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

2019 Annual Report

Contents

Corporate Profile

Dynasty is a premier winemaker with a long historical presence in the PRC wine market. 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.

On 26 January 2005, Dynasty was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with the stock code 828. Having strong support from our major shareholders – Tsinlien Group Company Limited 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

	2019 *HK$'000*	2018 *HK$'000*	Changes
Revenue from contracts with customers	**302,333**	344,933	-12%
Gross Profit	**78,049**	93,056	-16%
Loss attributable to owners of the Company	**(72,943)**	(78,668)	-7%

	2019	2018	Changes in percentage point
Gross profit margin	**26%**	27%	-1%

Corporate Information

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 Islands
Conyers Dill & Pearman, Cayman

The People's Republic of China
Tianjin Shuze Lawyer

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

Hong Kong Office
Unit 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

PRINCIPAL BANKERS

China Everbright Bank
Industrial and Commercial Bank of China
China Citic Bank
China Merchants Bank

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

COMPANY WEBSITE

http://www.dynasty-wines.com

ONLINE SALES WEBSITE

http://mall.jd.com/index-1000089230.html
(王朝葡萄酒旗艦店－京東) (P.R.C.)
http://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 31 December 2019 1,248,200,000 shares
Board lot	2,000 shares

STOCK CODE

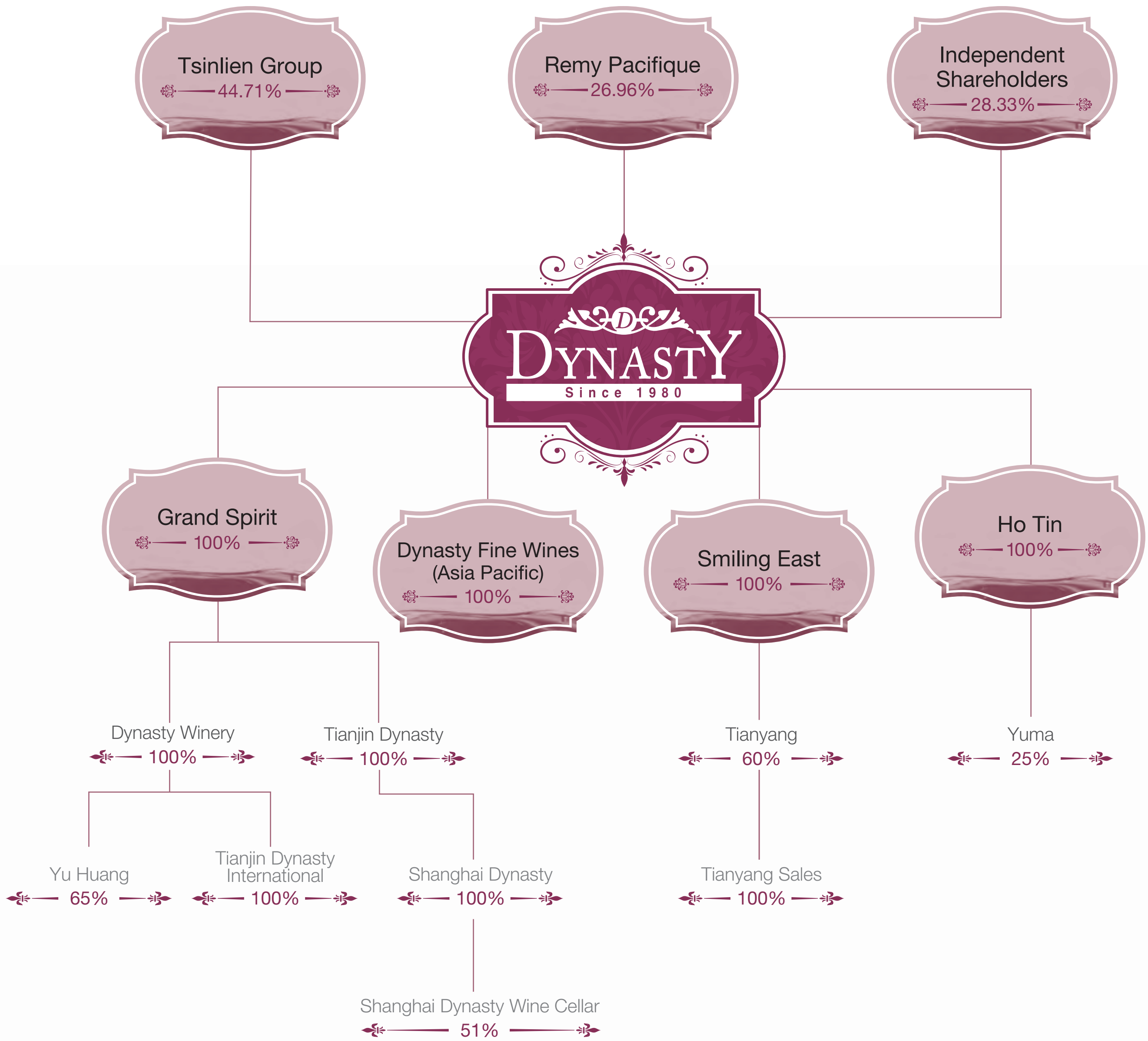
The Stock Exchange of Hong Kong Limited	00828
Reuters	0828.HK
Bloomberg	828:HK

FINANCIAL YEAR-END DATE

31 December

Corporate Structure

As at 31 December 2019



Management Discussion and Analysis

OVERVIEW

The revenue of Dynasty Fine Wines Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2019 decreased by 12% to HK$302.3 million (2018 – HK$344.9 million) and the Group's loss attributable to owners of the Company was HK$72.9 million (2018 – HK$78.7 million), representing a decrease of 7%.

Loss per share of the Company ("**Share**") was HK5.84 cents per Share (2018 – HK6.30 cents per Share) based on the weighted average number of 1,248 million Shares (2018 – 1,248 million Shares) in issue during the year. There was no potential dilutive Share for the year ended 31 December 2019.

The loss attributable to owners of the Company in 2019 was primarily attributable to the drop in revenue and gross profit. Such decrease in loss was mainly contributed by the increase in costs and expenses savings such as employee benefit expenses and storage expenses.

BUSINESS REVIEW

Sales analysis

A) Distributorship

Though the decrease in revenue in the year partly attributed to the slowdown of nationwide economic growth, the Group continued implementing a reform on its sales and distribution model intending to improve the operational efficiency of the Group. Reform measures included, among other things, (i) co-operating with distributors to strengthen the control on retail price; (ii) enhancement in the effective management in monitoring and controlling sales and marketing expenses; and (iii) streamlining the existing multi-layered sales and distribution system so as to strengthen the direct control over the sales channels, thereby enhancing efficiency and effectiveness. The reform remained in progress throughout the year.

The total number of bottles of wine sold remained stable at approximately 13.6 million in 2019. Sales of red wines continued to be the Group's primary revenue contributor accounted for approximately 73% of the Group's revenue for the year (2018 – 76%).

The Group produced a wide range of more than 100 wine products under the "Dynasty" brand to meet the demands and preferences of different consumer groups mainly in the mass-market segments in the People's Republic of China (the "**PRC**") wine market. During the year, in addition to the new high-end product "Dynasty Air Dry Red Wine" series released in April, the Group debuted its mid-range product Dynasty "Classic" wine series in July. These new series are currently positioned as table wines to be served at standard banquets of Chinese people. 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.

Moreover, the Group also sold foreign branded wines mainly imported from France, Italy, Germany, Austria, Australia, New Zealand, Chile and Spain in the PRC wine market through the Group's existing distribution network to introduce some classic "old world" and "new world" varietals to cater for a market niche preferring the taste of foreign premium wines. The Group currently sells about 110 imported products under approximately 20 brands. The Group believes that 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) Online sales

Online sales have become increasingly important in the PRC. The Group kept and strengthened cooperation with distributors to operate online stores on the e-commerce platforms, Tmall (天貓商城) and JD.com (京東商城), and also develop new online flagship store on Pinduoduo (拼多多) platform and new distribution line on Tmall Mart (天貓超市) to further expand its sales channels and build up a new customer base during the year. The Group strategically plans and continues putting resources for future improvement of the online sales channels and optimization of online stores interface so as to capture the change of customer consumption behavior in the PRC. During the year, the Group also offered series of new products through launching exclusive online products on an e-commerce platform and strengthened the price management of online sales of old products. Although the online sales contribution was not material to the Group during the year, the Group is optimistic about the prospects of the business. The Group believes that the online platform not only serves as a business-to-customer trading platform between the Group 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.

Sales and marketing reform

During the year, the Group launched a new sales and marketing reform, which encompassed promoting two upgrades, namely product upgrade and brand upgrade, form the third-tier markets, i.e. the core market, key market and potential market and taking the four management measures. Such measures included i) enhancing expansion and control of the online channel, such as developing new channels and launching new products; ii) launching of Mass-scale Marketing Campaign including showcasing in retail shops, hosting wine tasting events and organising plant visits to strengthen the closer bonds with customers; iii) accelerating the standardisation of the markets; and iv) exploring new distributors and update existing distributors to strengthen cooperation with them. The Group aims to build a new and dynamic brand image among clients and customers.

Supplies of grapes or grape juice

Production of quality wines greatly depends on a sufficient supply of quality grapes or grape juice. Currently, the Group has more than 10 major grape juice suppliers with whom the Group has enjoyed long-term relationships, mainly located in Tianjin, Hebei, Ningxia and Xinjiang. Ensuring reliable supplies of quality grapes and grape juices to meet the production needs of the Group's growing business is a high priority of the Group. Thus, the Group continues to actively work with vignerons to 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. For super and ultra premium wines, vignerons have adopted a disciplined approach to limiting harvest yields in order to deliver higher quality grape. For optimising supply networks, the Group has also kept identifying new suppliers who comply with the quality requirements and conducts thorough tests on their grape juices before orders are placed. These procedures ensure the Group to procure quality grape and grape juice supplies and also minimise the effect of bad harvests interrupting production.

Production capacity

In 2019, the Group had production and research and development facilities in its Tianjin winery with its annual production capacity of 70,000 tonnes (2018 – 70,000 tonnes) (equivalent to approximately 93.3 million bottles).

After completion of the disposal of land use rights and aboveground buildings covering a chateau and related facilities (the "**Disposal**") in January 2020, the Group's annual production capacity decreased from 70,000 tonnes to 50,000 tonnes. Such capacity is sufficient for the Group to promptly response to the market demand and provides a platform for sustainable earnings growth.

Prospects and future plans

Looking ahead to 2020, the Group expects to continue to face various challenges from fast-changing economic conditions, and the outbreak of Coronavirus Disease 2019 ("**COVID-19 outbreak**") in the PRC and opportunities from an increasing trend of domestic consumption backed by the government support. Going forward, the Group will continue to intensify the sales and marketing reform, launch new and customised products, target different group of customers to expand its customer base, and develop proactively its sales and distributors network especially in regions where it has low market presence and areas of high potential for growth, which will provide a solid foundation for sustainable development in the future.

The Group will continue to closely monitor the market situation and continuously evaluate the impact of the COVID-19 outbreak on the Group's operations and financial performance. The Group estimates that in light of the current special circumstances, the financial performance of the Group may be affected by the COVID-19 outbreak, especially in the first half of 2020. The Company believes that the Group and its management and employees will continue to work as a whole to cope with the situation, backed by our solid foundation. The Group is proactively diverging its sales to its e-commerce platforms to relieve the impact of the COVID-19 outbreak. The Group will also strengthen cost control and adopt appropriate measures in a timely manner. The Board and the management believe that the current adversity is short term, and still have confidence in the long term development of the Group.

FINANCIAL REVIEW

Revenue

Revenue of the Group represents proceeds from sale of wine products. The Group's total revenue decreased from approximately HK$344.9 million in 2018 by 12% to approximately HK$302.3 million in 2019. The decrease in revenue was mainly attributable to economic growth slowdown in the PRC, as well as impact of decrease in sales in imported wines and increase in reimbursement of marketing expenses to distributors during the year.

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

Management Discussion and Analysis

Cost of sales

The following table sets forth the major components of the cost of sales (before impact of impairment allowance of inventories) for the year:

	2019 %	2018 %
Cost of raw materials		
– Grapes and grape juice	43	44
– Yeast and additives	2	2
– Packaging materials	20	20
– Others	1	1
Total cost of raw materials	66	67
Manufacturing overheads	26	25
Consumption tax and other taxes	8	8
Total cost of sales	100	100

The principal raw materials required by the Group in producing wine products are grapes and grape juice, yeast and additives as well as packaging materials including bottles, bottle caps, labels, corks and packing boxes. During the year, the cost of grapes and grape juice was the key component of cost of sales and accounted for approximately 43% of the Group's total cost of sales, and remained stable during the year as compared to 2018.

Manufacturing overheads primarily consist of depreciation, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses in relation to production. During the year, manufacturing overheads as a percentage of cost of sales slightly increased as compared with 2018 as a result of the increase in repair and maintenance costs and utility charges.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross sales. The overall gross profit margin mildly decreased to 26% in 2019 from 27% in 2018, mainly as a result of an increase in impairment allowance of inventories.

The gross margin of red wine products and white wine products in 2019 were 25% and 26% respectively (2018 – 26% and 27% respectively).

Other income, other gains and losses – net

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

Other income, other gains and losses for the year ended 31 December 2019 represented a net gain of HK$5.0 million (2018 – gain of HK$1.9 million). The increase was mainly due to compensation received for inventory loss of approximately HK$4.8 million.

Distribution costs

Distribution costs principally include advertising and market promotion expenses, transportation and storage 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. During the year, distribution costs accounted for approximately 25% (2018 – 23%) of the Group's revenue, mainly as a result of the strengthening investment in brand building and sales and marketing reform through mass-scale promotion campaign. During the year, the Group continued to promote and market its brand and products effectively through a range of joint promotions with local distributors, print and outdoor advertisements, wine dinners, wine tasting events, digital communication, event sponsorships and exhibitions. The Group will ensure that its promotional strategy is responsive to market dynamics and competition.

Administrative expenses

Administrative expenses comprise salaries and related personnel expenses for administrative, finance and human resources departments, legal and professional fee, depreciation and amortisation expenses, impairment allowance and other incidental administrative expenses.

During the year, administrative expenses accounted for approximately 25% (2018 – 25%) of the Group's revenue. This percentage remained stable as compared to 2018.

Finance costs — net

During the year, decrease in finance costs — net to HK$2.7 million (2018 – HK$7.6 million) was mainly due to the decrease in interest expense on bank borrowings as a result of full repayment of borrowings and increase in bank interest income.

Income tax expense

No provision for taxation in Hong Kong has been made as the Group did not have any assessable profit arising from Hong Kong for both years.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Provision for the PRC Enterprise Income Tax was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws applicable to the subsidiaries operated in the PRC.

Cash flow

In 2019, investing activities were the Group's main source of cash inflow.

The decrease in net cash outflow from operating activities from approximately HK$93.1 million in 2018 to approximately HK$46.8 million in 2019 was mainly attributable to decrease in cash used in changes of working capital during the year.

The change in net cash inflow in investing activities amounted to approximately HK$357.6 million from net cash outflow of approximately HK$1.5 million in 2018 was mainly due to the receipt of consideration from the Disposal and payments of taxes and expenses relating to the Disposal during the year.

The change in net cash outflow from financing activities of approximately HK$229.3 million (2018 – net cash inflow of approximately of HK$90.9 million) was primarily attributable to the increase in net repayment of borrowings of approximately HK$221.6 million (2018 – net proceeds from borrowings of HK$97.2 million) during the year.

Financial management and treasury policy

For the year ended 31 December 2019, the Group's revenues, expenses, assets and liabilities were substantially denominated in RMB. The funding from the operation and borrowings was placed on short-term deposits (denominated in RMB, US dollars or Hong Kong dollars) with authorised financial institutions. The Company did not implement any hedging or other derivatives against foreign exchange risk. Although the Group's operations currently would not generate any significant foreign currency exposure, the Group will continue to closely monitor foreign currency movements and adopt prudent measures as appropriate.

Armed with sufficient financial resources and all borrowings at fixed rates during the year, 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 remained solid as the Group continued to adopt a prudent approach in managing its financial resources. As at 31 December 2019, the Group's cash and short-term deposits amounted to HK$157.5 million (2018 – HK$81.0 million). The increase was mainly due to the receipt of consideration from the Disposal. It has sufficient resources and an adequate cash position for ensuring solvency and 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.

CAPITAL STRUCTURE

The Group had no borrowing (2018 – borrowing of HK$223.8 million, all of which was repayable within one year) and with cash and liquidity position of HK$157.5 million (2018 – HK$81.0 million) as at 31 December 2019, reflecting its sound capital structure. The Group expects its cash and financial support from Tianjin Tsinlien Investment Holding Co., Ltd, the ultimate controlling party of the Company's major shareholder to be sufficient to support operating and capital expenditure requirements in the foreseeable future.

The Group also monitors capital on the basis of the liability-to-asset ratio. As at 31 December 2019, the Group's gearing ratio (expressed as total liabilities divided by total assets, in percentage) was approximately 91% (2018 – 80%).

After completion of the Disposal, the Group's gearing ratio is expected to be decreased to a certain sound level.

LITIGATION INVESTIGATION REPORT

During the year, the audit committee of the Company (the "**Audit Committee**") has conducted an internal investigation (the "**Litigation Investigation**") with the assistance of its legal advisers and a professional third party (the "**Investigator**") in relation to a claim lodged by the Group for the amount of approximately RMB14.0 million (equivalent to approximately HK$16.1 million) (the "**Claim**").

The Litigation Investigation was conducted to understand the matters leading to the Claim and the involvement of the relevant individuals, to evaluate possible impact on the Group's consolidated financial statements, and to identify any potential weaknesses in internal controls. The review period covers from 1 October 2017 to 30 June 2018.

The Company issued an announcement on 25 July 2019 setting out, among other things, the summary of the report on the Litigation Investigation dated 19 June 2019 (the "**Litigation Investigation Report**") prepared by the Investigator, the Audit Committee's view and the Board's view on the Litigation Investigation Report.

