

# 2020

## Annual Report

  
**DYNASTY**  
Since 1980

**40<sup>TH</sup>** 周年  
DYNASTY  
★ 1980 - 2020 ★

**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

# 王朝干白·领军品类

王朝酒业2020干白沿海战略发布会



## 酒的王朝



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



40th 掘金新时代 共享王朝机遇 DYNASTY 王朝酒業

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# 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 – Tianjin Food 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

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>	Changes
Revenue from contracts with customers	<b>238,673</b>	302,333	-21%
Gross Profit	<b>60,119</b>	78,049	-22%
Profit/(loss) attributable to owners of the Company	<b>116,378</b>	(72,943)	

	<b>2020</b>	2019	Changes in percentage point
Gross profit margin	<b>25%</b>	26%	-1%

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. WAN Shoupeng<sup>(^)</sup>  
Mr. LI Guanghe  
Mr. HUANG Manyou<sup>(&)</sup>

### Non-Executive Directors

Mr. HÉRIARD-DUBREUIL Francois  
Mr. WONG Ching Chung<sup>(&)</sup>  
Mr. ROBERT Luc

### Independent Non-Executive Directors

Dr. ZHANG Guowang<sup>(#)(&)(^)</sup>  
Mr. YEUNG Ting Lap Derek Emory<sup>(#)(&)(^)</sup>  
Mr. SUN David Lee<sup>(#)(&)(^)</sup>

# Audit committee members

& Remuneration committee members

^ Nomination committee members

## COMPANY SECRETARY

Mr. HO Yiu Sum

## AUTHORISED REPRESENTATIVES

Mr. HUANG Manyou  
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  
Beijing Kangda Law Firm

## 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, Beichen 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

<https://dynastytj.jd.com>  
(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 2020 1,248,200,000 shares
Board lot	2,000 shares

## STOCK CODE

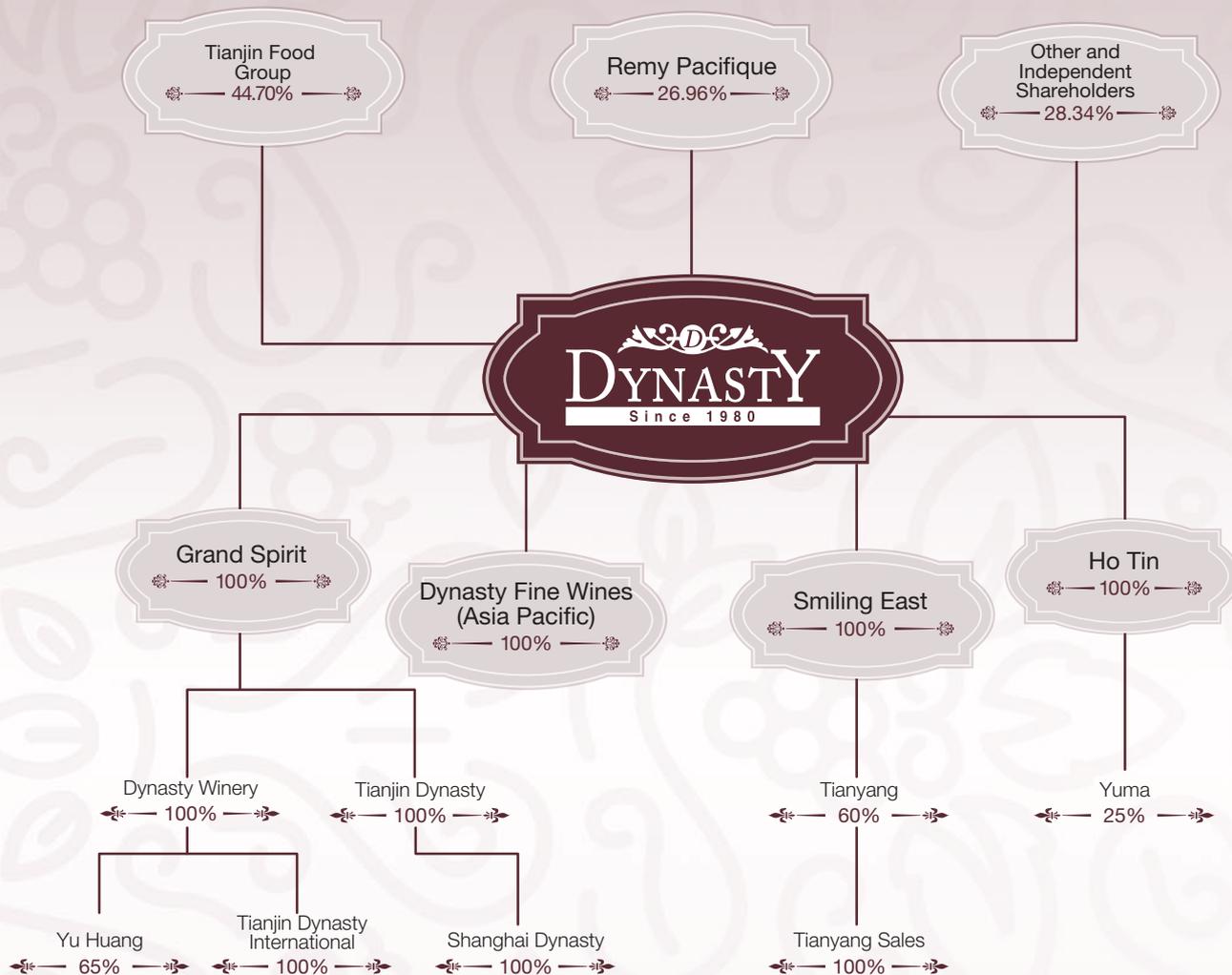
The Stock Exchange of Hong Kong Limited	00828
Reuters	0828.HK
Bloomberg	828:HK

## FINANCIAL YEAR-END DATE

31 December

# Corporate Structure

As at 31 December 2020



# 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 2020 decreased by 21% to HK\$238.7 million (2019 – HK\$302.3 million) and the Group’s profit attributable to owners of the Company increased to HK\$116.4 million (2019 – loss of HK\$72.9 million).

Earnings per share of the Company (the “**Share**”) was HK9.32 cents per Share (2019 – loss of HK5.84 cents per Share) based on the weighted average number of 1,248 million Shares (2019 – 1,248 million Shares) in issue during the year. There was no potential dilutive Share for the year ended 31 December 2020.

The increase in profit attributable to owners of the Company in 2020 was primarily contributed by the net gain on the disposal of the chateau and related facilities (the “**Disposal**”). Excluding such gain on the Disposal, the Group had an operating loss which was mainly attributable to (i) the drop in gross profit resulting from a decrease in the revenue of the Group; and (ii) the payment of employee compensation due to the implementation of employee reform plan during the year. The adjusted operating loss (after net gain on the Disposal and the employee compensation) decreased by 36% to approximately HK\$42.3 million (2019 – approximately HK\$66.5 million).

## BUSINESS REVIEW

### Sales analysis

#### A) *Distributorship*

The decrease in revenue was primarily attributable to the outbreak of novel coronavirus pandemic (“**COVID-19**”). Since the outbreak of COVID-19 in January 2020, the Group has adopted various prevention and control measures in accordance with the relevant national and local regulations on epidemic prevention and control, with an aim to minimising the impact of the outbreak on the Group’s operations. However, during the pandemic period, in particular from January to April 2020, business/government banquets and family gatherings were greatly reduced due to the restrictions imposed regarding the epidemic prevention and control policies. Place of consumption, such as supermarkets, tobacco and liquor stores and other retail terminals, were under strict policy control with regard to their operations, which seriously affected the consumption sentiments of wine products. Following the effective containment of COVID-19 and resumption of normal operation of places of consumption in the People’s Republic of China (the “**PRC**”), the Group’s business improved in the second half of the year.

During the year, the Group further pushed forward implementing of a sales and marketing reform, which encompassed (a) promoting two upgrades, namely product upgrade and brand upgrade, (b) forming the third-tier markets, i.e. the core market, key market and potential market and (c) taking the four management measures. Such measures included (i) enhancing expansion and control of online channels, such as developing new channels and launching new products; (ii) the launch of mass-scale marketing campaign including showcasing in retail shops, hosting wine tasting events and organising winery visits to strengthen the closer bonds with customers; (iii) accelerating the standardisation of the markets; and (iv) exploring new distributors and updating existing distributors to strengthen cooperation with them. The Group co-operated with distributors to strengthen the control on retail price and over the sales channels to improve the operational efficiency of the Group.

# Management Discussion and Analysis

The total number of bottles of wine sold decreased to approximately 9.4 million in 2020 (2019 – approximately 13.6 million). Sales of red wines continued to be the Group’s primary revenue contributor accounted for approximately 65% of the Group’s revenue for the year (2019 – 73%).

The Group produced a wide range of more than 100 wine products under the “Dynasty” brand to meet the demands and preferences of different consumer groups mainly in the mass-market segments in the PRC wine market. During the year, the Group launched a new high-end product, i.e. Dynasty Chinese Zodiac Commemorative Dry Red Wine for the Geng Zi Year of the Rat, integrating the high quality with the Chinese zodiac culture and leading the rise of Chinese-style fashion products. The Group also launched Dynasty Jiuxiang Rose Liqueur series early this year. Moreover, the blockbuster products, i.e. the second generation of Dynasty Merlot Dry Red Wine series made their debut on the market in May, targeting business banquets as a model for business use. Meanwhile, the Group released Dynasty Seven-Year Reserve Dry Red Wine series, positioning high-end market with national banquet quality.

In September 2020, the Group unveiled its strategic plan for its brandy business and launched 3 new brandy products, namely Dynasty V.S.O.P. Brandy Aged 8 Years, Dynasty V.S.O.P. Brandy Aged 10 Years and Dynasty X.O. 18 Years Old Brandy. The introduction of these new products not only enriches the product matrix and culture elements of Dynasty’s brandy, but also enhances its overall brand positioning. The new products are expected to become new growth drivers for Dynasty’s brandy business. The current new brandy product strategic plan also plays a key role in the implementation of its “5+4+N product strategy”, among which “5” represents the five key series of products namely, air dry series, seven-year reserve series, merlot series, classic series and best selling series, to achieve the goal of full coverage for all mainstream price segments; “4” refers to the four advantageous categories, i.e. dry red wines, dry white wines, brandy and sparkling wines, to increase the vertical market share; and “N” stands for development of various customised products to meet the diversified needs of Chinese consumers.

Moreover, the Group also sold foreign branded wines mainly imported from France, Italy, Germany, Austria, Australia, New Zealand, Chile, Spain and the United States in the PRC wine market through the Group’s existing distribution network to introduce some classic “old world” and “new world” varieties to cater for a market niche preferring the taste of foreign premium wines. The Group currently sells about 130 imported products under approximately 20 brands. The Group believes that with the trend of increasing wealth and the disposable income of consumers for a medium-term, the demand for Dynasty and imported wines should increase.

## **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. In addition to online stores on Tmall (天貓商城) and JD.com (京東商城), online flagship store on Pinduoduo (拼多多) platform and distribution line on Tmall Mart (天貓超市), the Group also developed new online sales channels during the year, such as the second-line sales distribution platform, social media and social group e-commerce platforms or in the form of online celebrity live delivery to further expand its sales channels and build up a new customer base.

# Management Discussion and Analysis

The Group strategically plans and continues putting resources for future improvement of the online sales channels and optimisation of online stores interface so as to capture the change of customer consumption behavior in the PRC. During the 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. 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.

## 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. To optimising supply network, the Group kept identifying new suppliers that comply with the quality requirements and conducted 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.

Following the entering into the master purchase agreement with Tianjin Food Group Company Limited ("**Tianjin Food**") in November 2020, the procurement of grapes and grape juice (including unprocessed wines) from Tianjin Food not only maintained and stabilised the quality of grapes and grape juice (including unprocessed wines), but also reduced the Group's lead time and cost of transportation and storage. Furthermore, Tianjin Food will continue to follow the guidance and advices provided by the Group in the process of grape harvesting and pressing which can ensure that the quality of grape juice (including unprocessed wines) meets the Group's standard.

