

BUSINESS

OVERVIEW

We are engaged in the retail sales and wholesales of a wide spectrum of wine products and other alcoholic beverages in Hong Kong with a focus on Premier Collectible Red Wine and Fine Red Wine as well as the provision of a range of customer-centric value-added services.

We implement an integrated one-stop shop concept with a full range of products and value-added services with an objective to enhancing our customer convenience, satisfaction and retention. Our one-stop shop concept encompasses (a) our diverse range of products including (i) wine products, which is classified into Premier Collectible Red Wine, Fine Red Wine, Premier Collectible White Wine and Fine White Wine, (ii) other alcoholic beverages, which include our selections of champagnes, proseccos, sparkling wines, cognacs, whiskies and noble wines, and (iii) wine accessory products such as wine opening devices, decanters and wine glasses, (b) our paid value-added services including (i) delivery services, (ii) storage services and (iii) consignment services, and (c) our non-revenue generating value-added services including (i) consultation services, (ii) sourcing services and (iii) evaluation services.

Predominantly, we focus on the retail sales and wholesales of wine products and in particular, Premier Collectible Red Wine and Fine Red Wine. For the years ended 31 March 2014 and 2015, revenue generated from the sales of our Premier Collectible Red Wine and Fine Red Wine collectively accounted for approximately 90.5% and 92.3% of our total revenue, respectively, and as at 31 March 2014 and 2015, our inventory of Premier Collectible Red Wine and Fine Red Wine collectively accounted for approximately 89.3% and 86.5% of our total inventories with reference to the inventory value, respectively. During the Track Record Period, we have offered our products and services to our customers for (i) direct sales consisting of retail sales and wholesales, (ii) consignment sales as consignee and (iii) consignment sales as consignor at the premises of our sole consignee, Fook Lam Moon Kowloon. Our retail sales and wholesales are determined with reference to the usage of our products by our customers based on information provided to our Company from our customers and our internal records. Wholesales refer to our sales to customers who are engaged in business operations involving the resale of our products, and include customers such as auction houses and restaurants while all other sales are classified as retail sales, and include all walk-in customers at our new flagship store and customers whom we do not have any information indicating whether they are engaged in business operations involving the resale of our products. For the year ended 31 March 2014, we have generated revenue of approximately HK\$51.7 million and HK\$18.3 million from our retail sales and wholesales, respectively. For the year ended 31 March 2015, we have generated revenue of approximately HK\$91.5 million and HK\$54.2 million from our retail sales and wholesales, respectively.

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The following table summarises the key sales information, including the revenue, the average procurement price, the average selling price, the quantities sold, the gross profit and the gross profit margin for the years ended 31 March 2014 and 2015:

	For the year ended 31 March 2014						For the year ended 31 March 2015					
	Revenue (percentage of total revenue)	Average procurement price	Average selling price (Note 1)	Quantity	Gross profit	Gross profit margin	Revenue (percentage of total revenue)	Average procurement price	Average selling price (Note 1)	Quantity	Gross profit	Gross profit margin
	(HK\$'000)	(HK\$)	(HK\$)	(Bottles/ Units)	(HK\$'000)	(%)	(HK\$'000)	(HK\$)	(HK\$)	(Bottles/ Units)	(HK\$'000)	(%)
Wine products	66,511	785	2,041	32,584	22,557	33.9	141,924	980	1,464	96,922	38,979	27.5
	(95.0%)						(97.4%)					
<i>Premier Collectible Red Wine</i>	53,057	1,291	5,417	9,794	15,527	29.3	102,566	2,685	5,228	19,618	26,015	25.4
	(75.8%)						(70.4%)					
<i>Fine Red Wine</i>	10,319	299	504	20,455	5,749	55.7	31,877	313	436	73,082	10,685	33.5
	(14.7%)						(21.9%)					
<i>Premier Collectible White Wine</i>	2,002	1,344	3,261	614	861	43.0	5,866	2,813	4,154	1,412	1,872	31.9
	(2.9%)						(4.0%)					
<i>Fine White Wine</i>	1,133	277	658	1,721	420	37.1	1,615	284	575	2,810	407	25.2
	(1.6%)						(1.1%)					
Other alcoholic beverages	3,513	621	1,895	1,854	2,131	60.7	3,724	1,117	1,382	2,695	1,120	30.1
	(5.0%)						(2.6%)					
Wine accessory products (and others)	20	123	99	203	3	15.0	39 ^(Note 2)	113	29	1,331	1 ^(Note 2)	2.6
	(0%)						(0%)					
Total	70,044	—	—	34,641	24,691	35.3	145,687	—	—	100,948	40,100	27.5

Notes:

- The selling prices for the products we sold during the Track Record Period were determined on a cost-plus approach, which was in accordance with the pricing policy of our Group. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we did not sell any of our products below their procurement prices.
- For the year ended 31 March 2015, revenue and gross profit from wine accessory products (and others) included the revenue and gross profit generated from our storage services.

