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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)

FULFILMENT OF RESUMPTION CONDITIONS

AND

RESUMPTION OF TRADING

This announcement is made by Dynasty Fine Wines Group Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”).

References are made to the announcements (the “**Announcements**”) of the Company dated 14 March 2013, 22 March 2013, 26 March 2013, 30 April 2013, 31 May 2013, 28 June 2013, 31 July 2013, 21 August 2013, 30 August 2013, 25 September 2013, 8 October 2013, 31 October 2013, 29 November 2013, 31 December 2013, 28 January 2014, 28 February 2014, 27 March 2014, 28 April 2014, 30 May 2014, 30 June 2014, 31 July 2014, 29 August 2014, 30 September 2014, 31 October 2014, 26 November 2014, 31 December 2014, 30 January 2015, 27 February 2015, 31 March 2015, 16 April 2015, 30 April 2015, 29 May 2015, 30 June 2015, 14 August 2015, 31 August 2015, 30 September 2015, 23 October 2015, 26 November 2015, 15 December 2015, 29 January 2016, 1 March 2016, 31 March 2016, 3 May 2016, 30 June 2016, 2 August 2016, 31 August 2016, 31 October 2016, 3 January 2017, 3 March 2017, 19 April 2017, 12 May 2017, 23 August 2017, 30 November 2017, 29 December 2017, 8 January 2018, 31 January 2018, 28 February 2018, 29 March 2018, 20 April 2018, 21 May 2018, 29 June 2018, 31 July 2018, 31 August 2018, 30 September 2018, 31 October 2018, 30 November 2018, 31 January 2019, 29 March 2019, 30 April 2019, 31 May 2019, 28 June 2019 and 22 July 2019. Capitalised terms used herein shall have the same meaning as those defined in the Announcements unless the context otherwise requires.

The Company is pleased to announce that the resumption conditions provided by the Stock Exchange have been fulfilled.

BACKGROUND OF RESUMPTION CONDITIONS

The shares of Company have been suspended from trading since 22 March 2013. As disclosed in the announcement of the Company dated 26 March 2013, the Company has been informed by its auditor, PricewaterhouseCoopers (“PwC”), that they had received anonymous allegations against certain transactions of the Group (the “Allegations”). The Board has authorised the Audit Committee to undergo an investigation of such Allegations. Upon being notified of the Allegations and authorised by the Board, the Audit Committee has forthwith engaged its legal advisers and Ernst & Young Advisory Services Ltd. (“EY”) to conduct an internal investigation to verify the truthfulness of the Allegations. Since the internal investigation by EY was not completed until 24 October 2016, PwC could not complete their audit work and therefore the publication of the financial results of the Company was delayed.

As disclosed in the announcement of the Company dated 8 October 2013, on 4 October 2013, the Stock Exchange issued a letter stating the resumption conditions to the Company (the “Resumption Conditions”).

The Resumption Conditions imposed by the Stock Exchange are set out below:

- (a) publish all outstanding financial results, and address any audit qualifications (“Financial Results Publication Condition”); and
- (b) publish results of the Internal Investigation and address any identified issues (“Internal Investigation Condition”).

FULFILLMENT OF RESUMPTION CONDITIONS

The Company is pleased to announce that, as of the date hereof, the Resumption Conditions have been fulfilled, details of which are set out below:

(1) Financial Results Publication Condition

The Company has published all outstanding financial results. Set out below are the dates of publication of the financial results:

the annual results announcements of the Company for the year ended 31 December 2018	23 July 2019
the annual results announcements of the Company for the years ended 31 December 2017	22 July 2019
the interim results announcements of the Company for the six months ended 30 June 2017 and 2018	22 July 2019
the annual reports of the Company for the years ended 31 December 2012, 2013, 2014, 2015 and 2016	19 July 2019
the interim reports of the Company for the six months ended 30 June 2013, 2014, 2015 and 2016	19 July 2019

the annual reports of the Company for the years ended 31 December 2017 and 2018	26 July 2019
the interim reports of the Company for the six months ended 30 June 2017 and 2018	26 July 2019

The Company confirms that, as at the date of this announcement, it has published all outstanding financial results and that no other financial results of the Company are outstanding. Accordingly, the Company considers that it has fulfilled the Financial Results Publication Condition.