## Production capacity

After completion of the Disposal in January 2020 and as at the end of the year, the Group's annual production capacity decreased to 50,000 tonnes (2019 – 70,000 tonnes). Such capacity is sufficient for the Group to promptly response to the market demand and provides a platform for sustainable earnings growth.

# Management Discussion and Analysis

## Prospects and future plans

Looking ahead to 2021, the Group expects to continue to face various challenges from fast-changing economic conditions, and the post-stage of containment of COVID-19 in the PRC and opportunities from an increasing trend of domestic consumption backed by the government support. Going forward, following the containment of pandemic, apart from intensifying the sales and marketing reform, the Group will strive to gradually improve its performance by deepening the implementation of the “5+4+N product strategy” under a demand-driven market approach. It will increase its vertical market share through four advantageous categories and will utilise customised products, which are driven by market demand, to meet the diverse and fragmented consumer demand and achieve full coverage of all price segments. With effective product strategies and a high quality and diversified product portfolio, the Group firmly believes that the “Dynasty” brand is able to attract more consumers.

The Group will be persistent in meeting consumer demand by pursuing innovations for its wine series. Meanwhile, the Group will increase its investment in brand development to fully vitalise its brand and drive the development of its major products by steadily enhancing quality and controlling prices to boost sales volumes, with the aim of bringing Dynasty’s superior wines to more consumers in the PRC. Subject to the factors including the impact of the global COVID-19 situation and the market conditions in the PRC, the Group currently expects that the revenue of the Group will steadily improve in 2021 following the rebound of economy in the PRC.

## FINANCIAL REVIEW

### Revenue

Revenue of the Group represents proceeds from sale of wine products. The Group’s total revenue decreased from approximately HK\$302.3 million in 2019 by 21% to approximately HK\$238.7 million in 2020. The decrease in revenue was mainly attributable to the outbreak of the COVID-19 since January 2020 as well as restrictions on places of consumption imposed by the government of the PRC during the first four months of 2020 and adverse impact of the pandemic on consumer sentiment. Following the containment of COVID-19 in the PRC, the revenue of the Group improved in the second half of 2020 as compared to the first half of 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 increased. Since consumers in the PRC have a preference for red wine, the Group was able to set higher prices for its red wine products and therefore the average ex-winery sale 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 and the previous year:

	2020 %	2019 %
Cost of raw materials		
– Grapes and grape juice	44	43
– Yeast and additives	2	2
– Packaging materials	20	20
– Others	1	1
Total cost of raw materials	67	66
Manufacturing overheads	23	26
Consumption tax and other taxes	10	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 44% of the Group's total cost of sales, and remained stable during the year as compared to 43% in 2019.

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 decreased as compared with 2019 as a result of the decrease in depreciation of property, plant and equipment.

Consumption tax and other taxes as a percentage of cost of sales increased due to a decrease in applicable tax deduction for the unprocessed wine during the year.

## Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross sales. The overall gross profit margin slightly decreased to 25% in 2020 from 26% in 2019, mainly as a result of an increase in impairment allowance of inventories.

The gross margin of red wine products and white wine products in 2020 were 24% and 31% respectively (2019 – 25% and 26% respectively).

# Management Discussion and Analysis

## Other income, other gains and losses – net

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

Other income, other gains and losses for the year ended 31 December 2020 represented a net gain of HK\$246.7 million (2019 – gain of HK\$5.0 million). The increase was mainly due to a net gain on the Disposal (before land appreciation tax (“LAT”)) of HK\$246.1 million.

## Distribution costs

Distribution costs principally include advertising and market promotion expenses, storage charges in connection with the sales of wine products, salaries and related personnel expenses of the sales and marketing functions and other incidental expenses. During the year, distribution costs accounted for approximately 22% (2019 – 25%) of the Group’s revenue. The decrease in distribution costs to revenue ratio was due to less mass-scale promotion campaign during the COVID-19 outbreak and decrease in sales staff costs due to the implementation of employee reform plan. 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 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, and other incidental administrative expenses.

During the year, administrative expenses accounted for approximately 32% (2019 – 25%) of the Group’s revenue. The increase in ratio was mainly attributable to the payment of compensation for termination of employment contracts and early retirement due to the implementation of employee reform plan during the year. Excluding such an employee compensation, the administrative expenses to revenue ratio decreased to approximately 21% compared with the previous year as a result of strengthening cost control measures.

## Finance income/(costs) – net

During the year, there was a change from finance costs to finance income – net to HK\$1.0 million (2019 – net finance costs of HK\$2.7 million) which was mainly due to there being no more bank loan interest expense on bank borrowings compared to approximately HK\$4.5 million in the previous year.

## Income tax expense

No provision for taxation in Hong Kong had 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%.

# Management Discussion and Analysis

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.

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including lease charges for land use rights and all property development expenditures. The increase in income tax expense was mainly due to LAT related to the Disposal during the year.

## Cash flow

In 2020, the Group has strengthened the management of cash flow, and operating activities were the Group's main source of cash inflow.

The change of cash flow from operating activities from net outflow of approximately HK\$46.8 million in 2019 to net inflow of approximately HK\$12.1 million in 2020 was mainly due to the improvement in working capital by an increase in advance received from distributors before the year end.

The change in net cash outflow in investing activities from net cash inflow in investing activities amounted to approximately HK\$357.6 million in 2019 to net cash outflow of approximately HK\$2.4 million in 2020 was mainly because of the one-off receipt of consideration from the Disposal and payment of related taxes and expenses in 2019.

The net cash outflow from financing activities decreased from approximately HK\$229.3 million in 2019 to approximately of HK\$2.8 million in 2020 was primarily attributable to no borrowings being made during the year (2019 – net repayment of borrowings of approximately HK\$221.6 million).

## Financial management and treasury policy

For the year ended 31 December 2020, the Group's revenue, expenses, assets and liabilities were substantially denominated in RMB. The funding from the operations was placed on short-term deposits (denominated in RMB, US dollars or Hong Kong dollars) with authorised financial institutions. The Company would also pay dividends in Hong Kong dollars when dividends were declared, if any. The Company did not implement any hedging or other derivatives against foreign exchange risk. Although the Group's operations currently would not generate any significant foreign currency exposure, the Group will continue to closely monitor foreign currency movements and adopt prudent measures as appropriate.

Armed with sufficient financial resources and net cash position, the Group was exposed to minimal financial risk from interest rate fluctuation.

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

# Management Discussion and Analysis

## 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 2020, the Group's cash and short-term deposits amounted to HK\$182.1 million (2019 – HK\$157.5 million). The increase was mainly due to an increase in advance received from distributors before the year end. It has sufficient resources and is in an adequate cash position to ensure solvency and satisfy 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 and with cash and liquidity position of HK\$182.1 million (2019 – HK\$157.5 million) as at 31 December 2020, these reflecting its sound capital structure.

The Group also monitored capital on the basis of the liability-to-asset ratio. As at 31 December 2020, the Group's gearing ratio (expressed as total liabilities divided by total assets, in percentage) was approximately 63% (2019 – 91%). Subsequent to the completion of the Disposal, the Group's gearing ratio decreased to a sound level.

As at 31 December 2020, the market capitalisation of the Company was approximately HK\$636.6 million (2019 – approximately HK\$405.7 million).

## CAPITAL COMMITMENTS, CONTINGENCIES AND CHARGES ON ASSETS

As at 31 December 2020, there was no capital expenditure contracted for in relation to equipment (2019: HK\$391,000) but not yet incurred and there was no charge on assets.

The Group had contingent liabilities in relation to labour arbitrations:

- 1) In December 2019, four employees of the Group lodged a labour arbitration with Tianjin Beichen District Labour Dispute Arbitration Committee against two subsidiaries of the Company for claiming for a total compensation of RMB3.5 million (equivalent to HK\$3.95 million) regarding the termination of their employment contracts, which were for the purpose of changing their employment to other subsidiaries within the Group. As at 31 December 2019, based on the understanding of the related laws and regulations and the consultation with an external legal counsel, the Directors were of the view that the potential compensation amount was not likely to be higher than RMB1.76 million (equivalent to HK\$1.96 million). Therefore, a provision for this contingent liability was made.

Up to the approval date of these financial statements, the arbitration is still in progress except one of the employees returned to work since 1 January 2021, and the Directors are of the view that the potential compensation amount is not likely to be higher than RMB1.39 million (equivalent to HK\$1.65 million). Therefore, the provision for this contingent liability decreased to HK\$1.65 million as at 31 December 2020.

# Management Discussion and Analysis

- 2) After the implementation of employee reform plan, nine employees of the Group lodged labour arbitrations with Tianjin Beichen District Labour Dispute Arbitration Committee against two subsidiaries of the Company, claiming a total compensation of RMB0.91 million (equivalent to HK\$1.09 million) regarding the terminations of their employment contracts. Up to the approval date of these financial statements, 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 the aforesaid claimed amount of RMB0.91 million (equivalent to HK\$1.09 million). Therefore, a provision for this contingent liability was made.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES**

For the year ended 31 December 2020, the Group had not made any material acquisitions or disposal of subsidiaries, associates or joint ventures.

## **CHANGE OF SHAREHOLDING STRUCTURE OF THE INTERMEDIATE CONTROLLING SHAREHOLDER OF THE COMPANY**

On 9 September 2020, the entire issued share capital of the immediate shareholder of the Company, Famous Ever Group Limited (“**Famous Ever**”), was transferred from its original shareholder, Tsinlien Group Company Limited (“**Tsinlien Group**”), to Tianjin Food. Upon completion of the transaction, Tianjin Food indirectly held 44.70% of the share capital of the Company. Both Tsinlien Group and Tianjin Food are indirectly wholly-owned by Tianjin Tsinlien Investment Holdings Limited (“**Tsinlien Investment**”), which in turn is ultimately wholly owned by the Tianjin Municipal People’s Government of the PRC.

## **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 258 (including directors) (2019 – 390) in Hong Kong and the PRC as at 31 December 2020. The decrease in manpower was mainly due to the implementation of employee reform plan in response to the business development during the year, which led to compensation for termination of employment contracts and early retirement amounted to HK\$26.7 million. The total salaries and related costs (including the Directors’ fees) for the year ended 31 December 2020 amounted to approximately HK\$99.8 million (2019 – HK\$96.3 million).

# Management Discussion and Analysis

## 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 the 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.

# Management Discussion and Analysis

## 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 or upgrading of heating boiler and 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 complying 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 (i) Rule 3.10A of the Listing Rules, (ii) code provision A.4.2 of Appendix 14 to the Listing Rules and (iii) failure to hold an annual general meeting ("**AGM**") during part of the year but later re-compiled during the year, based on information available, the Directors took the view that during the year ended 31 December 2020, 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. WAN Shoupeng**, aged 47, senior engineer (正高級工程師), was appointed as the executive Director and the chairman of the Company in October 2020. Mr. Wan is also a chairman of nomination committee of the Company. He is currently the deputy secretary of communist party committee, a director and general manager of Tianjin Food, a controlling shareholder of the Company. Mr. Wan was appointed as a director and the chairman of a subsidiary of the Company, namely, Sino-French Joint-Venture Dynasty Winery Limited (“**Dynasty Tianjin**”), in September 2020. Mr. Wan graduated from Nanjing University of Economics (南京經濟學院) with a bachelor’s degree in food engineering in 1997. After graduation, he worked in the Technology Development Department of Tianjin Food Research Institute (天津市食品研究所) from 1997 to 2001. From 2001 to 2007, he successively held the positions of assistant to general manager and deputy manager at Tianjin Limin Condiment Brewing Group Company Limited (天津市利民調料釀造集團有限公司). From November 2007 to March 2020, he held various senior management positions at Tianjin Limin Condiment Company Limited (天津市利民調料有限公司), including the deputy secretary of communist party committee, deputy general manager and general manager, and his last positions were secretary of the communist party committee and chairman of Tianjin Limin Condiment Company Limited (天津市利民調料有限公司). He further studied in Tianjin University of Science and Technology and obtained a master’s degree in food science and engineering in 2006, and subsequently obtained a doctorate degree in biotechnology and food engineering in 2015. From 2013 to 2015, he also acted as chief engineer (總工程師) of Tianjin Ershang Group Company Limited (天津二商集團有限公司). He joined Tianjin Food in 2015 and served as chief engineer (總工程師) and subsequently a member of communist party committee. Mr. Wan has extensive experience in the food industry in the PRC and management. He joined the Group in September 2020.

