Dynasty Fine Wines Group Limited
王朝酒業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 828)

ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

The Board of Directors (the "Directors") of Dynasty Fine Wines Group Limited (the "Company") announces herewith the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010. The independent auditor of the Company, PricewaterhouseCoopers, has reviewed the unaudited interim results for the six months ended 30 June 2010 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. These results have also been reviewed by the Audit Committee. All Audit Committee members, including the chairman of the committee are independent non-executive directors.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
		2010	2009
	Note	***HK$'000***	*HK$'000*
Revenue	*6*	**784,848**	687,400
Cost of sales		**(393,122)**	(345,044)
Gross profit		**391,726**	342,356
Other income	*6*	**17,717**	15,565
Distribution costs		**(202,633)**	(185,696)
Administrative expenses		**(51,725)**	(40,586)
Operating profit	*7*	**155,085**	131,639
Share of loss of an associate		**(529)**	(250)
Profit before income tax		**154,556**	131,389
Income tax expense	*8*	**(41,020)**	(33,931)
Profit for the period		**113,536**	97,458
Attributable to:			
Equity holders of the Company		**114,110**	96,796
Non-controlling interests		**(574)**	662
		113,536	97,458
		HK cents	*HK cents*
Earnings per share			
– Basic and diluted earnings per share	*10*	**9.2**	7.8
		HK$'000	*HK$'000*
Dividends	*9*	**41,085**	34,860

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Profit for the period	**113,536**	97,458
Other comprehensive income		
Currency translation differences	**17,821**	79
Total comprehensive income for the period	**131,357**	97,537
Total comprehensive income attributable to:		
Equity holders of the Company	**131,646**	96,875
Non-controlling interests	**(289)**	662
	131,357	97,537

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 June 2010	31 December 2009
		Unaudited	Audited
	Note	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**522,262**	499,140
Land use rights		**62,485**	62,570
Goodwill		**9,421**	9,421
Investment in an associate		**12,291**	12,801
Deferred income tax assets		**9,404**	26,090
		615,863	610,022
Current assets			
Trade receivables	*11*	**303,758**	227,819
Other receivables, deposits and prepayments		**32,007**	65,039
Inventories		**387,412**	393,412
Short-term deposits with maturity over three months		**193,807**	254,664
Restricted cash	*12*	**25,642**	11,759
Cash and cash equivalents		**746,787**	778,277
		1,689,413	1,730,970
Total assets		**2,305,276**	2,340,992
EQUITY			
Capital and reserves attributable to the equity holders of the Company:			
Share capital		**124,500**	124,500
Other reserves		**1,113,433**	1,134,459
Retained earnings		**683,465**	569,388
		1,921,398	1,828,347
Non-controlling interests in equity		**27,294**	27,781
Total equity		**1,948,692**	1,856,128

	Note	As at 30 June 2010 Unaudited *HK$'000*	As at 31 December 2009 Audited *HK$'000*
LIABILITIES			
Current liabilities			
Trade payables	*13*	**86,964**	96,977
Other payables and accruals		**243,259**	344,462
Financial liabilities at fair value through profit or loss	*14*	**11,881**	11,759
Current income tax liabilities		**14,282**	31,666
Dividend payable to a minority shareholder		**198**	–
		356,584	484,864
Total liabilities		**356,584**	484,864
Total equity and liabilities		**2,305,276**	2,340,992
Net current assets		**1,332,829**	1,246,106
Total assets less current liabilities		**1,948,692**	1,856,128

Notes:

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 hereafter 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 26 August 2010.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial information for the six months ended 30 June 2010 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 2009, which have been prepared in accordance with HKFRSs.

The accounting policies 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 2009.

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

HKAS 24 (revised)	Related party disclosures
Amendment to HKAS 32	Classification of rights issues
Amendment to HK(IFRIC) Int-14	Prepayments of a minimum funding requirement
HK(IFRIC)-Int 19	Extinguishing financial liabilities with equity instruments

3 FINANCIAL RISK MANAGEMENT

All 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 2009.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements used are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal to the related actual results.

The estimates and assumptions applied in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2009.

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.