FULFILMENT OF ALL RESUMPTION CONDITIONS AND RESUMPTION OF TRADING

Trading in the Shares on Stock Exchange has been suspended with effect from 9:00 a.m. on 22 March 2013. As all the resumption conditions have been fulfilled, an application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 29 July 2019. Please refer to the Company's announcement dated 26 July 2019 for details.

As at 31 December 2019, the market capitalisation of the Company was approximately HK$406 million.

CAPITAL COMMITMENTS, CONTINGENCIES AND CHARGES ON ASSETS

As at 31 December 2019, there was capital expenditure contracted for in relation to equipment — labelling machine of HK$391,000 (2018: nil) but not yet incurred and no charges on assets.

The Group had contingent liabilities in relation to a labour arbitration. In December 2019, four employees of the Group lodged a labour arbitration to Tianjin Beichen District Labour Dispute Arbitration Committee against two subsidiaries of the Company for claiming a total compensation of RMB3.5 million regarding the terminations of their employment contracts, which were for the purpose of changing their employment to other subsidiaries within the Group. Up to the date of this report, the arbitration was still in progress. Based on the understanding of the related local laws and regulations and the consultation with an external legal counsel, the Directors are of the view that the potential compensation amount is not likely to be higher than RMB1.76 million (equivalent to HK$1.96 million). Therefore, a provision for this contingent liability was made.

Management Discussion and Analysis

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES AND JOINT VENTURES

For the year ended 31 December 2019, the Group had not made any material acquisitions or disposal of subsidiaries, associates or joint ventures.

Disposal of Chateau assets

On 23 July 2018, Sino-French Joint-Venture Dynasty Winery Ltd. ("**Dynasty Tianjin**") formally entered into an Asset Transaction Agreement with the third party ("**Buyer**") to dispose land use rights and aboveground buildings covering a chateau and the related facilities at the consideration of RMB400 million. The Disposal was approved by the shareholders of the Company at the extraordinary general meeting held on 5 December 2018. On 16 May 2019, Dynasty Tianjin received the consideration of RMB400 million from the Buyer through Tianjin Property Rights Transaction Centre. As at 31 December 2019, the consideration received was recorded as current liabilities, and this transaction has been completed on 23 January 2020.

EVENT AFTER THE REPORTING PERIOD

Completion of the Disposal took place in January 2020 as disclosed above in the paragraph headed "Disposal of Chateau assets".

After the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region.

The Directors have assessed that the COVID-19 outbreak may have the following possible impact to the Group:

- The temporary economic slowdown resulted from the COVID-19 outbreak may lead to a reduction in the overall consumption of wines in the market which might indirectly affecting the Group's financial performance.

- The Group might have to experience longer turnover time for recovering its trade receivables which may increase the associated credit risks.

The overall financial effect of the above cannot be reliably estimated as of the date of this report. The Group will closely monitor the development of the COVID-19 outbreak and continue to evaluate its impact on the financial position and operating results of the Group accordingly. The related impact will be reflected in the Company's 2020 interim and annual consolidated financial statements.

HUMAN RESOURCES MANAGEMENT

Quality and dedicated staff are the most important assets of the Group. The Group strives to ensure a strong team spirit among its employees so that they identify and contribute in unison to its corporate objectives. To this end, the Group offers competitive remuneration packages commensurate with market practices and industry levels, and provides various fringe benefits including training, medical and insurance coverage as well as retirement benefits to all employees in Hong Kong and the PRC. The Group is committed to staff training and development to support the need of the business and individuals, so employees are encouraged to enrol in external professional and technical seminars, and other training programs and courses to update their technical knowledge and skills, enhance their market awareness and improve their business acumen. The Group has reviewed and adjusted its human resources and remuneration policies, especially the performance-based bonus award, with reference to local legislation, market conditions, industry practice and achievements of the Group's targets as well as the performance of individual employee.

The Group employed a work force of 390 (including directors) (2018 – 435) in Hong Kong and the PRC as at 31 December 2019. The decrease in manpower was mainly due to the internal human resources adjustment in response to the business development. The total salaries and related costs (including the Directors' fees) for the year ended 31 December 2019 amounted to approximately HK$96.3 million (2018 – HK$106.2 million).

PRINCIPAL RISKS AND UNCERTAINTIES

The following section lists out the principal risks and uncertainties faced by the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. The Group will further improve its risk management, closely monitor the following risks and seek to adopt responsive measures:

1. Market risks

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 Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

2. Commercial risks

The Group is facing various competition by domestic and overseas companies in the wine industry, and also finds that an increasing number of imported wines competitors entering the markets, while local competitors grab the market with lower selling prices and counterfeit wines. To maintain the Group's competitiveness, it continues to strengthen brand value, quality of products and research and development to launch new products or products with distinctive characteristics, such as festival featured products to diversity product mix.

3. Operational risks

The production lines of the Group have been in use for years, resulting in ageing of certain machines and a decline in productivity. Failure to respond effectively to the decline in capacity may affect the sales plan of the Group. The production department has continuously researched to upgrade the technology of the production lines and to introduce suitable equipment to enable the Group to maintain a high level of production so as to cater for the customers' demand.

The Group's operations are subject to a broad range of laws and regulations governing various matters. In particular, the continuance of the Group's operations depends upon compliance with applicable environmental, health and safety and other regulations. The Group's in-house lawyer assists in identifying, monitoring and providing support to identify and manage legal risks across the legal and seek external legal advisers as and when appropriate.

4. Loss of distributors/customers

Loss of distributors/customers could adversely affect the Group's business. The Group keeps in close touch with its distributors/customers and markets and focuses effort on delivery high quality wines to them in order to meet their purchase intention and satisfaction.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is fully aware of the importance of the environmental sustainability throughout its business operations. As a responsible corporation, the Group strives to ensure minimal environmental impacts by carefully managing its pollutant emissions, energy consumption and water usage level, including the establishment of heating boiler, energy-saving transformer, sewage station expansion and other initiatives. The Group promotes environmental protection by raising the employees' awareness of resources saving and efficient use of energy, aiming at reducing resources consumption and saving costs which are beneficial to the environment and meet the commercial goals of the Group.

COMPLIANCE WITH LAWS AND REGULATIONS

The Board places emphasis on the Group's policies and practices on compliance with legal and regulatory requirements. External legal advisers are engaged to ensure transactions and businesses performed by the Group are within the applicable law framework. Updates on applicable laws, rules and regulations are brought to the attention of relevant employees and operation units from time to time. The Group continues to commit to comply with the relevant laws and regulations such as the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), and other applicable laws and regulations. Save as disclosed for non-compliance with Rule 3.10A of the Listing Rules, breach of financial reporting provisions, failure to hold annual general meeting ("**AGM**") and non-compliance of code provision A.4.2 of Appendix 14 to the Listing Rules, based on information available, the Directors took the view that during the year ended 31 December 2019, the Group was not aware of any non-compliance of the relevant laws and regulations that had a significant impact on the Group.

Biographies of Directors and Senior Management

The biographies of the Directors and senior management is as follows:

DIRECTORS

Executive Directors

Mr. SUN Jun, aged 50, was appointed as the executive Director and the Chairman of the Company in January 2018. Mr. Sun is also a chairman of nomination committee of the Company. Mr. Sun has been Assistant to General Manager and Deputy Chief Accountant of Tianjin Food Group Co. Ltd since 2015, and he held the same positions in Tianjin State Farms Agribusiness Group Co. Ltd. from 2014 to 2015. Being a member of Chinese Institute of Certified Public Accountant and engineer, he holds an Executive Master of Business Administration ("**EMBA**") degree from Tianjin University of Finance and Economics. In 1991, he graduated from undergraduate programme specialising in economics information in Tianjin Institute of Finance and Economics with a bachelor's degree in economics. After graduation, he worked in Department of Planning and Department of Assets of Tianjin State Administration of Medicine (天津醫藥管理局) from 1991 to 2000. In the following 7 years from 2000 to 2007, he was engaged by Tianjin Pharmaceutical Group (天津醫藥集團) as Deputy Head and subsequently Head of Audit Department and Securities Department, and during which he also acted as General Manager in Tianjin Jin Yi Investment Guarantee Co., Ltd. (天津金益投資擔保有限公司). Then he served as Chief Accountant of Tianjin Zhongxin Pharmaceutical Group Co., Ltd., during which he also studied in EMBA program of Tianjin University of Finance and Economics from 2007 to 2012. He worked as Deputy General Manager and Chief Accountant in Tianjin Zhongxin Pharmaceutical Group Co., Ltd. from 2012 to 2014. Mr. Sun has solid experience in financial accounting and management for over 20 years. He joined the Group in November 2017. He is also a director of certain subsidiaries of the Group.

Mr. LI Guanghe, aged 46, was appointed as the executive Director and general manager of the Company in January 2018. Mr. Li, the senior political officer (高級政工師), has been Head of Corporate Culture Department (Propaganda Department) and Office Director of Informatisation in Tianjin Food Group Co. Ltd. since 2015, mainly responsible for brand building, cultural construction and external publicity work. He held the same positions in Tianjin State Farms Agribusiness Group Co. Ltd. from 2012 to 2015. Since 2012, he has also acted as external supervisor in Tianjin Jia Li He Livestock Co., Ltd. After graduated from Tianjin Agricultural Industrial Business First Polytechnic College (天津農工商第一職業技術學校) specialised in Accounting in 1993, he engaged office work in Tianjin Dazhongzhuang Farm until 1996. Then he worked in Tianjin State Farms Agribusiness Group Co. from 1996 to 2006, during which he studied Economic Management in Tianjin Municipal Party School and also pursued a bachelor's degree in legal profession in Central Party School. During 2006 to 2009, he had been Secretary of Youth League Committee of Tianjin State Farms Agribusiness Group Co. From 2009 to 2012, he was also appointed as Vice Minister of Tianjin State Farms Agribusiness Group Co. (Propaganda Department), during which he pursued a master's degree in Political Economics in Tianjin Municipal Party School. Mr. Li has solid experience in brand building and management. He joined the Group in November 2017. He is also a director of certain subsidiaries of the Group.

Biographies of Directors and Senior Management

Mr. SUN Yongjian, aged 49, was appointed as the executive Director in June 2014. Mr. Sun is a member of remuneration committee of the Company. Mr Sun, senior political officer (高級政工師), is a director and secretary of Communist Party Committee ("CPC") of Sino-French Joint-Venture Dynasty Winery Limited and responsible for the overall work of CPC. He graduated from Party School of CPC Tianjin Municipal Committee (天津市委黨校) in 2005 where he majored in economics and management. Prior to joining the Group, he held various management positions in Wuqing Farm (武清農場) in Tianjin from 1988 to 2006, including secretary of Party Committee, secretary of CPC and farm manager. He was also a deputy secretary of CPC and general manager of Tianjin Haihe Dairy Company Limited (天津市海河乳業有限公司) from 2006 to 2010. He served as a secretary of CPC and deputy general manager of Tianjin Jialihe Dairy Company Limited (天津市嘉立荷牧業有限公司) from 2010 to March 2014. Mr. Sun joined the Group in March 2014. He is also a director of certain subsidiaries of the Group.

Non-executive Directors

Mr. HERIARD-DUBREUIL Francois, aged 71, was appointed as the vice-chairman and a non-executive Director in August 2004. He has been the director and vice-chairman of Dynasty Tianjin, a subsidiary of the Group, since May 1980 till December 2017. He is also a director of certain subsidiaries of the Group. He has also been the chairman of the supervisory board of Remy Cointreau S.A., a company listed on the Euronext Stock Exchange, from December 2000 to September 2004, chairman of Orpar S.A., the holding company of Remy Cointreau, since December 1997 and director of Oeneo S.A. Mr. Heriard-Dubreuil joined Remy Martin & Co. S.A. in 1977 prior to its merger with Cointreau & Cie. He was appointed as the director of the Remy Cointreau Group in 1990 and is currently the non-executive director of Remy Cointreau S.A. He has over 40 years of experience in the wines industry and has held various senior positions within Remy Martin Group, including chairman of the Remy Martin Group from September 1984 to July 1990. He is chairman of the Fondation INSEAD, France, Member of INSEAD French Council. He graduated from Université de Paris with a degree of Maitrise Es Sciences in 1970 and a master degree of business administration from INSEAD, France in 1975.

Mr. Jean-Marie LABORDE, aged 71, was appointed as a non-executive Director in February 2009. He joined the Remy Cointreau S.A., a substantial shareholder of the Company, as a chief executive officer in September 2004 to September 2013. Mr. Laborde holds a master's degree in economics from the University of Bordeaux and a master degree in business administration from the Institut Supérieur des Affaires (HEC/ISA). He held various senior positions at Pernod Ricard from 1979 to 1996 and chairman and chief executive officer of Moët et Chandon (LVMH Group) from 1996 to 2003. Mr. Laborde is a member of a number of professional organizations. He was directors of Maxxium Worldwide BV, an associate of Remy Cointreau Group and Antonin Rodet, Burgundy Wines, a wholly owned subsidiary of Sequana Capital, a company listed on the Euronext Stock Exchange (stock code: VOR). He is also a director of Finadvance S.A., a private equity firm, Renegade Waterford Spirits Ltd in UK London, Breakthru Beverage Group in USA New York and Fratelli Branca Distillerie SRL in Italy Milano.

Mr. WONG Ching Chung, aged 80, was appointed a non-executive Director in August 2004. Mr. Wong is a member of remuneration committee of the Company. He has been a director of Dynasty Tianjin since 1985. He is also a director of certain subsidiaries of the Group. Mr. Wong was the regional managing director of Remy Associes and Maxxium Worldwide B.V. between 1986 and 2002. He was appointed a director of Remy Cointreau S.A. between 1999 and 2002 and a director of Orpar S.A. between 2002 and 2005. Graduated from The University of Hong Kong with a bachelor's degree in 1964 and from Hult International Business School (formerly Arthur D. Little Management Institute, USA) with a master of science in management degree in 1981. Mr. Wong has close to 40 years of extensive experience in the wines industry. He was awarded the Officier de l' Ordre du Merite Agricole by the French government in 1994 in recognition of his accomplishment in the wines and spirits industry.

Mr. ROBERT Luc, aged 63, was appointed as a non-executive Director in August 2004. He is also a director of certain subsidiaries of the Group. He has held various management positions in the Orpar S.A. – Remy Cointreau Group since 1987, including the deputy group controller, regional finance director for the America, finance director of the champagne division and the regional finance director of Asia Pacific. Prior to joining the Remy Cointreau Group in 1987, he worked with Ernst & Whinney in Montreal and Paris. He graduated from University of Sherbrooke, Canada with a bachelor's degree in business administration (accounting) in 1979. He was a former Canadian Certified Public Accountant. Mr. Robert has extensive experience in the wines and spirits industry for over 30 years.

Ms. SHI Jing, aged 49, was appointed as a non-executive Director in December 2013. Ms. Shi graduated from the Tianjin University of Finance and Economics with a Bachelor's Degree in Economics in 1992 and a Master's Degree in Economics in 1995. She has been in corporate finance (domestic and foreign) and financial management for many years. Ms. Shi joined Tianjin Development Holdings Limited ("**Tianjin Development**"), since 2005 and has served in various roles including manager of finance department of Tianjin Development Assets Management Co., Ltd., a wholly-owned subsidiary of Tianjin Development, and general manager of audit and legal affairs department of Tianjin Development. Prior to joining Tianjin Development, she was a commissioner of finance of Ting Hsin International Group (頂新國際集團), vice president of Fengyuan Consulting (Shanghai) Co., Ltd. (豐元諮詢（上海）有限公司) and senior associate of finance department of Tingyi (Cayman Islands) Holding Corp. Ms. Shi is currently the assistant to general manager of Tianjin Development, and a director of Tsinlien Group Company Limited and Tianjin Tsinlien Investment Holdings Co., Limited. She is also a director of certain subsidiaries of Tianjin Development and Tsinlien Group Company Limited. Ms. Shi is also an executive director of Tianjin Port Development Holdings Limited (天津港發展控股有限公司), a company whose shares are listed on the Main Board of the Stock Exchange, and a director of Tianjin Lisheng Pharmaceutical (天津力生製藥股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange. She has also been a non-executive director of Binhai Investment Company Limited (濱海投資有限公司), a company whose shares are listed on the Main Board of the Stock Exchange, from September 2014 to July 2018.

Independent non-executive Directors

Mr. YEUNG Ting Lap Derek Emory, aged 47, was appointed as an independent non-executive Director in January 2011. Mr. Yeung is also chairman of audit committee, a member of remuneration committee and nomination committee of the Company. He holds a bachelor degree in applied mathematics and economics from Brown University and a master degree in business administration and accounting from Northeastern University, both in the United States of America. Mr. Yeung is also the chief executive officer and co-founder of she.com International Holdings Limited, a co-founder of Chef Nic Holdings Limited. Prior to founding she.com, Mr. Yeung was an associate with Telecom Venture Group Limited and a consultant with Arthur Andersen & Company both in Boston and Hong Kong. Mr. Yeung is qualified as a certified public accountant in the United States of America and he is a member of the Chinese People's Political Consultative Conference of Jiang Su Province.

Biographies of Directors and Senior Management

Mr. SUN David Lee, aged 54, was appointed as an independent non-executive Director in November 2012. Mr. Sun is also a member of audit committee, remuneration committee and nomination committee of the Company. Mr. Sun is an executive director of China Outfitters Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange. He is a director and co-founder of CEC Management Limited, the management company of China Enterprise Capital Limited ("**CEC**"), a China focused private equity fund. Prior to helping establish CEC, he was a managing director of Pacific Alliance Group Limited, an Asia-focused alternative investment management firm. Mr. Sun was the director for strategy and business development Asia at Interbrew (currently known as Anheuser-Busch InBev). He was also a consultant in the corporate finance and strategy practice of McKinsey & Company, Inc. in Hong Kong. Prior to his position at McKinsey, Mr. Sun practised law as an associate in the corporate group at Linklaters. Mr. Sun holds a Juris Doctor from the University of Illinois College of Law. He is a registered attorney in Illinois of the U.S.