(2) Internal Investigation Condition

The preliminary results of the internal investigation report issued by EY (the “**EY Report**”) have been disclosed in the announcement of the Company dated 2 August 2016 (the “**2016 Announcement**”). The Internal Investigation was completed on 24 October 2016 and a final investigation report was issued and signed by EY and received by the Company on 29 October 2016. The content of the final investigation report was the same, in all material aspects, with the details disclosed in the 2016 Announcement. Issues were identified in three major areas, namely (i) sales arrangements; (ii) non-sellable inventory; and (iii) potential understatement of selling expenses (the “**Findings**”).

BACKGROUND

Relevant Period

As set out in the announcement of the preliminary annual results for the year ended 31 December 2012 of the Company dated 8 December 2017, the issue in relation to sales arrangement with certain major distributors occurred during 2009 to 2011; while the issues in relation to certain inventory records and understated selling expenses were dated in 2012 and/or previous years (“**Relevant Period**”).

Former Management during the Relevant Period

The Former Management during the Relevant Period was Mr. Bai Zhisheng, Mr. Gao Feng and Mr. Huang Yaqiang (collectively the “**Former Management**”), all of whom were executive directors of the Company. Set out below is the information regarding their appointment from 1 January 2010 to 31 December 2012:

Executive directors of the Company

Name	Term of office
Mr. Bai Zhisheng	10 August 2004 to 29 January 2014
Mr. Gao Feng (<i>note</i>)	9 May 2009 to 7 December 2012
Mr. Huang Yaqiang	26 January 2010 to 28 November 2014

Note: Mr. Hao Feifei was appointed as the executive director and general manager of the Company on 7 December 2012 to replace Mr. Gao Feng and was subsequently re-designated to the position of Chairman of the Board on 29 January 2014 until his retirement on 1 January 2018.

RESPONSES TO THE FINDINGS

Set out below is the Company’s response the Findings, namely (i) sales arrangements; (ii) non-sellable inventory; and (iii) potential understatement of selling expenses.

I. Sales Arrangement

Observations

Customer A used two inventory vouchers which were issued on 29 November 2010 and 29 December 2010 by Tianjin Dynasty Winery Sales Co., Ltd. (“**Tianjin Sales Co.**”), as requested and confirmed with seals by Customer A, as supporting evidence for its purchases, according to which Customer A confirmed that it has ownership of RMB350 million worth of goods.

As set out in the 2016 Announcement, referring to the EY Report, the Company only temporarily assumed the warehousing function of the goods at the request of Customer A in accordance with the arrangements of “temporary storing in the warehouse outside the Group” (暫存放於本集團外地庫中) as stated in the inventory vouchers. Despite the Company was responsible for the warehousing and downstream delivery logistics of purchased inventory for Customer A during the Relevant Period, according to the inventory vouchers, Customer A has actually received the goods and recognized the ownership of the goods. As such, the Former Management was of the view that the revenue of RMB299 million without value-added tax could be recognized in 2010.

It was also observed during the investigation that the same arrangement of recognising revenue when goods were shipped out of manufacturing plants to off-site warehouses was adopted for Customers B, C and D. Similarly to Customer A, according to the EY Report it was found that the Company was also responsible for the distribution process of the shipment of goods from the manufacturing plants to offsite warehouses and finally to end customers or downstream distributors. However, the Former Management was of the view that since the ownership of the goods was confirmed by its customers, the risk of the goods should also be considered as transferred. Unfortunately, due to changes in the domestic wine market and impact of changes in imported wines and related national restriction policies, the actual progress of distribution of goods to end customers or downstream distributors was slower than expected.