	Unaudited			
	Red wines *HK$'000*	**White wines** *HK$'000*	**All other products** *HK$'000*	**Total group** *HK$'000*
Six months ended 30 June 2010				
Revenue	**660,539**	**121,991**	**2,318**	**784,848**
Gross profit	**339,364**	**51,477**	**885**	**391,726**
Unallocated items:				
Depreciation and amortization	**–**	**–**	**–**	**(22,552)**
Interest income	**–**	**–**	**–**	**5,451**
Share of loss of an associate	**–**	**–**	**–**	**(529)**
Income tax expense	**–**	**–**	**–**	**(41,020)**
Six months ended 30 June 2009				
Revenue	569,178	115,745	2,477	687,400
Gross profit	297,114	44,586	656	342,356
Unallocated items:				
Depreciation and amortization	–	–	–	(21,681)
Interest income	–	–	–	6,121
Share of loss of an associate	–	–	–	(250)
Income tax expense	–	–	–	(33,931)

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	
	2010	2009
	HK$'000	*HK$'000*
Gross profit for reportable segments	**391,726**	342,356
Other income	**17,717**	15,565
Distribution costs	**(202,633)**	(185,696)
Administrative expenses	**(51,725)**	(40,586)
Operating profit	**155,085**	131,639
Share of loss of an associate	**(529)**	(250)
Profit before income tax	**154,556**	131,389

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	
	2010	2009
	HK$'000	*HK$'000*
Revenue		
Manufacture and sale of wine products	**784,848**	687,400
Other income		
Interest income	**5,451**	6,121
Government grants	**12,266**	9,444
	17,717	15,565
Total revenue and other income	**802,565**	702,965

7 OPERATING PROFIT

Operating profit is stated after charging:

	Unaudited Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Employee costs including directors' emoluments	**49,113**	36,562
Depreciation	**21,825**	20,879
Amortisation	**727**	802
Operating lease rentals in respect of:		
– transformation station	**1,231**	1,224
– office premises	**1,131**	1,131

8 INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Current income tax:		
– PRC income tax for the period	**23,192**	34,770
– Under/(over)-provision in previous year	**1,142**	(839)
	24,334	33,931
Deferred income tax:		
– Reversal of temporary difference	**16,686**	–
	41,020	33,931

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% (2009: 25%).

9 DIVIDENDS

	Unaudited Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
2009 final paid, of HK3.1 cents (2008 final paid, of HK1.9 cents) per ordinary share	**38,595**	23,655
2010 interim declared of HK3.3 cents (2009: HK2.8 cents) per ordinary share *(Note)*	**41,085**	34,860
	79,680	58,515

Note:

On 26 August 2010, the board of directors declared an interim dividend of HK3.3 cents per ordinary share. This declared dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of share premium for the year ending 31 December 2010.

10 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK$114,110,000 (2009: HK$96,796,000) and the weighted average number of 1,245,000,000 shares in issue during the six months to 30 June 2010 (2009: As for 2010).

There is no dilutive potential share for the period ended 30 June 2010 (2009: As for 2010).

11 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 2010	Audited 31 December 2009
	HK$'000	*HK$'000*
Below 30 days	**200,860**	154,416
30 to 90 days	**39,817**	59,228
91 to 180 days	**55,656**	14,086
Over 180 days	**7,425**	89
	303,758	227,819
Less: Provision for impairment	**–**	–
	303,758	227,819

The carrying amounts of the Group's trade receivables were principally denominated in Renminbi. The balance included bill receivables amounting to about HK$120 million (2009: HK$98 million).

12 RESTRICTED CASH

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
Restricted cash related to contracts *(Note 14)*	**11,881**	11,759
Restricted cash related to letters of credit *(Note)*	**13,761**	–
	25,642	11,759

Note:

As at 30 June 2010, a deposit amounted to Rmb 12 million has been pledged to a bank for obtaining letters of credit and is treated as restricted cash.