Dr. ZHANG Guowang, aged 60, was appointed as an independent non-executive Director in November 2014. Dr. Zhang is also the chairman of remuneration committee, a member of audit committee and nomination committee of the Company. Dr. Zhang graduated from Jilin University of Technology (吉林工業大學) with a bachelor's degree of engineering, majoring in management engineering in 1982. He obtained a master's degree in technical economics from Tianjin University in 1995, and a doctorate degree in management from Nankai University in 2006. He was the first dean of Business School in Tianjin University of Commerce from 2001 until 2010. He was awarded various prizes from the Municipal Technology Performance Awards (市級科研成果) by Tianjin Municipal People's Government. Dr. Zhang is a member of Chinese Institute of Certified Public Accountants and a professor. He is a member of the Academic Committee from Tianjin University of Commerce, and is currently teaching business administration in Business School of Tianjin University of Commerce. Dr. Zhang is also an executive council member of Tianjin Society of Technical Economics (天津技術經濟研究會) and Statistical Evaluation Research Branch Association of Chinese Association for Applied Statistics (中國現場統計研究會統計綜合評價研究分會), he is a chairman of Association of Institute of Economic and Management of Local Colleges in China (中國地方普通高校經濟管理院（系）協作會). Dr. Zhang specialises in research of innovative management methods and economic appraisal. Dr. Zhang has solid experience in administration and management for over 20 years.

SENIOR MANAGEMENT

Mr. HO Yiu Sum, aged 44, is the financial controller and company secretary of the Company. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants of United Kingdom, and an associate member of the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He has a bachelor's honours degree in accountancy and a master's honours degree in Corporate Governance in Hong Kong Polytechnic University. Mr. Ho has extensive experience in auditing, company secretarial work and financial management of listed companies. Before joining the Group, he worked in one of international accounting firms.

Corporate Governance Report

The board (the "**Board**") of directors (the "**Directors**") and senior management of the Company are committed to maintaining high standards of corporate governance and believe that high standards of corporate governance are essential to the sustainable growth and success of the Company and provide a practice enhancing greater accountability and transparency and meeting the expectations of all of the Group's stakeholders.

CORPORATE GOVERNANCE PRACTICE

Save as disclosed below, none of the Directors of the Company was aware of any information that would reasonably indicate that the Company was not in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "**Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") for the year ended 31 December 2019. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

1) During the year ended 31 December 2019 and up to the date of this report, the number of independent non-executive Directors 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. As such, the number of independent non-executive Directors could not represent at least one-third the Board required under Rule 3.10A of the Listing Rules. The Company has made best reasonable endeavours but still requires more time to identify suitable candidate.

2) On 19 July 2019, the Company published the annual reports for the years ended 31 December 2012, 2013, 2014, 2015 and 2016 and interim reports for the six-months ended 30 June 2013, 2014, 2015 and 2016. On 22 July 2019, the Company announced the annual results for the year ended 31 December 2017 and the interim results for the six-months ended 30 June 2017 and 2018. On 23 July 2019, the Company announced the annual results for the year ended 31 December 2018. On 26 July 2019, the Company published the annual reports for the years ended 31 December 2017 and 2018 and interim reports for the six-months ended 30 June 2017 and 2018

   Prior to such publication, during the year ended 31 December 2019, as additional time was required by the Company to address the issues for completion of the audit for the consolidated financial statements for the years ended 31 December 2017 and 2018, and to finalise the outstanding results announcements and reports, the Group had breached the financial reporting provisions under (i) Rule 13.49(1)/13.49(6) and (ii) Rule 13.26(2)/13.48(1) of the Listing Rules in respect of (i) announcing the annual/interim results for the year ended 31 December 2017 and 2018 and for the six-months ended 30 June 2017 and 2018; (ii) publishing the related annual/interim reports for the years ended 31 December 2012, 2013, 2014, 2015, 2016, 2017 and 2018 and for the six-month periods ended 30 June 2013, 2014, 2015, 2016, 2017 and 2018; and failed to convene an AGM for the financial years ended 31 December 2012, 2013, 2014, 2015, 2016, 2017 and 2018.

   According to code provision A.4.2 of the Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Each of Mr. Sun Jun, Mr. Li Guanghe, Mr. Sun Yongjian, Ms. Shi Jing, Dr. Zhang Guowang and Mr. Sun David Lee was appointed to fill a casual vacancy subsequent to 30 May 2012, being the date of last annual general meeting of the Company, had not been re-elected by the Company's shareholders ("**Shareholders**") at the next general meeting after their appointment held on 5 December 2018 in accordance with code provision A.4.2 of the Code.

Mr. Heriard-Dubreuil Francois, Mr. Wong Ching Chung, Mr. Jean-Marie Laborde, Mr. Robert Luc and Mr. Yeung Ting Lap Derek Emory did not retire by rotation in accordance with code provision A.4.2 of the Code because no annual general meeting has been held by the Company since 30 May 2012.

The Company will convene an AGM for re-election of Directors, which is expected no later than the end of June 2020, and will inform the Shareholders in due course after the date of the forthcoming AGM has been determined.

The following sections set out how the principles in the Code have been complied with by the Company during the year ended 31 December 2019.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors' securities transactions (the "**Mode Code**"). The Company has made specific enquiry of all Directors and that all Directors have confirmed their compliance with the required standards set out in the Model Code regarding Directors' securities transactions throughout the year ended 31 December 2019.

BOARD OF DIRECTORS

The Board believes that high standards of corporate governance are essential to the sustainable growth and success of the Company and provided guidelines enhancing greater accountability and transparency and meeting the expectations of all of the Group's stakeholders.

The Board has adopted these guidelines, which reflect the Company's commitment to high standards of corporate governance, to assist the Board in supervising the management of the business and affairs of the Group.

The Board will review these guidelines annually, or more often if warranted, and recommend such changes as it determines necessary and appropriate in light of the needs of the Company and legal, regulatory and other developments.

The Board represents the Shareholders' interests in maintaining and growing a successful business including optimising consistent long term financial returns. The Board is responsible for the stewardship of the Company and is accountable for determining that the Group is managed in such a way as to achieve this objective.

Composition of the Board

For the year ended 31 December 2019, the Board comprised three executive Directors, namely Mr. Sun Jun (Chairman), Mr. Li Guanghe (General Manager) (which is equivalent to the chief executive) and Mr. Sun Yongjian; five non-executive Directors, namely Mr. Heriard-Dubreuil Francois, Ms. Shi Jing, Mr. Jean-Marie Laborde, Mr. Wong Ching Chung and Mr. Robert Luc; and three independent non-executive Directors, namely Dr. Zhang Guowang, Mr. Yeung Ting Lap Derek Emory and Mr. Sun David Lee. The biographies of the Directors are set out in the "Biographies of Directors and Senior Management" section, which demonstrate a diversity of knowledge, skills, experience and qualifications.

Save as set out at the beginning of this report, the Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules regarding the appointment of three independent non-executive Directors and at least one of the independent non-executive Directors has appropriate professional qualifications or accounting or relating financial management expertise. Pursuant to the requirements of Rule 3.13 of the Listing Rules, the Company has also received annual confirmation of independence to the Company from the three independent non-executive Directors. The Board has assessed their independence and considered that all the independent non-executive Directors are independent within the definition of the Listing Rules.

Mr. Heriard-Dubreuil Francois, Mr. Jean-Marie Laborde, Mr. Wong Ching Chung and Mr. Robert Luc held or continue to hold directorships or other management positions within the group comprising Andromede S.A. (the ultimate controlling shareholder of Remy Pacifique Limited, a substantial shareholder of the Company), its subsidiaries and joint venture companies. Ms. Shi Jing held or continues to hold directorships or other management positions within the group comprising Tsinlien Group Company Limited (which is the controlling shareholder of the Company, its subsidiaries and associated companies). Other than as described above, there was no other relationship (including financial, business, family or other material/relevant relationship(s)) among the Directors and in particular, there was no relationship between Mr. Sun Jun, the chairman and Mr. Li Guanghe, the general manager during the year ended 31 December 2019.

The Board

The Board oversees the Group's overall strategic directions, businesses and financial performance. It assumes responsibilities for strategy formulation, corporate governance and performance monitoring. Daily operations and administration are delegated to the management with divisional heads responsible for different aspects of the business. The main responsibilities of the management of the Company is to manage, operate and co-ordinate the business of the Company, execute the strategies formulated by the Board and make decisions in respect of daily matters. Moreover, the Board has also delegated various responsibilities to the Nomination Committee (the "**Nomination Committee**"), the Remuneration Committee (the "**Remuneration Committee**") and the Audit Committee (the "**Audit Committee**") of the Company. Further details of the roles and duties of these committees are set out in this report.

The Board is also responsible for performing corporate governance duties including the developing, reviewing and monitoring of the Company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, the Company's policies and practices on the compliance with the legal and regulatory requirements, the compliance with the Model Code, and reviewing the Company's compliance with the Code and disclosure in the corporate governance report of the annual report of the Company.

Corporate Governance Report

The Board has four scheduled meetings a year and meets more frequently as and when required. During the year, four regular board meetings were held. Notice of more than 14 days was given to all Directors to attend a regular board meeting. For all other board meetings, reasonable notice will be given to the Directors. Their individual attendance records, on a named basis, during the year ended 31 December 2019 were set out in the table below:

Board Members	Meetings attended/held
Executive Directors	
Sun Jun *(Chairman)*	4/4
Li Guanghe	4/4
Sun Yongjian	3/4
Non-executive Directors	
Heriard-Dubreuil Francois	4/4
Shi Jing	3/4
Jean-Marie Laborde	4/4
Wong Ching Chung	4/4
Robert Luc	4/4
Independent Non-executive Directors	
Zhang Guowang	4/4
Yeung Ting Lap Derek Emory	4/4
Sun David Lee	4/4

Board minutes prepared and kept by the company secretary are sent to the Directors for records and are opened for inspection at any reasonable time on reasonable notice by any Directors.

All Directors are supplied with comprehensive board papers and relevant materials within a reasonable period of time in advance of the intended meeting date (in any event at least 3 days before the Board meeting), including business and financial reports covering the Group's principal business activities, financial highlights and operational review. All Directors are given opportunities to include matters in the agenda for regular board meetings. Where queries are raised by Directors, steps would be taken to respond as promptly and fully as possible.

If so required, the Directors are free to have access to the management for enquiries and to obtain further information so as to facilitate the decision-making process.

Every Director has unrestricted access to the advice and services of the company secretary.

The chairman of the Board ("**Chairman**") also held meeting with the independent non-executive Directors without the presence of other Directors.

The Directors are continually updated with legal and regulatory developments, business and market changes and development of the Company to facilitate the discharge of their responsibilities. The company secretary from time to time updates and provides briefings and written training materials to the Directors, regarding the latest development of the Listing Rules, applicable laws, rules and regulations relating to Directors' duties and responsibilities. In addition, the Directors can obtain independent professional advice upon reasonable request at the Company's expense in discharging their duties to the Company.

Induction tailored kit will be given to newly appointed Directors to his/her individual needs. This enables them to have better understanding of the Group's businesses and policies.

During the year ended 31 December 2019, all Directors participated in continuous professional development to develop and refresh their knowledge and skills by reading material relevant to the Directors' duties and responsibilities. The company secretary maintained Directors' records of training received by them during the year.

The training received by the Directors during the year 2019 is summarised below:

Name of Directors	Types of training
Executive Directors	
Sun Jun	A, B
Li Guanghe	A, B
Sun Yongjian	B
Non-executive Directors	
Heriard-Dubreuil Francois	B
Shi Jing	B
Jean-Marie Laborde	B
Wong Ching Chung	B
Robert Luc	B
Independent Non-executive Directors	
Zhang Guowang	B
Yeung Ting Lap Derek Emory	B
Sun David Lee	B

A – Attending briefings/seminars/conferences/forums

B – Reading/studying training or other materials

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Non-executive Directors and independent non-executive Directors have the same fiduciary duties, duties of care and skills as executive Directors. Non-executive Directors provide the Group with a wide range of knowledge and expertise in the wine industry. The independent non-executive Directors also participate actively in board meetings, contribute to the development of strategies and policies and make sound judgement in various aspects. They will take a lead when potential conflicts of interest arise. Independent board committee comprising all independent non-executive Directors will be formed to advise the independent Shareholders on those connected transactions to be approved by the independent Shareholders at the extraordinary general meeting ("**EGM**") of the Company as appropriate. They are also members of various board committees who devote sufficient amount of time and attention to the affairs of the Company.

Corporate Governance Report

Directors' appointment, re-election and removal

Pursuant to the Articles of Association of the Company, every Director shall be subject to retirement by rotation at least once every three years and a Director appointed to fill a casual vacancy shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that general meeting. The new Director shall not be taken into account in determining the number of Directors who are to retire by rotation at that general meeting.

All non-executive Directors and the independent non-executive Directors are appointed for a term of three years, but they are subject to retirement by rotation and re-election at the AGM of the Company pursuant to Article 87 of the Company's Articles of Association.

Board Diversity Policy

The Board adopted the board diversity policy ("**Board Diversity Policy**") in accordance with the requirement set out in the Code. Such policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard to the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy. The Nomination Committee will continue to give adequate consideration to these measurable objectives when making recommendations of candidates for appointment to the Board.

Nomination Policy

Nomination policy of the Group ("**Nomination Policy**") is in place and was adopted in writing taking into consideration of the revised Listing Rules which became effective from 1 January 2019. The Nomination Policy sets out the procedures, process and criteria for identifying and recommending candidates for election to the Board.

Nomination Committee

The Nomination Committee was first formed in March 2012 with written terms of reference in compliance with the Code. The Nomination Committee is responsible for recommending suitable candidates to the Board for directorship, after considering the independence, skill and competence of the nominees, to ensure that nominations are fair. During the year ended 31 December 2019, the chairman of the Nomination Committee was Mr. Sun Jun, an executive Director and other members comprised Dr. Zhang Guowang, Mr. Yeung Ting Lap Derek Emory and Mr. Sun David Lee, all being independent non-executive Directors. Independent non-executive Directors constituted the majority of the Nomination Committee.

During the year ended 31 December 2019, the Nomination Committee reviewed the structure and diversity of the Board (including gender, age, competency, professional knowledge and experience) and assessed the independence of independent non-executive Directors. Their individual attendance records, on a named basis, during the year ended 31 December 2019 are set out in the table below:

Name of member	Meeting attended/held
Sun Jun *(chairman)*	1/1
Zhang Guowang	1/1
Yeung Ting Lap Derek Emory	1/1
Sun David Lee	1/1

The terms of reference of the Nomination Committee are available from the company secretary at any time and the information in respect of the Nomination Committee is included in the websites of the Company and the Stock Exchange.

DIVISION OF RESPONSIBILITIES

The positions of the Chairman and general manager ("**General Manager**") (which is equivalent to the chief executive) are separate to ensure a clear distinction between their responsibilities. Mr. Sun Jun as the Chairman is responsible for the leadership to and effective running of the Board in terms of establishing policies and business directions. The Chairman ensures that the Board functions effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. Mr. Li Guanghe as the General Manager provided leadership for effective running of the Company's business, implementation of the approved strategies in achieving the overall commercial objectives and management of Company's relationships with its stakeholders.

The Board also comprises three independent non-executive Directors who bring in strong independent judgement, knowledge and experience to the Board. In addition, each executive Director is delegated individual responsibility to monitor and oversee the operations of a specific area, and to implement the strategies and policies set by the Board. As noted above and below, all the Audit Committee members and a majority of the Remuneration Committee and Nomination Committee members are independent non-executive Directors. This structure ensures that a sufficient balance of power and authority exists within the Group. During the year ended 31 December 2019, the Chairman led the Board and ensured that all Directors were properly briefed on issues to be discussed at board meetings.

REMUNERATION OF DIRECTORS

Remuneration Committee

The Remuneration Committee was first formed in 2005. The Remuneration Committee is responsible for determining with delegation from the Board, the remuneration packages of individual executive Directors and senior management. The Remuneration Committee is also responsible for making recommendations to the Board on the Company's policy and structure for remuneration of all Directors and senior management of the Group and other matters relating to remuneration. During the year ended 31 December 2019, the chairman of the Remuneration Committee was Dr. Zhang Guowang, an independent non-executive Director and the other members comprised Mr. Sun Yongjian, being executive Director and Mr. Wong Ching Chung, being non-executive Director and Mr. Yeung Ting Lap Derek Emory and Mr. Sun David Lee, both being independent non-executive Directors. Independent non-executive Directors constituted the majority of the Remuneration Committee. The terms of reference of the Remuneration Committee are summarised as follows:

1 To make recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and senior management of the Group and on the establishment of a formal and transparent procedure for developing policy on such remuneration for the Company;

2 To make recommendations to the Board on the remuneration packages of all individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors and independent non-executive Directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

3 To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

4 To review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

5 To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

6 To ensure that no Director or any of his associates is involved in deciding his own remuneration.

During the year ended 31 December 2019, the Remuneration Committee has reviewed the remuneration package of executive Directors and make recommendations to the Board, reviewed discretionary bonus or allowance of senior management, Directors' remuneration package, and proposed to maintain current level. The Board has approved the recommendations of the Remuneration Committee during the year. Their individual attendance records, on a named basis, during the year ended 31 December 2019 are set out in the table below:

Name of member	Meeting attended/held
Zhang Guowang *(chairman)*	1/1
Sun Yongjian	1/1
Wong Ching Chung	1/1
Yeung Ting Lap Derek Emory	1/1
Sun David Lee	1/1

The terms of reference of the Remuneration Committee are available from the company secretary at any time and the information in respect of the Remuneration Committee is included in the websites of the Company and the Stock Exchange.

Remuneration package for Directors and senior management

The remuneration for the executive Directors comprises basic salary, discretionary annual bonus, housing allowances and pensions.

Salary adjustments were made where the Remuneration Committee took into account the performance, contribution and increased responsibilities of the individual during the year, the inflation price index and/or by reference to market/sector trends.

Apart from basic salary, executive Directors and employees were eligible to receive a discretionary bonus taking into account factors such as market conditions as well as the corporate and the individual's performance during the year. During the year ended 31 December 2019, the Company did not pay any discretionary bonus to the executive Directors.