Mr. Sun Jun, Mr. Li Guanghe and Mr. Sun Yongjian, the current executive directors of the Company, (the “**Current Management**”), upon reviewing the Findings, understood that the distribution process included different distribution chains and took a long time-lag from shipment of goods from the manufacturing plants to final delivery to end customers or downstream distributors. The one-off revenue recognition, adopted in the Relevant Period, which made reference to when goods were shipped out of the manufacturing plants, was in fact inappropriate as most of the risk of goods was not transferred to the end customers or the downstream distributors at the date of shipment of the goods from the manufacturing plants. The Company should instead, according to its accounting policy, adopt revenue recognition with reference to the actual date when risks and rewards were transferred to the end customers or downstream distributors.

Despite the fact that one-off revenue recognition was adopted during the Relevant Period, according to the PRC legal opinion issued by a PRC law firm in Tianjin dated 31 August 2018 obtained by the Company (the “**PRC Legal Opinion**”), the agreements signed by Tianjin Sales Co., and Shanghai Dynasty Grape Winery Sales Co., Ltd. with their respective distributors were valid and effective and were basically duly performed, and during the process of the performance of the agreement, there was no indication of any civil liability of the Former Management relating to the issue based on the available information.

Financial effects

As set out in Note 2.2 (i) of the consolidated financial statements of the Company for the year ended 31 December 2012, which was disclosed in the announcement of the Company dated 8 December 2017, prior year adjustments in relation to the sales arrangement with these distributors were made in the consolidated financial statements for the year ended 31 December 2012. Revenue and cost of goods sold for the year ended 31 December 2011¹ was increased by HK\$67,082,000 and HK\$29,852,000 respectively, resulting in an increase of the net profit for the year by HK\$37,230,000. The retained earnings as at 1 January 2011 and 31 December 2011 were decreased by HK\$261,964,000 and HK\$224,734,000 respectively. The effect of these adjustments was to rectify the sales recognized previously when goods were shipped out of the manufacturing plants in 2011 and before.

¹ The independent auditor of the Company, PwC issued disclaimer opinion to each of the consolidated financial statements of the Company for the year ended 31 December 2012, 31 December 2013 and 31 December 2014 and qualified opinion to the consolidated financial statements of the Company for the year ended 31 December 2015 on issues arising from the above investigation and related scope limitations as well as impairments of property, plant and equipment. For details, please refer to the announcements made by the Company on 8 December 2017 in relation to the preliminary results of the Company for the year ended 31 December 2012, 2013, 2014 and 2015.

The sales were previously recognized in the consolidated financial statements for the year ended 31 December 2012 at the time when goods were shipped out of the manufacturing plants. After the adoption of the revised revenue recognition criteria, the Company made adjustments to reverse these sales recognized in the consolidated financial statements for the year ended 31 December 2012 and recognized the relevant sales in the consolidated financial statements of subsequent years from 2013 to 2015 when the goods were shipped to the downstream distributors or end customers as instructed by the distributors, i.e., when the actual risks and rewards associated with these goods were transferred to parties outside of the Group.

Current Management's view

Based on the Findings and the Company's internal records, the Current Management is of the view that the Former Management did not have the intention to manipulate or attempted to manipulate the sales revenue of the Company and there is no evidence showing that the Former Management received any benefits from the arrangements. However, despite the PRC Legal Opinion stated that (i) the agreements were valid and effective and were basically performed; and (ii) during the process of the performance of the agreement, there was no indication of any civil liabilities of the Former Management relating to the issue based on the available information, the issue relating to the sales arrangements did in fact occur due to inappropriate accounting treatment of the relevant sales activities.