13 TRADE PAYABLES

The aging analysis of the trade payables is as follows:

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
Below 30 days	**77,837**	88,888
30 to 90 days	**5,058**	–
91 to 180 days	**–**	4,197
Over 180 days	**4,069**	3,892
	86,964	96,977

14 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

On 9 April 2009, Sino-French Joint Venture Dynasty Winery Ltd ("Dynasty Tianjin"), a wholly owned subsidiary of the Company, entered into two contracts whereby, Dynasty Tianjin transferred its income receiving right attached to some specially made wine aged in oak barrels to a state owned trust company ("Trust Company") for a consideration of about Rmb 42 million (maturity of 182 days) and Rmb 10 million (maturity of 547 days), respectively. Upon maturity of the contracts, the Trust Company on behalf of its underlying customers can select either cash settlement with fixed rate of interest or physical delivery of the wine at a predetermined price. As at 30 June 2010, one of the above contracts had matured and was settled in cash, and the remaining contract has been accounted for as financial liabilities at fair value through profit or loss amounting to Rmb 10 million.

As part of the arrangement above, Dynasty Tianjin is required to pledge the consideration received to the Trust Company as security to the contracts. The amounts are restricted until the maturity of the contracts. As at 30 June 2010, the related restricted cash amounted to Rmb 10 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group's revenue was HK$785 million (2009 – HK$687 million) for the six months ended 30 June 2010, representing an increase of 14% as compared with the same period last year and profit attributable to equity holders of the Company amounted to HK$114 million (2009 – HK$97 million), representing an increase of 18%.

For the six months ended 30 June 2010, earnings per share of the Company ("Share") amounted to HK9.2 cents (2009 – HK7.8 cents) per Share based on the weighted average number of 1,245,000,000 Shares (2009 –1,245,000,000 Shares) in issue during the period. There is no potential dilutive share for the six months ended 30 June 2010.

The earnings growth in the first half of 2010 was primarily attributable to the increase in operating profit from the growth in sales volume. In view of the Group's solid financial position and strong equity base, the Directors have resolved to recommend payment of an interim dividend of HK3.3 cents (2009 – HK2.8 cents) per Share.

Financial review

Revenue

Revenue of the Group represents proceeds from sale of wine products. It increased by 14% to approximately HK$785 million in the first half of 2010 from approximately HK$687 million for the corresponding period in 2009. The rise in revenue was primarily attributable to an encouraging growth in sales volume.

The 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$25.1 per bottle (750ml) for the corresponding period in 2009, as a result of the higher trade discounts offered to certain distributors for expansion of our distribution network beyond the Huadong region, especially in the second and third tier cities within the PRC. 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	
	2010	2009
	%	%
Cost of raw materials		
– Grapes and grape juice	**40**	38
– Yeast and additives	**3**	3
– Packaging materials	**28**	26
– Others	**2**	2
Total cost of raw materials	**73**	69
Manufacturing overheads	**14**	13
Consumption tax	**13**	18
Total cost of sales	**100**	100

The principal raw materials required by the Group are grapes, grape juice, yeast and additives as well as packaging materials including bottles, bottle caps, labels, corks and packing boxes. The cost of grapes and grape juice was the key component accounting for approximately 40% of the Group's total cost of sales, an increase of 2% from approximately 38% in the corresponding period in 2009. This rise was caused by a slight rise in average cost of grapes and grape juice and a change in the cost of sales structure due to the decrease in the Group's effective consumption tax rate. The total cost of packaging materials to revenue remained relatively stable during the period under review as compared with the corresponding period in 2009.

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. Manufacturing overheads as a percentage of revenue remained relatively stable during the period under review as compared with the corresponding period in 2009.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross invoiced sales. The Group's overall gross profit margin was 50% for the six months ended 30 June 2010 and remained unchanged compared with the corresponding period in 2009. This is because the slight decrease in average ex-winery sales price and the higher purchase cost of grape juice compared to the first half year of 2009 was fully offset by the decrease in the Group's effective consumption tax rate. The gross margin of red wine products and white wine products in the first half year of 2010 were 51% and 42% respectively (2009 – 52% and 39% respectively). The higher sales prices and lower cost of raw materials of red wine products explained the higher gross margin of the products.

Other income

Other income for the six months ended 30 June 2010 increased by 13% to HK$17.7 million (2009 – HK$15.6 million), mainly attributable to:

(1) a decrease in interest income from lower interest rates for bank deposits; which was offset by

(2) an increase in government grant to HK$12.3 million (2009 – HK$9.4 million) for subsidiaries in the PRC to encourage technological development and improvement in winemaking, and a greater contribution to economic development.