The remuneration of member of the senior management (including executive Directors) by band for the year ended 31 December 2019 was as follows:

Remuneration bands *(HK$)*	Number of individuals
Nil–1,000,000	2
1,000,000–2,000,000	3

Details of the amount of Directors' emoluments during the year ended 31 December 2019 are set out in Note 33 to the financial statements.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

The Board is responsible for continual enhancement of corporate governance practices and evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal controls systems. The Board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the Board on the effectiveness of these systems.

The Directors also acknowledge their responsibility for the preparation of the financial statements for the year ended 31 December 2019 which give a true and fair view of the state of affairs of the Company and of the Group and of the results and cash flows for that year. In preparing the financial statements for the year ended 31 December 2019, Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards have been adopted, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

The Directors are of the view that, taking into account: i) receipt of the proceeds in advance for the Disposal amounted to RMB400 million (equivalent to HK$446.5 million), included in current liabilities, the transaction was completed in January 2020; ii) the financial support to the Group from the ultimate controlling party of the Company's major shareholder to meet its liabilities for a period of twelve months from 1 January 2020; and iii) a letter confirming the intention of its major shareholder that it will not demand for the Group to repay the balance due to it which amounted to HK$42.4 million in the next twelve months from 1 January 2020, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2019. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements.

The Directors and the auditor acknowledged their responsibilities for the consolidated financial statements for the year ended 31 December 2019 as set out in the independent auditor's report on pages 52 to 53 of this annual report.

Risk management and internal control

The Board acknowledges its responsibilities for maintaining a sound risk management and internal control systems of the Group and reviewing their effectiveness on an ongoing basis. The risk management and internal control systems can only provide reasonable, though not absolute, assurance against material misstatement or loss, and manage rather than eliminate risks of failure to achieve business strategies. The Group's internal control framework covers (i) the setting of a defined management structure with limits of authority and clear lines of accountability; and (ii) the establishment of regular reporting of financial information, in particular, the tracking of deviations from budgets and targets.

The relevant executive Directors and senior management are delegated with respective level of authorities. Yearly budgets of the Company are reviewed and approved by the Board. The relevant executive Directors and senior management have specific responsibilities for monitoring the performance, conduct and operations of each subsidiary within the Group by the review of the disparity between actual results and yearly budgets. Regular and ad hoc reports will also be prepared for the Board and its committees, to ensure that Directors are supplied with all the information they require in a timely and appropriate manner.

In addition to the above, the Board through the Audit Committee has reviewed the effectiveness of its risk management and internal control systems on all major operations of the Group by discussion with the management on risk areas identified by the management and/or auditors and by appointing internal control advisor to check and review the Group's operations and transactions. The management has provided a confirmation to the Audit Committee on the effectiveness of these systems for the year ended 31 December 2019.

The Board and the Audit Committee considered that key areas of the Group's risk management and internal control systems were reasonably implemented and the Group has substantially complied with the Code regarding risk management and internal control systems in general.

Main features of the risk management and internal control systems

Main features of the risk management and internal control systems are described in the sections below:

Risk Management System

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases (by procedures including interview and questionnaires of divisions or departments, and process review on procedural controls) to identify, assess and manage material risks by the Group:

Risk Identification

- To identify risks that may potentially affect the Group's business and operations;

Risk Assessment

- To consider the impact on the business and the likelihood of their occurrence;

Risk Response

- To prioritise the risks by comparing the results of the risk assessment;

- To determine the processes to prevent, avoid or mitigate the risks;

Risk Monitoring and Reporting

- To perform ongoing and periodic monitoring of the risk and ensures that appropriate internal control processes are in place; and

- If found any material risks, immediately reports to the Board and follows up the status of the improvement of the matter.

Internal Control System

The Company has in place an internal control system which is compatible with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

The Group has engaged internal control advisor to assist the annual review of the effectiveness of the risk management and internal control systems which covered certain material controls, including the financial, operational and compliance controls as well as risk management functions for the year ended 31 December 2019. The assessment report was reviewed by the Audit Committee and the Board. No major issue but areas for improvement to the Group's risk management and internal control systems have been identified. All recommendations are properly followed up by the Group to ensure that they are implemented within a reasonable period of time. The Board and the Audit Committee therefore considered that the risk management and internal control systems were effective and adequate.

Internal Audit Function

The Company has set up the audit department (serving function of the internal control team) to facilitate the reform of the Company's procedures. The department is separate and independent of the operation and management system of the Group. The upmost responsible officer for internal control and audit of the Group is the professional staff with internal control and audit experiences.

The Group's internal audit function is performed by an internal audit team, which reports directly to the management. The team plays an important part in the assessment of the effectiveness of the risk management and internal control systems of the Group and reports directly to the management on a regular basis throughout the year.

The team works with the internal control advisor to conduct internal audit reviews on the relevant controls and compliance with policies and procedures of the Group at both operational and corporate levels.

Information Disclosure Policy

The Company has adopted an information disclosure policy to ensure potential inside information being captured and confidentiality of such information being maintained until consistent and timely disclosure are made in accordance with the Listing Rules.

The policy regulates the handling and dissemination of inside information, which includes:

- The designated department reports any potential inside information to designated persons;
- Designated persons to determine disclosure as required;
- Designated persons authorised to act as spokespersons and respond to external enquiries; and
- Information is non-exclusively and widely disclosed to the public through various ways such as reviewed or audited financial reports, announcements and the Company's website so that its fair disclosure policy is disclosed.

AUDIT COMMITTEE

The Audit Committee is primarily responsible for reviewing and supervising the financial reporting process, risk management and internal control systems of the Group, ensuring compliance with the applicable accounting principles and practices, and to provide advice and comments thereon to the Board, as well as to make recommendations to the Board on the appointment, re-appointment and removal of the external auditors and assessing their independence and performance.

During the year ended 31 December 2019, the Audit Committee comprised 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 financial statements for the year ended 31 December 2019 in conjunction with the Company's auditor and reviewed the internal controls and risk management systems of the Group.

In fulfilling its responsibilities, the work performed by the Audit Committee during the year ended 31 December 2019 included the following:

- To review the draft annual financial statements for the years ended 31 December 2017 and 2018 of the Group prior to recommending them to the Board for discussion;

- To review the draft interim financial statements for the six months ended 30 June 2017 and 2018 of the Group;

- To review the progress results of external audit, and discussion with the external auditors on any key findings on internal control and audit issues, as well as the reports relating to 2019 annual audit plan;

- To review the developments of accounting standards in conjunction with the external auditors;

- To consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and the management's response to these findings; and

- To review effectiveness of the Company's internal control and risk management systems annually including the assessment report from internal control adviser.

During the year ended 31 December 2019, the Audit Committee met three times together with an executive Director, the financial controller and/or with the external auditors. Please refer to the table below for the attendance record of individual Audit Committee members:

Name of member	Meeting attended/held
Yeung Ting Lap Derek Emory *(chairman)*	3/3
Sun David Lee	3/3
Zhang Guowang	3/3

The terms of reference of the Audit Committee is available from the company secretary at any time and the information in respect of the Audit Committee is included in the websites of the Company and the Stock Exchange.

Corporate Governance Report

COMPANY SECRETARY

Mr. Ho Yiu Sum, the company secretary of the Company, was responsible directly to the Board. During the year ended 31 December 2019, the company secretary had duly complied with the relevant qualifications, experience and training requirements under the Listing Rules. The biography of the company secretary is set out in the "Biographies of Directors and Senior Management" section.

AUDITORS' REMUNERATION

During the year ended 31 December 2019, the remuneration paid/payable to the auditors in respect of audit and non-audit services provided by the auditors to the Group is set out below:

Nature of services	Amount *(HK$'000)*
Audit services	3,386
Non-audit services – Tax services, internal control review and other engagements	–

DIVIDEND POLICY

The payment and the amount of any dividends are subject to the recommendation of the Directors in accordance with the relevant laws, rules and regulations and dependent on, inter alia, the Group's operating results, cash requirements and availability, financial position, acquisition opportunities and future prospects.

COMMUNICATION WITH SHAREHOLDERS

Channels

Communication with Shareholders is given high priority. In order to develop and maintain a continuing investors' relationship with the Shareholders, the Company has established various channels of communication with its Shareholders:

1) The AGM provides opportunities for the Shareholders to meet and raise questions to the Directors, the management and the external auditors. Members of the Board and Audit, Remuneration and Nomination Committees, and external auditors will attend the AGM. The Group encourages all Shareholders to attend. Shareholders can raise any comments on the performance and future directions of the Company and exchange views with the Directors, members of Board Committees, the management and the external auditors at the AGM. The notice of the AGM will be published on the Company's website and the Stock Exchange's website and sent to the Shareholders in due course after the date of the forthcoming AGM has been determined. The Company will also publish further announcement in respect of the closure of register of members for AGM in due course;

2) The Company's website at www.dynasty-wines.com provides regularly updated information of interest to Shareholders, including corporate information, biographical details of Directors, shareholding structure, annual and interim reports, major historical developments with comprehensive and user-friendly information about the Group, as well as announcements and press releases issued by the Company, and a channel for enquiries and feedback;

3) Information relating to the Company's financial results, corporate details, notifiable transactions and other major events are timely disseminated through publication of interim and annual reports, announcements, circulars and press releases.

Meetings

The Board and senior management recognise the importance of their responsibility to represent the interests of all Shareholders and to maximise Shareholders' value. The AGM is a valuable forum for the Board to communicate directly with the Shareholders. At the AGM, each substantially separate issue has been considered by a separate resolution, including the election of individual Directors.

An AGM circular will be distributed to Shareholders at least 20 clear business days before the AGM and included with the notice to Shareholders of any future AGM. It sets out the procedures for conducting a poll and other relevant information of the proposed resolutions. The most recent Shareholders' meeting was the EGM held on 5 December 2018 and all resolutions were passed at the EGM by way of poll.

The Company did not hold its AGM in 2019, thus without any relevant attendance record. The Company has updated its status to Shareholders from time to time through announcements and information as appeared on the websites of the Company and the Stock Exchange.

The notice of the AGM will be published on the Company's website and the Stock Exchange's website and sent to the Shareholders in due course after the date of the forthcoming AGM has been determined. The Company will hold the AGM to adopt the financial results for the year(s) as soon as practicable which is expected no later than the end of June 2020. The Company will also publish further announcement in respect of the closure of register of members for AGM in due course.

Shareholders' right

The Board may whenever it thinks fit call EGM. Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right to vote at general meetings of the Company can at all times make a written requisition to the Board or the company secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The written requisition must state the objects of the meeting, and must be signed by the relevant shareholder(s) and deposited at the Hong Kong office of the Company at *Units E&F, 16/F, China Overseas Building, 139 Hennessy Road, Wanchi, Hong Kong; and such meeting shall be held within 2 months after deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders may also send written enquiries to the Company for putting forward any enquiries or proposals at the Shareholders' meeting to the Board at the above mentioned address.

Procedures by which enquiries put to the Board

Shareholders may put forward enquiries to the Board through the company secretary who will direct the enquiries to the Board for handling.

Corporate Governance Report

Contact details of the company secretary

The company secretary
Dynasty Fine Wines Group Limited
Units E&F, 16/F, China Overseas Building,
139 Hennessy Road,
Wanchai, Hong Kong

Tel No.: (852) 2918-8000
Fax No.: (852) 2918-8099

Matters relating to share registration

Shareholders can contact Tricor Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company, if they have any enquiries about their shares and dividends.

Contact details
Address: Level 54,
Hopewell Centre,
183 Queen's Road East,
Hong Kong

Tel No.: (852) 2980-1333
Fax No.: (852) 2810-8185

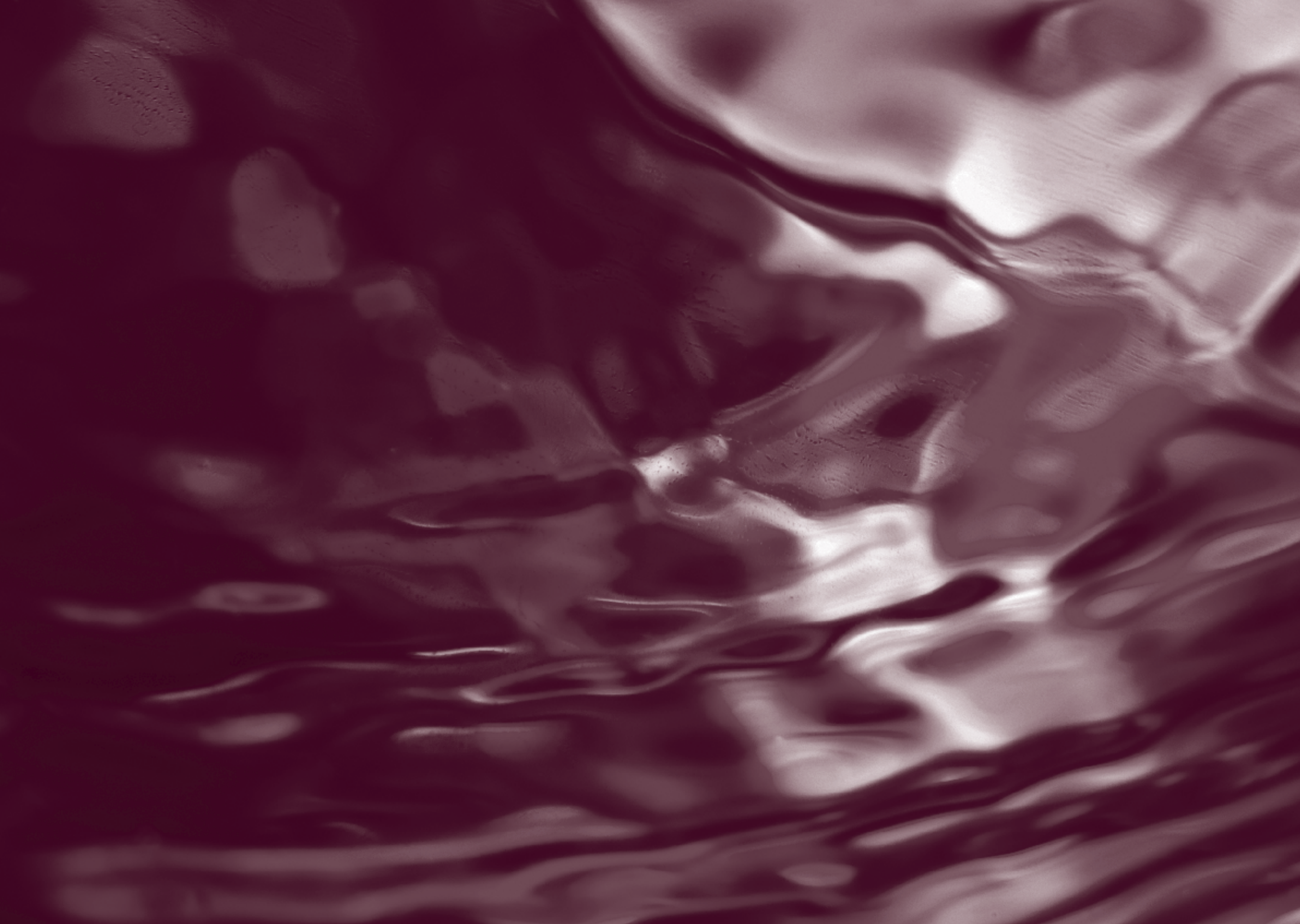
Significant changes in memorandum and articles of association

During the year, there was no significant change to the Company's memorandum and articles of association.

Market Capitalisation

The market capitalisation of the Company as at 31 December 2019 was approximately HK$406 million (issued share capital: 1,248,200,000 shares at closing market price: HK$0.325 per share). Trading in the Shares on Stock Exchange has been suspended with effect from 9:00 a.m. on 22 March 2013 and has been resumed from 9:00 a.m. on 29 July 2019.

Financial Section



Directors' Report

The Directors submit herewith this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Company are investment holding and sale of grape wine products. The principal activities of the Company's principal subsidiaries are production and sale of grape wine products. Particulars of the Company's subsidiaries are set out in Note 9 to the financial statements. The nature of the principal activities of the Group had not changed during the year.

Further discussion and analysis of these activities, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 7 to 16 of the annual report. This discussion forms part of this directors' report.

The analysis of the principal activities of the Group during the financial year are set out in Note 9 to the financial statements.

RESULTS AND DIVIDENDS

The financial results of the Group for the year ended 31 December 2019 are set out in the section headed "Consolidated Income Statement" of the annual report.

The Directors did not recommend the payment of any dividend to the Shareholders for the year ended 31 December 2019.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 22 to the financial statements.

RESERVES

Details of the movements in reserves of the Group during the year and reserves of the Company as at 31 December 2019 are set out in Note 23 to the financial statements and the balance sheet of the Company respectively.

Under the Companies Law of the Cayman Islands, the share premium of the Company is available for distribution of dividends to the Shareholders subject to the provisions of the Company's articles of association ("**Articles of Association**"). With the sanction of an ordinary resolution, dividends may be declared and paid out of share premium account of any other fund or account which can be authorised for this purpose. As at 31 December 2019 and 2018, the Company had nil balance of distributable reserves.

GROUP FINANCIAL SUMMARY

The consolidated results and of the assets and liabilities of the Group for the latest five financial years are summarized in the section headed "Five Years Summary" of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 15 to the financial statements.

BORROWINGS

Details of borrowings of the Group as at 31 December 2019 are set out in Note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands where the Company is incorporated.

DIRECTORS

The Directors who held office during the year and up to the date of this report are as follows:

Executive Directors:

Mr. Sun Jun *(Chairman)*
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

Details of the Directors' biographies have been set out on pages 17 to 20 of the annual report.

In accordance with Article 87 of the Articles of Association, at each AGM one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation and being eligible, offer themselves for re-election at each AGM, provided that every Director shall be subject to retirement by rotation at an AGM at least once every three years.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and non-executive Directors has entered into a service contract with the Company for a term of three years. Each of these contracts may be terminated by either party giving not less than two months' notice in writing.

The independent non-executive Directors are appointed for a period of three years in accordance with their respective appointment letters.