Audit committee's view

The Audit Committee considers that it is important to ensure the integrity of the Company's financial statements. During the investigation, the Audit Committee expressed concerns to the management at the time regarding the findings in relation to the sales arrangements with Customers A, B, C and D. The relevant sales arrangements were revealed in the investigation and were not previously and appropriately accounted for in the Group's financial statements up to the year ended 31 December 2011. During the investigation, the Former Management stated that they were relying on, among other things, the inventory voucher(s) issued to Customer A, to form the view that all conditions required to recognize revenue were met. The Current Management recognizes that the revenue recognition criteria applied by the Former Management were inappropriate. The Audit Committee's view was that this ought to be seriously considered by the Board, and therefore asked the Company to seek legal advice on whether any of the Former Management is legally responsible for the inappropriate recognition of revenue. As stated in the announcement of 30 September 2018, the Board, upon reviewing the PRC Legal Opinion, accepted that no legal action shall be taken against the Former Management based on the available information.

II. Non-sellable inventory and the related inventory management

Observations

Non-sellable inventories

The non-sellable inventories were due to three sources, namely (i) non-sellable wines in warehouse that have not been delivered; (ii) wines already distributed into the market but returned or exchanged to the Group; and (iii) raw materials stocked up for production which will no longer be utilised due to changes in product mix, including but not limited to packaging materials and labels. This occurred mainly due to changes in the stipulations of 7 national policies governed by Chinese Food & Drugs Administration and the State of Administration for Industry & Commerce regarding the revision and adjustment of packaging materials of its products in years 2010-2013.

As a result of the introduction of the policy changes, the labels and outer packaging of the products of the Company have to be modified and products that have been produced and sold to the distributors but not yet delivered, or products which have been delivered to distributors but not yet sold to end consumers became non-sellable as their original labels and packaging did not meet the regulations and have been returned by the distributors successively between 2013 and 2016. The Former Management decided to replace the product labels to minimize losses, however the process of replacing the product labels took time and the related cost was high. Furthermore, during the Relevant Period, the downward trend of the market accelerated and the returned goods exceeded the expectation of the Former Management. In light of such, the Former Management could not have taken more effective measures to curb the increase of non-sellable wines.

Furthermore, according to the PRC Legal Opinion, the issue arose mainly due to changes in the stipulations of aforesaid national policies. Since the changes to those national policies were unanticipated, the Company could not have come up with any precaution measures. As such, the legal adviser is of the view that based on available information, there was no indication of any civil liabilities on the Former Management relating to the issue.

No proper record of inventory

During the Relevant Period, the warehouses of Sino-French Joint-Venture Dynasty Winery Ltd. and Tianjin Sales Co. were separately managed by different departments, hence the related records could not be recovered and the reasons behind the differences between the books and records and the balance of physical goods could not be ascertained. Due to frequent changes in personnel, ineffective administration and record keeping of information and/or documents, previous accounting and warehouse records could no longer be clearly verified. Although the Former Management had used their best endeavours to re-construct the warehouse records based on the stock take results as at 31 December 2014 in order to ensure that the books and records matched with the balances of physical goods, they were unable to reproduce a complete historical record.

Financial effects

Based on various internal documents addressing the quality issues of the products of the Group prepared in 2012 and 2013 identified in the investigation, the Group became aware that there was a significant balance of obsolete inventories stored in various warehouses of the Group, in particular, the offsite warehouses as mentioned in section (I) above. The investigation also identified that, as at the time when the investigation was conducted, certain inventory records of the Group relating to 2012 and prior years were not properly maintained. However, due to the missing supporting documents and records, the Group was unable to quantify the impact, if any, in or prior to 2012. As a result, no adjustment was made by the Group in the consolidated financial statements of the Group as at and for the years ended 31 December 2011 and 2012 in respect of the matters mentioned in relation to the discrepancies in inventories.

