DYNASTY
Since 1980

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 828

# 2013
# INTERIM REPORT

# Contents

# 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 sixteen years between 1997 and 2012, 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, ice wine 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 rebuild a stronger Dynasty for the future of all our stakeholders.

# Financial Highlights

| | For the six months ended 30 June (unaudited) | | |
|---|---|---|---|
| | **2013** | 2012 | Changes |
| | ***HK$'000*** | *HK$'000* | |
| Revenue | **479,391** | 556,439 | -14% |
| Gross Profit | **189,461** | 246,700 | -23% |
| Loss attributable to owners of the Company | **(74,136)** | (4,697) | 14.8 times |

| | **2013** | 2012 | Changes in percentage point |
|---|---|---|---|
| Gross profit margin | **40%** | 44% | -4% |

# Corporate Information

(As at the publication date of the report)

## BOARD OF DIRECTORS

**Executive Directors**
Mr. SUN Jun(^)
Mr. LI Guanghe
Mr. SUN Yongjian(&)

**Non-Executive Directors**
Mr. HERIARD-DUBREUIL Francois
Ms. SHI Jing
Mr. Jean-Marie LABORDE
Mr. WONG Ching Chung(&)
Mr. ROBERT Luc

**Independent Non-Executive Directors**
Dr. ZHANG Guowang(#)(&)(^)
Mr. YEUNG Ting Lap Derek Emory(#)(&)(^)
Mr. SUN David Lee(#)(&)(^)

# Audit committee members
& Remuneration committee members
^ Nomination committee members

## COMPANY SECRETARY

Mr. HO Yiu Sum

## AUTHORISED REPRESENTATIVES

Mr. SUN Yongjian
Mr. HO Yiu Sum

## LEGAL ADVISERS

**Hong Kong**
K&L Gates

**Cayman**
Conyers Dill & Pearman, Cayman

**The People's Republic of China**
Tianjin Shuze Lawyer

## AUDITOR

PricewaterhouseCoopers

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS

**Hong Kong Office**
Units E&F, 16/F, China Overseas Building,
139 Hennessy Road, Wanchai,
Hong Kong

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

# Corporate Information

(As at the publication date of the report)

## PRINCIPAL BANKERS

China Construction Bank
Industrial and Commercial Bank of China
China Minsheng Bank
China Citic Bank

## INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

## COMPANY WEBSITE

http://www.dynasty-wines.com

## ONLINE SALES WEBSITE

https://dynasty.jd.com
(王朝葡萄酒旗艦店－京東)(P.R.C.)
https://dynasty.world.tmall.com
(王朝葡萄酒旗艦店－天貓)(P.R.C.)
http://www.dynasty-wines.com/shop (H.K.)

## SHARE INFORMATION

| | |
|---|---|
| Listing date | 26 January 2005 |
| Stock short name | Dynasty Wines |
| Nominal value | HK$0.1 |
| Number of issued shares | As at 30 June 2013 1,248,200,000 shares |
| Board lot | 2,000 shares |

## STOCK CODE

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

## FINANCIAL YEAR-END DATE

31 December

# Management Discussion and Analysis

## INTERIM RESULTS

The Group's revenue for the six months ended 30 June 2013 decreased by 13.8% to HK$479.4 million (2012 – HK$556.4 million) and the Group's loss attributable to owners of the Company was HK$74.1 million (2012 – loss of HK$4.7 million).

Loss per Share was HK5.9 cents per Share (2012 – HK0.4 cents per Share) based on the weighted average number of 1,248 million Shares (2012 – 1,248 million Shares) in issue during the period under review. There was no potential dilutive Share for the six months ended 30 June 2013.

The decline in financial results in the first half year of 2013 was attributable to a decrease in revenue, gross profit and its margin compared to last corresponding period. The drop in revenue was because of (1) weaker demand of domestic wine products, especially high-end wine products, amid the unfavourable macroeconomic factors and market conditions in the PRC and impact of imported wines; and (2) government policy of restrictions on entertainment and hospitality; the decrease in gross profit margin was also mainly due to provision for inventories as a result of self-produced finished goods were unsuitable for sales in the future and were considered as obsolete in the period under review.

## FINANCIAL REVIEW

### Income Statement

#### *Revenue*

Revenue of the Group represents proceeds from sale of wine products. For the six months ended 30 June 2013, total revenue decreased by 13.8% to approximately HK$479 million from approximately HK$556 million for the corresponding period in 2012. The decrease in revenue was mainly attributable to a drop in sales volume and the average ex-factory sales price of the Group's wine products as a result of shifting the sales mix to low-to-medium end products in response to the market demand.

The Group's average ex-winery sales price of red and white wine products during the period under review was slightly lower than the average price of HK$30.3 per bottle (750ml) for the whole year of 2012, as a result of shifting the sales mix to low-to-medium end products. 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 price of the Group's red wines is generally higher than that 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 | |
|---|---|---|
| | **2013** | 2012 |
| | **%** | % |
| Cost of raw materials | | |
| – Grapes and grape juice | **42** | 37 |
| – Yeast and additives | **2** | 2 |
| – Packaging materials | **23** | 23 |
| – Others | **1** | 1 |
| Total cost of raw materials | **68** | 63 |
| Manufacturing overheads | **22** | 25 |
| Consumption tax and other taxes | **10** | 12 |
| Total cost of sales | **100** | 100 |

The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives as well as packaging materials including bottles, bottle caps, labels, corks and packing boxes. During the period under review, the cost of grapes and grape juice was the key component of cost of sales and accounted for approximately 42% of the Group's total cost of sales, representing an increase of 5% from approximately 37% compared with the same period last year, due to the rise in the average cost of grapes and grape juice. The total cost of packaging materials to the Group's revenue decreased during the period under review as compared with corresponding period in 2012.