Pursuant to code provision A.4.3 of the Code, any further appointment of independent non-executive Director who served more than 9 years shall be subject to a separate resolution to be approved by the Shareholders. Since 20 January 2020, Mr. Yeung Ting Lap Derek Emory ("**Mr. Yeung**"), an independent non-executive Director, has served the Board for more than 9 years and is due to retire by rotation at the forthcoming AGM. During the tenure of office, Mr. Yeung had performed his duties as an independent non-executive Director to the satisfaction of the Board. After taking into account all the factors for assessing independence as set out in Rule 3.13 of the Listing Rules and considering his annual confirmation of independence to the Company, the Board is of the opinion that Mr. Yeung maintains his independence notwithstanding the length of his service and believes that his valuable knowledge and experience continue to generate significant contribution to the Board, the Company and the Shareholders as a whole. A separate ordinary resolution will be proposed for his re-election at the forthcoming AGM.

None of the Directors has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

COMPETING BUSINESS

None of the Directors was interested in any businesses which competed or was likely to compete, either directly or indirectly, with the Group's business during the year, which is required to be disclosed under Rule 8.10(2) of the Listing Rules.

RELATED PARTY TRANSACTIONS

The related party transactions of the Group are disclosed in Note 31(c) to the consolidated financial statements. These related party transactions were exempted from the reporting, announcement and independent shareholder approval requirements of connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

No Director or an entity connected with a Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to which the Company, or any of its subsidiaries was a party during the year or subsisting at the end of the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries was entered into or existed during the year.

RELATIONSHIPS WITH EMPLOYEES, DISTRIBUTORS, CUSTOMERS AND SUPPLIERS

The Group values its employees and provides competitive remuneration package to attract and motivate its employees. The Group regularly reviews and makes necessary adjustments on its human resources and remuneration policies to conform to market standard. The Group is also committed to staff training and development to support the need of the business and individuals by encouraging employees to enrol external training or courses

The Group mainly sells its wine products to distributors. The Group requires the distributors to comply with the relevant laws and regulations, credit policy, and its sales and marketing policies, and monitors the performance of distributors. The Group also values the views and opinions of its distributors and end user customers, and the sales department of the Group regularly communicates with and obtains feedback from distributors in order to understand their business needs and market demands.

Production of quality wines greatly depends on a sufficient supply of quality grapes or grape juice. The Group has developed good and long-term relationships with its suppliers including major grape juice suppliers. The Group actively works 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 procurement department of the Group also works closely with suppliers to ensure that the sourcing process is conducted in a fair and open manner.

EMPLOYEE AND REMUNERATION POLICIES

Quality and dedicated staff are the most important assets of the Group. The Group's policy on remuneration is to maintain fair and competitive packages to employees who contribute in unison to its corporate objectives. The Group determined the remuneration packages of employees 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 remuneration packages of each Director are determined, with regard to comparable market securities and factors such as workload and responsibility of each Director. Factors comprising the results of the Group and economic situation are also considered when determining the remuneration packages of executive Directors.

RETIREMENT SCHEMES

The Group participates in various post employment schemes which covered the Group's eligible employees in the PRC, and a Mandatory Provident Fund Scheme for the employees in Hong Kong. Particulars of these retirement schemes are set out in note 2.21 (ii) to the financial statements.

TAX RELIEF AND EXEMPTION

Shareholders are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owing and disposing of the Shares.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year.

The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers, but shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Directors and officers.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

The particulars of the Directors' and senior management's remuneration and the five highest paid employees during the financial year ended 31 December 2019 are set out in Notes 7 and 33 respectively to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2019, none of the Directors or 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 Securities and Futures Ordinance (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.

At no time during the year ended 31 December 2019 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.

PERSONS HOLDING 5% OR MORE INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2019, the interests or short positions of any persons, 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

Name	Interests in shares other than pursuant to equity derivatives (and capacity)	Aggregate long position	Approximate percentage of the Company's issued voting shares
Famous Ever Group Limited	558,000,000 ordinary shares (beneficial owner)	558,000,000 ordinary shares	44.70%
Tsinlien Group Company Limited ("**Tsinlien**") *(Note 1)*	21,922 ordinary shares (beneficial owner) 558,000,000 ordinary shares (interest of a controlled corporation)	558,021,922 ordinary shares	44.71%
Tianjin Pharmaceutical Group Co., Ltd. (天津市醫藥集團有限公司) ("**Tianjin Pharmaceutical**") *(Note 2)*	558,021,922 ordinary shares (interest of a controlled corporation)	558,021,922 ordinary shares	44.71%
Tianjin Bohai State-owned Assets Management Co., Ltd. (天津渤海國有資產經營管理有限公司) ("**Bohai**") *(Note 2)*	558,021,922 ordinary shares (interest of a controlled corporation)	558,021,922 ordinary shares	44.71%
Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司) ("**Tsinlien Investment Holdings**") *(Note 2)*	558,021,922 ordinary shares (interest of a controlled corporation)	558,021,922 ordinary shares	44.71%
Remy Pacifique Limited *(Note 3)*	336,528,000 ordinary shares (beneficial owner)	336,528,000 ordinary shares	26.96%
Remy Concord Limited *(Note 3)*	336,528,000 ordinary shares (interest of a controlled corporation)	336,528,000 ordinary shares	26.96%
Remy Cointreau Services S.A.S. *(Note 3)*	336,528,000 ordinary shares (interest of a controlled corporation)	336,528,000 ordinary shares	26.96%
Remy Cointreau S.A. *(Note 3)*	336,528,000 ordinary shares (interest of a controlled corporation)	336,528,000 ordinary shares	26.96%
Orpar S.A. *(Note 3)*	336,528,000 ordinary shares (interest of a controlled corporation)	336,528,000 ordinary shares	26.96%
Andromede S.A. *(Note 3)*	336,528,000 ordinary shares (interest of a controlled corporation)	336,528,000 ordinary shares	26.96%

Notes:

(1) Famous Ever Group Limited is a direct wholly-owned subsidiary of Tsinlien. By virtue of the SFO, Tsinlien is deemed to be interested in the same parcel of shares of the Company in which Famous Ever Group Limited is interested.

(2) Tsinlien is also a direct wholly-owned subsidiary of Tianjin Pharmaceutical, which in turn is a direct wholly-owned subsidiary of Bohai and an indirect wholly-owned subsidiary of Tsinlien Investment Holdings. By virtue of the SFO, Tsinlien Investment Holdings, Bohai and Tianjin Pharmaceutical are deemed to be interested in the same parcel of shares of the Company in which Tsinlien is interested.

(3) Remy Concord Limited is entitled to exercise or control the exercise of all the voting power at general meetings of Remy Pacifique Limited. Remy Cointreau Services S.A.S. is entitled to exercise or control the exercise of all the voting power at general meetings of Remy Concord Limited. Remy Cointreau S.A. is entitled to exercise or control the exercise of 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 39% 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 70% of the voting power at general meetings of Recopart, which is entitled to exercise or control the exercise of approximately 15% 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 31 December 2019, 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.

Apart from Ms. Shi Jing who is also a director of Tsinlien Investment Holdings, Tsinlien and Famous Ever Group Limited, and Mr. Heriard-Dubreuil Francois who is also a director and/or an employee of Andromede S.A., Orpar S.A., Remy Cointreau S.A., Remy Concord Limited and Remy Pacifique Limited, as at 31 December 2019, none of the Directors is a director or employee of a company having interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of revenue and purchase for the year attributable to the Group's major customers and suppliers are as follows:

Revenue

– the largest customer	7%
– five largest customers in aggregate	35%

Purchases

– the largest supplier	16%
– five largest suppliers in aggregate	25%

None of the Directors or any of their close associates or any Shareholders (which to the knowledge of the Directors, owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

CORPORATE GOVERNANCE

In respect of the year ended 31 December 2019, save as disclosed in the Corporate Governance Report on pages 21 to 36 of the annual report, all the code provisions set out in the Code (as defined in the Corporate Governance Report) were met by the Company.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considered all the independent non-executive Directors to be independent.

MINIMUM PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, there was sufficient public float of the Shares as required under the Listing Rules.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retires and, being eligible, offers itself for re-appointment as auditor of the Company. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming AGM.

On behalf of the Board
Mr. Sun Jun
Chairman

Hong Kong, 27 March 2020

Independent Auditor's Report

羅兵咸永道

To the Shareholders of Dynasty Fine Wines Group Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Dynasty Fine Wines Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 54 to 113, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition
- Impairment allowance of inventories
- Impairment assessment of non-current operating assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition *Refer to Note 2.23 (Summary of significant accounting policies) and Note 5 (Segment information) to the consolidated financial statements.* The Group recognised revenue from sales of goods amounted to HK$302 million for the year ended 31 December 2019. The Group manufactures and sells a range of wine products. Revenue is recognised when control of the products has been transferred, being when the products were delivered to customers (which are primarily distributors).	Our audit procedures relating to revenue recognition included: • Obtained an understanding of the Group's accounting policy for revenue recognition; • Obtained an understanding and evaluated management's relevant controls over revenue recognition from sales of goods; • Inspected, on a sample basis, the sales contracts with customers to understand key terms and conditions and assessed their implications for revenue recognition;

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
We identified revenue recognition as a key audit matter as significant resources and efforts were involved in auditing this area due to the large volume of transactions from sales of different kinds of products.	• Tested revenue transactions, on a sample basis, by examining the relevant supporting documents, including customer orders, sales contracts, goods delivery notes and customers' acknowledgement of receipt notes; • Selected samples of revenue transactions that took place one month before and after the balance sheet date and assessed whether the related revenue was recognised in the appropriate reporting period by checking the related goods delivery notes and customers' acknowledgement of receipt notes; • Confirmed trade receivable balances and revenue transactions with customers on a sample basis; and • Interviewed distributors, on a sample basis, to confirm our understanding of the key terms as stipulated in the sales contracts, including the delivery arrangements and payment terms with particular attention on non-standard terms and arrangements which might have implications to revenue recognition. Based on the procedures performed, we found the Group's revenue recognition for sales of goods was supported by available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment allowance of inventories *Refer to Note 2.13 (Summary of significant accounting policies), Note 4.1(c) (Critical accounting estimates) and Note 19 (Inventories) to the consolidated financial statements.* Inventories of the Group largely comprise raw materials and finished wine products which are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. An impairment allowance for inventories is recognised where necessary in order to record inventories at their net realisable values. As at 31 December 2019, the carrying value of Group's inventories amounted to HK$290 million, representing cost of HK$325 million less an impairment allowance of HK$35 million. The impairment charges as recognised in the consolidated income statement for the year ended 31 December 2019 amounted to HK$4.2 million. The determination of the impairment allowance for inventories involves significant management judgment and estimates including factors such as historical usage of raw wine, aging profile of raw materials and finished wine products, historical sales track records, forecasted sales volumes, selling prices as well as selling expenses and physical condition. We identified impairment allowance for inventories as a key audit matter due to the significance of the inventory balance and because significant management judgement and estimates are involved in determining the required level of impairment allowance.	Our audit procedures relating to management's assessment of the impairment of inventories included: • Obtained an understanding of the Group's accounting policy for determining the impairment allowance of inventories; • Obtained an understanding of and evaluated the relevant management controls and processes in place to estimate the impairment allowance for inventories and to assess inventory obsolescence periodically; • Tested the accuracy of the aging profile of the Group's raw materials and finished wine products by checking samples of purchase/production records and other documents to the inventory records. Examined the historical raw materials usage records and the subsequent actual sales volume data after the year end to evaluate whether slow-moving or over-stocked products has been properly identified; • Observed the physical condition of samples of inventories during attendance of stocktake conducted by management to identify any slow-moving or damaged items; • Evaluated the reasonableness of the assumptions adopted by management in estimating the future selling prices of wine products and the related selling expenses by reference to the historical records and samples of sales transactions after the year end; and • Checked the mathematical accuracy of management's calculations of the impairment allowance for inventories. Based on the procedures performed, we considered the key judgement and estimates as adopted by management in assessing the impairment allowance of inventories were supported by available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of non-current operating assets *Refer to Note 2.10 (Summary of significant accounting policies), Note 4.1(b) (Critical accounting estimates), Note 14 (Land use rights), Note 15 (Property, plant and equipment) and Note 16 (Leases) to the consolidated financial statements.*	
As at 31 December 2019, the carrying amounts of the Group’s property, plant and equipment amounted to HK$71 million, representing cost of HK$785 million less accumulated depreciation of HK$620 million and accumulated impairment losses of HK$94 million; and the carrying amounts of the Group’s right-of-use assets amounted to HK$20 million (collectively the “Non-current Operating Assets”). No impairment loss of the Non-current Operating Assets was recognised in the consolidated income statement for the year ended 31 December 2019. Management considered that the Group’s continuous losses and operating cash outflows are indicators of impairment of the Non-current Operating Assets and therefore performed an impairment assessment to determine the recoverable amount of the cash-generating unit to which the Non-current Operating Assets belong (the “CGU”). The recoverable amount of the CGU has been determined by management based on the higher of fair value less costs of disposal (“FVLCOD”) and value-in-use (“VIU”) of the CGU as determined using the discounted cash flow model.	Our audit procedures relating to management’s impairment assessment of the Non-current Operating Assets included: • Obtained an understanding of and evaluated the Group’s accounting policy for assessing the impairment of non-current assets; • Evaluated the reasonableness of management’s determination that the FVLCOD of the CGU was higher than its VIU as at the year end date; • With the support of our in-house experts, examined the FVLCOD model adopted by management in determining the recoverable amount of the CGU and assessed its appropriateness; • Evaluated the factors considered by management in the determination of comparable companies in the market where available public data was used as key parameters including revenue growth rates and applicable discount rate as well as estimated market value of the Group’s land use rights adopted in the FVLCOD model;

Key Audit Matter	How our audit addressed the Key Audit Matter
Management's assessment indicated that the FVLCOD of the CGU was higher than its VIU as at 31 December 2019 and therefore adopted FVLCOD as the recoverable amount. As the FVLCOD of the CGU was higher than the carrying amounts of the Non-current Operating Assets as at 31 December 2019, management concluded that no further impairment against such assets was required to be recognised for the year ended 31 December 2019. We identified the impairment assessment of Non-current Operating Assets as a key audit matter due to the significant management judgement and estimates that were involved in determining the recoverable amount. These involved key parameters and inputs including determination of comparable companies in the market, estimated revenue growth rate, discount rate as well as estimated market value of the Group's land use rights.	• Assessed the reasonableness of the above key assumptions by comparing to the historical performance and applicable range of discount rates developed based on the relevant public financial information of the selected comparable companies and other relevant market information available; • Performed sensitivity analysis on the key inputs and parameters to assess the possible impacts to the FVLCOD amount as determined by management; and • Checked the accuracy of inputs and tested the mathematical calculation of the FVLCOD amount. Based on the procedures performed, we considered the key judgement and estimates as adopted by management in the impairment assessment of the Non-current Operating Assets were supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheng Kwong On.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2020

Consolidated Income Statement

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue from contracts with customers	5	**302,333**	344,933
Cost of sales of goods	6, 31(c)	**(224,284)**	(251,877)
Gross profit		**78,049**	93,056
Distribution costs	6	**(76,853)**	(79,629)
Administrative expenses	6	**(74,550)**	(85,415)
Net impairment losses on financial assets	6	**1,782**	(1,388)
Other income, other gains and losses – net	8	**5,031**	1,850
Operating loss		**(66,541)**	(71,526)
Finance income	11	**1,984**	410
Finance costs	11	**(4,687)**	(8,056)
Finance costs – net	11	**(2,703)**	(7,646)
Loss before income tax		**(69,244)**	(79,172)
Income tax expense	12	**(64)**	(71)
Loss for the year		**(69,308)**	(79,243)
Loss attributable to:			
Owners of the Company		**(72,943)**	(78,668)
Non-controlling interests		**3,635**	(575)
		(69,308)	(79,243)
		HK$ cents	*HK$ cents*
Loss per share attributable to the owners of the Company			
– Basic and diluted loss per share	13	**(5.84)**	(6.30)

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Loss for the year	**(69,308)**	(79,243)
Other comprehensive loss:		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(3,121)**	(10,993)
Total comprehensive loss for the year	**(72,429)**	(90,236)
Total comprehensive loss for the year is attributable to:		
– Owners of the Company	**(75,756)**	(88,966)
– Non-controlling interests	**3,327**	(1,270)
	(72,429)	(90,236)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Assets			
Non-current assets			
Property, plant and equipment	15	**71,309**	79,810
Land use rights	14	**–**	17,816
Right-of-use assets	16	**20,460**	–
Investment in an associate	10	**–**	–
Deferred income tax assets	28	**–**	–
Total non-current assets		**91,769**	97,626
Current assets			
Trade receivables	17(a)	**38,748**	28,964
Notes receivable	18	**29,868**	8,354
Other receivables	17(b)	**8,917**	10,575
Prepayments	17(c), 31(d)	**95,248**	13,298
Inventories	19	**289,747**	337,052
Cash and cash equivalents	20	**157,932**	81,341
		620,460	479,584
Assets classified as held for sale	21	**178,068**	182,051
Total current assets		**798,528**	661,635
Total assets		**890,297**	759,261
Liabilities			
Non-current liabilities			
Lease liabilities	16	**1,001**	–
Current liabilities			
Trade payables	25, 31(d)	**100,598**	106,030
Contract liabilities	26	**66,028**	83,850
Advance received for disposal of chateau assets	21	**446,528**	–
Other payables and accruals	25	**188,779**	190,396
Provisions for contingent liabilities	24	**1,961**	–
Borrowings	27	**–**	223,830
Lease liabilities	16	**2,676**	–
Total current liabilities		**806,570**	604,106
Total liabilities		**807,571**	604,106

Consolidated Balance Sheet

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Equity			
Equity attributable to owners of the Company			
Share capital	*22*	**124,820**	124,820
Other reserves	*23*	**1,144,819**	1,147,632
Accumulated losses		**(1,203,979)**	(1,131,036)
Capital and reserves attributable to owners of the Company		**65,660**	141,416
Non-controlling interests		**17,066**	13,739
Total equity		**82,726**	155,155
Total equity and liabilities		**890,297**	759,261

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 54 to 113 were approved by the Board of Directors on 27 March 2020 and were signed on its behalf.