**Mr. LI Guanghe**, aged 47, 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 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. HUANG Manyou**, aged 55, accountant, was appointed as the executive Director in October 2020. Mr. Huang is also a member of remuneration committee of the Company. He is currently member of communist party committee, a director and deputy general manager of Dynasty Tianjin and a director of Tianjin Dynasty Winery Sales Company Limited, both are subsidiaries of the Company. After graduating from Tianjin Second Commercial School (天津第二商業學校) majored in financial statistics in 1985, Mr. Huang worked successively in Tianjin Poultry and Egg Company (天津市禽蛋公司) and Tianjin Frozen Food Company (天津市冷凍食品公司) until 1995, during which he studied business management at Tianjin Xinhua Staff College (天津新華職工大學) with a diploma degree. In following years from 1995 to 2017, he held various management positions in Tianjin Lida Group Company Limited (天津立達集團有限公司) including accounting manager, assistant to the general manager, and his last positions were deputy chief accountant and head of finance department. During the period from 2008 to 2011, he graduated from the Party School of the Central Committee (中央黨校), majoring in economics and management for postgraduate. Since December 2018, he has been a director of Tianjin Haihe Dairy Company Limited (天津海河乳業有限公司), Tianjin Wang Chao United Holding Company Limited (天津市王朝聯合實業有限公司), Tianjin Heavenly Palace Winery Company Limited (天津天宮葡萄酒有限公司) and Liaoning Wang Chao Wunushan Icewine Company Limited (遼寧王朝五女山冰酒莊有限公司) respectively. These companies currently are subsidiaries of Tianjin Food, a controlling shareholder of the Company. Mr. Huang has extensive experience in financial accounting and management. He joined the Group in August 2017. He is also a director of certain subsidiaries of the Group.

**Mr. SUN Jun**, aged 51, was appointed as the executive Director and the Chairman of the Company in January 2018. Mr. Sun was also a chairman of nomination committee of the Company. Mr. Sun has been Assistant to General Manager and Deputy Chief Accountant of Tianjin Food 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 left the Group in October 2020.

## Biographies of Directors and Senior Management

**Mr. SUN Yongjian**, aged 50, 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), was a director and secretary of Communist Party Committee (“CPC”) of Dynasty Tianjin 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 left the Group in October 2020.

### Non-executive Directors

**Mr. HERIARD-DUBREUIL Francois**, aged 72, 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 Company, 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., a company listed on the Euronext Stock Exchange. 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. WONG Ching Chung**, aged 81, 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 64, 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 is a former Canadian Certified Public Accountant. Mr. Robert has extensive experience in the wines and spirits industry for over 30 years.

## Biographies of Directors and Senior Management

**Mr. Jean-Marie LABORDE**, aged 72, 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 organisations. 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. Laborde left the Group in October 2020.

**Ms. SHI Jing**, aged 50, 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. Ms. Shi left the Group in October 2020.

### Independent non-executive Directors

**Mr. YEUNG Ting Lap Derek Emory**, aged 48, 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 Jiangsu Province.

## Biographies of Directors and Senior Management

**Mr. SUN David Lee**, aged 55, 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 61, 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. 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 45, 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 Chartered Governance Institute (formerly known as 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 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 2020. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

- 1) During the period from 1 January 2020 to 30 September 2020, 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. However, the Company has yet identified such suitable candidate, including but not limited to, by screening and selecting from the database or register of relevant associations and making informal enquiry or approaching potential candidates through various channels. The outbreak of COVID-19 in early 2020 further affected and delayed the Company’s recruitment efforts. As such, the number of independent non-executive Directors could not represent at least one-third the Board as required under Rule 3.10A of the Listing Rules.

Following the changes to the composition of the Board with effect from 1 October 2020, the Board has nine Directors comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. As such, the number of independent non-executive Directors represented at least one-third of the Board as required, the Company re-complied with the requirement of Rule 3.10A of the Listing Rules.

- 2) 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.
- 3) 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 before their appointment, had not been re-elected by the shareholders of the Company (the “**Shareholder**”) at the next general meeting after their appointment which was 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 had been held by the Company since 30 May 2012 until 30 June 2020.

# Corporate Governance Report

On 30 June 2020, the Company held an annual general meeting for the financial year ended 31 December 2019. All the Directors had been re-elected by the Shareholders at such annual general meeting to comply with the code provision A.4.2 of the Code.

The following sections set out how the principles in the Code have been complied with by the Company during the year ended 31 December 2020:

## 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 2020.

## 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 2020, the Board comprised three executive Directors, namely Mr. Wan Shoupeng (Chairman of the Board ("**Chairman**")), Mr. Li Guanghe (General Manager) (which is equivalent to the chief executive) and Mr. Huang Manyou; three non-executive Directors, namely Mr. Heriard-Dubreuil Francois, Mr. Wong Ching Chung and Mr. Robert Luc; and three independent non-executive Directors, namely Dr. Zhang Guowang, Mr. Yeung Ting Lap Derek Emory and Mr. Sun David Lee. 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.

# Corporate Governance Report

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 with 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.

Mr. Heriard-Dubreuil Francois held or continue to hold directorships or other management positions within the group comprising Andromede S.A.S. (the ultimate controlling shareholder of Remy Pacifique Limited, a substantial shareholder of the Company), its subsidiaries and joint venture companies. Mr. Wan Shoupeng, Mr. Li Guanghe, Mr. Huang Manyou and Mr. Sun Jun held or continue to hold directorships or other management positions within the group comprising Tianjin Food (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. Wan Shoupeng (the Chairman), Mr. Sun Jun (the then chairman) and Mr. Li Guanghe, the general manager during the year ended 31 December 2020.

## 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, reviewing and monitoring the 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, developing, reviewing and monitoring 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 and one other board meeting were held. Notice of 14 days or more was given to all Directors to attend a regular board meeting. For the other board meeting, reasonable notice was given to the Directors. Their individual attendance record, on a named basis, during the year ended 31 December 2020 are set out in the table below:

<b>Board Members</b>	<b>Board meetings attended/held</b>
<b>Executive Directors</b>	
Wan Shoupeng ( <i>Chairman</i> ) ( <i>appointed on 1 October 2020</i> )	3/5
Huang Manyou ( <i>appointed on 1 October 2020</i> )	3/5
Li Guanghe	5/5
Sun Jun ( <i>the then Chairman</i> ) ( <i>resigned on 1 October 2020</i> )	2/5
Sun Yongjian ( <i>resigned on 1 October 2020</i> )	1/5
<b>Non-executive Directors</b>	
Heriard-Dubreuil Francois	5/5
Shi Jing ( <i>resigned on 1 October 2020</i> )	1/5
Jean-Marie Laborde ( <i>resigned on 1 October 2020</i> )	2/5
Wong Ching Chung	5/5
Robert Luc	5/5
<b>Independent non-executive Directors</b>	
Zhang Guowang	5/5
Yeung Ting Lap Derek Emory	5/5
Sun David Lee	5/5

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 also held meeting with the independent non-executive Directors without the presence of other Directors.

# Corporate Governance Report

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 have been given to newly appointed Directors to his individual needs. This enables them to have better understanding of the Group's businesses and policies.

During the year ended 31 December 2020, 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 2020 is summarised below:

<b>Name of Directors</b>	<b>Types of training</b>
<b>Executive Directors</b>	
Wan Shoupeng ( <i>appointed on 1 October 2020</i> )	A, B
Li Guanghe	A, B
Huang Manyou ( <i>appointed on 1 October 2020</i> )	A, B
Sun Jun ( <i>resigned on 1 October 2020</i> )	B
Sun Yongjian ( <i>resigned on 1 October 2020</i> )	B
<b>Non-executive Directors</b>	
Heriard-Dubreuil Francois	B
Wong Ching Chung	B
Robert Luc	B
Shi Jing ( <i>resigned on 1 October 2020</i> )	B
Jean-Marie Laborde ( <i>resigned on 1 October 2020</i> )	B
<b>Independent non-executive Directors</b>	
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

# Corporate Governance Report

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.

## **Directors’ appointment, re-election and removal**

Pursuant to the articles of association of the Company (the “**Articles of Association**”), 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 annual general meeting (the “**AGM**”) of the Company pursuant to Article 87 of the 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.

# Corporate Governance Report

## 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 appointment to the Board.

The Nomination Committee shall call a meeting and invite nominations of candidates from Board members if any, for consideration by the committee prior to its meeting. Alternatively, such nomination may be approved by the committee by way of written resolutions. For filling a casual vacancy, the committee shall make recommendations for the Board's consideration and approval.

## 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, experience in the industry, diversity, skill and competence, the independence (in case of selection of independent non-executive Directors) of the nominees, to ensure that nominations are fair. During the year ended 31 December 2020, the chairman of the Nomination Committee was Mr. Sun Jun (replaced by Mr. Wan Shoupeng, on 1 October 2020), 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 2020, the Nomination Committee had made recommendation of the two newly appointed Directors to the Board, and 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 2020 are set out in the table below:

<b>Name of member</b>	<b>Meeting attended/held</b>
Sun Jun ( <i>the then chairman</i> ) ( <i>resigned on 1 October 2020</i> )	1/1
Wan Shoupeng ( <i>chairman</i> ) ( <i>appointed on 1 October 2020</i> )	0/1
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 on the websites of the Company and the Stock Exchange.

# Corporate Governance Report

## DIVISION OF RESPONSIBILITIES

The positions of the chairman of the Board (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. Wan Shoupeng as the Chairman (Mr. Sun Jun as the then 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 is functioning 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 is responsible for providing 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 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 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 2020, 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 making recommendations to the board on the remuneration packages of individual executive Directors and the 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 2020, the chairman of the Remuneration Committee was Dr. Zhang Guowang, an independent non-executive Director and the other members comprised Mr. Huang Manyou (replaced Mr. Sun Yongjian on 1 October 2020), 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:

- i) 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 remuneration for the Company;

## Corporate Governance Report

- ii) To make recommendations to the Board on the remuneration packages of 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 on 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;
- iii) To review and approve performance-based remuneration with reference to the corporate goals and objectives resolved by the Board from time to time;
- iv) 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;
- v) 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
- vi) To ensure that no Director or any of his associates is involved in deciding his own remuneration.

During the year ended 31 December 2020, the Remuneration Committee had reviewed the remuneration package of executive Directors as well as the terms of service contracts and remuneration of newly appointed Directors, Mr. Wan Shoupeng and Mr. Huang Manyou and made recommendations to the Board, and reviewed Directors' remuneration package and proposed to maintain at current level. The Board had approved the recommendations of the Remuneration Committee during the year. Their individual attendance record, on a named basis, during the year ended 31 December 2020 are set out in the table below:

<b>Name of member</b>	<b>Meeting attended/held</b>
Zhang Guowang ( <i>chairman</i> )	1/1
Sun Yongjian ( <i>resigned on 1 October 2020</i> )	1/1
Huang Manyou ( <i>appointed on 1 October 2020</i> )	0/1
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 on the websites of the Company and the Stock Exchange.

# Corporate Governance Report

## 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 2020, the Company did not pay any discretionary bonus to the executive Directors.

The remuneration payable to members of the senior management (including executive Directors) of the Company by band for the year ended 31 December 2020 was as follows:

<b>Remuneration bands (HK\$)</b>	<b>Number of individuals</b>
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 2020 are set out in Note 31 to the financial statements.

## 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 the 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 2020 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 2020, 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 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 2020 as set out in the independent auditor's report on pages 58 to 59 of this annual report.