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 revenue decreased as compared with the corresponding period in 2012 mainly due to decrease in supplies consumed and other overheads.

***Gross profit margin***

Margin is calculated based on cost of sales inclusive of consumption tax and gross invoiced sales. The overall gross profit margin of the Group was 40% for the six months ended 30 June 2013, a decrease of 4 percentage points from 44% for the corresponding period in 2012. That decrease was mainly as a result of the impact of the increase in the cost of raw materials (including grapes and grape juice).

During the period under review, the gross margin of red wine products and white wine products were 42% and 27% respectively (2012 – 47% and 26% respectively). The higher sales prices of red wine products explained the higher gross margin compared with white wine products.

### *Distribution expenses*

Distribution expenses principally include 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 2013, distribution expenses remained stable which accounted for approximately 33% (2012 – 33%) of the Group's revenue. During the period under review, the Group continued to promote and market the Chateau Dynasty, brand and products effectively through a range of joint promotions with wedding planner companies and 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 primarily consist of salaries and related personnel expenses of the administrative, finance and human resources departments, provision for inventories, depreciation and amortisation expenses, provision for impairment and other incidental administrative expenses.

During the period under review, administrative expenses as a percentage of the Group's revenue accounted for 20% (2012 – 12%). This percentage increased because of the effect of the increase in administrative expenses in respect of legal and accounting professional services.

### *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 increase in income tax expense was due to the additional tax charges on prior year taxable income.

## FINANCIAL MANAGEMENT AND TREASURY POLICY

As at 30 June 2013, 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 were placed on short-term deposits (denominated in US dollars or Hong Kong dollars) with authorised financial institutions. The Company also paid dividends in Hong Kong dollars when dividends were declared. The Company did not implement any hedging or other derivatives against foreign exchange risk. Although the Group's operations currently would not generate any significant foreign currency exposure, we will continue to closely monitor foreign currency movements and adopt prudent measures as appropriate.

Armed with sufficient financial resources and in a net cash position net of borrowings at fixed rate, the Group was exposed to minimal financial risk from interest rate fluctuation.

The purpose of the Group's investment policy is to ensure the investment of uncommitted funds achieves the highest practicable returns while heeding the need to preserve capital and assure liquidity.

## LIQUIDITY AND FINANCIAL RESOURCES

The liquidity and financial position of the Group remain sound as the Group continues to adopt a prudent approach in managing its financial resources. As at 30 June 2013, the Group's cash and cash equivalents, and short-term deposits amounted to HK$187.9 million (31 December 2012 – HK$293.9 million). It has sufficient financial resources and an adequate cash position for satisfying the working capital requirements of business development, operations and capital expenditures. New investment opportunities, if any, will be funded by the Group's internal resources.

The Group had net debt of HK$495.9 million (31 December 2012 – HK$182.4 million) (total borrowings, trade and other payables less cash and cash equivalents), with total equity of the Group amounting to approximately HK$1,593.0 million (31 December 2012 – HK$1,643.4 million) as at 30 June 2013 ensuring solvency and the Group's ability to continue as a going concern. The Group's gearing ratio, expressed as a ratio of total debt to total capital (net debt and total equity), as at 30 June 2013 was 24% (2012 – 10%).

## CAPITAL STRUCTURE

The Group had short-term borrowings of HK$71.5 million (31 December 2012 – HK$111.0 million), with cash and liquid position of HK$187.9 million (31 December 2012 – HK$182.9 million) as at 30 June 2013, reflecting its sound capital structure. The Group expect its cash to be sufficient to support operating and capital expenditure requirements in the foreseeable future.

As at 30 June 2013, The periods of the bank borrowings are from 19 September 2012 to 18 September 2013 and 27 August 2012 to 26 August 2013 respectively (31 December 2012: 19 September 2012 to 18 September 2013 and 27 August 2012 to 26 August 2013). The annual fixed interest rate are 6.0% and 7.08% respectively (31 December 2012: 6% and 7.08%).

As at 30 June 2013, the market capitalisation of the Company was approximately HK$1,797 million (31 December 2012 – HK$1,760 million). Trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 22 March 2013 and will remain suspended until further notice.

## CAPITAL COMMITMENTS, CONTINGENCIES AND CHARGES ON ASSETS

As at 30 June 2013, there was no (31 December 2012 – Nil) capital expenditure contracted for at the end of the period but not yet incurred. The Group had no (31 December 2012 – Nil) contingent liabilities. Included in borrowings were bank borrowings of approximately HK$69.0 million (31 December 2012 – HK$74.0 million), which were secured by the land and buildings of a subsidiary of approximately HK$255.6 million (31 December 2012 – HK$247.0 million).

# Management Discussion and Analysis

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not make any material acquisitions or disposal of subsidiaries and associated companies during the six months ended 30 June 2013.