Sun Jun
Director

Li Guanghe
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company					
	Share capital *HK$'000*	Other reserves *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2018	124,820	1,157,937	(1,052,135)	230,622	15,009	245,631
Adjustment on adoption of HKFRS 9	–	(7)	(233)	(240)	–	(240)
Restated balance at 1 January 2018	124,820	1,157,930	(1,052,368)	230,382	15,009	245,391
Comprehensive loss						
Loss for the year	–	–	(78,668)	(78,668)	(575)	(79,243)
Other comprehensive loss						
Currency translation differences	–	(10,298)	–	(10,298)	(695)	(10,993)
Total comprehensive loss	–	(10,298)	(78,668)	(88,966)	(1,270)	(90,236)
Balance at 31 December 2018	124,820	1,147,632	(1,131,036)	141,416	13,739	155,155

	Attributable to owners of the Company					
	Share capital ***HK$'000***	**Other reserves** ***HK$'000***	**Accumulated losses** ***HK$'000***	**Total** ***HK$'000***	**Non-controlling interests** ***HK$'000***	**Total equity** ***HK$'000***
Balance at 1 January 2019	**124,820**	**1,147,632**	**(1,131,036)**	**141,416**	**13,739**	**155,155**
Comprehensive loss						
Loss for the year	**–**	**–**	**(72,943)**	**(72,943)**	**3,635**	**(69,308)**
Other comprehensive loss						
Currency translation differences	**–**	**(2,813)**	**–**	**(2,813)**	**(308)**	**(3,121)**
Total comprehensive loss	**–**	**(2,813)**	**(72,943)**	**(75,756)**	**3,327**	**(72,429)**
Balance at 31 December 2019	**124,820**	**1,144,819**	**(1,203,979)**	**65,660**	**17,066**	**82,726**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Cash used in operations	*29(a)*	(48,721)	(93,469)
Interest received		1,984	410
Income tax paid		(22)	(41)
Net cash outflow from operating activities		(46,759)	(93,100)
Cash flows from investing activities			
Purchases of property, plant and equipment		(2,689)	(2,405)
Receiving of consideration of chateau assets disposal	*21*	446,528	–
Payments for taxes and expenses relating to assets sale	*17(c)*	(86,751)	–
Proceeds from disposal of property, plant and equipment		525	875
Decrease in restricted bank deposits		5	27
Net cash inflow/(outflow) from investing activities		357,618	(1,503)
Cash flows from financing activities			
Proceeds from borrowings		44,653	216,845
Repayments of borrowings		(266,292)	(119,617)
Interest paid		(4,687)	(6,378)
Principal elements of lease payments		(2,937)	–
Net cash (outflow)/inflow from financing activities		(229,263)	90,850
Net increase/(decrease) in cash and cash equivalents		81,596	(3,753)
Cash and cash equivalents at beginning of year		80,952	82,094
Effects of exchange rate changes on cash and cash equivalents		(5,000)	2,611
Cash and cash equivalents at end of year	*20(ii)*	157,548	80,952

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1 GENERAL INFORMATION

Dynasty Fine Wine Group Limited (the "Company") was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, whilst the principal office is Rooms E and F, 16/F, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The Company is an investment holding entity and the principal activities of the subsidiaries are manufacturing and sales of wine products (Note 9).

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622) ("HKCO").

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis.

(iii) Going concern

As at 31 December 2019, the Group's current liabilities exceeded its current assets by HK$8.04 million. The Group's loss and net cash outflow from operating activities for the year ended 31 December 2019 were HK$69.3 million and HK$46.8 million respectively. These indicate a doubt about the ability of the Group to continue as a going concern. The directors of the Company (the "Directors") are of the view that the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2019, based on the following factors:

- As at 31 December 2019, the current liabilities included the receipt of the proceeds in advance from the disposal of its chateau and related facilities. The receipt in advance was amounted to RMB400 million (equivalent to HK$446.5 million) and the transaction was completed in January 2020 (Note 21);

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(iii) Going concern (continued)

- The major shareholder of the Company, Tsinlien Group Company Limited (hereafter "Tsinlien Group"), has issued a letter confirming its intention that Tsinlien Group will not demand for the Group to repay the balance due to Tsinlien Group amounting to HK$42.4 million (Note 25) in the next twelve months from 1 January 2020; and

- The ultimate controlling party of Tsinlien Group, Tianjin Tsinlien Investment Holding Co., Ltd. (hereafter "Tsinlien Investment"), has also issued a financial support letter to the Company to confirm its intention to provide continuous financial support to the Group to meet its liabilities for a period of twelve months from 1 January 2020.

(iv) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- HKFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to HKFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to HKAS 28
- Annual Improvements to HKFRS Standards 2015–2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to HKAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments

The Group also elected to adopt the following amendments early.

- Definition of Material – Amendments to HKAS 1 and HKAS 8

The impact of the adoption of these amendments has been stated in Note 2.2.

(v) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Changes in accounting policies

As indicated in Note 2.1 above, the Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.25.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted-average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 is 4.75%.

(i) Measurement of lease liabilities

	2019 *HK$'000*
Operating lease commitments disclosed as at 31 December 2018	8,663
Discounted using the lessee's incremental borrowing rate of at the date of initial application	7,983
Less: Short-term leases not recognised as a liability	(5,296)
Lease liabilities recognised as at 1 January 2019	2,687
Of which are:	
Current lease liabilities	1,599
Non-current lease liabilities	1,088
	2,687

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. Land use rights were reclassified as right-of-use assets since the initial adoption of HKFRS 16 on 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Changes in accounting policies *(continued)*

(i) Measurement of lease liabilities (continued)

The recognised right-of-use assets relate to the following types of assets:

	1 January 2019 HK$'000	Additions HK$'000	Amortisation charge HK$'000	Exchange differences HK$'000	31 December 2019 HK$'000
Land use rights	17,816	–	(472)	(385)	16,959
Buildings	2,687	3,927	(3,019)	(94)	3,501
Total right-of-use assets	20,503	3,927	(3,491)	(479)	20,460

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by HK$20,503,000
- land use rights – decrease by HK$17,816,000
- lease liabilities – increase by HK$2,687,000.

There was no impact on retained earnings on 1 January 2019 upon applying HKFRS 16.

2.3 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity where the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Principles of consolidation and equity accounting *(continued)*

(i) Subsidiaries (continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

(iii) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.10.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Principles of consolidation and equity accounting *(continued)*

(iv) Change in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who are the executive directors. The chief operating decision maker is responsible for assessing the financial performance and position of the Group, and makes strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in HK dollars (HK$), which is the Company's presentation and functional currency. The functional currency of the Company's subsidiaries in the PRC is Renminbi.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other gains/(losses).

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

(c) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

–	Buildings and constructions	20 years
–	Plant and machinery	10 years
–	Motor vehicles	5 years
–	Leasehold improvements, furniture and equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

2.8 Land use rights – accounting policy applied until 31 December 2018

Land use rights represent the cost of land less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method to allocate the prepaid operating lease payments for land over the remaining lease term or the operating license period, whichever is shorter.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Intangible assets

Goodwill

Goodwill is measured as described in Note 2.10. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

The Group has been suffered from continuous losses and operating cash outflows which indicated that the Group's non-current operating assets, primarily including property, plant and equipment and right-of-use assets, (collectively the "Non-current Operating Assets") might have impairment as at 31 December 2019. The Directors have assessed the recoverable amounts of these Non-current Operating Assets as at 31 December 2019 and are of the view that no provision for impairment on these Non-Current Operating Assets are necessary to be provided for the year ended 31 December 2019.

Regarding the goodwill arising from the acquisition of a subsidiary in prior years, the Directors had assessed and full impairment allowance was recognised in previous years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Assets are not depreciated or amortised while they are classified as held for sale.

Assets classified as held for sale are presented separately from the other assets in the balance sheet.

2.12 Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.12 Financial assets *(continued)*

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

(iv) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 17 for further details.

2.13 Inventories

Inventories comprise raw materials, work in progress, finished goods and consumables, and are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Inventories of the Group largely comprise raw materials and finished wine products which are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. An impairment allowance for inventories is recognised where necessary in order to record inventories at their net realisable values.

2.14 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 90 days and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 17 for further information about the Group's accounting for trade receivables and Note 2.12 for a description of the Group's impairment policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.16 Share capital

Ordinary shares are classified as equity (Note 22).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Current and deferred income tax *(continued)*

(b) Deferred income tax (continued)

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current income tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current income tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.21 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to maternity leave are not recognised until the time of leave.

(ii) Post-employment obligations

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans and post-employment medical plans.

Pension obligations

The employees of the Group's subsidiaries in the PRC are members of a state-managed employee pension scheme operated by the Tianjin Municipal People's Government which undertakes to assume the retirement benefit obligations of all existing and future retired employees. The Group's obligation is to make the required contributions under the scheme. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

In addition, the Group also contributes to a mandatory provident fund scheme for all Hong Kong employees. All these contributions are based on a certain percentage of the employee's salary and are charged to the income statement as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.23 Revenue recognition

The Group manufactures and sells a range of wine products. Revenue is recognised when control of the products has been transferred, being when the products are delivered to customers (which are primarily distributors) or specified locations as agreed in the contracts, the risks of obsolescence and loss have been transferred to the customers, and either the customers have accepted the products in accordance with the sales contracts the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The wine products are often sold with reimbursement of marketing expenses to the distributors for the sales transactions conducted under the sales arrangements. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated marketing expense. Accumulated experience is used to estimate and provide for the marketing expense, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

Receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.24 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares;
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted-average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.25 Leases

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

(a) Buildings

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.25 Leases *(continued)*

(a) Buildings (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.25 Leases *(continued)*

(a) Buildings (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of warehouse and office are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(b) Land use rights

Land use rights represent prepaid operating lease payments for land less accumulated amortisation and any impairment losses (Note 2.10). Amortisation is calculated using the straight-line method to allocate the prepaid operating lease payments for land over the remaining lease term or the operating license period, whichever is shorter.

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.27 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets.

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 11 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

3 FINANCIAL RISK MANAGEMENT

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 Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. As at 31 December 2019, the Group does not use any derivative financial instruments to hedge certain risk exposures.

The Group's risk management is carried out by the treasury department under policies approved by the Board of Directors. Treasury department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments, and investment of excess liquidity.

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities denominated in a currency which is not the entity's functional currency.

There is no material foreign exchange risk noted for the Group as:

- the transactions of the Company are mainly denominated in HK$, which is the functional currency of the Company; and
- the operations and customers of the Group's subsidiaries are located in the PRC with most of the operating assets and transactions denominated and settled in Renminbi, which is the functional currency of the Group's subsidiaries.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(ii) Interest rate risk

The Group's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variables rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. As at 31 December 2019 and 2018, the Group's borrowings are all bearing interests at fixed rates and hence the Group is subject to fair value interest rate risk only but the related exposure is not significant as all of the Group's borrowing are with short maturities.

As the Group has no significant interest-bearing assets, other than bank deposits, the Group's operating income and cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

(i) Risk management

The Group has no significant concentrations of credit risk. The maximum extent of the Group's credit exposure in relation to financial assets is represented by the aggregate balance of cash and cash equivalents, restricted cash, trade and other receivables included in the consolidated balance sheet.

The Group mitigates its exposure to credit risk by placing deposits with stated-owned banks in the PRC and other financial institutions with established credit rating. The Group has policies in place to ensure that sales of procedures are made to customers with an appropriate financial strength and credit history.

(ii) Impairment of financial assets

The Group has two type of financial assets that are subject to the expected credit loss model:

- trade receivables for sales of inventory
- other receivables

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2019 or 31 December 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at 31 December 2019 and 31 December 2018 (on adoption of HKFRS 9) was determined as follows for both trade receivables, except notes receivable which are bank acceptance bills with low credit risk:

	Current *HK$'000*	More than 30 days past due *HK$'000*	More than 90 days past due *HK$'000*	More than 270 days past due *HK$'000*	Total *HK$'000*
31 December 2019					
Expected loss rate (%)	**0%**	**5%**	**10%**	**100%**	
Gross carrying amount – trade receivables	**30,781**	**7,402**	**1,039**	**17,410**	**56,632**
Loss allowance	**–**	**370**	**104**	**17,410**	**17,884**
31 December 2018					
Expected loss rate (%)	0%	5%	10%	100%	
Gross carrying amount – trade receivables	25,972	2,542	641	19,225	48,380
Loss allowance	–	127	64	19,225	19,416

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

Other receivables (excluding loans to related parties) such as deposit are all considered to have low credit risk and the loss allowance recognised during the period was therefore limited to 12 months expected credit losses. Management consider 'low credit risk' for financial instruments when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligation in the near term. The Group has policies in place to ensure that counter party are financially viable and with an appropriate credit history. As at 31 December 2019, the loss allowance for other receivables (excluding loans to related party) was HK$6,049,000 (2018: HK$6,175,000).

Considering the poor financial capabilities of the related parties, the loans to related parties of HK$5,582,000 (2018: HK$5,706,000) as at 31 December 2019 was considered as fully impaired.

During the year, the following losses were recognised in profit or loss in relation to impaired financial assets:

	2019	2018
	HK$'000	*HK$'000*
Impairment losses		
Impairment losses on other financial assets	**–**	(1,388)
Reversal of previous impairment losses due to collection	**1,782**	–
Net impairment losses on financial assets	**1,782**	(1,388)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions. At the end of the reporting periods, the Group held cash and cash equivalents of HK$157,548,000 (2018: HK$80,952,000) (Note 20), trade receivables HK$38,748,000 (2018: HK$28,964,000) (Note 17) and notes receivable of HK$29,868,000 (2018: HK$8,354,000) (Note 18) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, the Group's treasury maintains flexibility in funding by maintaining availability under committed credit lines.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk (continued)

Management monitors rolling forecasts of the Group's liquidity reserve (comprising the borrowing facilities below) and cash and cash equivalents on the basis of expected cash flows. This is generally carried out at local level in the operating companies of the Group in accordance with practice set by the Group. In addition, the Group's liquidity management policy involves considering the level of liquid assets necessary to meet these and monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

(i) Maturities of financial liabilities

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than one year or on demand	
	2019	2018
	HK$'000	*HK$'000*
Group		
At 31 December		
Lease liabilities – current	**2,676**	–
Borrowings	**–**	227,774
Trade payables	**100,598**	106,030
Other payables *(Note (a))*	**122,778**	124,472
	226,052	458,276

Notes:

(a) Other payables did not include payroll payable, amounts due to Tsinlien Group, other tax payables and deposits.

(b) Non-current lease liabilities of HK$1,001,000 will be paid within 36 months.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital management

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the liability-to-asset ratio. As at 31 December 2019, the Group's liability-to-asset ratio was approximately 91% (2018: 80%).

3.3 Fair value estimation

The carrying values of the Group's financial assets (including cash and cash equivalents, restricted cash, trade receivables, other receivables and notes receivable) and financial liabilities (including trade payables, other payables, lease liabilities and borrowings) approximate their fair values.

4 CRITICAL ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates

(a) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

4 CRITICAL ESTIMATES AND JUDGEMENTS *(continued)*

4.1 Critical accounting estimates *(continued)*

(b) Impairment of non-current operating assets

Investments in right-of-use assets, and property, plant and equipment (collectively the "Non-current Operating Assets") are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable in accordance with the accounting policy. Future cash flow estimates which are used to calculate the asset's fair value are discounted using asset specific discount rates and are based on expectations about future operations, primarily comprising estimates about revenue growth rate, production and sales volumes, market prices of the products and capital expenditures. The key parameters and inputs in determining the recoverable amount of the Non-current Operating Assets are determination of comparable companies in the market, estimated revenue growth rate, discount rate and estimated market value of the Group's land use rights. Estimates are reviewed regularly by management. Changes in such estimates and in particular, deterioration in the market outlook, could impact the recoverable amounts of these assets, whereby some or all of the carrying amount may be impaired or the impairment charge reduced (if market outlook improves significantly), with the impact recorded in the income statement.

(c) Impairment allowance of inventories

The Group reviews the carrying value of its inventories to ensure that they are stated at the lower of cost and net realisable value. The determination of the impairment allowance for inventories involves significant management judgment and estimates including factors such as historical usage of raw wine, aging profile of the raw materials and finished wine products, historical sales track records, forecasted sales volumes, selling prices as well as selling expenses and physical condition.

(d) Impairment allowance of trade receivables

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in note 3.

5 SEGMENT INFORMATION

In accordance with the Group's internal reporting, the chief operating decision-maker considers the business from product perspective and has determined the operating segments to be red wines, white wines and all other products primarily related to the sale of sparkling wines, brandy and ice wine. The executive directors assess the performance of the operating segments based on gross profit. All revenue of the Group are from external customers.

	Red wines *HK$'000*	White wines *HK$'000*	Others *HK$'000*	Total *HK$'000*
For the year ended 31 December 2019				
Revenue from contracts with customers *(Note (a))*	**221,097**	**76,164**	**5,072**	**302,333**
Gross profit	**54,883**	**19,653**	**3,513**	**78,049**
Impairment allowance of inventories	**(3,088)**	**(1,064)**	**(71)**	**(4,223)**
Depreciation	**(9,086)**	**(3,130)**	**(208)**	**(12,424)**
Reversal of impairment losses on financial assets	**1,303**	**449**	**30**	**1,782**
For the year ended 31 December 2018				
Revenue from contracts with customers *(Note (a))*	260,719	81,784	2,430	344,933
Gross profit	68,675	22,455	1,926	93,056
Impairment allowance of inventories	(588)	(200)	(6)	(794)
Depreciation and amortisation	(7,885)	(2,473)	(73)	(10,431)
Impairment losses on financial assets	(1,049)	(329)	(10)	(1,388)

Note:

(a) Revenue included sale of wine products to the subsidiaries of Tianjin Food Group Co., Ltd. (hereinafter referred to as "Tianjin Food Group"), which amounted to HK$11,547,000 (2018: HK$746,000). The Directors consider Tianjin Food Group is a related party of the Group.