# Corporate Governance 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 2020.

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.

### ***Main features of the risk management and internal control systems***

Main features of the risk management and internal control systems are described 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, evaluate 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;

# Corporate Governance Report

## *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 adviser to assist the annual review of the effectiveness of the risk management and internal control systems for the year ended 31 December 2020. Such review is conducted annually. The scope of review was determined and approved by the Audit Committee. 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 audit 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/or audit experience.

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 adviser to conduct internal audit reviews on the relevant controls and compliance with policies and procedures of the Group at both operational and corporate levels.

# Corporate Governance Report

## **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 and announcements published on 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 2020, the Audit Committee comprised three independent non-executive Directors who together have substantial experience in 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 risk management and internal control systems of the Group.

In fulfilling its responsibilities, the work performed by the Audit Committee during the year ended 31 December 2020 included the following:

- reviewed the draft annual financial statements for the year ended 31 December 2019 of the Group prior to recommending them to the Board for discussion;
- reviewed the draft interim financial statements for the six months ended 30 June 2020 of the Group;
- reviewed 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 2020 annual audit plan;
- reviewed the developments of accounting standards in conjunction with the external auditors;

# Corporate Governance Report

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

During the year ended 31 December 2020, the Audit Committee met twice together with an executive Director (including the Chairman), the financial controller and/or with the external auditors. Please refer to the table below for the attendance record of individual Audit Committee members:

<b>Name of member</b>	<b>Meeting attended/held</b>
Yeung Ting Lap Derek Emory ( <i>chairman</i> )	2/2
Sun David Lee	2/2
Zhang Guowang	2/2

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 on the websites of the Company and the Stock Exchange.

## COMPANY SECRETARY

Mr. Ho Yiu Sum, the company secretary of the Company, was responsible directly to the Board. During the year ended 31 December 2020, 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 of this annual report.

## AUDITORS' REMUNERATION

During the year ended 31 December 2020, 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:

<b>Nature of services</b>	<b>Amount</b> <i>(HK\$'000)</i>
Audit services	2,532
Non-audit services	–

## 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.

# Corporate Governance Report

## COMMUNICATION WITH SHAREHOLDERS

### Channels

Communication with the 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 the Audit, the Remuneration and the 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 (if applicable);
- 2) The Company's website at [www.dynasty-wines.com](http://www.dynasty-wines.com) provides regularly updated information of interest to the Shareholders, including corporate information, biographical details of the 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 AGM was held on 30 June 2020 and all resolutions were passed as separate resolutions at the AGM by way of poll.

# Corporate Governance Report

Individual attendance record of Directors, on a named basis, is set out in the table below:

<b>Board Members</b>	<b>AGM attended/held</b>
<b>Executive Directors</b>	
Wan Shoupeng ( <i>Chairman</i> ) ( <i>appointed on 1 October 2020</i> )	0/1
Huang Manyou ( <i>appointed on 1 October 2020</i> )	0/1
Li Guanghe	1/1
Sun Jun ( <i>the then Chairman</i> ) ( <i>resigned on 1 October 2020</i> )	1/1
Sun Yongjian ( <i>resigned on 1 October 2020</i> )	1/1
<b>Non-executive Directors</b>	
Heriard-Dubreuil Francois	1/1
Shi Jing ( <i>resigned on 1 October 2020</i> )	0/1
Jean-Marie Laborde ( <i>resigned on 1 October 2020</i> )	1/1
Wong Ching Chung	1/1
Robert Luc	1/1
<b>Independent non-executive Directors</b>	
Zhang Guowang	1/1
Yeung Ting Lap Derek Emory	1/1
Sun David Lee	1/1

The respective chairman of the Audit Committee, the Remuneration Committee and the Nomination Committee and the external auditors of the Company had attended the annual general meeting of the Company held on 30 June 2020 to response to shareholders' questions.

The Company has updated its status to the 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 2021. The Company will also publish further announcement in respect of the closure of register of members for AGM in due course (if applicable).

# Corporate Governance Report

During the year ended 31 December 2020, the Group entered into a Master Purchase Agreement for purchase of certain raw materials from Tianjin Food. The Agreement and Annual Purchase Caps were, inter alia, approved by the Shareholders at the EGM on 29 December 2020. Their individual attendance record of Directors, on a named basis, are set out in the table below:

<b>Board Members</b>	<b>EGM attended/held</b>
<b>Executive Directors</b>	
Wan Shoupeng ( <i>Chairman</i> ) ( <i>appointed on 1 October 2020</i> )	1/1
Huang Manyou ( <i>appointed on 1 October 2020</i> )	1/1
Li Guanghe	1/1
Sun Jun ( <i>the then Chairman</i> ) ( <i>resigned on 1 October 2020</i> )	0/1
Sun Yongjian ( <i>resigned on 1 October 2020</i> )	0/1
<b>Non-executive Directors</b>	
Heriard-Dubreuil Francois	1/1
Shi Jing ( <i>resigned on 1 October 2020</i> )	0/1
Jean-Marie Laborde ( <i>resigned on 1 October 2020</i> )	0/1
Wong Ching Chung	1/1
Robert Luc	1/1
<b>Independent Non-executive Directors</b>	
Zhang Guowang	1/1
Yeung Ting Lap Derek Emory	0/1
Sun David Lee	1/1

AGM and EGM 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.

## Shareholders' right

The Board may whenever it thinks fit call for an 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 EGM 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.

# Corporate Governance Report

## Enquiries 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.

### 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 2020 was approximately HK\$636.6 million (issued share capital: 1,248,200,000 shares at closing market price: HK\$0.51 per share).

# **Financial Section**

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# Directors' Report

The Directors submit herewith the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Company are investment holding and sale of wine products. The principal activities of the Company's principal subsidiaries are production and sale of 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 development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 7 to 17 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 2020 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 of the Company (the "**Shareholder**") for the year ended 31 December 2020.

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 21 to the financial statements.

## RESERVES

Details of the movements in reserves of the Group during the year are set out in Note 22 to the financial statements.

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.

## GROUP FINANCIAL SUMMARY

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

# Directors' 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 14 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, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

## DIRECTORS

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

### Executive Directors:

Mr. Wan Shoupeng (*Chairman*) (*appointed on 1 October 2020*)  
Mr. Li Guanghe  
Mr. Huang Manyou (*appointed on 1 October 2020*)  
Mr. Sun Jun (*resigned on 1 October 2020*)  
Mr. Sun Yongjian (*resigned on 1 October 2020*)

### Non-executive Directors:

Mr. Heriard-Dubreuil Francois  
Ms. Shi Jing (*resigned on 1 October 2020*)  
Mr. Jean-Marie Laborde (*resigned on 1 October 2020*)  
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 are set out on pages 18 to 22 of the annual report.

Mr. Sun Jun, Mr. Sun Yongjian, Ms. Shi Jing and Mr. Jean-Marie Laborde tendered their resignation as a director of the Company with effect from 1 October 2020 due to their other business engagements. They had confirmed that there was no disagreement with the Board and there was no matter relating to their resignation that needed to be brought to the attention of the Shareholders.

## Directors' 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. Mr. Heriard-Dubreuil Francois, Mr. Wong Ching Chung and Mr. Robert Luc will retire from office by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

### 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.

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.

### CONTINUING CONNECTED TRANSACTIONS

The following related party transactions as disclosed in Note 29 to the financial statements also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in the annual report in accordance with Chapter 14A of the Listing Rules:

#### Master Purchase Agreement with Tianjin Food

Pursuant to Chapter 14A of the Listing Rules, details of the continuing connected transactions for the year ended 31 December 2020 are required to be disclosed in the annual report as follows:

On 9 November 2020, the Company and Tianjin Food entered into an agreement ("**Master Purchase Agreement**") for a term from 1 December 2020 to 31 December 2022 in relation to the purchase of the raw materials (the "**Raw Materials**") (being (i) grapes and grape juice (including unprocessed wines), and (ii) auxiliary materials (sugar, rose water and packaging materials)), from Tianjin Food and its subsidiaries and/or its associates to the Group.

The terms (including the price and payment terms) of each purchase order shall be agreed between the Group and Tianjin Food based on normal commercial terms after arm's length negotiations, and the price/payment terms (including credit terms) for each purchase of the Raw Materials by the Group shall be no less favourable than the price/payment terms (including credit terms) offered to the Group by the independent third parties of same or similar products.

## Directors' Report

As set out in the announcement of the Company dated 10 September 2020, Tianjin Food became the sole shareholder of Famous Ever Group Limited (which in turn held approximately 44.7% of the issued share capital of the Company) on 9 September 2020. Accordingly, Tianjin Food is a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Master Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Details of the above continuing connected transactions were disclosed in the announcement of the Company dated 9 November 2020 and the circular of the Company dated 11 December 2020.

Details of the continuing connected transactions for the purchase of Raw Materials by the Group from Tianjin Food and its subsidiaries and associates from 1 December 2020 to 31 December 2020 are listed out as follows:

	<b>Annual caps from 1 December 2020 to 31 December 2020</b> <i>HK\$ million</i>	<b>Total aggregate of connected transactions from 1 December 2020 to 31 December 2020</b> <i>HK\$ million</i>
Purchase of grapes by the Group from Tianjin Food and its subsidiaries and associates	2.8	2.8
Purchase of grape juice (including unprocessed wines) by the Group from Tianjin Food and its subsidiaries and associates	5.7	4.3
Purchase of auxiliary materials (including rose water, sugar and packaging materials) by the Group from Tianjin Food and its subsidiaries and associates	2.7	2.6

The Directors (including the independent non-executive Directors) have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or better; and
- (3) according to the agreements governing them on terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## Directors' Report

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The auditor issued an unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed by the Group as set out on pages 44 to 45 in accordance with R14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

### RELATED PARTY TRANSACTIONS

Save as continuing connected transactions disclosed above, the other related party transactions of the Group are disclosed in Note 29(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

Save as disclosed above, 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.

# Directors' Report

## 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 2.17(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 2020 are set out in Notes 7 and 31 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 2020, 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"), Chapter 571 of the Laws of Hong Kong) 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.

## Directors' Report

At no time during the year ended 31 December 2020 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 2020, 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%
Tianjin Food Group Co. Ltd. (天津食品集團有限公司) ("Tianjin Food") (Note 1)	558,000,000 ordinary shares (interest of a controlled corporation)	558,000,000 ordinary shares	44.70%
Tsinlien Group Company Limited ("Tsinlien") (Note 2)	21,922 ordinary shares (beneficial owner)	21,922 ordinary shares	0.01%
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 in 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 in 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 in controlled corporation)	336,528,000 ordinary shares	26.96%
Remy Cointreau Services S.A.S. (Note 3)	336,528,000 ordinary shares (interest in controlled corporation)	336,528,000 ordinary shares	26.96%
Remy Cointreau S.A. (Note 3)	336,528,000 ordinary shares (interest in controlled corporation)	336,528,000 ordinary shares	26.96%
Orpar S.A. (Note 3)	336,528,000 ordinary shares (interest in controlled corporation)	336,528,000 ordinary shares	26.96%
Andromede S.A.S. (Note 3)	336,528,000 ordinary shares (interest in controlled corporation)	336,528,000 ordinary shares	26.96%

#### Notes:

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

# Directors' Report

- (2) Tianjin Food and Tsinlien are both wholly-owned subsidiaries of Bohai which is wholly-owned by Tsinlien Investment Holdings. By virtue of the SFO, Tsinlien Investment Holdings and Bohai are deemed to be interested in the same parcel of Shares in which Tianjin Food and Tsinlien are interested. Tsinlien Investment Holdings is ultimately wholly owned by Tianjin Municipal People's Government of the PRC, which is the ultimate beneficial owner of Tianjin Food. Mr. Wan Shoupeng, an executive Director and chairman of the Company, is also a director and general manager of Tianjin Food. Mr. Li Guanghe, an executive Director and general manager of the Company, is also a supervisor of Tianjin Jia Li He Livestock Co., Ltd. (天津嘉立荷牧業集團有限公司), a subsidiary of Tianjin Food. Mr. Huang Manyou, an executive Director, is also a director of Tianjin Haihe Dairy Company Limited (天津海河乳業有限公司), Tianjin Wang Chao United Holding Company Limited (天津市王朝聯合實業有限公司), Tianjin Heavenly Palace Winery Company Limited (天津天宮葡萄酒有限公司) and Liaoning Wang Chao Wunushan Icewine Company Limited (遼寧王朝五女山冰酒莊有限公司), all being subsidiaries of Tianjin Food.
- (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 47% 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 18% of the voting power at general meetings of Remy Cointreau S.A., Andromede S.A.S. 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.S. is deemed to be interested in the Shares held by Remy Pacifique Limited. Mr. Heriard-Dubreuil Francois, a non-executive Director, who is also a director and/or an employee of Andromede S.A.S., Orpar S.A., Remy Cointreau S.A., Remy Concord Limited and Remy Pacifique Limited.

