remy Cointreau S.A. Andromede S.A. is entitled to exercise or control the exercise of approximately 79.97% of the voting power at general meetings of Orpar S.A. By virtue of Part XV of the SFO, each of Remy Concord Limited, Remy Cointreau Services S.A.S., Remy Cointreau S.A., Orpar S.A. and Andromede S.A. is deemed to be interested in the Shares held by Remy Pacifique Limited.

Except as set out above, as at 30 June 2012, no person, other than a Director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Purchase, Sale or Redemption of Shares of the Company

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

Updated Director's Information

Below sets out the changes and updated information regarding Mr. Chau Ka Wah, Arthur and Dr. Hui Ho Ming, Herbert:–

Mr. Chau Ka Wah, Arthur retired as an independent non-executive director of the Company at Annual General Meeting held on 30 May 2012.

Dr. Hui Ho Ming, Herbert ("Dr. Hui") was appointed as executive director, deputy chairman and authorised representative of Cypress Jade Agricultural Holdings Limited (Stock Code: 875) on 7 August 2012. Dr. Hui was also re-designated from an executive director to a non-executive director of Hong Kong Resources Holdings Company Limited (Stock Code: 2882) on 10 August 2012.

Save as disclosed above, as at the date of this report, there had not been any other changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Corporate Governance

The Company is committed to fulfilling its responsibilities to 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.

During the period from 30 May 2012 to 30 June 2012, following the retirement of Mr. Chau Ka Wah, Arthur on 30 May 2012, there remains two independent non-executive Directors on the Board, the number of independent non-executive Directors and Audit Committee members falls below the minimum number required under Rule 3.10(1) and Rule 3.21 of the Listing Rules. Furthermore, the chairman position of remuneration committee has vacated and the number of independent non-executive Directors of remuneration committee of the Company has fallen below a majority required under Rule 3.25 of the Listing Rules. The Company is identifying a suitable candidate to fill the vacancies with a view to fulfilling the requirements of the Listing Rules as soon as practicable within 3 months from 30 May 2012 pursuant to Rules 3.11, 3.23 and 3.27 of the Listing Rules respectively.

Throughout the period under review, save as disclosed above, none of the Directors was aware of information that would reasonably indicate that the Company was not in compliance with the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted procedures governing Directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. On enquiries made, all Directors had confirmed their compliance with the required standards set out in the Model Code throughout the six months ended 30 June 2012.

By order of the Board
Mr. Bai Zhisheng
Chairman

Hong Kong, 29 August 2012

FINANCIAL SECTION

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 30 June 2012 HK$'000	2011 HK$'000
Revenue	6	**556,439**	790,686
Cost of sales		**(309,739)**	(461,400)
Gross profit		**246,700**	329,286
Other income	6	**6,329**	20,076
Distribution costs		**(183,241)**	(215,405)
Administrative expenses		**(67,706)**	(61,825)
Operating profit	7	**2,082**	72,132
Share of loss of an associate		**(244)**	(68)
Profit before income tax		**1,838**	72,064
Income tax expense	8	**(8,574)**	(20,414)
(Loss)/profit for the period		**(6,736)**	51,650
Attributable to:			
Owners of the Company		**(4,697)**	52,652
Non-controlling interests		**(2,039)**	(1,002)
		(6,736)	51,650
		HK cents	HK cents
(Loss)/earnings per share			
— Basic and diluted (loss)/earnings per share	10	**(0.4)**	4.2
		HK$'000	HK$'000
Dividends	9	**—**	18,723

The Notes on pages 29 to 38 are an integral part of these condensed financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
(Loss)/profit for the period	**(6,736)**	51,650
Other comprehensive (loss)/income		
Currency translation differences	**(6,959)**	42,455
Total comprehensive (loss)/income for the period	**(13,695)**	94,105
Total comprehensive (loss)/income attributable to:		
Owners of the Company	**(11,564)**	94,496
Non-controlling interests	**(2,131)**	(391)
	(13,695)	94,105