5 SEGMENT INFORMATION *(continued)*

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

	2019 HK$'000	2018 HK$'000
Gross profit for reportable segments	78,049	93,056
Other income, other gains and losses – net	5,031	1,850
Distribution costs	(76,853)	(79,629)
Administrative expenses	(74,550)	(85,415)
Net impairment losses on financial assets	1,782	(1,388)
Operating loss	(66,541)	(71,526)
Finance costs – net	(2,703)	(7,646)
Loss before income tax	(69,244)	(79,172)

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

The Group's customer base is diversified and no external customers (2018: Nil) with whom transactions have exceeded 10% of the Group's revenues.

The majority of sales of the Group were made within the PRC.

6 EXPENSES BY NATURE

	2019	2018
	HK$'000	*HK$'000*
Raw materials and consumables used *(Note (a))*	**108,254**	59,350
Changes in inventories of finished goods and work in progress	**38,460**	119,048
Processing and assembling expenses *(Note (b))*	**3,821**	2,816
Advertising, marketing, and other incidental promotion expenses	**16,059**	7,745
Consumption tax of domestic sales and other taxes	**26,027**	31,800
Employee benefit expenses *(Note 7)*	**96,274**	106,242
Storage expenses	**7,599**	12,754
Transportation	**11,332**	11,668
Travelling expenses	**4,345**	4,297
Depreciation of property, plant and equipment	**8,933**	9,946
Amortisation of intangible assets	**–**	485
Depreciation of right-of-use assets	**3,491**	–
Consultancy and professional fee	**11,122**	9,975
Operating lease payments *(Note (c))*	**2,180**	5,159
Maintenance expense	**3,402**	2,107
Auditors' remuneration	**3,386**	5,840
Impairment allowance of inventories	**4,223**	794
Other expenses	**26,779**	26,895
(Reversal of)/provision for impairment losses of financial assets	**(1,782)**	1,388
Total cost of sales of goods, distribution costs, administrative expenses and net impairment losses on financial assets	**373,905**	418,309

Notes:

(a) Raw materials and consumables used included purchased goods from Tianjin Food Group, which amounted to HK$9,266,000 (2018: HK$9,478,000).

(b) All of the processing and assembling expenses are incurred for the service as rendered by the subsidiaries of Tianjin Food Group.

(c) Operating lease payments included rental fees for facilities paid or payable to the subsidiaries of Tianjin Food Group, which amounted to HK$1,558,000 (2018: HK$1,535,000).

7 EMPLOYEE BENEFIT EXPENSES

	2019 *HK$'000*	2018 *HK$'000*
Wages and salaries	**77,532**	82,899
Social security costs – other insurances	**10,758**	13,007
Social security costs – retirement insurance	**7,069**	9,589
Other benefits	**915**	747
Total employee benefit expense	**96,274**	106,242

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2018: three) Directors whose emoluments are reflected in the analysis shown in Note 33. The emoluments payable to the remaining two (2018: two) individuals during the year are as follows:

	2019 *HK$'000*	2018 *HK$'000*
Salaries and allowances	**2,461**	2,004
Contributions to retirement benefits scheme	**102**	87
	2,563	2,091

The emoluments fell within the following bands:

	Number of individuals	
	2019	2018
Emolument bands		
Nil – HK$1,000,000	**1**	1
HK$1,500,001 – HK$2,000,000	**1**	1
	2	2

No emolument was paid by the Group to any of the Directors or the five highest paid individuals as an inducement to join the Group or upon joining the Group or as compensation for loss of office for the year ended 31 December 2019 (2018: Nil).

8 OTHER INCOME, OTHER GAINS AND LOSSES – NET

	2019	2018
	HK$'000	*HK$'000*
Compensation received for inventory loss *(Note (a))*	**4,768**	–
Gain on disposal of obsolete products, net *(Note (b))*	**1,645**	–
Government grants	**917**	351
Service income	**–**	239
(Loss)/gain on disposal of property, plant and equipment, net	**(71)**	153
Compensation to suppliers related to contractual obligation for purchasing raw wines *(Note (c))*	**(1,146)**	–
Provision for potential compensation to employees *(Note 24)*	**(1,983)**	–
Others	**901**	1,107
	5,031	1,850

Notes:

(a) As announced by the Company on 8 August 2018, a subsidiary of the Company filed a civil claim against a distributor which bypassed the established procedures and took the Group's products with estimated sales values of HK$16.11 million and costs of HK$7.18 million. The Group has made a full impairment allowance against the lost inventories in 2017. In 2019, the subsidiary received the compensation with total value of about HK$4.77 million by judgement of the court, in the forms of cash, a residential property and certain physical assets.

(b) During 2019, two of the Group's subsidiaries disposed obsolete products totaling 14.5 million bottles to a third party at a total price of HK$1,645,000. The related products had been fully impaired in previous years.

(c) In March 2019, a lawsuit was lodged by a supplier against one of the Group's subsidiaries for its non-performance under a raw wine purchasing contract signed in May 2015. According to the first-instance judgement of Tianjin Beichen District People's Court on 2 December 2019, the Group should honour the commitment to buy the raw wine amounted to HK$5,931,000 (Note 30(c)). A total loss amounted to HK$1,146,000 was resulted from this lawsuit to the Group.

9 SUBSIDIARIES

The Group's principal subsidiaries at 31 December 2019 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2019 %	2018 %	2019 %	2018 %
Grand Spirit Holdings Limited	British Virgin Islands, limited liability company	Investment holding; Hong Kong	US$200	100	100	–	–
Smiling East Resources Limited	British Virgin Islands, limited liability company	Investment holding; Hong Kong	US$1	100	100	–	–
Ho Tin International Co., Ltd.	British Virgin Islands, limited liability company	Investment holding; Hong Kong	US$1	100	100	–	–
Dynasty Fine Wines (Asia Pacific) Limited	Hong Kong, limited liability company	Trading of wine products; Hong Kong	HK$10,000,000	100	100	–	–
Sino-French Joint-Venture Dynasty Winery Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing and sale of wine products; PRC	RMB407,499,000	100	100	–	–
Shandong Yu Huang Grape Wine Co., Ltd. ("Yuhuang")	PRC, limited liability company	Manufacturing and sale of unprocessed wine; PRC	RMB6,860,000	65	65	35	35
Tianjin Tianyang Grape Winery Co. Ltd. ("Tianyang")	PRC, sino-foreign equity joint venture	Manufacturing and sale of unprocessed wine; PRC	RMB41,532,000	60	60	40	40
Tianjin Tianyang Grape Winery Sales Co. Ltd. ("Tianyang Sales")	PRC, foreign-owned enterprise	Sale of wine products; PRC	RMB500,000	60	60	40	40
Shanghai Dynasty Grape Winery Sales Co., Ltd.	PRC, limited liability company	Sale of wine products; PRC	RMB1,000,000	100	100	–	–
Tianjin Dynasty Winery Sales Co., Ltd. ("Tianjin Sales")	PRC, wholly foreign-owned enterprise	Sale of wine products; PRC	HK$50,000,000	100	100	–	–
Tianjin Dynasty International Winery Ltd.	PRC, limited liability company	Sale of wine products; PRC	RMB50,000,000	100	100	–	–
Shanghai Dynasty Wine Cellar Co., Ltd. ("Shanghai Cellar")	PRC, limited liability company	Sale of wine products; PRC	RMB6,000,000	51	51	49	49

10 INVESTMENT IN AN ASSOCIATE

Set out below are details of the associate of the Group as at 31 December 2019 and 2018. The country of incorporation or registration is also its principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Place of business/country of incorporation	% of ownership interest		Nature of relationship	Measurement method	Quoted fair value*		Carrying amount	
		2019	2018			**2019**	2018	**2019**	2018
		%	*%*			***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Dynasty Yuma Vineyard (Ningxia) Co. Ltd.	PRC/PRC	**25**	25	Associate	Equity method	**–**	–	**–**	–

* Private entity – no quoted price available

As at 31 December 2019, the Group held a 25% equity interest of Dynasty Yuma Vineyard (Ningxia) Co. Ltd. ("Yuma"), an unlisted company established and operating in the PRC as manufacturer and distributor of unprocessed wines with a paid up ordinary share 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 due to the continuing losses of the associate. The associate becomes inactive without any production activities since October 2011.

11 FINANCE COSTS – NET

	2019	2018
	HK$'000	*HK$'000*
Finance income – interest income	**1,984**	410
Finance costs – interest paid for lease liabilities	**(204)**	–
Finance costs – interest expense on bank borrowings	**(4,483)**	(8,056)
Finance costs – net	**(2,703)**	(7,646)

12 INCOME TAX EXPENSE

	2019	2018
	HK$'000	*HK$'000*
Current income tax	**64**	71
Deferred income tax	**–**	–
Income tax expense	**64**	71

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the consolidated entities as follows:

	2019	2018
	HK$'000	*HK$'000*
Loss before income tax	**(69,244)**	(79,172)
Tax calculated at statutory tax rates applicable to losses in the respective countries	**(16,208)**	(18,678)
Expenses not deductible for tax purposes	**1,046**	1,492
Changes in the temporary differences for which no deferred income tax asset was recognized	**(50,335)**	(18,925)
Tax losses for which no deferred income tax asset was recognised	**65,561**	36,182
Income tax expense	**64**	71

The weighted-average effective tax rate for the year ended 31 December 2019 was 23% (2018: 24%).

13 LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated by dividing:

- the loss attributable to owners of the Company,
- by the weighted-average number of ordinary shares outstanding during the financial year.

	2019	2018
Loss attributable to owners of the Company *(HK$'000)*	**(72,943)**	(78,668)
Weighted-average number of ordinary shares in issue *('000)*	**1,248,200**	1,248,200
Loss attributable to the ordinary equity holders of the Company *(HK$ Cents)*	**(5.84)**	(6.30)

(b) Diluted loss per share

The Group had no dilutive instruments during the years ended 31 December 2019 and 2018 and the Group's diluted loss per share equal to its basic loss per share for the years ended 31 December 2019 and 2018.

14 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	HK$'000
At 1 January 2018	
Cost	28,030
Accumulated amortisation	(8,861)
Net book amount	19,169
At 31 December 2018	
Opening net book amount	19,169
Exchange differences	(868)
Amortisation charge	(485)
Closing net book amount	17,816
At 31 December 2018	
Cost	26,744
Accumulated amortisation	(8,928)
Net book amount	17,816
Adoption of HKFRS 16 *(Note 2.2)*	(17,816)
Net book amount as at 1 January 2019	–

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings and constructions HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2018						
Cost	273,116	427,324	118,247	23,846	695	843,228
Accumulated depreciation and impairment	(237,646)	(380,718)	(110,650)	(22,129)	–	(751,143)
Net book amount	35,470	46,606	7,597	1,717	695	92,085
Year ended 31 December 2018						
Opening net book amount	35,470	46,606	7,597	1,717	695	92,085
Exchange differences	(1,573)	(2,024)	(330)	(68)	(17)	(4,012)
Additions	–	839	1,566	–	–	2,405
Disposals	–	(28)	(16)	–	(678)	(722)
Depreciation charge	(2,389)	(5,803)	(1,479)	(275)	–	(9,946)
Closing net book amount	31,508	39,590	7,338	1,374	–	79,810
At 31 December 2018						
Cost	260,586	407,988	114,289	22,826	–	805,689
Accumulated depreciation and impairment	(229,078)	(368,398)	(106,951)	(21,452)	–	(725,879)
Net book amount	31,508	39,590	7,338	1,374	–	79,810
Year ended 31 December 2019						
Opening net book amount	**31,508**	**39,590**	**7,338**	**1,374**	**–**	**79,810**
Exchange differences	**(689)**	**(807)**	**(144)**	**(21)**	**–**	**(1,661)**
Additions	**2,025**	**172**	**492**	**–**	**–**	**2,689**
Disposals	**–**	**(30)**	**(68)**	**(498)**	**–**	**(596)**
Depreciation charge	**(1,899)**	**(5,528)**	**(1,359)**	**(147)**	**–**	**(8,933)**
Closing net book amount	**30,945**	**33,397**	**6,259**	**708**	**–**	**71,309**
At 31 December 2019						
Cost	**256,887**	**398,935**	**111,322**	**17,607**	**–**	**784,751**
Accumulated depreciation and impairment	**(225,942)**	**(365,538)**	**(105,063)**	**(16,899)**	**–**	**(713,442)**
Net book amount	**30,945**	**33,397**	**6,259**	**708**	**–**	**71,309**

Note:

The Directors has assessed the recoverable amounts of the Group's property, plant and equipment and land use rights as at 31 December 2019 and concluded that no further impairment provision has to be provided for the year ended 31 December 2019 (2018: Nil).

For the purpose of the impairment assessment, management has determined the recoverable amounts of the red and white wines cash-generating units ("CGU") based on fair value less costs of disposal calculations ("FVLCOD", which is higher than the value-in-use of the CGU) by reference to the published financial information of certain selected comparable companies which are in the same industry. The key parameters and inputs which are most sensitive for the FVLCOD calculations include determination of comparable companies in the market, the estimated revenue growth rates, discount rates and the estimated market value of the Group's land use rights representing a majority part of the fair value of the whole CGU as adopted in the assessment. The estimated revenue growth rates as adopted in the impairment assessment ranges from 1.2% to 2.0% (2018: 2.6% to 4.2%) throughout the entire forecast periods. The post-tax discount rate as adopted by management in the impairment assessment is 14.7% (2018: 14.4%) which reflects the current market assessment of the time value of money and the risks specific to the CGU. The estimated market value of the Group's land use right as adopted by management in the impairment assessment is RMB648 (2018: RMB513) per square meter.

16 LEASES

(i) Amounted recognized in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2019 *HK$'000*	1 January 2019 *HK$'000*
Right-of-use assets		
Land-use rights	**16,959**	17,816
Buildings	**3,501**	2,687
	20,460	20,503
Lease liabilities		
Current	**2,676**	1,599
Non-current	**1,001**	1,088
	3,677	2,687

The Group has land lease arrangement with mainland China government.

Additions to the right-of-use assets during the 2019 financial year were HK$3,927,000.

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2019 *HK$'000*
Depreciation charge of right-of-use assets	
Land-use rights	**(472)**
Buildings	**(3,019)**
	(3,491)
Interest expense (included in finance costs)	**(204)**
Expense relating to short-term leases (included in cost of sales of goods and administrative expenses)	**(9,779)**

The total cash outflow from leases in 2019 was HK$12,920,000.

16 LEASES *(continued)*

(iii) The Group's leasing activities and how these are accounted for

The Group leases various offices and warehouses. Rental contracts are typically made for fixed periods of 12 – 36 months.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

17 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

(a) Trade receivables

	2019	2018
	HK$'000	*HK$'000*
Trade receivables from contracts with customers	**56,632**	48,380
Bad debt provision for trade receivables *(Note 3.1)*	**(17,884)**	(19,416)
Trade receivables – net	**38,748**	28,964

As at 31 December 2019, trade receivables of HK$454,000 (2018: HK$469,000) was due from the subsidiaries of Tianjin Food Group.

The Group grants a credit period of 90 days (2018: 90 days) to its customers. The ageing analysis of the trade receivables is as follows:

	2019	2018
	HK$'000	*HK$'000*
Up to 90 days	**30,781**	25,972
More than 30 days past due	**7,402**	2,542
More than 90 days past due	**1,039**	641
More than 270 days past due	**17,410**	19,225
	56,632	48,380

The carrying amounts of the Group's trade receivables were principally denominated in Renminbi.

(i) Fair value of trade receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

17 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS *(continued)*

(a) Trade receivables *(continued)*

(ii) Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Note 3.1(b) provides for details about the calculation of the allowance.

The loss allowance decreased by HK$1,532,000 to HK$17,884,000 during the current reporting period.

Information about the impairment of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3.1.

(b) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group.

Interest may be charged at commercial rates where the terms of repayment exceed six months. Collateral is not normally obtained.

	2019 HK$'000	2018 HK$'000
Loan to related parties	**5,582**	5,706
Deposits paid	**4,098**	4,088
Taxes to be offset	**3,255**	4,975
Advance of promotion expense *(Note (i))*	**2,791**	2,853
Cash advance to employees	**200**	651
Other receivables	**4,622**	4,183
	20,548	22,456
Less: Loss allowance for other receivables *(Note 3.1(b))*	**(11,631)**	(11,881)
	8,917	10,575

Notes:

(i) The advance of promotion expense to distributors will be recovered if the distributors fail to meet the pre-determined sales target according to the respective agreements.

(ii) Other receivables (other than taxes recoverable) are considered as having low credit risk and the loss allowance recognised during the year was therefore limited to 12 months expected credit loss.

17 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS *(continued)*

(c) Prepayments

	2019	2018
	HK$'000	*HK$'000*
Prepayments to		
– third parties *(Note (a))*	**88,059**	3,042
– related parties *(Note (b))*	**7,189**	10,256
	95,248	13,298

Notes:

(a) Prepayments to relevant taxes and transaction fee of transferring the Chateau are HK$84,573,000 and HK$2,178,000 respectively.

(b) Prepayments to related parties include processing and assembling expenses as prepaid to the subsidiaries of Tianjin Food Group amounted to HK$7,126,000 (2018:HK$10,191,000), and prepaid raw material expense to Tsinlien Group and its subsidiaries amounted to HK$63,000 (2018:HK$65,000) (Note 31).

18 NOTES RECEIVABLE

	2019	2018
	HK$'000	*HK$'000*
Bank acceptance bill	**29,868**	8,354

As of 31 December 2019 and 2018, notes receivable amounted to HK$29,868,000 and HK$8,354,000 were all bank acceptance notes with maturity date within 6 months and are classified as financial assets at FVOCI.

The methods and assumptions used in determining fair value of bills receivable is provided in Note 2.12.

19 INVENTORIES

	2019	2018
	HK$'000	*HK$'000*
Raw materials *(Note (a))*	**201,306**	206,670
Work in progress *(Note (b))*	**2,939**	5,074
Finished goods *(Note (c))*	**87,187**	319,464
Low value consumables	**33,371**	35,749
	324,803	566,957
Inventory provision write-down *(Note (d))*	**(35,056)**	(229,905)
	289,747	337,052

Notes:

(a) The raw materials mainly contain raw wines, yeast and additives.