As at the Latest Practicable Date, we operated our business at (i) our new flagship store, which commenced business operations in mid June 2015 immediately upon the cessation of business operations at our old store, and (ii) our head office. Our Directors believe the relocation will not have any material impact on our business operations and will not have a material adverse impact on our financial performance for the year ending 31 March 2016. In addition to our retail sales and wholesales, we are engaged in consignment sales as consignee, which refer to consignment sales pursuant to the launch of our “Madison Premier Collectors Program” during the year ended 31 March 2015 and our consignment sales as consignor, which refer to our consignment arrangement with our sole consignee, Fook Lam Moon Kowloon, for consignment sale of our wine products at their premises. Our consignment arrangement with Fook Lam Moon Kowloon will expire in December 2015. Nonetheless, taking into account our established relationship with Fook Lam Moon Kowloon, we believe we will be able to renew the consignment arrangement upon its expiration.

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As at the Latest Practicable Date, our sales team consisted of 11 members under the leadership of Mr. Kao, our executive Director. During the Track Record Period, we have conducted various marketing activities, including promotional events at our point of sales, internet marketing, telemarketing, direct mailing, online marketing as well as strategic collaboration and consignment arrangement with a renowned restaurant in Hong Kong. For the years ended 31 March 2014 and 2015, our advertising and promotion expenses were HK\$1.4 million and HK\$1.2 million, respectively, which accounted for approximately 2.0% and 0.8% of our total revenue, respectively.

Primarily, we procured our products from the open market and during the Track Record Period, we have procured our products through (i) purchases from wine merchants and wineries, (ii) purchases from auction houses and (iii) purchases from individual wine collectors. For the years ended 31 March 2014 and 2015, the purchases from our five largest suppliers accounted for approximately 48.6% and 59.9% of our total purchases, respectively, and the purchases from our single largest supplier accounted for approximately 16.0% and 24.3% of our total purchases, respectively.

During the Track Record Period and up to the Latest Practicable Date, all of our sales were derived in Hong Kong. For the years ended 31 March 2014 and 2015, our revenue amounted to approximately HK\$70.0 million and HK\$145.7 million, respectively, and our net profit amounted to approximately HK\$7.2 million and HK\$14.3 million, respectively.

COMPETITIVE STRENGTHS

We believe the following strengths and competitive advantages enable us to capitalise on future growth opportunities in the wine industry of Hong Kong.

We are a knowledgeable and experienced team within the wine industry.

Our three executive Directors, each of whose unique attributes and indispensable traits, provides invaluable insights in different facets of our business operations. Our three executive Directors include:

- ***a dedicated wine collector:*** Mr. Ting, our chairman and executive Director, is a wine collector. Prior to the Track Record Period, Mr. Ting injected some of his wine collection from his personal cellar to our Group, which formed part of our initial inventory and facilitated the development of our market share during the early stages of our business. As an avid wine lover, Mr. Ting has shared his collector’s insights, enabling us to deliver a product portfolio consisting of coveted wine. Mr. Ting has also accumulated numerous years of management experience, including his management roles in China Motion Telecom International Limited (now known as Ground Properties Company Limited) (Stock code 0989:HK) and Credit China Holdings Limited (Stock code: 8207:HK). Taking into account Mr. Ting’s extensive management experience and business connection, we trust Mr. Ting will continue to bring his entrepreneurial vision, business savvy and proven leadership skills to our Group;
- ***a wine ambassador:*** Mr. Kao, our deputy chairman and executive Director, has been the Maître of the Shanghai Chapter of the Commanderie de Bordeaux since November 2005.