In response to the findings above, the Group reconstructed its inventory records from 31 December 2014 onwards based on the results of the physical counts of inventory balance as at 31 December 2014 and 31 December 2015. The inventory records prior to 31 December 2014 could not be reconstructed by the Group as a substantial number of documents supporting the movements of inventories and other supporting documents were missing. From March to December 2014, in the robust process of re-setting up the inventory record, the warehousing and logistics department of the Company reconciled the full physical inventory count results of each of its warehouse and then checked and adjusted the differences individually with book value of inventory.

The Group performed a reconciliation of inventory balances between the physical count results and the accounting records of inventory as at 31 December 2014. The net aggregated unexplained difference between the physical count and the accounting records amounted to HK\$53,148,000 was recognized as stock loss at 31 December 2014 based on the judgment and estimation made by the Group.

The Group also identified significant balances of obsolete inventories, including non-sellable finished goods due to quality issue, amounted to HK\$244,451,000 during the physical count of inventory balances as at 31 December 2014. Provisions for inventory written-down amounted to HK\$210,244,000 and HK\$263,389,000 was recognized as at 31 December 2013 and 2014 respectively based on the estimations made by the Group.

Under the circumstances the directors considered that the abovementioned accounting treatments represented a pragmatic way to record the unexplained differences between the physical count results and the accounting records and the obsolete inventories identified.

Current Management's view

The Current Management is of the view that the Former Management did perform ineffectively in terms of warehouse record management, but based on the available information, no evidence shows that there was any dishonest behavior involved.

Audit Committee's View

The investigation and the subsequent re-construction of inventory records revealed (i) significant balances of unsellable inventory, (ii) certain inventory records were not properly maintained and (iii) unexplained difference between the physical count and the accounting records. The Current Management explained that the occurrence of unsellable inventory was mainly due to changes in national policies regarding revision and adjustment of packing materials in the years 2010 to 2013, and that the inventory records were not properly maintained because of frequent changes in personnel, which the Audit Committee did not find satisfactory. The Audit Committee's view was that this ought to be seriously considered by the Board, and therefore asked the Company to seek legal advice on whether any of the Former Management is legally responsible for the improper records relating to the unsellable inventory and inappropriate inventory management. As stated in the announcement of 30 September 2018, the Board, upon reviewing the PRC Legal Opinion, accepted that no legal action shall be taken against the Former Management based on the available information.

III. Potential understatement of selling expenses

Observations

Selling expenses (mainly related to marketing support such as gift wines, sales rebate/commission or incidental costs related to promotion material or staff in respect of sales transactions billed by distributors to the Company) were only confirmed after the distributors and the Group agreed on the amount. They were accounted for at the time when these selling expenses were settled after the vouchers were confirmed with the distributors instead of at the time they were incurred and hence the selling expenses were not properly accrued in the correct period.

According to the PRC Legal Opinion, the legal adviser stated that the above issue occurred as selling expenses were settled upon completion of the contracts with distributors and after further negotiations with distributors on the expenses, but not prior to receipt of payments for the goods from the distributors. However the arrangement of the Group not settling the selling expenses in the corresponding period during the performance of those contracts did not violate any prohibitions under the PRC laws.

Due to frequent personnel changes, ineffective administrative management and insufficient information and maintenance of accounting record, a large number of the abovementioned accounting records and supporting documents relating to the recognition and classification of selling expenses in 2014 and prior years were missing. As a result, the Company is unable to obtain sufficient information or evidence to understand the nature of selling expenses (including market support fee) and to quantify the impact of understatement of these expenses or overstatement of revenue to the extent these payments to the distributors are considered as a reduction of the transaction price which should be reflected as a reduction in the revenue recognized when there is no distinct goods or service that the distributors transfer to the Company. The Group has re-examined the sales expense records for the years from 2012 to 2014 and considered that these expenses should be recorded in accordance with the applicable accounting principles before 2012, based on the limited supporting documents.

Financial effects

It was identified during the investigation that there was potential understatement of selling expenses amounting to HK\$45.5 million for the year ended 31 December 2012. In response to this finding, the Group specifically re-visited its records of selling expenses from 2010 to 2014 including additional information made available to the management at the time subsequent to the investigation.