(b) Work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

(c) Finished goods are bottled wine products, which are ready for sale.

(d) Inventory impairment allowance movement

	2019	2018
	HK$'000	*HK$'000*
As at 1 January	**(229,905)**	(296,813)
Charges to profit or loss	**(4,223)**	(794)
Utilised upon the sales of the inventories	**195,952**	48,694
Inventories count loss write-off	**–**	7,182
Exchange differences	**3,120**	11,826
As at 31 December	**(35,056)**	(229,905)

As at 31 December 2019, finished goods with costs of HK$22,157,000 (2018: HK$220,607,000) was considered as obsolete, while finished goods of HK$11,018,000 (2018: HK$8,789,000) was considered as slow-moving and full provision for impairment allowance have been recognised on these inventories of finished goods. The remaining provision for impairment allowance of inventories of HK$1,881,000 (2018: HK$509,000) as at 31 December 2019 was recognised to write down the remaining inventories of finished goods to their estimated net realisable values by reference to the market price of certain imported wines.

(e) Inventories recognised as "cost of sales of goods" and "distribution costs" during the year ended 31 December 2019 amounted to HK$142,011,000 and HK$4,703,000 respectively (2018: HK$172,812,000 and HK$5,586,000).

20 CASH AND BANK

(i) Restricted cash

The cash and bank include restricted cash of HK$384,000 (2018: HK$389,000) held by the Group. These deposits are subject to regulatory restrictions and are therefore not available for general use by the other entities within the Group.

(ii) Cash and cash equivalents in cash flow statement

	2019 HK$'000	2018 HK$'000
Cash at bank and in hand	157,548	80,952

Cash at bank were primarily deposited in the banks in the PRC and were principally denominated in Renminbi ("RMB"). The conversion of these RMB denominated balances into foreign currencies and remittance out of the PRC is subject to the rules and regulations of foreign exchange controls promulgated by the PRC government.

21 ASSETS CLASSIFIED AS HELD FOR SALE

	2019 HK$'000	2018 HK$'000
Assets held for sale – Chateau and related facilities		
Buildings	145,421	148,674
Land use right	32,647	33,377
	178,068	182,051

On 23 July 2018, a subsidiary of the Company named Sino-French Joint-Venture Dynasty Winery Ltd. ("Dynasty Tianjin") entered into an Asset Transaction Agreement with the third party (the "Buyer") to dispose land use rights and aboveground buildings covering a chateau and the related facilities of Dynasty Tianjin to the Buyer at a total consideration of RMB400 million.

Dynasty Tianjin received the consideration of RMB400 million (equivalent to HK$446.5 million) on 16 May 2019. As at 31 December 2019, the consideration received was recorded as a current liability and this transaction has been completed on 23 January 2020.

The change in the assets balance in the year ended 31 December 2019 was the exchange translation difference.

22 SHARE CAPITAL

	Number of shares (thousands)	Share capital HK$'000
At 1 January 2018, 31 December 2018 and 31 December 2019	1,248,200	124,820

23 OTHER RESERVES

	Share premium HK$'000 (Note i)	Merger reserve HK$'000 (Note ii)	Reserve fund HK$'000 (Note iii)	Enterprise expansion fund reserve HK$'000 (Note iii)	Exchange reserve HK$'000 (Note iv)	Total HK$'000
As at 1 January 2018	464,464	74,519	158,928	94,434	365,585	1,157,930
Currency translation differences	–	–	–	–	(10,298)	(10,298)
As at 31 December 2018 and 1 January 2019	464,464	74,519	158,928	94,434	355,287	1,147,632
Currency translation differences	–	–	–	–	(2,813)	(2,813)
As at 31 December 2019	**464,464**	**74,519**	**158,928**	**94,434**	**352,474**	**1,144,819**

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 re-organisation in preparation for listing its shares on the Main Board of The Stock Exchange of Hong Kong Limited.

(iii) RESERVE FUND AND ENTERPRISE EXPANSION FUND 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 fund 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 fund reserve can be used for expansion of production facilities or increase in registered capital. In 2019 and 2018, there was no net profit for appropriation.

(iv) EXCHANGE RESERVE

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in Note 2.6 and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

24 PROVISIONS FOR CONTINGENT LIABILITIES

	2019	2018
	HK$'000	*HK$'000*
Provision for potential compensation to employees	**1,961**	–

In December 2019, four employees of the Group lodged a labour arbitration to Tianjin Beichen District Labour Dispute Arbitration Committee against two subsidiaries of the Company for claiming a total compensation of RMB3.5 million regarding the terminations of their employment contracts, which were for the purpose of changing their employment to other subsidiaries within the Group. Up to the approval date of these financial statements, this arbitration was still in progress. Based on the understanding of the related laws and regulations and the consultation with an external legal counsel, the Directors are of the view that the potential compensation amount is not likely to be higher than RMB1.76 million (equivalent to HK$1.96 million). Therefore, a provision for this contingent liability was made.

25 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2019	2018
	HK$'000	*HK$'000*
Trade payables *(Note (a))*	**100,598**	106,030
Other payables and accruals		
– Accruals for sales promotion expenditures	**56,307**	41,690
– Amount due to Tsinlien Group	**42,404**	42,404
– Other taxes payables	**10,931**	8,042
– Payroll payable	**6,364**	5,890
– Others	**72,773**	92,370
	188,779	190,396
	289,377	296,426

Notes:

(a) Trade payables are unsecured and are usually paid within 90 days of recognition. As at 31 December 2019, trade payables of HK$32,247,000 (2018: HK$26,212,000) was due to the subsidiaries of Tianjin Food Group.

(b) The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

25 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS *(continued)*

Notes: (continued)

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

	2019 HK$'000	2018 HK$'000
0–30 days	55,370	31,418
31–90 days	2,263	19,583
91 to 180 days	2,227	3,147
Over 180 days	40,738	51,882
	100,598	106,030

26 CONTRACT LIABILITIES

	2019 HK$'000	2018 HK$'000
Advance received from distributors	66,028	83,850

27 BORROWINGS

	2019 HK$'000	2018 HK$'000
Entrusted bank borrowings	–	216,845
Financial liability due to a bank	–	4,794
Other borrowings	–	2,191
	–	223,830

The fair values of all borrowings approximate their carrying amounts, since either the interest payable on those borrowings is close to current market rates or the borrowings financial liability are with short maturity periods.

28 DEFERRED INCOME TAX

There was no movement in deferred income tax assets or liabilities during the year ended 31 December 2019 and 2018.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. As of 31 December 2019, the Group did not recognise deferred income tax assets of HK$233,592,000 (2018: HK$293,079,000) in respect of tax losses and others temporary differences which are primarily arising from asset impairment, amounting to HK$727,120,000 and HK$238,135,000 respectively (2018: HK$758,280,000 and HK$447,052,000 respectively) that can be carried forward against future taxable income.

Unrecognised tax losses are expiring as below:

	2019 *HK$'000*	2018 *HK$'000*
2019	**–**	280,525
2020	**123,927**	123,927
2021	**126,728**	126,728
2022	**81,081**	81,081
2023	**146,019**	146,019
2024	**249,365**	–
	727,120	758,280

29 CASH FLOW INFORMATION

(a) Cash used in operations

	2019 HK$'000	2018 HK$'000
Loss before income tax	**(69,244)**	(79,172)
Adjustments for:		
Interest income *(Note 11)*	**(1,984)**	(410)
Finance costs *(Note 11)*	**4,687**	8,056
Depreciation of property, plant and equipment *(Note 15)*	**8,933**	9,946
Depreciation of right-of-use assets *(Note 16)*	**3,491**	–
Amortisation *(Note 14)*	**–**	485
Loss/(gain) on disposal of property, plant and equipment, net *(Note 8)*	**71**	(153)
Net impairment loss on financial assets *(Note 6)*	**(1,782)**	1,388
Impairment allowance of inventories *(Note 19)*	**4,223**	794
Change in operating assets and liabilities (excluding the effects of currency translation differences on consolidation):		
– Decrease in inventories	**43,082**	92,004
– (Increase)/decrease in trade and other receivables	**(7,069)**	444
– (Increase)/decrease in notes receivable	**(21,937)**	5,043
– Decrease/(increase) in prepayments	**3,600**	(11,335)
– Decrease in trade and other payables and accruals	**(611)**	(77,991)
– Increase in provision for contingent liabilities	**1,983**	–
– Decrease in contract liabilities	**(16,164)**	(42,568)
Cash used in operations	**(48,721)**	(93,469)

(b) Major non-cash transactions

During the year ended 31 December 2019, the Group has endorsed bank acceptance bills with an aggregated amounts of HK$25,146,000 (2018: HK$37,671,000) to the its suppliers as the Group's settlement of the payable balances due to the respective suppliers.

29 CASH FLOW INFORMATION *(continued)*

(c) Net debt reconciliation

	2019	2018
	HK$'000	*HK$'000*
Cash and cash equivalents	**157,548**	80,952
Borrowings – repayable within one year	**–**	(223,830)
Lease liabilities	**(3,677)**	–
Net debt	**153,871**	(142,878)
Cash	**157,548**	80,952
Gross debt – fixed interest rates	**(3,677)**	(223,830)
Net debt	**153,871**	(142,878)

	Cash	**Borrowings due within 1 year**	**Lease**	**Net debt total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2018	82,094	(145,455)	–	(63,361)
Cash flows	(3,753)	(97,228)	–	(100,981)
Foreign exchange adjustments	2,611	–	–	2,611
Other non-cash movements	–	18,853	–	18,853
As at 31 December 2018	80,952	(223,830)	–	(142,878)
Recognised on adoption of HKFRS 16 *(Note 2.2)*	–	–	(2,687)	(2,687)
	80,952	**(223,830)**	**(2,687)**	**(145,565)**
Cash flows	**81,596**	**221,639**	**2,937**	**306,172**
Acquisition – leases	**–**	**–**	**(3,927)**	**(3,927)**
Foreign exchange adjustments	**(5,000)**	**–**	**–**	**(5,000)**
Other non-cash movements	**–**	**2,191**	**–**	**2,191**
As at 31 December 2019	**157,548**	**–**	**(3,677)**	**153,871**

30 COMMITMENTS

(a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2019	2018
	HK$'000	*HK$'000*
Property, plant and equipment – labelling machine	**391**	–

30 COMMITMENTS *(continued)*

(b) Non-cancellable operating leases

The Group leases various offices and warehouses under non-cancellable operating leases expiring within 5 years. These leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Note 2.2 and Note 16 for further information.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2019	2018
	HK$'000	*HK$'000*
Within one year	**556**	7,431
Later than one year and not later than five years	**–**	1,232
	556	8,663

(c) Commitments of raw wine purchasing

	2019	2018
	HK$'000	*HK$'000*
Contractual obligation for purchasing raw wines – not recognised as a liability	**5,931**	–

31 RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions during the year which in the opinion of the Directors were conducted in the normal course of the Group's business.

Other than the related party transactions/balances disclosed in elsewhere of the report, the remaining related party transactions/balances are as follows.

(a) Related parties

The Group treated the following parties as the major related parties:

Related parties	Relationship
Tsinlien Group	Major shareholder of the Company
Tsinlien Investment	Holding company of Tsinlien Group
Remy Pacifique Limited ("Remy Pacifique")	Major shareholder of the Company

31 RELATED PARTY TRANSACTIONS *(continued)*

(b) Key management personal compensation

Key management includes Directors (executive and non-executive), the Company secretary and the senior management. The compensation paid or payable to key management for employee services is shown below:

	2019	2018
	HK$'000	*HK$'000*
Short-term employee benefits	**7,318**	7,166
Long-term benefits	**302**	230
	7,620	7,396

(c) Transactions with other related parties

	2019	2018
	HK$'000	*HK$'000*
(i) Purchases of goods		
– Tsinlien Group and its subsidiaries	**689**	696

The prices of purchases of goods and services from related parties are determined based on normal commercial terms and conditions.

(d) Outstanding balances arising from purchases of goods and services

	2019	2018
	HK$'000	*HK$'000*
(i) Current payables to related parties:		
– Tsinlien Group and its subsidiaries	**3,450**	2,769

The payables to related parties bore no interest.

	2019	2018
(ii) Prepayment to related parties		
– Tsinlien Group and its subsidiaries	**63**	65

32 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	2019 *HK$'000*	2018 *HK$'000*
Assets		
Non-current assets		
Property, plant and equipment	**324**	429
Interests in subsidiaries	**538,769**	539,940
Dividend receivable from subsidiaries	**104,739**	104,739
Total non-current assets	**643,832**	645,108
Current assets		
Trade receivables	**22**	17
Other receivables and prepayments	**911**	805
Inventories	**364**	362
Cash and cash equivalents	**6,818**	17,689
Total current assets	**8,115**	18,873
Total assets	**651,947**	663,981
Equity and liabilities		
Capital and reserves attributable to owners of the Company		
Share capital	**124,820**	124,820
Other reserves *(Note (a))*	**904,789**	904,789
Accumulated losses	**(473,822)**	(460,036)
Total equity	**555,787**	569,573
Liabilities		
Current liabilities		
Other payables and accruals *(Note (b))*	**67,965**	65,638
Amount due to subsidiaries	**28,195**	28,770
Total liabilities	**96,160**	94,408
Total equity and liabilities	**651,947**	663,981

32 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

Notes:

(a) RESERVE MOVEMENT OF THE COMPANY

		Other reserves		
	Accumulated losses *HK$'000*	**Share premium** *HK$'000*	**Capital reserve** *HK$'000*	**Exchange reserve** *HK$'000*
As at 1 January 2018	(448,494)	464,464	331,286	109,039
Loss for the year	(11,542)	–	–	–
As at 31 December 2018	(460,036)	464,464	331,286	109,039
Loss for the year	(13,786)	–	–	–
As at 31 December 2019	**(473,822)**	**464,464**	**331,286**	**109,039**

(b) As at 31 December 2019, other payables and accruals included amounts due to Tsinlien Group of HK$42,404,000 (2018: HK$42,404,000) (Note 25).

33 BENEFITS AND INTERESTS OF DIRECTORS

Directors' emoluments

The remuneration of every director is set out below:

	Fees HK$'000	Salary HK$'000	Other benefits HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
2019					
Executive Directors					
Mr. Sun Jun	–	1,400	336	–	1,736
Mr. Li Guanghe	–	1,400	227	109	1,736
Mr. Sun Yongjian	–	538	1	109	648
Non-executive Directors					
Mr. Heriard-Dubreuil Francois	360	–	–	–	360
Ms. Shi Jing	288	–	–	–	288
Mr. Jean-Marie Laborde	360	–	–	–	360
Mr. Wong Ching Chung	360	–	–	–	360
Mr. Robert Luc	360	–	–	–	360
Independent non-executive Directors					
Mr. Yeung Ting Lap Derek Emory	288	–	–	–	288
Mr. Sun David Lee	288	–	–	–	288
Dr. Zhang Guowang	120	–	–	–	120
	2,424	3,338	564	218	6,544
2018					
Executive Directors					
Mr. Sun Jun	–	1,400	336	–	1,736
Mr. Li Guanghe	–	1,493	337	47	1,877
Mr. Sun Yongjian	–	434	1	111	546
Non-executive Directors					
Mr. Heriard-Dubreuil Francois	360	–	–	–	360
Ms. Shi Jing	288	–	–	–	288
Mr. Jean-Marie Laborde	360	–	–	–	360
Mr. Wong Ching Chung	360	–	–	–	360
Mr. Robert Luc	360	–	–	–	360
Independent non-executive Directors					
Mr. Yeung Ting Lap Derek Emory	288	–	–	–	288
Mr. Sun David Lee	288	–	–	–	288
Dr. Zhang Guowang	120	–	–	–	120
	2,424	3,327	674	158	6,583

34 EVENTS AFTER THE REPORTING PERIOD

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region.

The directors of the Company have assessed that the COVID-19 outbreak may have the following possible impact to the Group:

– The temporary economic slowdown resulted from the COVID-19 outbreak may lead to a reduction in the overall consumption of wines in the market which might indirectly affecting the Group's financial performance.

– The Group might have to experience longer turnover time for recovering its trade receivables which may increase the associated credit risks.

The overall financial effect of the above cannot be reliably estimated as of the date of these consolidated financial statements. The Group will closely monitor the development of the COVID-19 outbreak and continue to evaluate its impact on the financial position and operating results of the Group accordingly. The related impact will be reflected in the Company's 2020 interim and annual consolidated financial statements.

Five Years Summary

Following is a summary of the consolidated results and of the consolidated assets, liabilities and non-controlling interests in equity of the Group for the last five financial years.

CONSOLIDATED RESULTS

	Year ended 31 December				
	2019	2018	2017 Restated	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from contracts with customers	**302,333**	344,933	383,470	452,181	627,207
Loss before income tax	**(69,244)**	(79,172)	(135,227)	(101,240)	(206,949)
Income tax (expense)/credit	**(64)**	(71)	(27)	304	(18)
Loss after income tax	**(69,308)**	(79,243)	(135,254)	(100,936)	(206,967)
Non-controlling interests	**3,635**	(575)	(1,629)	(304)	(1,416)
Loss attributable to owners of the Company	**(72,943)**	(78,668)	(133,625)	(100,632)	(205,551)
Dividends	**–**	–	–	–	–

CONSOLIDATED ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS IN EQUITY

	2019	2018	2017 Restated	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	**91,769**	97,626	111,254	324,265	374,907
Current assets	**620,460**	479,584	588,184	686,224	860,153
Assets classified as held for sale	**178,068**	182,051	190,805	–	–
Current liabilities	**(806,570)**	(604,106)	(644,612)	(649,258)	(746,752)
Non-current liabilities	**(1,001)**	–	–	–	–
Non-controlling interests in equity	**(17,066)**	(13,739)	(15,009)	(15,568)	(16,943)
Capital and reserves attributable to owners of the Company	**65,660**	141,416	230,622	345,663	471,365