The Notes on pages 29 to 38 are an integral part of these condensed financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at Unaudited 30 June 2012 HK$'000	Audited 31 December 2011 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**580,945**	605,124
Land use rights		**64,164**	65,166
Goodwill		**9,421**	9,421
Investment in an associate	12	**12,067**	12,356
Prepayment		**9,092**	—
Deferred income tax assets		**17,445**	21,578
		693,134	713,645
Current assets			
Trade receivables	13	**486,421**	437,298
Other receivables, deposits and prepayments		**102,067**	72,319
Inventories		**1,012,329**	961,972
Prepaid income tax		**3,881**	5,246
Short-term deposits with maturity over three months		**407**	45,827
Restricted cash		**1,278**	—
Cash and cash equivalents		**217,140**	357,037
		1,823,523	1,879,699
Total assets		**2,516,657**	2,593,344
EQUITY			
Capital and reserves attributable to the owners of the Company:			
Share capital	14	**124,820**	124,820
Other reserves	15	**1,177,172**	1,184,116
Retained earnings		**702,124**	706,744
		2,004,116	2,015,680
Non-controlling interests in equity		**23,869**	26,000
Total equity		**2,027,985**	2,041,680
LIABILITIES			
Current liabilities			
Trade payables	16	**269,649**	192,243
Other payables and accruals		**219,023**	359,421
Total liabilities		**488,672**	551,664
Total equity and liabilities		**2,516,657**	2,593,344
Net current assets		**1,334,851**	1,328,035
Total assets less current liabilities		**2,027,985**	2,041,680

The Notes on pages 29 to 38 are an integral part of these condensed financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Unaudited				
		Attributable to owners of the Company				
	Note	Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2011		124,820	1,146,817	705,023	26,789	2,003,449
Profit for the period		—	—	52,652	(1,002)	51,650
Currency translation differences	15	—	41,844	—	611	42,455
Total comprehensive income for the period ended 30 June 2011		—	41,844	52,652	(391)	94,105
Transactions with owners						
Transfers	15	—	(345)	345	—	—
Dividends	9	—	(34,950)	—	—	(34,950)
Total transactions with owners		—	(35,295)	345	—	(34,950)
Balance at 30 June 2011		124,820	1,153,366	758,020	26,398	2,062,604
Balance at 1 January 2012		124,820	1,184,116	706,744	26,000	2,041,680
Loss for the period		—	—	(4,697)	(2,039)	(6,736)
Currency translation differences	15	—	(6,867)	—	(92)	(6,959)
Total comprehensive loss for the period ended 30 June 2012		—	(6,867)	(4,697)	(2,131)	(13,695)
Transactions with owners						
Transfers	15	—	(77)	77	—	—
Total transactions with owners		—	(77)	77	—	—
Balance at 30 June 2012		124,820	1,177,172	702,124	23,869	2,027,985

The Notes on pages 29 to 38 are an integral part of these condensed financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 June 2012 HK$'000	2011 HK$'000
Net cash generated from/(used in):		
— operating activities	**(173,289)**	(414,319)
— investing activities	**37,813**	63,499
— financing activities	**—**	(34,950)
Net decrease in cash and cash equivalents	**(135,476)**	(385,770)
Cash and cash equivalents at 1 January	**357,037**	760,265
Changes in exchange rate	**(4,421)**	27,168
Cash and cash equivalents at 30 June	**217,140**	401,663
Analysis of balances of cash and cash equivalents		
Cash and cash equivalents	**217,140**	401,663

The Notes on pages 29 to 38 are an integral part of these condensed financial information.

NOTES TO THE CONDENSED FINANCIAL INFORMATION

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. The Company together with its subsidiaries are hereinafter collectively referred to as the Group.

The Group produces and sells wine products, through a network of distributors and retail shops. The Group mainly operates in PRC and Hong Kong with a registered office in Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal address of the Company is Suite 5506, 55/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The condensed consolidated financial information was approved for issue on 29 August 2012.

These condensed consolidated interim financial statements have not been audited.

2 Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial information for the six months ended 30 June 2012 are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with HKFRSs.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2011.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

- HKFRS 9 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as HKFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

  There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 'Financial instruments: Recognition and measurement' and have not been changed. The Group has not yet decided when to adopt HKFRS 9.

2 Basis of preparation and accounting policies (continued)

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted: (continued)

- HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the group.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

There have been no changes in any risk management policies.