Distribution costs

Distribution costs mainly 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. Distribution costs accounted for approximately 26% (2009 – 27%) of the Group's revenue for the six months ended 30 June 2010. In particular, the percentage of advertising and market promotion expenses of the Group's revenue stood at approximately 18% (2009 – 18%). This percentage remained stable, reflecting the effective management in monitoring and controlling sales and marketing expenditures. During the period under review, the Group continued to promote and market the brand and products through a range of joint promotion with local distributors, event sponsorships and exhibitions.

Administrative expenses

Administrative expenses primarily comprise salaries and related personnel expenses of the administrative, finance and human resources departments, net exchange loss, depreciation and amortisation expense and other incidental administrative expenses.

During the period under review, administrative expenses as a percentage of the Group's revenue remained stable at 7% (2009 – 6%) compared with the corresponding period last year.

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 had been unified at 25% effective from 1 January 2008. During the period under review, the effective tax rate of the Group slightly increased to approximately 27% (2009 – 26%) mainly because of the under-provision of taxation in prior year.

Cash flow

In the first half year of 2010, financing activities were the Group's main source of cash outflow. Cash was mainly used to pay 2009 final dividends to shareholders.

The increase in cash flow from operating activities from outflow of HK$21.5 million in the first half year of 2009 to outflow of HK$6.1 million in the first half year of 2010 was mainly attributable to the increase in gross profit.

Net cash inflow in investing activities amounted to approximately HK$5.4 million (2009 – outflow of HK$397.8 million, net cash used), primarily related to reduced placement of fixed deposits with maturity over 3 months and offset by acquisition of plant and equipment pursuant to our expansion plan during the period under review as compared with corresponding period in 2009.

Net cash outflow in financing activities comprised primarily payment of dividends to shareholders of approximately HK$38.6 million (2009 – HK$23.7 million).

Financial management and treasury policy

As at 30 June 2010, 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 progressively 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 operation currently does not generate any significant foreign currency exposure which will affect the Group's operation, we will continue to closely monitor the 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.

Business review

Sales analysis

A) Existing sales channels

During the first half of 2010, sales volume of the Group grew compared to the same period of 2009. This increase was attributable to the expansion of the distribution network and the continued sales and marketing effort in promoting the Dynasty brand and its products. The total number of bottles of wine sold increased from approximately

27.3 million in the first half year of 2009 to approximately 32.1 million in the first half year of 2010. Sales of red wines continued to be the Group's main revenue contributor accounting for approximately 84% of the total revenue of the Group for the period (2009 – 83%). Dynasty Dry Red, the prototype product for the mass market, remained as its best selling label accounting for approximately 36% of the Group's revenue (2009 – 27%).

In order to consolidate the Group's position in the Huadong region (i e, the eastern region of the PRC) and win market share in other regions, the Group continued to expand and strengthen our nationwide and extensive distribution network, which supported sales of products of the Group throughout all provinces and autonomous regions and the four directly-administered municipalities under the Central Government of the PRC during the period under review. The Huadong region including Shanghai city, Zhejiang and Jiangsu provinces remained as the Group's strongest markets. By extending the sales network to other regional markets such as in the southern region including Guangdong, Fujian, Guangxi and Hainan provinces, sales in those markets also grew substantially. In addition, the Group reported export sales accounting for 0.1% (2009 – 0.1%) of its total revenue during the period.

The Group offers a wide spectrum of more than 100 wine products under the "Dynasty" brand to meet different demands of consumer mainly in the medium to high end segments in the PRC wine market. With 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 Dynasty Merlot Dry Red Wine Reserve, Dynasty Premier Dry Red Wine – Aged in Oak Barrels and Dynasty Icewine Reserve series recorded encouraging growth during the period under review. Moreover, the Group also sold foreign brand wines imported from Europe in the PRC wine market through the Group's existing distribution network to bring some classic "old world" varietals to cater for a niche market with customers preferring the taste of foreign premium wines only. Contributions of these products to our revenue remained relatively insignificant during the first half year of 2010. We believe that with increasing disposable income of consumers aspiring to status as well as the trappings of upper class enjoyment, the sales of premium Dynasty and imported wines will grow and become major growth drivers for our future development. To increase its market share and sustain its growth, the Group is determined to continue to actively promote these wines to the high end market.