Apart from the aforesaid, as at 31 December 2020, 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.

As at 31 December 2020, save as disclosed above, 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	9%
– five largest customers in aggregate	31%

### Purchases

– the largest supplier	12%
– five largest suppliers in aggregate	33%

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 interest in the Group's five largest customers and suppliers.

# Directors' Report

## **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 2020, save as disclosed in the Corporate Governance Report on pages 23 to 40 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 the Company 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 shall retire and, being eligible, offer 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. Wan Shoupeng**  
*Chairman*

Hong Kong, 29 March 2021

# 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 60 to 119, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- 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 2020, 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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*PricewaterhouseCoopers, 22/F Prince’s Building, Central, Hong Kong*  
T: +852 2289 8888, F: +852 2810 9888, [www.pwchk.com](http://www.pwchk.com)

# Independent Auditor's Report

## 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 2.19 (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\$239 million for the year ended 31 December 2020.

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.

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

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.

## How our audit addressed the Key Audit Matter

- 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.

Based on the procedures performed, we found the Group's revenue recognition for sales of goods was supported by available evidence.

# Independent Auditor's Report

## Key Audit Matter

## How our audit addressed the Key Audit Matter

### Impairment allowance of inventories

*Refer to Note 2.11 (Summary of significant accounting policies), Note 4.1(c) (Critical accounting estimates) and Note 18 (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 2020, the carrying value of Group's inventories amounted to HK\$257 million, representing cost of HK\$297 million less an impairment allowance of HK\$40 million. The impairment charges as recognised in the consolidated income statement for the year ended 31 December 2020 amounted to HK\$6.1 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.

Our audit procedures relating to management's assessment of the impairment of inventories included:

- Obtained an understanding of management's internal controls and assessment process of inventories impairment and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors;
- Obtained an understanding of the Group's accounting policy for determining the impairment allowance of inventories;
- 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;

# Independent Auditor's Report

## Key Audit Matter

We identified impairment allowance for inventories as a key audit matter due to the significant management judgement and estimates are involved in determining the required level of impairment allowance.

## How our audit addressed the Key Audit Matter

- 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.

# Independent Auditor's Report

## Key Audit Matter

### Impairment assessment of non-current operating assets

Refer to Note 2.8 (Summary of significant accounting policies), Note 4.1(b) (Critical accounting estimates), Note 14 (Property, plant and equipment) and Note 15 (Leases) to the consolidated financial statements.

As at 31 December 2020, the carrying amounts of the Group's property, plant and equipment amounted to HK\$71 million, representing cost of HK\$818 million less accumulated depreciation of HK\$649 million and accumulated impairment losses of HK\$98 million; and the carrying amounts of the Group's right-of-use assets amounted to HK\$21 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 2020.

Management considered that the Group's continuous losses after deducting non-recurring gains and losses is 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 ("FVL COD") and value-in-use ("VIU") of the CGU as determined using the discounted cash flow model.

## How our audit addressed the Key Audit Matter

Our audit procedures relating to management's impairment assessment of the Non-current Operating Assets included:

- Obtained an understanding of management's assessment process of non-current operating assets impairment and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors;
- 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 FVL COD of the CGU was higher than its VIU as at the year end date;
- With the support of our in-house experts, examined the FVL COD model adopted by management in determining the recoverable amount of the CGU and assessed its appropriateness;

# Independent Auditor's Report

## Key Audit Matter

Management's assessment indicated that the FVLCOB of the CGU was higher than its VIU as at 31 December 2020 and therefore adopted FVLCOB as the recoverable amount. As the FVLCOB of the CGU was higher than the carrying amounts of the Non-current Operating Assets as at 31 December 2020, management concluded that no further impairment against such assets was required to be recognised for the year ended 31 December 2020.

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.

## How our audit addressed the Key Audit Matter

- 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 FVLCOB model;
- 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 FVLCOB amount as determined by management; and
- Checked the accuracy of inputs and tested the mathematical calculation of the FVLCOB 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.

# Independent Auditor's Report

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.

## Independent Auditor's Report

- 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, actions taken to eliminate threats or safeguards applied.

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 Hon Chong Heng.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 29 March 2021

# Consolidated Income Statement

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue from contracts with customers	5	238,673	302,333
Cost of sales of goods	6, 29(c)	(178,554)	(224,284)
<b>Gross profit</b>		<b>60,119</b>	78,049
Distribution costs	6	(53,456)	(76,853)
Administrative expenses	6	(75,696)	(74,550)
Net impairment losses on financial assets		(613)	1,782
Other income, other gains and losses – net	8	246,732	5,031
<b>Operating profit/(loss)</b>		<b>177,086</b>	(66,541)
Finance income	11	1,143	1,984
Finance costs	11	(107)	(4,687)
Finance income/(costs) – net	11	1,036	(2,703)
<b>Profit/(loss) before income tax</b>		<b>178,122</b>	(69,244)
Income tax expense	12	(62,430)	(64)
<b>Profit/(loss) for the year</b>		<b>115,692</b>	(69,308)
<b>Profit/(loss) attributable to:</b>			
Owners of the Company		116,378	(72,943)
Non-controlling interests		(686)	3,635
		<b>115,692</b>	(69,308)
		<b>HK\$ cents</b>	<i>HK\$ cents</i>
<b>Profit/(loss) per share attributable to the owners of the Company</b>			
– Basic and diluted earnings/(loss) per share	13	9.32	(5.84)

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 2020

	2020 HK\$'000	2019 HK\$'000
<b>Profit/(loss) for the year</b>	<b>115,692</b>	(69,308)
<b>Other comprehensive income/(loss):</b> <i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	<b>16,739</b>	(3,121)
<b>Total comprehensive income/(loss) for the year</b>	<b>132,431</b>	(72,429)
<b>Total comprehensive income/(loss) for the year is attributable to:</b>		
– Owners of the Company	<b>132,014</b>	(75,756)
– Non-controlling interests	<b>417</b>	3,327
	<b>132,431</b>	(72,429)

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

# Consolidated Balance Sheet

As at 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	70,835	71,309
Right-of-use assets	15	21,460	20,460
Investment in an associate	10	–	–
Deferred income tax assets	26	–	–
Total non-current assets		<b>92,295</b>	91,769
<b>Current assets</b>			
Trade receivables	16(a), 29(d)	29,124	38,748
Notes receivable	17	13,897	29,868
Other receivables	16(b)	9,064	8,917
Prepayments	16(c), 29(e)	2,728	95,248
Inventories	18	257,315	289,747
Cash and cash equivalents	19	182,541	157,932
Assets classified as held for sale	20	–	178,068
Total current assets		<b>494,669</b>	798,528
<b>Total assets</b>		<b>586,964</b>	890,297
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Lease liabilities	15	2,094	1,001
<b>Current liabilities</b>			
Trade payables	24,29(e)	94,531	100,598
Contract liabilities	25	96,242	66,028
Advance received for disposal of chateau assets	20	–	446,528
Other payables and accruals	24	174,182	188,779
Provisions for contingent liabilities	23	2,738	1,961
Lease liabilities	15	2,020	2,676
Total current liabilities		<b>369,713</b>	806,570
<b>Total liabilities</b>		<b>371,807</b>	807,571

# Consolidated Balance Sheet

As at 31 December 2020

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b>	2019 <i>HK\$'000</i>
<b>Equity</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	<i>21</i>	<b>124,820</b>	124,820
Other reserves	<i>22</i>	<b>1,160,455</b>	1,144,819
Accumulated losses		<b>(1,087,601)</b>	(1,203,979)
Capital and reserves attributable to owners of the Company		<b>197,674</b>	65,660
Non-controlling interests		<b>17,483</b>	17,066
<b>Total equity</b>		<b>215,157</b>	82,726
<b>Total equity and liabilities</b>		<b>586,964</b>	890,297

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

The financial statements on pages 60 to 119 were approved by the Board of Directors on 29 March 2021 and were signed on its behalf.

**Wan Shoupeng**  
*Director*

**Li Guanghe**  
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to owners of the Company			Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000			
<b>Balance at 1 January 2019</b>	124,820	1,147,632	(1,131,036)	141,416	13,739	155,155
<b>Comprehensive loss</b>						
Loss for the year	-	-	(72,943)	(72,943)	3,635	(69,308)
<b>Other comprehensive loss</b>						
Currency translation differences	-	(2,813)	-	(2,813)	(308)	(3,121)
<b>Total comprehensive loss</b>	-	(2,813)	(72,943)	(75,756)	3,327	(72,429)
<b>Balance at 31 December 2019</b>	124,820	1,144,819	(1,203,979)	65,660	17,066	82,726
<b>Balance at 1 January 2020</b>	<b>124,820</b>	<b>1,144,819</b>	<b>(1,203,979)</b>	<b>65,660</b>	<b>17,066</b>	<b>82,726</b>
<b>Comprehensive income</b>						
Profit for the year	-	-	116,378	116,378	(686)	115,692
<b>Other comprehensive income</b>						
Currency translation differences	-	15,636	-	15,636	1,103	16,739
<b>Total comprehensive income</b>	-	15,636	116,378	132,014	417	132,431
<b>Balance at 31 December 2020</b>	<b>124,820</b>	<b>1,160,455</b>	<b>(1,087,601)</b>	<b>197,674</b>	<b>17,483</b>	<b>215,157</b>

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 2020

	Notes	2020 HK\$'000	2019 HK\$'000
<b>Cash flows from operating activities</b>			
Cash generated/(used) from operations	27(a)	11,021	(48,721)
Interest received		1,143	1,984
Income tax paid		(27)	(22)
Net cash inflow/(outflow) from operating activities		12,137	(46,759)
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(2,503)	(2,689)
Receiving of consideration of chateau assets disposal	20	–	446,528
Payments for taxes and expenses relating to assets sale	16(c)	–	(86,751)
Proceeds from disposal of property, plant and equipment		67	525
Increase in restricted bank deposits		–	5
Net cash (outflow)/inflow from investing activities		(2,436)	357,618
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		–	44,653
Repayments of borrowings		–	(266,292)
Interest paid		(107)	(4,687)
Principal elements of lease payments		(2,671)	(2,937)
Net cash outflow from financing activities		(2,778)	(229,263)
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year		157,548	80,952
Effects of exchange rate changes on cash and cash equivalents		17,658	(5,000)
<b>Cash and cash equivalents at end of year</b>	19(b)	<b>182,129</b>	<b>157,548</b>

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 2020

## 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.

On 9 September 2020, the entire issued share capital of the immediate shareholder of the Company, Famous Ever Group Limited (“Famous Ever”), was transferred from its original shareholder, Tsinlien Group Company Limited (“Tsinlien Group”), to Tianjin Food Group Company Limited (“Tianjin Food”). Upon completion of the transaction, Tianjin Food indirectly held 44.70% of the share capital of the Company. Both Tsinlien Group and Tianjin Food are indirectly wholly-owned by Tianjin Tsinlien Investment Holdings Limited (“Tsinlien Investment”), which in turn is ultimately wholly-owned by the Tianjin Municipal People’s Government of the People’s Republic of China.

These consolidated financial statements have been approved for issue by the Board of Directors on 29 March 2021.