3 Financial risk management (continued)

3.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

3.3 Other risk factors and fair value estimation

All other aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended 31 December 2011.

4 Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management 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 2011.

5 Segment information

In accordance with the Group's internal reporting, management has determined the operating segments to be red wines and white wines.

Other products sold by the Group include sparkling wines, brandy and icewine. These sales have not been included within the reportable operating segments, as they are not included within the reports provided to the key management team.

The key management team assesses the performance of the operating segments based on gross profit, which excludes the effects of tax, depreciation and amortisation and non-recurring expenditure from the operating segments. Other income, distribution costs and administrative expenses are also not included in management's assessment of the performance of the operating segments.

All revenue of the Group are from external customers.

5 Segment information (continued)

	Unaudited			
	Red wines HK$'000	**White wines** HK$'000	**All other products** HK$'000	**Total group** HK$'000
Six months ended 30 June 2012				
Revenue	**474,621**	**74,487**	**7,331**	**556,439**
Gross profit	**224,046**	**19,259**	**3,395**	**246,700**
Unallocated items:				
Depreciation and amortisation	**—**	**—**	**—**	**(27,923)**
Interest income	**—**	**—**	**—**	**2,475**
Share of loss of an associate	**—**	**—**	**—**	**(244)**
Income tax expense	**—**	**—**	**—**	**(8,574)**
Six months ended 30 June 2011				
Revenue	640,301	146,971	3,414	790,686
Gross profit	279,111	49,047	1,128	329,286
Unallocated items:				
Depreciation and amortisation	—	—	—	(28,637)
Interest income	—	—	—	5,210
Share of loss of an associate	—	—	—	(68)
Income tax expense	—	—	—	(20,414)

Measurement of total segment assets and reconciliation to total assets are not disclosed as key management team does not assess performance of reportable segments using information on assets.

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

	Unaudited Six months ended 30 June	
	2012 **HK$'000**	2011 HK$'000
Gross profit for reportable segments	**246,700**	329,286
Other income	**6,329**	20,076
Distribution costs	**(183,241)**	(215,405)
Administrative expenses	**(67,706)**	(61,825)
Operating profit	**2,082**	72,132
Share of loss of an associate	**(244)**	(68)
Profit before income tax	**1,838**	72,064

6 Revenue and other income

The Group is principally engaged in the manufacturing and sale of wine products. Revenue and other income recognised during the period are as follows:

	Unaudited Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Revenue		
Manufacturing and sale of wine products	**556,439**	790,686
Other income		
Interest income	**2,475**	5,210
Government grant	**1,696**	14,866
Others	**2,158**	—
	6,329	20,076
Total revenue and other income	**562,768**	810,762

7 Operating profit

Operating profit is stated after charging:

	Unaudited Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Employee costs comprising:		
— salaries, other allowance and benefits	**58,226**	65,424
— contributions to retirement benefits scheme	**6,560**	5,791
Total employee costs including directors' emoluments	**64,786**	71,215
Depreciation	**27,159**	27,900
Amortisation	**764**	737
Loss on disposal of equipment	**1,174**	3,372
Provision for inventories	**6,158**	—

8 Income tax expense

	Unaudited Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Current income tax:		
— PRC income tax for the period	**4,441**	17,677
— Under-provision in previous year	**—**	1,503
	4,441	19,180
Deferred income tax:		
— Reversal of temporary difference	**4,133**	1,234
	8,574	20,414

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit in Hong Kong.

Provision for 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% (2011: 25%).

9 Dividends

	Unaudited Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
2011 final paid, nil (2010 final paid, of HK2.8 cents per ordinary share)	**—**	34,950
Proposed interim dividend, nil (2011: HK1.5 cents per ordinary share)	**—**	18,723
	—	53,673

10 (Loss)/earnings per share

The calculation of the basic loss per share is based on the loss attributable to owners of the Company of HK$4,697,000 (2011: profit of HK$52,652,000) and the weighted average number of 1,248,200,000 shares in issue during the six months to 30 June 2012 (2011: 1,248,200,000 shares).

There is no dilutive potential share for the period ended 30 June 2012 (2011: As for 2012). The share options would not have diluted effect.

11 Capital expenditure

During the six months ended 30 June 2012, the Group acquired plant and equipment amounting to approximately HK$6 million (2011: HK$22 million).