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Mr. Kao has well-established relationships with wineries and wine merchants globally and most notably, including a number of the premier cru owners in Bordeaux, the birthplace of one of the world’s most sought-after wineries. Mr. Kao’s industry connections equip us with a reliable, resourceful and rewarding supply network; and

- ***an active wine critic:*** Mr. Zhu, our president and executive Director, has held a number of wine seminars and has published a number of wine related articles and wine recommendations in a number of wine magazines to share his wine knowledge with other wine lovers since 2011. As an active wine critic, Mr. Zhu has been interviewed by a number of media in China, including a television channel in China, to share his wine knowledge and wine tasting experience. His knowledge in wine collection building and collection management is indispensable in our pursuit of developing a product portfolio pleasing to the palates.

Apart from our executive Directors, two of our 11 sales team members possess WSET awards level three (Advanced certificate in wines and spirits) and two of our 11 sales team members possess WSET awards level two (Intermediate certificate in wines and spirits). Our knowledge and expertise in wine enable us to provide comprehensive advisory on wine selection, wine storage, wine pairings and wine appreciation to customers. The collective experience and collaboration of our core management team and our sales team led us in our rapid growth and outstanding track record of surging revenue from approximately HK\$70.0 million for the year ended 31 March 2014 to approximately HK\$145.7 million for the year ended 31 March 2015. We believe that our core management team and our sales team will continue to serve as a strong pillar for our success and future development. For further details of the biographies of our executive Directors, please refer to the section headed “Directors and Senior Management” in this [Redacted].

We have a comprehensive product portfolio encompassing wine from the world’s top estates, vineyards and wineries with an emphasis on Premier Collectible Red Wine and Fine Red Wine.

We strive to be and remain at the vanguard of Premier Collectible Red Wine and Fine Red Wine to wine aficionados in Hong Kong with our product portfolio, which encompasses an extensive selection of red wine from the world’s top estates, vineyards and wineries. We take pride in our focused yet diversified selection of Premier Collectible Red Wine and Fine Red Wine, which can be categorised by:

- ***origins:*** our portfolio spans across more than 11 countries, ranging from rare and back vintage Bordeaux, to our stocks of Burgundy, US cult wine and Italian wine, as well as a hand-picked selection of Australian and Spanish offerings;
- ***estates and vineyards:*** we focus on Australian and French red wine, including red wine produced from estates of the premier cru in Bordeaux, namely Château Lafite Rothschild in Pauillac, Château Latour in Pauillac, Château Margaux in Margaux, Château Haut-Brion in Pessac-Léognan and Château Mouton Rothschild in Pauillac, and the grand cru in Burgundy, namely, La Romanée, La Tâche, Musigny, Chambertin and Richebourg;

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- **vintage:** we maintain a collection for certain aged vintages, such as 1945, 1961, 1982, 2000, 2005 and 2009 for Bordeaux, and 1978, 1985, 1990 for Burgundy, which are considered by our Directors the best vintages in winemaking history, as well as a collection for old vintages of over 200 years of age dating back to the 1700’s; and
- **varietals:** we maintain a diverse range of varietals, including Cabernet Sauvignon, Pinot Noir, Shiraz, Malbec, Merlot, Cabernet Franc, in the case of red wine, and Chardonnay, Riesling, Sauvignon blanc, in the case of white wine.

We believe our extensive product portfolio of Premier Collectible Red Wine and Fine Red Wine, coupled with our stable inventory, equips us to meet the diverse preferences and demands of our clientele of wine aficionados in Hong Kong. Through the continued development of our portfolio of Premier Collectible Red Wine and Fine Red Wine, we believe we will continue to strengthen our corporate image as a Premier Collectible Red Wine and Fine Red Wine seller in Hong Kong.

We are able to procure coveted wine at competitive prices through our extensive supply network.

Since our incorporation up to the Latest Practicable Date, we have been able to procure a diverse range of wine products, including rare wine products that are not readily available in the market, at competitive prices and we have not experienced any delays or defaults with our product shipments from our suppliers. As such, we believe our reliable, resourceful and mature supply network will enable us to continue to offer a diverse range of wine products at competitive prices and in a timely manner, which distinguishing us from other market competitors in Hong Kong.

We have developed mutual trust with our suppliers through our sustained course of dealings, which enable us to enjoy a stable and reliable supply without any contractual commitments or sales restrictions. Capitalising on our supply network, we are able to procure coveted wines that are rare, scarce and not widely available in the open market at competitive prices. Our established supply network assisted in the development of our flexible product portfolio, which could be easily adjusted pro-actively to capture evolving customer preferences and market trends efficiently. During the Track Record Period, our major suppliers included, among others, exclusive wine merchants and overseas wineries, which eliminated mark-up costs from importers and thus enables us to procure high-quality Premier Collectible Red Wine and Fine Red Wine at competitive prices.