## 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 2013, the planned usage and actual amounts had been spent as follows:

| | **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 | 13 |
| Acquisition of Smiling East | 47 | 47 |
| Other acquisition opportunities and general working capital | 297 | 228 |
| Total | 724 | 648 |

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

## EVENT AFTER THE REPORTING PERIOD

The Group planned to dispose of a chateau and related facilities held by one of its subsidiaries at a consideration of RMB400 million. For details, please refer to Company's announcement dated 27 June 2017.

## BUSINESS REVIEW

### Sales analysis

#### *A) Distributorship*

For the six months ended 30 June 2013, despite the decrease in the average ex-factory sales price of the Group's wine products as a result of shifting the sales mix to low-to-medium end products in response to the market change, the sales revenue and volume still recorded a decrease compared to the last corresponding period mainly because of (1) weaker demand of domestic wine products amid the unfavourable macroeconomic factors and market conditions in the PRC and impact of imported wines; and (2) government policy of restrictions on entertainment and hospitality. The Group is implementing a reform on its sales and distribution model intended to improve the operational efficiency of the Group. Reform measures include, among other things, (i) co-operating with distributors to strengthen the control on inventory level and retail price; (ii) enhancing the effective management in monitoring and controlling sales and marketing spending; and (iii) streamlining the existing multi-layered sales and distribution system so as to strengthen the Group's direct control over the sales channels, thereby enhancing efficiency and effectiveness.

Sales of red wines continued to be the Group's primary revenue contributor, accounting for approximately 80% of the Group's revenue for the period (2012 – 85%).

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 its extensive nationwide sales and distribution network 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.

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 were greeted enthusiastically during the period under review. Moreover, the Group also sold foreign brand wines mainly imported from France, Italy, Germany, the United States of America, Chile and Spain in the PRC wine market through the Group's existing distribution network to introduce some classic "old world" and "new world" varietals to cater for a market niche preferring the taste of foreign premium wines. The Group currently carries approximately 320 imported products under approximately 90 brands. The Group believe that with the trend of increasing wealth and the disposable income of consumers, the demand for Dynasty and imported wines should increase. To boost its market share and sustain its growth, the Group is determined to continue to actively promote and raise the visibility of these wines to the market.

B) *Retail shops*

To cater for different needs and preferences of the customers, the Group as at 30 June 2013 had 2 self-operated retail shops in Tianjin, 1 self-operated retail shop in Shanghai and 128 franchised retail shops across various provinces and cities in the PRC, selling a variety of Dynasty wines and imported wines to customers directly. The sales contribution from the retail shops was relatively insignificant to the Group's revenue during the period under review. However, the Group strongly believe that through these sales channels and its network the Group 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 its sales presence, extend its market influence and bring greater awareness to the brand because retail shops are amongst the best vehicles to communicate our brand image and message, and to enhance customers' experience of buying and drinking wines. The Group have strategically planned to develop its franchised retail shops through a disciplined growth strategy to develop the number of similar establishments in appropriate locations. During the period under review, 128 franchised retail shops were in operation by the end of the period.

The following table sets out the number of self-operated retail shops and franchised retail shops by region as at 30 June 2013:

| Region | Number of self-operated retail shops | Number of franchised retail shops | Total |
|---|---|---|---|
| South-Central region | – | 78 | 78 |
| Eastern region | 1 | 24 | 25 |
| North-West region | – | 1 | 1 |
| North-East region | – | 4 | 4 |
| Northern region | 2 | 21 | 23 |
| Total | 3 | 128 | 131 |

C) *Online Sales*

The Group has launched an e-commerce business by setting up a convenient online platform – www.i9wang.com (王朝愛酒網) to further expand its sales channels and develop a new customer base. Customers can place orders via the internet on this website for Dynasty wines and the imported wines the Group carry anywhere at any time. It has been running smoothly and recording a steady income. Although the online sales contribution was insignificant during the period under review, the Group are optimistic about the prospects of the business as research indicates that online trading business in the PRC 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 successful e-commerce model overseas.

### Supplies of grapes or grape juice

Production of quality wines greatly depends on sufficient supply of quality grapes or grape juice. Currently, the Group have more than 10 major grape juice suppliers with whom it has 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 its growing business as well as its 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 equip their vineyards with state-of-the-art technology for assuring quality. For super and ultra premium wines, vignerons have adopted a disciplined approach to limiting harvest yields in order to deliver higher quality grapes. For optimistic supply networks, the Group has also been identifying new suppliers who comply with our quality requirements, and conducts thorough tests on their grape juices before orders are placed. These procedures ensure the Group 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

In 2013, the Group's annual production capacity at the Tianjin winery was 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

Quality and dedicated staff are the most important assets of the Group. The Group strives to ensure a strong team spirit among our employees so that they identify and contribute in unison to our corporate objectives. To this end, the Group offer competitive remuneration packages commensurate with market practices and industry levels, and provide 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 663 (2012 – 620) (including directors) in Hong Kong and the PRC as at 30 June 2013. The increase in manpower has occurred mainly due to the internal human resources adjustment in response to business development. The total salaries and related costs (including the directors' fees) for the period ended 30 June 2013 amounted to approximately HK$114.8 million (2012 – HK$64.8 million).