12 Investment in an associate

	Unaudited 30 June 2012 HK$'000	Audited 31 December 2011 HK$'000
Share of net assets	**12,067**	12,356

13 Trade receivables

The Group grants a credit period of 30 to 180 days to its customers. The aging analysis of the trade receivables is as follows:

	Unaudited 30 June 2012 HK$'000	Audited 31 December 2011 HK$'000
Below 30 days	**145,194**	106,338
30 to 90 days	**31,053**	115,517
91 to 180 days	**62,400**	55,278
Over 180 days (Note (c))	**251,893**	164,299
	490,540	441,432
Less: Provision for impairment (Note (b))	**(4,119)**	(4,134)
	486,421	437,298

Notes:

(a) The carrying amounts of the Group's trade receivables were principally denominated in Renminbi. The balance included bill receivables amounting to about HK$65 million (2011: about HK$222 million). The fair value of trade receivables approximates their carrying values.

(b) Trade receivables that are impaired are past due over 12 months (2011: 12 months). The change in the provision balance is due to exchange difference.

(c) Ageing for trade receivables of the Group which are past due but not impaired are as set out below:

	Unaudited 30 June 2012 HK$'000	Audited 31 December 2011 HK$'000
Over 180 days	**247,774**	160,165

(d) Included in trade receivables are balances of HK$0.9 million (2011: HK$82 million) of which the Group has received bill receivables from the customers. The Group has provided guarantees in favour of a bank issuing the bill receivables in the event the customers do not settle their amounts due to the bank. Consequently, until the customers settle the amounts of bill receivables to the bank, the Group will not derecognise the trade receivables. The Group has not endorsed any of the aforesaid bill receivables to its suppliers (2011: HK$65 million). The corresponding amounts of HK$0.9 million (2011: HK$82 million) are included in other payables and accruals as bank trade finance.

14 Share capital

	Number of ordinary shares of HK$0.1 each	Share capital HK$'000
Authorised:		
As at 30 June 2012 and 31 December 2011	3,000,000,000	300,000
Issued and paid up:		
As at 30 June 2012 and 31 December 2011	1,248,200,000	124,820

Share option scheme

Pursuant to the resolution of the equity holders of the Company on 6 December 2004, a share option scheme (the "Scheme") was approved and adopted.

Under the Scheme, the directors may, at their discretion, grant to any eligible person as defined under the Scheme to take up options to subscribe for shares of the Company at a subscription price to be determined by the directors pursuant to the relevant listing rules. The maximum number of shares issuable upon the exercise of all outstanding options to be granted under the Scheme must not, in aggregate, exceed 30% of the total number of shares in issue from time to time. The total number of shares in respect of which options may be granted under the Scheme and any other share options schemes of the Company shall not exceed 120 million shares, being 10% of the total number of shares in issue as at the date of listing of the Company's shares unless separate approval is obtained.

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Particulars and movements of the share option are as follows:

	Date of grant	Exercise price HK$	Outstanding as at 1 January 2012	Options granted/ (lapsed)	Outstanding as at 30 Jun 2012
Options granted to directors, other than the independent non-executive directors	27 January 2005	3	2,500,000	—	2,500,000
	1 November 2006	3	1,200,000	—	1,200,000
			3,700,000	—	3,700,000
Options granted to independent non-executive directors	16 January 2008	2.91	200,000	(200,000)	—
Options granted to employees	27 January 2005	3	6,200,000	—	6,200,000
	1 November 2006	3	200,000	—	200,000
			6,400,000	—	6,400,000
Total			10,300,000	(200,000)	10,100,000

15 Other reserves

	Unaudited						
	Share premium (Note i) HK$'000	Merger reserve (Note ii) HK$'000	Employee share-based compensation reserve HK$'000	Reserve fund (Note iii) HK$'000	Enterprise expansion reserve (Note iii) HK$'000	Exchange reserve HK$'000	Total HK$'000
As at 1 January 2011	518,137	74,519	4,289	156,037	94,434	299,401	1,146,817
Transfer	—	—	(345)	—	—	—	(345)
Dividends	(34,950)	—	—	—	—	—	(34,950)
Currency translation differences	—	—	—	—	—	41,844	41,844
As at 30 June 2011	483,187	74,519	3,944	156,037	94,434	341,245	1,153,366
As at 1 January 2012	464,464	74,519	3,944	158,928	94,434	387,827	1,184,116
Transfer	—	—	(77)	—	—	—	(77)
Currency translation differences	—	—	—	—	—	(6,867)	(6,867)
As at 30 June 2012	464,464	74,519	3,867	158,928	94,434	380,960	1,177,172

Notes:

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

(ii) Merger reserve

The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries that were acquired and the nominal value of the Company's shares issued in exchange therefore pursuant to the Reorganisation.