We believe the depth of our concrete relationships with our suppliers have made it difficult for other market competitors in Hong Kong to replicate our supply model. For further details of our supply network, please refer to the paragraph headed “Suppliers” in this section.

We provide an integrated one-stop shop for a full range of wine related products and services.

Our core value proposition is to provide our target clientele with comprehensive integrated one-stop wine related products and services that cut across every aspect of the wine industry at competitive prices. In order to enhance our customers’ convenience and satisfaction, we offer a multitude of wine related services ranging from wine consultation services, wine evaluation services, wine delivery services, wine storage services to wine sourcing services supplemental to our diverse

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product portfolio. Through our coverage of wine related products and value-added wine related services, we believe we have extended our market reach in all dimensions and to the vast majority of market participants, thus enabling us to keep abreast of the latest market trends and further facilitating our pursuit of becoming a pioneer within the wine industry in Hong Kong.

We have cultivated a concrete base of loyal customers comprising, among others, wine enthusiasts and wine collectors.

Through our dedication to developing a customer-centric product portfolio and delivering excellent customer services, we have established our loyal and solid customer base comprising, among others, wine enthusiasts, wine collectors, renowned restaurants and wine merchants. In furtherance of our customer loyalty, in November 2012, we launched our “Madison Premier Membership Scheme”, an individualistic loyalty membership, which attained wide popularity and recognition. We maintained over 500 members in our “Madison Premier Membership Scheme” as at the Latest Practicable Date. With our “Madison Premier Membership Scheme”, we believe we have established an interactive platform for information exchange among wine enthusiasts, enabling us to obtain direct feedbacks from our customers and identify our strengths and demands of our target clientele, altogether deepening our customer reach and solidifying our customer loyalty.

Building on the success of our “Madison Premier Membership Scheme”, in November 2014, we have further launched our “Madison Premier Collectors Program” encouraging our customers to offer their Premier Collectible Red Wine and Fine Red Wine for sale on consignment. As most customers are active market players, namely, end-users, traders or suppliers, we believe our consignment program can assist our customers in their wine management, which in turn facilitates the development of our customer loyalty and procurement and sales network while broadening our product portfolio with minimal capital commitment. For further details of our consignment services, please refer to the paragraph headed “Value-added services — Paid value-added services — Consignment services” in this section. As at the Latest Practicable Date, four consignment agreements remained in effect and maintained a consignment portfolio consisting of over 1,700 bottles of wine products for consignment sales.

BUSINESS STRATEGIES

We believe business strategies built upon our core strengths will enable us to sustain our business growth and we will strive to attain a leading position in the wine industry in Hong Kong. For further details of the implementation of our business strategies, please refer to the section headed “Statement of Business Objective and Use of Proceeds — Implementation plan” in this [Redacted].

We plan to diversify our existing product portfolio strategically, and thereby provide our customers with a wider range of choices and broaden our existing customer base.

We believe continuous expansion of our existing product portfolio and accommodation of evolving demand and customers’ preferences will distinguish us from our competitors, while providing our customers with a wider range of choices will facilitate the broadening of our customer base as well as reinforcing our market presence in Hong Kong wine industry.

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Capitalising on our extensive supply network, we plan to continue to solidify our relationships with our existing suppliers as well as identifying new suppliers. We intend to increase our market share by diversifying our existing product portfolio and procuring wine products which we anticipate demand. According to the Ipsos Report, Hong Kong consumers generally prefer red wine over other types of wine products due to more dynamic food pairing with Chinese cuisine, preferred flavour, and the perceived health benefits associated with drinking red wine. Accordingly, we will continue to focus on Premier Collectible Red Wine and Fine Red Wine strategically by increasing our vintage spectrum as well as increasing our levels of inventories to enable us to capture future growth opportunities within these segments. We believe that our strategic diversification will further complement our existing product portfolio, enhance our product mix and strengthen our market position in the wine industry of Hong Kong.

We may acquire one or more wine merchants in Hong Kong.

In order to further expand our presence in the wine industry in Hong Kong, we plan to pursue suitable acquisition opportunities in Hong Kong. It is currently proposed that the acquisition targets will be one or more wine merchants in Hong Kong which can contribute to, among other things, (i) an increase in our customer base, (ii) the addition to wine supply channels, and (iii) the acquisition of staff with relevant skill sets and connections in the wine industry. In any event, our Group will only consider acquiring wine merchants in Hong Kong which can create synergies with the existing business of our Group. We will assess acquisition targets by evaluating their value to our business.