After detailed revisit of the available approval records kept by the sales department selling expenses in Shanghai Dynasty Grape Winery Sales Co. Ltd. from 2010 to 2014, unrecorded expenses of approximately HK\$45.5 million attributable to the sales revenue for the year 2011 or before had been identified. These selling expenses were recorded in the consolidated financial statements for the year ended 31 December 2012, 2013 and 2014 according to the settlement amount in the respective years.

The Company believed these selling expenses of HK\$45.5 million should have been recorded in 2011 or before on an accrual basis which is in accordance with the accounting policy of the Company. However, as a result of the loss of relevant supporting information, the Company was unable to accurately and completely reallocate these selling expenses to the proper accounting periods in or prior to 2014. As such, the Company considered it is the pragmatic way to adjust the relevant selling expenses into the Group's consolidated financial statements for year ended 31 December 2011 based on the limited information available. Furthermore, the Group considered that certain marketing expenses reimbursed to the distributors or incurred in other marketing activities previously recorded as distribution expenses were related to the sales transactions with the distributors, and thus should have been adjusted and accounted for as a reduction of the revenue earned from the distributors. Owing to the lack of records, the Former Management was unable to quantify such marketing expenses related to the Relevant Period.

Current Management's view

Based on the Findings and the available information, the Current Management considers that the issue of understatement of selling expenses was due to inappropriate accounting treatment which was adopted by the Former Management based on its belief at that time, of which selling and marketing expenses were settled and recorded upon completion of the contracts with distributors and after further negotiations with distributors on those expenses. There was however no evidence showing any fraudulent behavior or manipulation in terms of the Company's selling and marketing expenses. Based on the available information, the issue should not incur any civil liabilities on the Former Management.

Audit committee's view

The investigation revealed that certain selling expenses were not recorded or properly reflected in the Group's financial statements. Despite the Group's effort to reconstruct its records in relation to the selling expenses, the Group was unable to accurately reallocate these selling expenses (as well as marketing expenses) to the proper accounting period(s) based on the confirmations given by the Group to the distributors. The Audit Committee's view was that this ought to be seriously considered by the Board of Directors, and therefore asked the Company to seek legal advice on whether any of the Former Management is legally responsible for the understatement of selling expenses. As stated in the announcement of 30 September 2018, the Board, upon reviewing the PRC Legal Opinion, accepted that no legal action shall be taken against the Former Management based on the available information.

INTERNAL CONTROL

In order to address the Findings set out above, the Group has requested to include in the scope of the internal control review (the “**IC Review**”) to be conducted by an external internal control adviser to cover overall control environment and the operational cycles which included revenue and receipts, operational expenses and payments, inventory management and information technology general control in order to conduct further review to confirm the implementation or compliance of the enhanced procedures and measures.

The IC review unraveled the Group’s weaknesses in certain areas, including, amongst others, revenue recognition and keeping proper inventory record. The Current Management has improved the internal control system of the Company and completed rectification according to the recommendations of the internal control adviser. The Group has (i) standardized its internal control system; (ii) implemented new procedures and measures for revenue recognition; and (iii) established 13 internal control policies and guidelines for inventory management, file management, trade receivables management and controls of selling expenses.

I. Sales transactions

Prevention measures and control

In order to set out the principles of revenue recognition, the management at the time has prepared and implemented a policy document entitled “Sales Revenue Recognition System” (銷售收入確認制度) in 2017, which states that subsequent to the receipt of goods by customer, revenue should only be recognized according to the accounting standard and criteria set out in the accounting policy of the Company.