(iii) Reserve fund and enterprise expansion reserve

According to the Articles of Association of the Group's subsidiaries established in the PRC, a percentage of net profit as reported in the PRC statutory financial statements should be transferred to reserve fund and enterprise expansion reserve. The percentage of appropriation may be determined at the discretion of the board of directors of the respective subsidiaries. The reserve fund can be used to set off accumulated losses whilst the enterprise expansion reserve can be used for expansion of production facilities or increase in registered capital.

16 Trade payables

The aging analysis of the trade payables is as follows:

	Unaudited 30 June 2012 HK$'000	Audited 31 December 2011 HK$'000
Below 30 days	**113,045**	92,761
30 to 90 days	**37,025**	69,583
91 to 180 days	**31,034**	15,786
Over 180 days	**88,545**	14,113
	269,649	192,243

17 Capital commitments

At 30 June 2012, the Group had capital expenditure commitments related to purchase of production facilities and the expansion of sales and distribution network:

	Unaudited 30 June 2012 HK$'000	Audited 31 December 2011 HK$'000
Authorised but not contracted for	**16,967**	16,956
Contracted but not provided for	**3,389**	3,296
	20,356	20,252

18 Related party transactions

The following is a summary of significant related party transactions during the period which in the opinion of the directors were conducted in the normal course of the Group's business:

	Unaudited Six months ended 30 June	
	2012 HK$'000	2011 HK$'000
Purchase of unprocessed wine from an associate	**310**	5,124
Key management compensation:		
— Salaries and other short-term employee benefits	**4,698**	4,505
— Other long-term benefits	**342**	271
	5,040	4,776

	Unaudited 30 June 2012 HK$'000	Audited 31 December 2011 HK$'000
Balance of advance for unprocessed wine paid to an associate (Note)	**4,340**	7,409

Note: The advance for purchase of unprocessed wine was trade in nature, non-interest bearing and had no fixed repayment terms, the balance is included in other receivables, deposits and prepayments.

PRODUCT PORTFOLIO
產品系列

RED WINE 紅葡萄酒

Dynasty Merlot Dry Red Wine Reserve
王朝梅鹿輒乾紅葡萄酒

Dynasty Merlot Series — Red Label
王朝梅鹿輒系列 — 紅標

Dynasty Merlot Series — Gold Label
王朝梅鹿輒系列 — 金標

Dynasty Dry Red Wine
王朝乾紅葡萄酒

WHITE WINE 白葡萄酒

Dynasty Chardonnay Dry White Wine
王朝霞多麗乾白葡萄酒

Dynasty Medium Dry White Wine
王朝半乾白葡萄酒

ICEWINE 冰酒

Dynasty 5-star Icewine Reserve
王朝五星級窖藏冰葡萄酒

SPARKLING WINE 起泡葡萄酒

Dynasty Sparkling Wine (Second Fermentation in bottle)
王朝工藝瓶式起泡葡萄酒

Dynasty Muscat Sparkling Wine
王朝玫瑰香起泡葡萄酒

BRANDY 白蘭地

Dynasty Fine Brandy — X.O
王朝X.O白蘭地

Dynasty Fine Brandy — V.S.O.P.
王朝V.S.O.P.白蘭地

SELECTION 精選產品
(AVAILABLE IN HONG KONG ONLY)（於香港發售）

Dynasty Cabernet Sauvignon Reserve 2008
王朝2008年珍藏赤霞珠

Dynasty Cabernet Sauvignon 2008
王朝2008年赤霞珠

Dynasty Chardonnay 2010
王朝2010年霞多麗

Dynasty Chardonnay Reserve 2010
王朝2010年珍藏霞多麗