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *(iii) 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 periods commencing 1 January 2020:

- Definition of Material – Amendments to HKAS 1 and HKAS 8
- Definition of a Business – Amendments to HKFRS 3
- Interest Rate Benchmark Reform – Amendments to HKFRS 9, HKAS 39 and HKFRS 7
- Revised Conceptual Framework for Financing Reporting

The Group also elected to adopt the following amendments early.

- Annual improvements to HKFRS Standards 2018-2020 Cycle

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting period 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.

### 2.2 Principles of consolidation and equity accounting

#### *(i) Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group 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 Group. They are deconsolidated from the date that control ceases.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.2 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 2.8.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.2 Principles of consolidation and equity accounting *(continued)*

#### *(iv) Changes 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.

### 2.3 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.4 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.

### 2.5 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 Hong Kong dollar (HK\$), which is the Company’s functional and presentation 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, 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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

### 2.5 Foreign currency translation (*continued*)

#### (iii) Group companies (*Continued*)

- (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.

### 2.6 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 2.8).

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

### 2.7 Intangible assets

#### ***Goodwill***

Goodwill is measured as described in Note 2.8. 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.

### 2.8 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 after deducting non-recurring gains and losses 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 2020. The Directors have assessed the recoverable amounts of these Non-current Operating Assets as at 31 December 2020 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 2020.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

### 2.9 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 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.

### 2.10 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.10 Financial assets *(continued)*

#### *(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.

#### *(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 16 for further details.

### 2.11 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. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. An impairment allowance for inventories is recognised where necessary in order to record inventories at their net realisable values.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

### 2.12 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 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 16 for further information about the Group's accounting for trade receivables and Note 2.10 for a description of the Group's impairment policies.

### 2.13 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.

### 2.14 Share capital

Ordinary shares are classified as equity (Note 21).

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.

### 2.15 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

### 2.16 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.

#### (i) *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 and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

#### (ii) *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 substantively 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.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.16 Current and deferred income tax *(continued)*

#### *(ii) Deferred income tax (Continued)*

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.

### 2.17 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.17 Employee benefits *(continued)*

#### *(iii) Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

### 2.18 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

### 2.19 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.

As 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.

### 2.20 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

### 2.21 Leases

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.

#### (i) **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.

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.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

### 2.21 Leases (*continued*)

#### (i) Buildings (*continued*)

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.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

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.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.21 Leases *(continued)*

#### *(i) Buildings (continued)*

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 without a purchase option.

#### *(ii) Land use rights*

Land use rights represent prepaid operating lease payments for land less accumulated amortisation and any impairment losses (Note 2.8). 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.

### 2.22 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 profit or loss 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 profit or loss on a straight-line basis over the expected lives of the related assets.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

### 2.23 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 2020, the Group does not use any derivative financial instruments to hedge certain risk exposures.

The Group's risk management is predominately controlled by a treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### 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.

##### *(ii) Interest rate risk*

As the Group has no borrowings or 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### 3.1 Financial risk factors *(continued)*

#### **(b) Credit risk *(continued)***

##### *(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.

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 2020 or 31 December 2019 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3 FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Financial risk factors (continued)

#### (b) Credit risk (continued)

##### (ii) Impairment of financial assets (continued)

On that basis, the loss allowance as at 31 December 2020 and 31 December 2019 (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
<b>31 December 2020</b>					
Expected loss rate (%)	0%	5%	10%	100%	
Gross carrying amount – trade receivables	<u>22,158</u>	<u>6,472</u>	<u>909</u>	<u>19,129</u>	<u>48,668</u>
Loss allowance	<u>–</u>	<u>324</u>	<u>91</u>	<u>19,129</u>	<u>19,544</u>
	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
<b>31 December 2019</b>					
Expected loss rate (%)	0%	5%	10%	100%	
Gross carrying amount – trade receivables	<u>30,781</u>	<u>7,402</u>	<u>1,039</u>	<u>17,410</u>	<u>56,632</u>
Loss allowance	<u>–</u>	<u>370</u>	<u>104</u>	<u>17,410</u>	<u>17,884</u>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 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 2020, the loss allowance for other receivables (excluding loans to related party) was HK\$6,495,000 (2019: HK\$6,049,000).

Considering the poor financial capabilities of the related parties, the loans to related parties of HK\$5,582,000 as at 31 December 2019 was considered as fully impaired, which reversed HK\$1,665,000 due to collection during the year of 2020 .

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

	2020 HK\$000	2019 HK\$000
Impairment losses		
Impairment losses on other financial assets	(2,278)	–
Reversal of previous impairment losses due to collection	1,665	1,782
Net impairment losses on financial assets	(613)	1,782

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### 3.1 Financial risk factors *(continued)*

#### *(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\$182,129,000 (2019: HK\$157,548,000) (Note 19), trade receivables HK\$29,124,000 (2019: HK\$38,748,000) (Note 16) and notes receivable of HK\$13,897,000 (2019: HK\$29,868,000) (Note 17) 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.

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.

	<b>Less than one year or on demand</b>	
	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Group</b>		
At 31 December		
Lease liabilities – current	<b>2,020</b>	2,676
Trade payables	<b>94,531</b>	100,598
Other payables <i>(Note (a))</i>	<b>91,313</b>	122,778
	<b>187,864</b>	226,052

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### 3.1 Financial risk factors *(continued)*

#### **(c) Liquidity risk *(continued)***

##### *(i) Maturities of financial liabilities *(continued)**

*Note:*

- (a) Other payables did not include payroll payable, amounts due to major shareholder of the Company (Note 24), other tax payables and deposits.
- (b) Non-current lease liabilities of HK\$2,094,000 (2019: HK\$1,001,000) will be paid within 36 months.

### 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 2020, the Group's liability-to-asset ratio was approximately 63% (2019: 91%).

### 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 4 CRITICAL ESTIMATES AND JUDGEMENTS *(continued)*

### 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.

#### **(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 and other 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 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.

	<b>Red wines</b> <i>HK\$'000</i>	<b>White</b> <b>wines</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>For the year ended 31 December 2020</b>				
<b>Revenue from contracts with customers</b> <i>(Note 29(c))</i>	<b>154,935</b>	<b>77,005</b>	<b>6,733</b>	<b>238,673</b>
<b>Gross profit/(loss)</b>	<b>37,846</b>	<b>23,678</b>	<b>(1,405)</b>	<b>60,119</b>
Impairment allowance of inventories	<b>(3,959)</b>	<b>(1,967)</b>	<b>(172)</b>	<b>(6,098)</b>
Depreciation	<b>(6,741)</b>	<b>(3,351)</b>	<b>(293)</b>	<b>(10,385)</b>
Impairment losses on financial assets	<b>(398)</b>	<b>(198)</b>	<b>(17)</b>	<b>(613)</b>
<b>For the year ended 31 December 2019</b>				
<b>Revenue from contracts with customers</b> <i>(Note 29(c))</i>	221,097	76,164	5,072	302,333
<b>Gross profit</b>	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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 5 SEGMENT INFORMATION (continued)

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

	2020 HK\$'000	2019 HK\$'000
Gross profit for reportable segments	60,119	78,049
Other income, other gains and losses – net	246,732	5,031
Distribution costs	(53,456)	(76,853)
Administrative expenses	(75,696)	(74,550)
Net impairment losses on financial assets	(613)	1,782
Operating profit/(loss)	177,086	(66,541)
Finance income/(costs) – net	1,036	(2,703)
Profit/(loss) before income tax	178,122	(69,244)

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 customer (2019: Nil) with whom transactions have exceeded 10% of the Group's revenue.

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

## 6 EXPENSES BY NATURE

	2020 HK\$'000	2019 HK\$'000
Raw materials and consumables used (Note 29(c))	100,307	108,254
Changes in finished goods and work in progress	11,893	38,460
Processing and assembling expenses (Note 29(c))	425	3,821
Advertising, marketing, and other promotion expenses	11,084	16,059
Consumption tax of domestic sales and other taxes	23,901	26,027
Employee benefit expenses (Note 7)	99,789	96,274
Storage expenses	2,903	7,599
Transportation	9,237	11,332
Travelling expenses	3,988	4,345
Depreciation of property, plant and equipment	7,162	8,933
Depreciation of right-of-use assets	3,223	3,491
Consultancy and professional fee	4,972	11,122
Operating lease payments (Note 29(c))	393	2,180
Maintenance expense	4,781	3,402
Auditors' remuneration	2,532	3,386
Impairment allowance of inventories	6,098	4,223
Other expenses	15,018	26,779
Total cost of sales of goods, distribution costs, administrative expenses	307,706	375,687

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 7 EMPLOYEE BENEFIT EXPENSES

	2020 HK\$'000	2019 HK\$'000
Wages and salaries	63,571	77,532
Termination benefits (Note (a))	26,706	–
Social security costs – other insurances	7,614	10,758
Social security costs – retirement insurance	1,081	7,069
Other benefits	817	915
Total employee benefit expense	<b>99,789</b>	96,274

(a) The Group's subsidiaries implemented employee reform plan in 2020, which led to compensation for termination of employment contracts and early retirement amounted to HK\$23,062,000 and HK\$3,644,000 respectively.

### (b) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include two (2019: three) Directors whose emoluments are reflected in the analysis shown in Note 31. The emoluments payable to the remaining three (2019: two) individuals during the year are as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries and allowances	2,762	2,461
Contributions to retirement benefits scheme	107	102
	<b>2,869</b>	2,563

The emoluments fell within the following bands:

	Number of individuals	
	2020	2019
Emolument bands		
Nil – HK\$1,000,000	2	1
HK\$1,500,001 – HK\$2,000,000	1	1
	<b>3</b>	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 2020 (2019: Nil).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 8 OTHER INCOME, OTHER GAINS AND LOSSES – NET

	2020 HK\$'000	2019 HK\$'000
Gain on disposal of Chateau (Note 20)	246,136	–
Government grants	3,172	917
Compensation received for inventory loss (Note (a))	–	4,768
Gain on disposal of obsolete products, net (Note (b))	–	1,645
Compensation to suppliers related to contractual obligation for purchasing raw wines (Note (c))	(132)	(1,146)
Provision for potential compensation to employees (Note 23)	(630)	(1,983)
Loss on disposal of property, plant and equipment, net	(1,092)	(71)
Others	(722)	901
	<b>246,732</b>	<b>5,031</b>

- (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 value 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 form of cash, a residential property and certain physical assets.
- (b) During 2019, two of the Group's subsidiaries disposed of obsolete products totalling 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 purchase 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 28(c)). A total loss amounted to HK\$132,000 (2019: HK\$1,146,000) was resulted from this lawsuit to the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 9 SUBSIDIARIES

The Group's principal subsidiaries at 31 December 2020 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	
				2020 %	2019 %	2020 %	2019 %
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") (Note (a))	PRC, limited liability company	Sale of wine products; PRC	RMB6,000,000	51	51	49	49

- (a) The liquidation of Shanghai Cellar started from 14 August 2020, and up to the approval date of these financial statements, the liquidation is still under progress.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 10 INVESTMENT IN AN ASSOCIATE

Set out below are details of the associate of the Group as at 31 December 2020 and 2019. 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	
		2020	2019			2020	2019	2020	2019
		%	%			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 2020, 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 INCOME/(COSTS) – NET

	2020 HK\$'000	2019 HK\$'000
Finance income – interest income	1,143	1,984
Finance costs – interest paid for lease liabilities	(107)	(204)
Finance costs – interest expense on bank borrowings	-	(4,483)
Finance income/(costs) – net	1,036	(2,703)

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 12 INCOME TAX EXPENSE

	2020 HK\$'000	2019 HK\$'000
Current income tax	27	64
Deferred income tax	—	—
Corporate income tax ("CIT")	27	64
Land appreciation tax ("LAT")	62,403	—
	<b>62,430</b>	<b>64</b>

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

### (a) CIT

	2020 HK\$'000	2019 HK\$'000
Profit/(loss) before income tax	178,122	(69,244)
Income tax calculated at the PRC tax rate 25%	44,531	(17,311)
Difference in overseas tax rate	1,173	1,103
LAT	(15,601)	—
Expenses not deductible for tax purposes	371	1,046
Changes in the temporary differences for which no deferred income tax asset was recognized	(8,136)	(50,335)
Utilization of previous years' tax losses for which no deferred income tax asset was recognized	(43,237)	—
Tax losses for which no deferred income tax asset was recognised	20,926	65,561
	<b>27</b>	<b>64</b>

The weighted-average effective tax rate for the year ended 31 December 2020 was 26% (2019: 23%).