The Company also adopted a share option scheme on 6 December 2004 for the purposes 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 2013, share options to subscribe for 10,100,000 Shares were granted and outstanding under the scheme.

# Management Discussion and Analysis

## OUTLOOK

Moving into the second half of 2013, it will continue to be a challenging period for Dynasty. Going forward, although the Group's performance is likely to undergo prevailing pressure, we will continue to improve our organizational structure and enhance our professionalism in our business management. Leveraging on the experience in the wine industry, the Group will continue to intensify the reform and explore new sales channels.

## INTERIM DIVIDEND

The directors of the Company did not recommend the payment of any interim dividend to shareholders of the Company for the six months ended 30 June 2013.

## 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 2012. 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 2013 are as follows:

| | Outstanding options held at 1 January 2013 *(Note)* | Granted | Exercised | Lapsed/ Cancelled | Outstanding options held at 30 June 2013 *(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 |
| *Other employees* | 6,400,000 | – | – | – | 6,400,000 |
| Total | 10,100,000 | – | – | – | 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 OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 30 June 2013, the interests and short positions of the Directors, chief executives of the Company 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")) 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) Interests 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% |

Save as disclosed above, as at 30 June 2013, none of the Directors, chief executive of the Company had any interests and 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) 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 Issuers.

### (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 in this report, at no time during the six months ended 30 June 2013 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.

# Management Discussion and Analysis

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2013, the interests or short positions of any person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

### (i) Long position in Shares of the Company

| 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% |
| Tsinlien Group Company Limited *(Note 2/3)* | 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) Tsinlien Group Company Limited ("Tsinlien"), being the controlling shareholder of Tianjin Development and an offshore window company wholly owned by the Tianjin Municipal People's Government of the PRC (the "Tianjin Government"), and its wholly-owned subsidiaries, namely Tianjin Investment Holdings Limited, Tsinlien Venture Capital Company Limited and Tsinlien Investment Limited directly and indirectly own a long position of 59.01% of the entire issued share capital in Tianjin Development. Tsinlien is deemed to have a short position of 20.64% of the entire issued share capital in Tianjin Development, whereby Bright North Limited, a wholly-owned subsidiary of Tsinlien, has issued an aggregate of RMB1,638,000,000 U.S. Dollar Settled 1.25 per cent. Guaranteed Exchangeable Bonds due 2016 guaranteed by Tsinlien and exchangeable into ordinary shares of Tianjin Development at an exchangeable price of HK$8.831 per share. By virtue of the SFO, Tsinlien is deemed to be interested in the interests of Tianjin Development in the Shares.

(3) On 30 November 2012, Tianjin Development announced that the entire issued share capital of Tsinlien will be transferred to Tianjin Pharmaceutical Group Co., Ltd ("Tianjin Pharmaceutical"), a state-owned enterprise established in the PRC wholly-owned by the Tianjin Municipal People's Government. By virtue of the SFO, Tianjin Pharmaceutical is deemed to be interested in the shares in which Tsinlien is interested.

(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 approximately 93% of 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 41% 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 14% of the voting power at general meetings of Remy Cointreau S.A., Andromede S.A. is entitled to exercise or control the exercise of all 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.

Apart from the aforesaid, as at 30 June 2013, 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 under Section 336 of the SFO.

## 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 of the Listing Rules as the code of conduct for Directors' securities transactions (the "Mode Code"). The Company has made specific enquiry with all Directors and that all the Directors have confirmed their compliance with the required standards set out in the Model Code regarding Directors' securities transactions throughout the six months period ended 30 June 2013.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the period under review, save as disclosed below, none of the directors was aware of any information that would reasonably indicate that the Company was not in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules (the "Code") for the period ended 30 June 2013. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

During the period from 1 January 2013 to the date of this report, the number of independent non-executive directors of the Company fell below one-third of the Board. The Company intended to look for suitable candidate of independent non-executive director who is familiar with the fast moving consumer goods industry, and who has extensive experience in wine business. However, the Company has yet identified such suitable candidate. As such, the number of independent non-executive directors of the Company could not represent at least one-third the Board required under Rule 3.10A of the Listing Rules.

# Management Discussion and Analysis

As at 30 June 2013, as a result of internal investigation not yet finalised, additional time is required by the Company for the completion of the audit for the consolidated financial statements for the year ended 31 December 2012 and to finalise the outstanding results announcements and reports. the Group has breached the financial reporting provisions under (i) Rules 13.49(1) and (ii) 13.26(2) of the Listing Rules in respect of (i) announcing the annual results for the year ended 31 December 2012; (ii) publishing the related annual reports for the year ended 31 December 2012; and (iii) convening an annual general meeting for the financial years ended 31 December 2012.

### AUDIT COMMITTEE

The audit committee comprises of three independent non-executive directors who together have substantial experience in fields of auditing, legal matters, business, accounting, corporate internal control and regulatory affairs. The audit committee has reviewed the Group's interim financial statements for the six months ended 30 June 2013.

### INTERNAL INVESTIGATION

As disclosed in the announcement of the Company dated 26 March 2013, the Company has been informed by its auditor, that they had received anonymous allegations against certain transactions of the Group (the "Allegations"). The Board has authorised the Audit Committee to undergo an investigation of such Allegations. Upon being notified of the Allegations and authorised by the Board, the Audit Committee has forthwith engaged its legal advisers and Ernst & Young Advisory Services Ltd. ("EY") to conduct an internal investigation to verify the truthfulness of the Allegations.

### DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the information of the Directors subsequent to the year ended 31 December 2012 of the Company are set out as follows:

On 23 October 2013, Mr. Sun David Lee and Mr. Yeung Ting Lap, Derek Emory were re-designated as Executive Directors from Non-executive Directors of Asia Coal Limited (Stock code: 835). On 23 October 2013, Mr. Yeung Ting Lap, Derek Emory has resigned as a Member of the Audit Committee and a Member of Remuneration Committee of Asia Coal Limited (Stock code: 835). On 16 September 2014, Ms. Shi Jing was appointed as Executive Director of Tianjin Port Development Holdings Limited (Stock code: 3382). On 29 September 2014, Ms. Shi Jing was appointed as Non-Executive Director of Binhai Investment Company Limited (Stock code: 2886).

By order of the Board<br>
**Dynasty Fine Wines Group Limited**<br>
**Mr. Sun Jun**<br>
*Chairman*

Hong Kong, 8 June 2018

# Financial Section

# Condensed Consolidated Income Statement

For the six months ended 30 June 2013

| | Note | Unaudited Six months ended 30 June 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| Revenue | 5 | **479,391** | 556,439 |
| Cost of sales | | **(289,930)** | (309,739) |
| **Gross profit** | | **189,461** | 246,700 |
| Other income, gains and losses – net | | **(1,088)** | 3,854 |
| Distribution expenses | | **(157,572)** | (183,241) |
| Administrative expenses | | **(95,266)** | (67,706) |
| **Operating loss** | 6 | **(64,465)** | (393) |
| Finance income | | **2,212** | 2,475 |
| Finance costs | | **(2,107)** | – |
| Finance income – net | | **105** | 2,475 |
| Share of loss of an associate | | **–** | (244) |
| **(Loss)/profit before income tax** | | **(64,360)** | 1,838 |
| Income tax expense | 7 | **(10,741)** | (8,574) |
| **Loss for the period** | | **(75,101)** | (6,736) |
| **Attributable to:** | | | |
| Owners of the Company | | **(74,136)** | (4,697) |
| Non-controlling interests | | **(965)** | (2,039) |
| **Loss per share attributable to owners of the Company for the period** *(expressed in HK cents per share)* | | **(75,101)** | (6,736) |
| – Basic and diluted loss per share | 9 | **(5.9)** | (0.4) |

The Notes on pages 25 to 38 are an integral part of these condensed financial information.

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| **Loss for the period** | **(75,101)** | (6,736) |
| **Other comprehensive income/(loss)** | | |
| Currency translation differences | **24,754** | (6,959) |
| **Total comprehensive loss for the period** | **(50,347)** | (13,695) |
| **Attributable to:** | | |
| Owners of the Company | **(50,410)** | (11,564) |
| Non-controlling interests | **63** | (2,131) |
| | **(50,347)** | (13,695) |

The Notes on pages 25 to 38 are an integral part of these condensed financial information.

# Condensed Consolidated Balance Sheet

As at 30 June 2013

| | Note | Unaudited As at 30 June 2013 HK$'000 | Audited As at 31 December 2012 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **545,556** | 556,504 |
| Leasehold land and land use rights | | **64,007** | 63,609 |
| Goodwill | | **–** | – |
| Investment in an associate | 11 | **–** | – |
| Deferred income tax assets | | **–** | – |
| Trade and other receivables | | **1,548** | 4,563 |
| | | **611,111** | 624,676 |
| **Current assets** | | | |
| Trade receivables | 12 | **311,016** | 202,586 |
| Other receivables, deposits and prepayments | | **60,354** | 182,008 |
| Inventories | | **1,103,586** | 1,084,437 |
| Prepaid income tax | | **10,535** | 11,965 |
| Restricted cash | | **1,332** | 962 |
| Cash and cash equivalents | | **187,892** | 293,946 |
| | | **1,674,715** | 1,775,904 |
| **Total assets** | | **2,285,826** | 2,400,580 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company:** | | | |
| Share capital | 13 | **124,820** | 124,820 |
| Other reserves | 14 | **1,189,792** | 1,166,066 |
| Retained earnings | | **255,653** | 329,789 |
| | | **1,570,265** | 1,620,675 |
| Non-controlling interests | | **22,746** | 22,683 |
| **Total equity** | | **1,593,011** | 1,643,358 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payables | 15 | **225,249** | 198,157 |
| Other payables and accruals | | **396,048** | 448,092 |
| Borrowings | | **71,518** | 110,973 |
| **Total liabilities** | | **692,815** | 757,222 |
| **Total equity and liabilities** | | **2,285,826** | 2,400,580 |

The Notes on pages 25 to 38 are an integral part of these condensed financial information.