B) New sales channels

i) Dynasty Club and retail shop

In order to promote the awareness and recognition of the "Dynasty" brand, Dynasty opened its first "Dynasty Club" in Shanghai in December 2009, targeting the high-end market and nurturing a group of loyal and sophisticated customers. Located in a 3-storey western building on Heng Shan Road, Dynasty Club offers a stylish wine tasting venue as well as some spacious wine storage area to the top-tier customers in Shanghai. To cater for different needs of our customers, Dynasty's first retail shop was also opened in the Huangpu District of Shanghai, selling a variety of Dynasty wines and our imported wines to customers directly with a higher gross profit margin. The contribution from the sales at the Dynasty Club and retail shop were relatively insignificant to our revenue during the first half year of 2010. However we believe that through these facilities we will be able to bring the grape wine culture to more citizens in Shanghai and lead the wine consumption trend in the city, and at the same time bring greater promotional attention to the brand and consolidate our leading presence in the prosperous eastern region of the PRC. In addition, once this business model has proven successful, the Group will locate other suitable venues to open similar establishments and the number of them is expected to increase steadily.

ii) Online Sales

The Group has developed a e-commerce business in the first quarter of 2010 by setting up an efficient online platform – www.i9wang.com (王朝愛酒網) to further expand our sales channels and develop a new customer base. Customers can place orders via the internet at this website for Dynasty wines and our imported wines anywhere and anytime. Since the operating cost for the website is relatively low, we enjoy a higher gross profit margin on e-commerce business. Although the online sales contribution was insignificant during the period under review, we are optimistic of the outlook of the business because research suggests the online trading business in China will grow steadily in the coming years and the country has the world's largest number of internet users. The Group considers that the online platform not only serves as a business-to-customer trading platform between the winery and consumers, but also an additional marketing and promotion channel for the Group.

Supplies of grapes or grape juice

To produce consistent high quality wines, it is crucial for the Group to ensure a 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. To ensure we have reliable and solid supplies of quality grapes and grape juices to meet the needs of our growing business and fill our expanding production capacity, the Group continues to actively work with vignerons to enlarge their existing vineyards in order to enjoy better economies of scale and equip their vineyards with state-of-the-art techniques for assuring quality. The Group has also kept identifying new suppliers who satisfy quality requirements and thorough tests are conducted on their grape juices before orders are placed. These procedures have ensured we procure quality grape and grape juice supplies and also lowers the risk of bad harvests interrupting production. The Group has also been looking into importing grape juice from overseas applying the same stringent quality requirements it has on suppliers in the PRC.

Production capacity

As its existing production facilities have almost reached full capacity, the Group has begun to build new production and research and development facilities in its Tianjin winery. The new facilities are scheduled to be in operation during the last quarter of 2010. By then its annual production capacity will be increased from 50,000 tonnes (equivalent to approximately 66.7 million bottles) to 70,000 tonnes (equivalent to approximately 93.3 million bottles) enabling prompt response to market demand and sustained expansion in the long run.

Outlook

Looking ahead, the opening of two more Dynasty retail shops and "Chateau Dynasty" in Tianjin during early August and in mid-October respectively will further strengthen the image and awareness of the "Dynasty" brand, increasing its popularity while adding impetus to our sales in the wine market. In addition, our latest premium Dynasty Merlot series and ultra-premium Chateau Dynasty wine, which are designated to celebrate Dynasty's 30th Anniversary, will be launched in the second half of the year in order to further consolidate our leading position in the premium category in the market and to boost sales.

Through various growth strategies, such as upgrading the product mix, expansion of sales channels and networks, evaluating appropriate acquisition opportunities and distributorships for foreign brand wines, we believe that the Group will sustain long-term growth and deliver greater value to shareholders and consumers.