### (b) LAT

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including lease charges for land use rights and all property development expenditures. LAT is included in the income statement as income tax expense.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 13 EARNINGS/(LOSS) PER SHARE

### (a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing:

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

	2020	2019
Profit/(loss) attributable to owners of the Company (HK\$'000)	116,378	(72,943)
Weighted-average number of ordinary shares in issue ('000)	1,248,200	1,248,200
Profit/(loss) attributable to the ordinary equity holders of the Company (HK\$ Cents)	9.32	(5.84)

### (b) Diluted earnings/(loss) per share

The Group had no dilutive instruments during the years ended 31 December 2020 and 2019 and the Group's diluted earnings/(loss) per share equal to its basic earnings/(loss) per share for the years ended 31 December 2020 and 2019.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 14 PROPERTY, PLANT AND EQUIPMENT

	Buildings and constructions <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Leasehold improvements, furniture and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>At 1 January 2019</b>						
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)
<b>Net book amount</b>	<b>31,508</b>	<b>39,590</b>	<b>7,338</b>	<b>1,374</b>	<b>-</b>	<b>79,810</b>
<b>Year ended 31 December 2019</b>						
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)
<b>Closing net book amount</b>	<b>30,945</b>	<b>33,397</b>	<b>6,259</b>	<b>708</b>	<b>-</b>	<b>71,309</b>
<b>At 31 December 2019</b>						
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)
<b>Net book amount</b>	<b>30,945</b>	<b>33,397</b>	<b>6,259</b>	<b>708</b>	<b>-</b>	<b>71,309</b>
<b>Year ended 31 December 2020</b>						
Opening net book amount	30,945	33,397	6,259	708	-	71,309
Exchange differences	1,931	2,041	334	28	76	4,410
Additions	-	620	451	-	2,366	3,437
Disposals	-	(351)	(608)	(200)	-	(1,159)
Depreciation charge	(1,890)	(3,590)	(1,473)	(209)	-	(7,162)
<b>Closing net book amount</b>	<b>30,986</b>	<b>32,117</b>	<b>4,963</b>	<b>327</b>	<b>2,442</b>	<b>70,835</b>
<b>At 31 December 2020</b>						
Cost	273,418	418,351	109,902	14,253	2,442	818,366
Accumulated depreciation and impairment	(242,432)	(386,234)	(104,939)	(13,926)	-	(747,531)
<b>Net book amount</b>	<b>30,986</b>	<b>32,117</b>	<b>4,963</b>	<b>327</b>	<b>2,442</b>	<b>70,835</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 14 PROPERTY, PLANT AND EQUIPMENT (continued)

The Directors has assessed the recoverable amounts of the Group's property, plant and equipment and land use rights as at 31 December 2020 and concluded that no further impairment provision has to be provided for the year ended 31 December 2020 (2019: 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 0% to 3.0% (2019: 1.2% to 2.0%) throughout the entire forecast periods. The post-tax discount rate as adopted by management in the impairment assessment is 14.9% (2019: 14.7%) 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 RMB790 (2019: RMB648) per square meter.

## 15 LEASES

### (a) Amounted recognized in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2020 HK\$'000	2019 HK\$'000
<b>Right-of-use assets</b>		
Land-use rights	17,494	16,959
Buildings	3,966	3,501
	<b>21,460</b>	<b>20,460</b>
<b>Lease liabilities</b>		
Current	2,020	2,676
Non-current	2,094	1,001
	<b>4,114</b>	<b>3,677</b>

The Group has land lease arrangement with mainland China government.

Additions to the right-of-use assets during the 2020 financial year were HK\$3,108,000 (2019: HK\$3,927,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 15 LEASES (continued)

### (b) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	2020 HK\$'000	2019 HK\$'000
Depreciation charge of right-of-use assets		
Land-use rights	(539)	(472)
Buildings	(2,684)	(3,019)
	<b>(3,223)</b>	<b>(3,491)</b>
Interest expense (included in finance costs)	(107)	(204)
Expense relating to short-term leases (included in cost of sales of goods and administrative expenses)	(3,296)	(9,779)

The total cash outflow from leases in 2020 was HK\$6,074,000 (2019: HK\$12,920,000).

### (c) 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 16 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

### (a) Trade receivables

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables from contracts with customers (Note 29(d))	48,668	56,632
Bad debt provision for trade receivables (Note 3.1)	<b>(19,544)</b>	(17,884)
Trade receivables – net	<b>29,124</b>	38,748

The Group grants a credit period of 90 days (2019: 90 days) to its customers. The ageing analysis of the trade receivables is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Up to 90 days	22,158	30,781
More than 30 days past due	6,472	7,402
More than 90 days past due	909	1,039
More than 270 days past due	<b>19,129</b>	17,410
	<b>48,668</b>	56,632

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.

### (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 increased by HK\$1,660,000 to HK\$19,544,000 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 16 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS *(continued)*

### (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.

	2020 HK\$'000	2019 HK\$'000
Taxes to be offset	4,470	3,255
Advance for promotion agreements	2,970	2,791
Deposits paid	3,790	4,098
Cash advance to employees	349	200
Loan to related parties	–	5,582
Other receivables	3,980	4,622
	<b>15,559</b>	20,548
Less: Loss allowance for other receivables <i>(Note 3.1(b))</i>	<b>(6,495)</b>	(11,631)
	<b>9,064</b>	8,917

### (c) Prepayments

	2020 HK\$'000	2019 HK\$'000
Prepayments to		
– third parties <i>(Note (i))</i>	2,305	88,059
– related parties <i>(Note 29(e))</i>	423	7,189
	<b>2,728</b>	95,248

- (i) As at 31 December 2019, prepayments to relevant taxes and transaction fee of transferring the Chateau were HK\$84,573,000 and HK\$2,178,000 respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 17 NOTES RECEIVABLE

	2020 HK\$'000	2019 HK\$'000
Bank acceptance bill	<b>13,897</b>	29,868

As of 31 December 2020, notes receivable amounted to HK\$6,768,000 and HK\$7,129,000 (2019: HK\$29,868,000 and Nil) were all bank acceptance notes with maturity date within 6 months and 12 months, which are classified as financial assets at FVOCI.

The methods and assumptions used in determining fair value of bills receivable is provided in Note 2.8.

## 18 INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Raw materials (Note (a))	<b>171,507</b>	201,306
Work in progress (Note (b))	<b>11,375</b>	2,939
Finished goods (Note (c))	<b>86,885</b>	87,187
Low value consumables	<b>27,337</b>	33,371
	<b>297,104</b>	324,803
Inventory provision write-down (Note (d))	<b>(39,789)</b>	(35,056)
	<b>257,315</b>	289,747

Note:

- (a) The raw materials mainly contain raw wines, yeast and additives.
- (b) Work in progress comprises 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 18 INVENTORIES (continued)

Note: (continued)

(d) Inventory impairment allowance movement

	2020 HK\$'000	2019 HK\$'000
As at 1 January	(35,056)	(229,905)
Charges to profit or loss	(6,098)	(4,223)
Utilised upon the sales of the inventories	3,759	195,952
Exchange differences	(2,394)	3,120
As at 31 December	<b>(39,789)</b>	(35,056)

As at 31 December 2020, finished goods with costs of HK\$28,900,000 (2019: HK\$22,157,000) was considered as obsolete, while finished goods of HK\$10,490,000 (2019: HK\$11,018,000) 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\$399,000 (2019: HK\$1,881,000) as at 31 December 2020 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 2020 amounted to HK\$105,107,000 and HK\$7,093,000 respectively (2019: HK\$142,011,000 and HK\$4,703,000).

## 19 CASH AND BANK

### (a) Restricted cash

The cash and bank include restricted cash of HK\$412,000 (2019: HK\$384,000) 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.

### (b) Cash and cash equivalents in cash flow statement

	2020 HK\$'000	2019 HK\$'000
Cash at bank and in hand	<b>182,129</b>	157,548

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 20 ASSETS CLASSIFIED AS HELD FOR SALE

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Assets held for sale – Chateau and related facilities		
Buildings	–	145,421
Land use right	–	32,647
	–	178,068

On 23 July 2018, a subsidiary of the Company, Sino-French Joint-Venture Dynasty Winery Ltd. (“Dynasty Tianjin”) entered into an asset transaction agreement with a third party (the “Buyer”) to dispose of the land use rights and aboveground buildings covering a chateau and the related facilities of Dynasty Tianjin to the Buyer (“the Disposal”) 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. This Disposal was completed on 23 January 2020. The related gains HK\$246,136,000 from the Disposal was recognised in the profit or loss for the year of 2020 (Note 8).

## 21 SHARE CAPITAL

	<b>Number of shares</b> <i>(thousands)</i>	<b>Share capital</b> <i>HK\$'000</i>
At 1 January 2019, 31 December 2019 and 31 December 2020	1,248,200	124,820

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 22 OTHER RESERVES

	Share premium <i>HK\$'000</i> <i>(Note a)</i>	Merger reserve <i>HK\$'000</i> <i>(Note b)</i>	Reserve fund <i>HK\$'000</i> <i>(Note c)</i>	Enterprise expansion fund reserve <i>HK\$'000</i> <i>(Note c)</i>	Exchange reserve <i>HK\$'000</i> <i>(Note d)</i>	Total <i>HK\$'000</i>
As at 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 and 1 January 2020	464,464	74,519	158,928	94,434	352,474	1,144,819
Currency translation differences	-	-	-	-	15,636	15,636
As at 31 December 2020	<b>464,464</b>	<b>74,519</b>	<b>158,928</b>	<b>94,434</b>	<b>368,110</b>	<b>1,160,455</b>

### (a) 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.

### (b) 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.

### (c) 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 2020 and 2019, there was no net profit for appropriation.

### (d) EXCHANGE RESERVE

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in Note 2.5 and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 23 PROVISIONS FOR CONTINGENT LIABILITIES

	2020 HK\$'000	2019 HK\$'000
Provision for potential compensation to employees	2,738	1,961

- (a) In December 2019, four employees of the Group lodged a labour arbitration with Tianjin Beichen District Labour Dispute Arbitration Committee against two subsidiaries of the Company for claiming for a total compensation of RMB3.5 million (equivalent to HK\$3.95 million) regarding the termination of their employment contracts, which were for the purpose of changing their employment to other subsidiaries within the Group. As at 31 December 2019, based on the understanding of the related laws and regulations and the consultation with an external legal counsel, the Directors were 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.

Up to the approval date of these financial statements, this arbitration was still in progress except one of the employees returned to work since 1 January 2021, and the Directors are of the view that the potential compensation amount is not likely to be higher than RMB1.39 million (equivalent to HK\$1.65 million). Therefore, the provision for this contingent liability decreased to HK\$1.65 million as at 31 December 2020.