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

| | | Unaudited | | | | | |
|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company | | | | | |
| | Note | Share capital HK$'000 | Other reserves HK$'000 | Retained earnings HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| **Balance at 1 January 2012** | | 124,820 | 1,166,144 | 436,493 | 1,727,457 | 26,000 | 1,753,457 |
| **Comprehensive loss** | | | | | | | |
| Loss for the period | | – | – | (4,697) | (4,697) | (2,039) | (6,736) |
| **Other comprehensive loss** | | | | | | | |
| Currency translation differences | 14 | – | (6,867) | – | (6,867) | (92) | (6,959) |
| **Total comprehensive loss** | | – | (6,867) | (4,697) | (11,564) | (2,131) | (13,695) |
| **Transactions with owners in their capacity as owners** | | | | | | | |
| Share expired under share options scheme | 14 | – | (77) | 77 | – | – | – |
| **Balance at 30 June 2012** | | 124,820 | 1,159,200 | 431,873 | 1,715,893 | 23,869 | 1,739,762 |
| **Balance at 1 January 2013** | | **124,820** | **1,166,066** | **329,789** | **1,620,675** | **22,683** | **1,643,358** |
| **Comprehensive loss** | | | | | | | |
| Loss for the period | | **–** | **–** | **(74,136)** | **(74,136)** | **(965)** | **(75,101)** |
| **Other comprehensive income** | | | | | | | |
| Currency translation differences | 14 | **–** | **23,726** | **–** | **23,726** | **1,028** | **24,754** |
| **Total comprehensive loss** | | **–** | **23,726** | **(74,136)** | **(50,410)** | **63** | **(50,347)** |
| **Balance at 30 June 2013** | | **124,820** | **1,189,792** | **255,653** | **1,570,265** | **22,746** | **1,593,011** |

The Notes on pages 25 to 38 are an integral part of these condensed financial information.

# Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2013

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Net cash generated from/(used in): | | |
| – operating activities | **(73,067)** | (173,289) |
| – investing activities | **(7,893)** | 37,813 |
| – financing activities | **(39,455)** | – |
| Net decrease in cash and cash equivalents | **(120,415)** | (135,476) |
| Cash and cash equivalents at 1 January | **293,946** | 357,037 |
| Changes in exchange rate | **14,361** | (4,421) |
| Cash and cash equivalents at 30 June | **187,892** | 217,140 |
| Analysis of balances of cash and cash equivalents | | |
| Cash and cash equivalents | **187,892** | 217,140 |

The notes on pages 25 to 38 are an integral part of these consolidated financial statements.

# 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. Its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands, whilst the principal office is Room E and F, 16/F., China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The principal activity of the Company is investment holding and trading of wine products.

The shares of the Company were listed on the Main Board of the Stock Exchange ("Stock Exchange") on 26 January 2005. On 22 March 2013, trading of the shares of the Company were suspended on the Stock Exchange.

The condensed consolidated interim financial information has been approved for issue by the Board of Directors on 8 June 2018.

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 2013 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 2012, which have been prepared in accordance with HKFRSs.

The accounting treatments, 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 2012. Details of the comparative amounts for the restatements of the six months ended 30 June 2012 are set out in note 17. The Company's auditor issued disclaimer of opinion on the annual financial statements for the year ended 31 December 2012 in its report dated 8 December 2017.

The preparation of these condensed consolidated interim financial information has also taken into account of all relevant information of the consolidated financial statements for the year ended 31 December 2013. The accounting treatments and methods of computation used in the preparation are consistent with those used in the annual financial statements for the year ended 31 December 2013.

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.

# Notes to the Condensed Financial Information

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

### 2.2 Changes in accounting policy and disclosures

#### *(a) New and amended standards adopted by the Group*

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013:

- Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income
- HKAS 19, 'Employee benefits'
- Amendment to HKFRS 7, 'Financial instruments: Disclosures'
- Amendment to HKAS 19, 'Employee benefits'
- HKFRS 10, 'Consolidated financial statements'
- HKFRS 11, 'Joint arrangements'
- HKFRS 12, 'Disclosures of interests in other entities'
- HKFRS 13, 'Fair value measurement'
- Amendments to HKAS 36, 'Impairment of assets'

#### *(b) New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these condensed consolidated interim financial statements. None of these is expected to have a significant effect on the condensed consolidated interim financial statements of the Group, except the following set out below:

- HKFRS 9, 'Financial instruments'
- HK(IFRIC) 21, 'Levies'
- HKFRS 15, 'Revenue from contracts with customers'
- HKFRS 16, 'Leases'

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 and cash flow interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2012.

There have been no changes in any risk management policies.

### 3.2 Liquidity risk

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

### 3.3 Other risk factors and fair value estimation

All other aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended 31 December 2012.

## 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 2012.

# Notes to the Condensed Financial Information

## 5 SEGMENT INFORMATION

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

The chief operating decision maker considers the business from product perspective. Management separately considers the red wines and white wines. All other segments primarily relate to the sale of sparkling wines, brandy and icewine.