As at the Latest Practicable Date, no specific acquisition target had been identified and no formal negotiation had been engaged with any wine merchant.

When we evaluate an acquisition target, we will consider factors including (i) the consideration and the related costs of acquisition, (ii) the financial performance of the potential acquisition target, (iii) the reputation of the acquisition target in the wine industry, (iv) the acquisition target’s track records, (v) the acquisition target’s existing customer base, (vi) the acquisition target’s supplier portfolio, (vii) the expertise and experience of the staff of the acquisition target, and (viii) the wine inventory of the acquisition target. Our Directors believe that successful acquisitions will bring synergies to our Group and enhance our Shareholders’ value.

Given the current market condition, the current budgeted amount in connection with the acquisition of wine merchants in Hong Kong will be approximately HK\$[Redacted], depending on the final amount of the net proceeds from [Redacted] allocated for the acquisitions. In case the acquisition price is greater than the amount of [Redacted] proceeds allocated for the acquisition, our Group will finance the shortfall with our internal resources. For further details of the risks involved, please refer to the section headed “Risk Factors — Risks relating to our business — Future acquisition of wine merchants in Hong Kong may not contribute to our Group’s business as planned” in this [Redacted].

We will strengthen our corporate image by increasing marketing and promotion efforts.

We believe our corporate image is critical to our business development. To further enhance customer awareness of our corporate image in Hong Kong, we will continue our effective and targeted

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marketing efforts. This may include (i) placing mass media commercials, (ii) advertising in newspapers, magazines, the internet, billboards and banners, and (iii) sponsoring programs. We also make use of innovative multimedia promotional channels such as social media and mobile phone applications.

We will attract, motivate and retain high-quality talent.

Our customer-oriented business philosophy emphasises on delivering excellent customer service. We believe maintaining a positive working environment will encourage better staff relations and talent retention, as well as enhancing the quality of our customer service by motivating staff. In order to foster a work environment that attracts and inspires our people to achieve excellent performance, we will also seek to motivate and retain valuable and talented staff by implementing an incentive scheme to align compensation and remuneration with performance. Our Directors will review the remuneration package on a regular basis to ensure it remains competitive at all times.

As part of our continuing efforts to enhance our customer service, we will also continue to enhance our employee training programs by developing our orientation program, coaching, on-the-job training to enhance individual staff skills and knowledge of sales and marketing techniques, client management skills, customer service, product information, quality control and industry knowledge.

We will continue to expand and explore additional services and products to enrich our one-stop services to our customers.

We will continue to strive to provide our customers with the convenience of our one-stop shopping experience and a wide variety of unique, quality products at reasonable and competitive prices, we believe this is one of the keys to differentiating ourselves from our competitors in the wine industry in Hong Kong. To further strengthen our supplementary services, we will continue to refine our wine related services to our customers by enhancing each of our wine consultation services, wine sourcing services, wine delivery services, wine storage services and wine evaluation and consignment services with improved customer service and service options. Furthermore, we plan to develop such services by devoting additional resources and implementing a structured service manual. With our continued expansion and dedication to exploring additional wine related services to amplify our one-stop services to our customers, we believe we can strengthen and maintain our position in the wine industry in Hong Kong.

MARKET AND COMPETITION

According to the Ipsos Report, the wine industry in Hong Kong has seen continuous robust growth since the elimination of import duties on wine in 2008. In 2014, the total market value of wine industry in Hong Kong amounted to approximately HK\$2,779.1 million, and the total market value of Premier Collectible Wines in Hong Kong amounted to approximately HK\$969.0 million. The Hong Kong wine industry is a competitive field. As the wine hub in Asia, there are a large number of domestic and international market players who offer wine products similar to us in Hong Kong. According to the Ipsos Report, the wine industry in Hong Kong is consolidated and dominated by the top market players, with the top five market players collectively contributing approximately 65.6%