In addition, the Current Management has continuously cooperated with the internal control adviser to enhance internal controls relating to revenue recognition. In the internal control review report (the “**Internal Control Report**”), the internal control adviser has recommended several measures for resolving the issues relating to recognition of revenue, including revenue recognition according to accounting standard and ensuring the recognition criteria is clearly stated in the policy and included in the system. The Current Management has implemented the enhanced measures accordingly, strengthened management of internal control system and performed regular reviews so as to ensure compliance with new internal procedures.

II. Inventory and cost of sales

Prevention measures and control

In order to avoid improper records of inventories and costs of sales in the future, the Current Management has, as recommended by the internal control adviser as set out in “Inventory Records” in the Internal Control Report, continuously enhanced its control system which has been put in place and properly operated. The Current Management will keep stock in/out records properly, perform reconciliation for any differences found in stocktaking to accounting records of inventory and made adjustments to the accounting records accordingly. The Current Management will continue to improve cost accounting with the ERP system. In addition, calculation tables of costs of inventories (成本推算表) will be prepared on a regular basis for the calculation of costs of sales and reconciliation of costs of sales and closing costs of inventory to inventory movement records of the current period.

The Current Management has analysed the “obsolete/non-sellable inventories”. The “Management System of Provision for Inventory Impairment” (計提存貨跌價準備管理制度) which sets out the standards and approval procedures of provision for inventory impairment has been established. The Current Management has also approved the “Regulation on Warehouse Environment Control and Management” (倉庫環境控制管理規定), which sets out specific requirements for temperature control of warehouse and management of goods safety. Furthermore, proper inventory stocktaking has been conducted at offsite warehouses semi-annually and inspections of the warehouses are conducted regularly to ensure the environment of the warehouses is up to standard and under regular management.

Moreover, in order to resolve issues relating to obsolete inventories, the Company has prepared and implemented various policy documents, including the “Inventory Write-off System” (存貨報廢制度), the “Management Measures of Finished Goods and Damaged Wine” (成品貨破損酒管理辦法) and the “Inventory Stocktaking Management System” (存貨盤點管理制度).

III. Selling expenses

Prevention measures and control

In order to avoid unrecognized or understated selling expenses in the future, the management at the time has prepared and implemented the “Management Measures of Selling Expenses Reimbursement and Accounting Reconciliation Procedures” (市場費用報銷和對賬流程管理辦法), as set out in the section headed “Reimbursement and Accounting Procedures of Selling Expenses” in the Internal Control Report, which lists the control procedures of various marketing expenses, including volume rebate and product and channel promotional expenses. Volume rebate should be calculated and provided monthly according to agreed percentages of the sales revenue (subject to annual adjustment with references to actual circumstances) and channel promotional expenses should be allocated and provided on an accrual basis. In order to further improve the internal control of the Company, the Company issued the “Financial Management System” (財務管理制度) in 2017, which was clearly defined in the “Financial Accounting Fundamentals and Principles” also applicable to selling expenses, accounting confirmation, measurement, and reporting should be based on the accrual basis and referred to actual transactions or events, to reflect truthful and complete accounting information.

As internal control improvement requires an ongoing effort, the Company will continue to enhance its internal control system for the sustainable development of the Company.

OTHER MATTERS – MISSING INFORMATION AND INTERNAL CONTROL DEFICIENCY

I. Incomplete and missing information

The Board is of the view that the incomplete record of information was due to (i) chaotic business management, financial accounting and inventory management; (ii) frequent change of personnel in relevant positions and poor performance in job handover; and (iii) failure to submit the complete information to the back-office staff within the department or to other departments of the Company.

II. Internal control deficiency

Furthermore, the Former Management failed to update the internal control system in response to the changes in the external operating environment and the development pace of the Company in a timely manner, therefore the above shortcomings could not be effectively improved when the Findings occurred.