The key management team assesses the performance of the operating segments based on gross profit. All revenue of the Group are from external customers.

| | Unaudited | | | |
|---|---|---|---|---|
| | **Red wines** *HK$'000* | **White wines** *HK$'000* | **All other products** *HK$'000* | **Total group** *HK$'000* |
| **Six months ended 30 June 2013** | | | | |
| **Revenue** | **385,170** | **91,029** | **3,192** | **479,391** |
| **Gross profit** | **163,552** | **24,589** | **1,320** | **189,461** |
| **Unallocated items:** | | | | |
| Depreciation and amortisation | | | | **(28,502)** |
| **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) |

## 5 SEGMENT INFORMATION *(continued)*

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

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Gross profit for reportable segments | **189,461** | 246,700 |
| Other income, gains and losses – net | **(1,088)** | 3,854 |
| Distribution expenses | **(157,572)** | (183,241) |
| Administrative expenses | **(95,266)** | (67,706) |
| Operating loss | **(64,465)** | (393) |
| Finance income – net | **105** | 2,475 |
| Share of loss of an associate | **–** | (244) |
| (Loss)/profit before income tax | **(64,360)** | 1,838 |

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

The Group's customer base is diversified and no (2012: Nil) external customers with whom transactions have exceeded 10% of the Group's revenues. The majority of sales are within PRC.

## 6 OPERATING LOSS

Operating loss is stated after charging:

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Employee costs comprising: | | |
| – salaries, other allowance and benefits | **106,867** | 58,226 |
| – contributions to retirement benefits scheme | **7,957** | 6,560 |
| Total employee costs including directors' emoluments | **114,824** | 64,786 |
| Depreciation and amortisation | **28,502** | 27,923 |
| Loss on disposal of property, plant and equipment | **22** | 1,174 |
| Provision for impairment in inventories included in cost of sales | **–** | 6,158 |

## 7 INCOME TAX EXPENSE

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Current income tax: | | |
| – PRC income tax for the period | **10,741** | 4,441 |
| Deferred income tax: | | |
| – Reversal of temporary difference | **–** | 4,133 |
| Income tax expense | **10,741** | 8,574 |

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% (2012: 25%).

## 8 DIVIDENDS

No interim dividend was declared during the six months ended 30 June 2013 (2012: Nil).

## 9 LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to owners of the Company of HK$74,136,000 (2012: loss of HK$4,697,000) and the weighted average number of 1,248,200,000 shares in issue during the six months to 30 June 2013 (2012: 1,248,200,000 shares).

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the period) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted loss per share.

The average market price of ordinary shares did not exceed exercise price of share option scheme before 22 March 2013. On 22 March 2013, trading of the Company's shares were suspended, since then the fair value of ordinary shares did not exceed exercise price of the share option, thus it did not have any dilutive effect. (2012: no dilutive effect).

## 10 CAPITAL EXPENDITURE

During the six months ended 30 June 2013, the Group acquired plant and equipment amounting to approximately HK$7.9 million (2012: HK$6.0 million).

## 11 INVESTMENT IN AN ASSOCIATE

Set out below is the associate of the Group as at 30 June 2013. The associate as listed below has share capital consisting solely of ordinary shares, which is held directly by the Group; the country of incorporation or registration is also their principal place of business.

Nature of investment in an associate as at 30 June 2013 and 31 December 2012:

| Name of entity | Place of business/ country of incorporation | % of ownership interest | Nature of the relationship | Measurement method |
|---|---|---|---|---|
| Dynasty Yuma Vineyard (Ning Xia) Co. Ltd. ("Yuma") | PRC/PRC | 25 | Associate | Equity pick up |

As at 30 June 2013, the Group held a 25% (2012: 25%) equity interest of Yuma, an unlisted company established and operating in the PRC as manufacturer and distributor of unprocessed wines with a paid up capital of RMB40 million.

There are no contingent liabilities relating to the Group's interest in the associate. The carrying amount of the investment has been reduced to zero since 2012.

## 12 TRADE RECEIVABLES

The Group grants a credit period of 90 to 180 days to its customers. The aging analysis of the trade receivables is as follows:

| | **Unaudited As at 30 June 2013** *HK$'000* | Audited As at 31 December 2012 *HK$'000* |
|---|---|---|
| Up to 3 months | **96,365** | 129,266 |
| 3 to 6 months | **31,528** | 12,186 |
| 6 months to 1 year | **17,223** | 23,945 |
| 1 year to 2 years | **13,319** | 11,723 |
| Over 2 years | **9,499** | – |
| | **167,934** | 177,120 |
| Less: Provision for impairment | **(10,724)** | (10,539) |
| | **157,210** | 166,581 |
| Notes receivables | **153,806** | 36,005 |
| Trade receivables, net | **311,016** | 202,586 |

The carrying amounts of the Group's trade receivables were principally denominated in Renminbi. The fair value of trade receivables approximates their carrying values.

## 13 SHARE CAPITAL

Ordinary shares, issued and fully paid:

| | Number of shares *(thousands)* | Share capital *HK$'000* |
|---|---|---|
| As at 31 December 2012 and 30 June 2013 | 1,248,200 | 124,820 |

### Share option scheme

Pursuant to the resolutions of the shareholders 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.