- (b) After the implementation of employee reform (Note 7 (a)), nine employees of the Group lodged labour arbitrations with Tianjin Beichen District Labour Dispute Arbitration Committee against two subsidiaries of the Company, claiming a total compensation of RMB0.91 million (equivalent to HK\$1.09 million) regarding the terminations of their employment contracts. Up to the approval date of these financial statements, 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 the aforesaid claimed amount of RMB0.91 million (equivalent to HK\$1.09 million). Therefore, a provision for this contingent liability was made.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 24 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2020 HK\$'000	2019 HK\$'000
Trade payables ( <i>Note 29(e)</i> )	94,531	100,598
Other payables and accruals		
– Accruals for sales promotion expenditures	35,327	56,307
– Amount due to major shareholder of the Company ( <i>Note (a)</i> )	42,404	42,404
– Other taxes payables	19,283	10,931
– Payroll payable	14,457	6,364
– Others	62,711	72,773
	174,182	188,779
	268,713	289,377

- (a) The amount due to major shareholder of the Company are arisen in connection with the emoluments payable for certain directors as accumulated since 2004. The amounts due to major shareholder are unsecured, interest free and have no fixed terms of repayment.
- (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.
- (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:

	2020 HK\$'000	2019 HK\$'000
0–30 days	55,031	55,370
31–90 days	592	2,263
91 to 180 days	149	2,227
Over 180 days	38,759	40,738
	94,531	100,598

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 25 CONTRACT LIABILITIES

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Advance received from distributors	<b>96,242</b>	66,028

## 26 DEFERRED INCOME TAX

There was no movement in deferred income tax assets or liabilities during the year ended 31 December 2020 and 2019.

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 2020, the Group did not recognise deferred income tax assets of HK\$151,634,000 (2019: HK\$233,592,000) in respect of tax losses and others temporary differences which are primarily arising from asset impairment, amounting to HK\$535,888,000 and HK\$219,162,000 respectively (2019: HK\$727,120,000 and HK\$238,135,000 respectively) that can be carried forward against future taxable income.

Unrecognised tax losses are expiring as below:

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
2020	–	123,927
2021	<b>106,049</b>	126,728
2022	<b>69,325</b>	81,081
2023	<b>114,628</b>	146,019
2024	<b>224,960</b>	249,365
2025	<b>20,926</b>	–
	<b>535,888</b>	727,120

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 27 CASH FLOW INFORMATION

### (a) Cash generated/(used) in operations

	2020 HK\$'000	2019 HK\$'000
Profit/(loss) before income tax	178,122	(69,244)
Adjustments for:		
Interest income (Note 11)	(1,143)	(1,984)
Finance costs (Note 11)	107	4,687
Depreciation of property, plant and equipment (Note 14)	7,162	8,933
Depreciation of right-of-use assets (Note 15)	3,223	3,491
Loss on disposal of property, plant and equipment, net (Note 8)	1,092	71
Gain on disposal of chateau	(246,136)	–
Net impairment loss on financial assets (Note 3.1(b))	613	(1,782)
Impairment allowance of inventories (Note 18)	6,098	4,223
Change in operating assets and liabilities (excluding the effects of currency translation differences on consolidation):		
– Decrease in inventories	26,334	43,082
– Decrease/(increase) in trade and other receivables	11,536	(7,069)
– Decrease/(increase) in notes receivable	17,330	(21,937)
– Decrease in prepayments	6,117	3,600
– Decrease in trade and other payables and accruals	(25,212)	(611)
– Increase in provision for contingent liabilities	630	1,983
– Increase/(decrease) in contract liabilities	25,148	(16,164)
Cash generated/(used) in operations	<b>11,021</b>	(48,721)

### (b) Major non-cash transactions

During the year ended 31 December 2020, the Group has endorsed bank acceptance bills with an aggregated amounts of HK\$27,848,000 (2019: HK\$25,146,000) to the its suppliers as the Group's settlement of the payable balances due to the respective suppliers.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 27 CASH FLOW INFORMATION (continued)

### (c) Net debt reconciliation

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cash and cash equivalents	<b>182,129</b>	157,548
Lease liabilities	<b>(4,114)</b>	(3,677)
Net debt	<b>178,015</b>	153,871
Cash	<b>182,129</b>	157,548
Gross debt – fixed interest rates	<b>(4,114)</b>	(3,677)
Net debt	<b>178,015</b>	153,871

	<b>Cash</b> <i>HK\$'000</i>	<b>Borrowings due within 1 year</b> <i>HK\$'000</i>	<b>Lease</b> <i>HK\$'000</i>	<b>Net debt total</b> <i>HK\$'000</i>
As at 1 January 2019	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
Cash flows	<b>6,923</b>	–	<b>2,671</b>	<b>9,594</b>
Acquisition – leases	–	–	<b>(3,108)</b>	<b>(3,108)</b>
Foreign exchange adjustments	<b>17,658</b>	–	–	<b>17,658</b>
As at 31 December 2020	<b>182,129</b>	–	<b>(4,114)</b>	<b>178,015</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 28 COMMITMENTS

### (a) Capital commitments

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

	2020 HK\$'000	2019 HK\$'000
Property, plant and equipment	–	391

### (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.

The Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Note 2.21 and Note 15 for further information.

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

	2020 HK\$'000	2019 HK\$'000
Within one year	1,164	556

### (c) Commitments of raw wine purchasing

	2020 HK\$'000	2019 HK\$'000
Contractual obligation for purchasing raw wines – not recognised as a liability	–	5,931

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 29 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:

<b>Related parties</b>	<b>Relationship</b>
Tianjin Food	Major shareholder of the Company from 9 September 2020
Tsinlien Group	Major shareholder of the Company up to 8 September 2020
Tsinlien Investment	Major shareholder of the Company
Remy Pacifique Limited	Major shareholder of the Company

### (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:

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
Short-term employee benefits	<b>6,191</b>	7,318
Long-term benefits	<b>211</b>	302
	<b>6,402</b>	7,620

### (c) Transactions with other related parties

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
(i) Sales of goods		
– Tianjin Food and its subsidiaries and associates	<b>794</b>	11,547
(ii) Purchases of goods and services		
– Tianjin Food and its subsidiaries and associates	<b>10,363</b>	14,645
– Tsinlien Group and its subsidiaries and associates	<b>97</b>	689

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 29 RELATED PARTY TRANSACTIONS (continued)

### (d) Outstanding balances arising from sales of goods

	2020 HK\$'000	2019 HK\$'000
(i) Current receivables to related parties:		
– Tianjin Food and its subsidiaries and associates	498	454

### (e) Outstanding balances arising from purchases of goods and services

	2020 HK\$'000	2019 HK\$'000
(i) Current payables to related parties:		
– Tianjin Food and its subsidiaries and associates	19,119	32,247
– Tsinlien Group and its subsidiaries and associates	3,748	3,450
The payables to related parties bore no interest.		
(ii) Prepayment to related parties		
– Tianjin Food and its subsidiaries and associates	355	7,126
– Tsinlien Group and its subsidiaries and associates	68	63

### (f) Outstanding balances arising from transfer of debt

	2020 HK\$'000	2019 HK\$'000
(i) Current payables to related parties:		
– Tianjin Food and its subsidiaries and associates	11,882	–

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 30 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	309	324
Interests in subsidiaries	533,750	538,769
Dividend receivable from subsidiaries	104,739	104,739
Total non-current assets	<b>638,798</b>	643,832
<b>Current assets</b>		
Trade receivables	24	22
Other receivables and prepayments	919	911
Inventories	356	364
Cash and cash equivalents	3,965	6,818
Total current assets	<b>5,264</b>	8,115
<b>Total assets</b>	<b>644,062</b>	651,947
<b>Equity and liabilities</b>		
Capital and reserves attributable to owners of the Company		
Share capital	124,820	124,820
Other reserves ( <i>Note (a)</i> )	904,789	904,789
Accumulated losses	(484,248)	(473,822)
<b>Total equity</b>	<b>545,361</b>	555,787
<b>Liabilities</b>		
<b>Current liabilities</b>		
Other payables and accruals ( <i>Note (b)</i> )	71,145	67,965
Amount due to subsidiaries	27,556	28,195
<b>Total liabilities</b>	<b>98,701</b>	96,160
<b>Total equity and liabilities</b>	<b>644,062</b>	651,947

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 30 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (continued)

### (a) Reserve movement of the Company

	Accumulated losses <i>HK\$'000</i>	Other reserves		
		Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>
As at 1 January 2019	(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
Loss for the year	(10,426)	–	–	–
As at 31 December 2020	<b>(484,248)</b>	<b>464,464</b>	<b>331,286</b>	<b>109,039</b>

- (b) As at 31 December 2020, other payables and accruals included amounts due to major shareholder of the Company of HK\$42,404,000 (2019: HK\$42,404,000) (Note 24).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 31 BENEFITS AND INTERESTS OF DIRECTORS

### Directors' emoluments

The remuneration of every director is set out below:

	Fees <i>HK\$'000</i>	Salary <i>HK\$'000</i>	Other benefits <i>HK\$'000</i>	Employer's contribution to pension scheme <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>2020</b>					
<b>Executive Directors</b>					
Mr. Sun Jun ( <i>a</i> )	-	1,050	252	-	1,302
Mr. Li Guanghe	-	1,400	268	68	1,736
Mr. Sun Yongjian ( <i>a</i> )	-	166	-	45	211
Mr. Wan Shoupeng ( <i>b</i> )	-	-	-	-	-
Mr. Huang Manyou ( <i>b</i> )	-	51	-	26	77
<b>Non-executive Directors</b>					
Mr. Heriard-Dubreuil Francois	360	-	-	-	360
Ms. Shi Jing ( <i>a</i> )	216	-	-	-	216
Mr. Jean-Marie Laborde ( <i>a</i> )	270	-	-	-	270
Mr. Wong Ching Chung	360	-	-	-	360
Mr. Robert Luc	360	-	-	-	360
<b>Independent non-executive Directors</b>					
Mr. Yeung Ting Lap Derek Emory	288	-	-	-	288
Mr. Sun David Lee	288	-	-	-	288
Dr. Zhang Guowang	120	-	-	-	120
	<b>2,262</b>	<b>2,667</b>	<b>520</b>	<b>139</b>	<b>5,588</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 31 BENEFITS AND INTERESTS OF DIRECTORS (continued)

### Directors' emoluments (continued)

	Fees <i>HK\$'000</i>	Salary <i>HK\$'000</i>	Other benefits <i>HK\$'000</i>	Employer's contribution to pension scheme <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>2019</b>					
<b>Executive Directors</b>					
Mr. Sun Jun	–	1,400	336	–	1,736
Mr. Li Guanghe	–	1,400	227	109	1,736
Mr. Sun Yongjian	–	538	1	109	648
<b>Non-executive Directors</b>					
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
<b>Independent non-executive Directors</b>					
Mr. Yeung Ting Lap Derek Emory	288	–	–	–	288
Mr. Sun David Lee	288	–	–	–	288
Dr. Zhang Guowang	120	–	–	–	120
	<b>2,424</b>	<b>3,338</b>	<b>564</b>	<b>218</b>	<b>6,544</b>

(a) Resigned on 1 October 2020.

(b) Appointed on 1 October 2020.

# 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

	2020 HK\$'000	Year ended 31 December			
		2019 HK\$'000	2018 HK\$'000	2017 Restated HK\$'000	2016 HK\$'000
Revenue from contracts with customers	<b>238,673</b>	302,333	344,933	383,470	452,181
Profit/(loss) before income tax	<b>178,122</b>	(69,244)	(79,172)	(135,227)	(101,240)
Income tax (expense)/credit	<b>(62,430)</b>	(64)	(71)	(27)	304
Profit/(loss) after income tax	<b>115,692</b>	(69,308)	(79,243)	(135,254)	(100,936)
Non-controlling interests	<b>(686)</b>	3,635	(575)	(1,629)	(304)
Profit/(loss) attributable to owners of the Company	<b>116,378</b>	(72,943)	(78,668)	(133,625)	(100,632)
Dividends	–	–	–	–	–

## CONSOLIDATED ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS IN EQUITY

	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 Restated HK\$'000	2016 HK\$'000
Current assets	<b>494,669</b>	620,460	479,584	588,184	686,224
Assets classified as held for sale	–	178,068	182,051	190,805	–
Current liabilities	<b>(369,713)</b>	(806,570)	(604,106)	(644,612)	(649,258)
Non-current liabilities	<b>(2,094)</b>	(1,001)	–	–	–
Non-controlling interests in equity	<b>(17,483)</b>	(17,066)	(13,739)	(15,009)	(15,568)
Capital and reserves attributable to owners of the Company	<b>197,674</b>	65,660	141,416	230,622	345,663