Audit committee's view

The Audit Committee understands that according to internal control reviews conducted for the years 2009 to 2011, the Group had engaged a professional firm to review its processes and internal controls in different areas, including production, sales and managing selling/marketing expenses. Unfortunately, the issues relating to improper recognition of revenue, improper accounting and inventory records, and understatement of selling/marketing expenses were not discovered early enough to prevent what had happened. The Audit Committee has requested the Current Management to learn from the mistakes of the Former Management, engage suitable professional firms to review and monitor the implementation of proper internal controls, and ensure that sufficient resources have been allocated to implement the necessary enhancements.

Internal control Adviser's view

The internal control adviser has performed the IC review on the entity-level under COSO Framework 2013 and on the activity-level for certain subsidiaries, namely Sino-French Joint-Venture Dynasty Winery Ltd, Shanghai Dynasty Grape Winery Sales Co., Ltd and Tianjin Dynasty Winery Sales Co., Ltd. The scope reviewed by the internal control adviser covered overall control environment and the operational cycles which included revenue and receipts, operational expense and payments, inventory management and information technology general controls in order to address the Findings.

During their second review which covers the year ended 31 December 2017, it is confirmed that the previously identified deficiencies have been remedied by implementing internal control measures in different aspects, including recognition of revenue, recording of selling expenses, management and recording of inventory and filing of supporting documents. The internal control adviser issued the internal control report on 22 July 2019 and confirmed that nothing has come to their attention which causes them to believe that the Company has not put in place adequate internal control systems regarding the abovementioned areas. Furthermore, the internal control adviser also conducted the regular annual internal control review for the year ended 31 December 2018 and identified certain areas for improvement on the Company's internal control procedures relating to revenue and receipts, and inventory management. There were no major internal control issues identified.

CONCLUSION

Despite the above, based on the Findings revealed in the EY Report and advice from the legal adviser stated in the PRC Legal Opinion, there was no evidence which indicated that the Former Management breached any PRC law, received any benefits, or made any dishonest act. However, the Current Management is of the view that the Findings identified in the EY Report was indeed a result of internal control deficiencies on inventory and warehouse management and maintenance of records, together with inappropriate accounting treatments adopted by the Former Management. Consequently, the Company has decided that no members of the Former Management shall assume any position in the Group in the future.

For the Findings, the Group had made its best effort to enhance the internal control system step by step, based on the recommendations proposed by the internal control adviser. The Current Management had further improved the internal control function of the Company and completed relevant rectification in accordance with the advice. The Group also implemented new procedures and measures for revenue recognition, and set up 13 internal control policies and guidelines for inventory management, file management, trade receivables management and controls of selling expenses, and the internal control adviser had made further reviews to ensure the implementation of and compliance with the enhanced procedures and measures.

Audit committee's view

The Audit Committee expressed concerns about the Findings. The unavailability of proper records was a major obstacle for the internal investigation. The Audit Committee asked the Company to seek legal advice on whether any of the Former Management is legally responsible for the matters revealed in the internal investigation. As stated in the announcement of 30 September 2018, the Board, upon reviewing the PRC Legal Opinion, accepted that no legal action shall be taken against the Former Management based on the available information.

Based on the above information of the Internal Investigation, the Board is of the view that issues identified in the EY Report have been fully addressed, and hence the Company considers that it has fulfilled the Internal Investigation Condition.

RESUMPTION OF TRADING

Trading in the Shares was halted at the request of the Company with effect from 9:00 a.m. on 22 March 2013. As all the resumption conditions have been fulfilled, an application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 29 July 2019.

By order of the Board
DYNASTY FINE WINES GROUP LIMITED
Sun Jun
Chairman

Hong Kong, 26 July 2019

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Sun Jun, Mr. Li Guanghe and Mr. Sun Yongjian, five non-executive Directors, namely, Mr. Heriard-Dubreuil Francois, Ms. Shi Jing, Mr. Jean-Marie Laborde, Mr. Wong Ching Chung and Mr. Robert Luc, and three independent non-executive Directors, namely, Dr. Zhang Guowang, Mr. Yeung Ting Lap Derek Emory and Mr. Sun David Lee.