Employees and remuneration policies

The Group employed a workforce of 449 (including Directors) in Hong Kong and the PRC. The total salaries and related costs (including Directors' fees) incurred for the six months ended 30 June 2010 amounted to approximately HK$49 million (2009 – HK$37 million). The Group offers competitive remuneration packages commensurate with industry level and provides various fringe benefits, including trainings, medical and insurance coverage, and retirement benefits to all employees in Hong Kong and the PRC. Employees are encouraged to attend external professional and technical seminars, and other training programmes and courses to improve their business acumen, technical knowledge, professional skills and market awareness. The Group reviews its human resources and remuneration policies on a regular basis with reference to local legislations, comparable level of the market, industry practice and achievements of the Group's targets and performance of individual employee. The objective of policies is to encourage employees to optimize business performance by providing them with financial incentives.

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 to encourage contribution to the business success and growth of the Group. As at 30 June 2010, 14,400,000 share options were granted and remained outstanding under the scheme.

Liquidity and financial resources

As at 30 June 2010, the Group's cash and cash equivalents, and fixed deposits amounted to HK$941 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 remained financially sound with strong liquidity and had no debts, with total equity before non-controlling interests of the Group amounting to approximately HK$1,921 million as at 30 June 2010 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 2010 was nil (2009 – nil).

Capital structure

The Group had no borrowing and was in a significant net cash and liquid position as at 30 June 2010, reflecting its sound capital structure. The net proceeds raised from the placing and public offer in 2005 have strengthened the Group's capital structure, giving it sufficient cash to support operating and capital expenditure requirements in the foreseeable future.

As at 30 June 2010, the market capitalisation of the Company was approximately HK$3,984 million.

Capital commitments, contingencies and charges on assets

As at 30 June 2010, the Group made capital expenditure commitments, including approximately HK$28.3 million that were authorised but not contracted for and approximately HK$35.2 million contracted but not provided for in the financial statements. These commitments were required mainly to support the expansion of the Group's production capacity. The funding of these capital commitments will be paid out of the net proceeds from placing and public offer as stated in the listing prospectus dated 17 January 2005.

As at 30 June 2010, the Group did not have any significant contingent liabilities and none of the Group's assets was pledged except for restricted cash amounting to HK$12 million and HK$14 million pledged as security for the contracts and obtaining letters of credit respectively as described in Note 12 to the condensed financial information.

Material acquisitions and disposals of subsidiaries and associated companies

The Group did not make any other material acquisitions or disposal of subsidiaries and associated companies during the six months ended 30 June 2010.

Interim Dividend

The Directors are pleased to declare an interim dividend of HK3.3 cents per Share. The interim dividend will be paid on 14 October 2010 to shareholders whose names appear on the Register of Members on 30 September 2010.

Closure of Register of Members

The Register of Members of the Company will be closed from Tuesday, 28 September 2010 to Thursday, 30 September 2010, both days inclusive, during which period no transfer of shares will be effected. To become entitled for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Monday, 27 September 2010.

Purchase, Sale or Redemption of Shares of the Company

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

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.

Throughout the financial period under review, basically as previously mentioned in our 2009 annual report, 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 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 of the Listing Rules. On enquiries made, all Directors had confirmed that they had complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2010.

Publication of Interim Results and Interim Report on the Website of the Company and of the Stock Exchange

The interim results announcement is published on the websites of the Company (www.dynasty-wines.com) and the Stock Exchange. The interim report containing all the information required by the Listing Rules will be dispatched to shareholders and will be available at the above websites in September 2010.

By order of the Board
Mr. Bai Zhisheng
Chairman

Hong Kong, 26 August 2010

As at the date of this announcement, the Board comprises 3 executive directors, namely, Mr. Bai Zhisheng, Mr. Gao Feng and Mr. Huang Yaqiang, 6 non-executive directors, namely, Mr. Heriard-Dubreuil Francois, Mr. Zheng Daoquan, Mr. Jean-Marie Laborde, Mr. Zhang Wenlin, Mr. Wong Ching Chung and Mr. Robert Luc, and 3 independent non-executive directors, namely, Mr. Lai Ming, Joseph, Dr. Hui Ho Ming, Herbert and Mr. Chau Ka Wah, Arthur.