## 13 SHARE CAPITAL *(continued)*

### Share option scheme *(continued)*

Particulars and movements of the options are as follows:

| Date of grant | Exercisable date | Expiry date | Exercise price<br>*HK$* | Outstanding as at 1 January 2013 and 30 June 2013 |
|---|---|---|---|---|
| *Options granted to directors, other than the independent non-executive directors* | | | | |
| 27 January 2005 | 17 August 2005 | 26 January 2015 | 3 | 2,500,000 |
| 1 November 2006 | 22 May 2007 | 31 October 2016 | 3 | 1,200,000 |
| | | | | 3,700,000 |
| *Options granted to employees* | | | | |
| 27 January 2005 | 17 August 2005 | 26 January 2015 | 3 | 6,200,000 |
| 1 November 2006 | 22 May 2007 | 31 October 2016 | 3 | 200,000 |
| | | | | 6,400,000 |
| Total | | | | 10,100,000 |

## 14 OTHER RESERVES

| | Unaudited | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share premium HK$'000 (Note i) | Merger reserve HK$'000 (Note ii) | Employee share-based compensation reserve HK$'000 | Reserve fund HK$'000 (Note iii) | Enterprise expansion reserve HK$'000 (Note iii) | Exchange reserve HK$'000 | Total HK$'000 |
| As at 1 January 2012 | 464,464 | 74,519 | 3,944 | 158,928 | 94,434 | 369,855 | 1,166,144 |
| Expiry of share options | – | – | (77) | – | – | – | (77) |
| Currency translation differences | – | – | – | – | – | (6,867) | (6,867) |
| As at 30 June 2012 | 464,464 | 74,519 | 3,867 | 158,928 | 94,434 | 362,988 | 1,159,200 |
| As at 1 January 2013 | **464,464** | **74,519** | **3,866** | **158,928** | **94,434** | **369,855** | **1,166,066** |
| Currency translation differences | **-** | **-** | **-** | **-** | **-** | **23,726** | **23,726** |
| As at 30 June 2013 | **464,464** | **74,519** | **3,866** | **158,928** | **94,434** | **393,581** | **1,189,792** |

*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 Group reorganisation in preparation for listing its shares on the Main Board of The Stock Exchange of Hong Kong Limited.

### (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. For the six months ended 30 June 2013, there was no net profit for appropriation.

## 15 TRADE PAYABLES

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

| | **Unaudited 30 June 2013 *HK$'000*** | Audited 31 December 2012 *HK$'000* |
|---|---|---|
| 0 – 30 days | **86,284** | 77,358 |
| 31 – 90 days | **56,045** | 42,963 |
| Over 90 days | **82,920** | 77,836 |
| | **225,249** | 198,157 |

## 16 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** | |
|---|---|---|
| | **2013 *HK$'000*** | 2012 *HK$'000* |
| **(a) Key management compensation:** | | |
| Key management includes directors (executive and non-executive), the Company Secretary and senior management. The compensation paid or payable to key management for employee services is shown below: | | |
| – Salaries and other short-term employee benefits | **4,143** | 4,698 |
| – Other long-term benefits | **436** | 342 |
| Total | **4,579** | 5,040 |
| **(b) Purchase of unprocessed wine from an associate** | **–** | 310 |
| **(c) Purchases of goods:** | | |
| – Subsidiary of Tsinlien Group Company Limited ("Tsinlien"), the ultimate holding company | **556** | – |
| Goods are bought on normal commercial terms and conditions | | |

## 16 RELATED PARTY TRANSACTIONS *(continued)*

### (d) Period-end/year-end balances arising from purchases of goods

| | **Unaudited As at 30 June 2013 *HK$'000*** | Audited As at 31 December 2012 *HK$'000* |
|---|---|---|
| Payables to related parties | | |
| – Subsidiary of Tsinlien | **1,243** | – |

The payables to related parties arise mainly from purchase transactions. The payables bear no interest.

## 17 COMPARATIVE FIGURES

During the six months ended 30 June 2013, for enhancing the relevance of the presentation of the condensed financial information, reclassifications have been made to certain comparative figures presented in the condensed financial information in respect of the prior period to achieve comparability with the current period's presentation. As a result, the following line items regarding comparative figures have been amended and adjusted, together with the related notes to conform to the current period's presentation:

| | *Note* | **As previously reported** *HK$'000* | **As restated** *HK$'000* |
|---|---|---|---|
| Unaudited condensed consolidated income statement | | | |
| Other income, gains and losses – net | *a* | 6,329 | 3,854 |
| Finance income | *a* | – | 2,475 |

*Note:*

**a) INTEREST INCOME WERE RECLASSIFIED FROM "OTHER INCOME, GAINS AND LOSSES" TO "FINANCE INCOME"**

In addition, based on the findings of the investigation as setting out in Note 2.2 of the audited consolidated financial statements for the year ended 31 December 2012 and current available information, the issues mentioned in the auditor's opinion to the consolidated financial statements for the year ended 31 December 2012 have impacts to the unaudited condensed financial statements of the Group for the six months ended 30 June 2012. The impacts/aggregated impacts to the unaudited condensed financial statements for the six months ended 30 June 2012 have been fully disclosed as the effects of the prior year adjustments ("PYA") in the restated consolidated income statement for the year ended 31 December 2011 and the restated consolidated balance sheet at 1 January 2011 respectively as setting out in note 2.2 of the audited consolidated financial statements for the year ended 31 December 2012. Due to the missing supporting documents and records, the Group was unable to quantify the impacts of the issues to the unaudited condensed financial statements for the six months ended 30 June 2012. Thus, it is not practicable for the Company to make PYA to the condensed consolidated financial statements for the six months ended 30 June 2012 separately. Under these circumstances the Company considered that the abovementioned accounting treatments represented a pragmatic way to record the impacts of the issues to the condensed consolidated financial statements for the six months ended 30 June 2012.