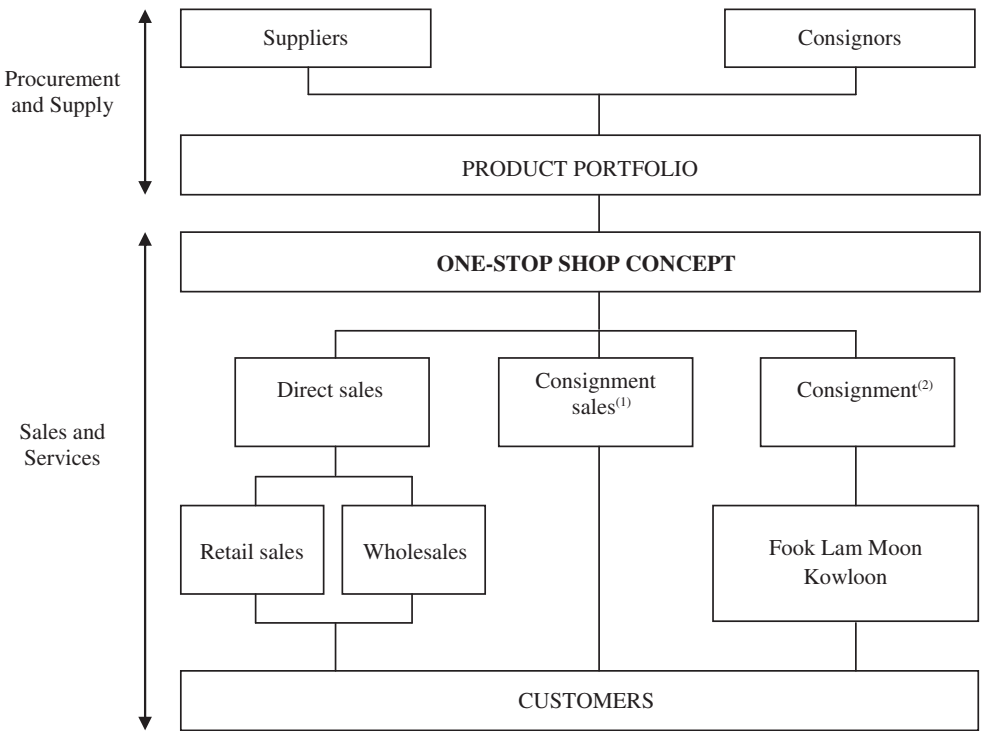
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of the total market value for wine in Hong Kong in 2014 and the rest of the market being highly fragmented. In 2014, our Group accounted for approximately 5.2% of the total market value of the wine industry in Hong Kong, and approximately 15% of the market value for the Premier Collectible Wine segment.

We considered the main barriers to set up and operate in this market include substantial start up capital for staffing, storing and stocking wine inventories, high quality management team, quality supplier and customer network are required. According to the Ipsos Report, we possess three key advantages over our competitors, including (i) our readily available stock of rare wines, (ii) our well-established customer base and premium wine services, and (iii) our in-house wine experts and ability to provide comprehensive consultation services. For further details, please refer to the sections headed “Risk Factors — Risks relating to the wine industry — We operate in a highly competitive industry” and “Industry Overview” in this [Redacted].

OUR BUSINESS MODEL

We are primarily engaged in the retail sales and wholesales of a wide spectrum of wine products and other alcoholic beverages in Hong Kong with a focus on Premier Collectible Red Wine and Fine Red Wine as well as the provision of a range of customer-centric supplemental value-added services, as illustrated by the implementation of our one-stop shop concept. Our business model consists of two stages involving (i) procurement and supply and (ii) sales and services. The diagram below illustrates our operation flows:



Notes:

1 We offer products consigned to our Company as consignee from our customers as consignors for consignment sales via our sales network. During the Track Record Period and up to the Latest Practicable Date, we have entered into seven

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consignment agreements as consignee, of which we have successfully sold all the consigned products under three consignment agreements and such consignments have been completed and settled without any outstanding obligations, and four consignment agreements remained effective as at the Latest Practicable Date.

- 2 We consign our wine products to Fook Lam Moon Kowloon as our consignee for consignment sales at Fook Lam Moon Kowloon’s premises. As at the Latest Practicable Date, we entered into one consignment agreement as consignor.

Our procurement and supply network

Procurement and supply refers to the process whereby we compile product portfolio, which comprised approximately 150 suppliers across the world and includes auction houses, wine merchants and wineries, individual wine collectors as well as our customers. For further details, please refer to the paragraphs headed “Procurement and supply” and “Overlapping Customers-Suppliers” in this section.

Our product portfolio

Our product portfolio is categorised into three product categories, (i) wine products comprising Premier Collectible Red Wine, Fine Red Wine, Premier Collectible White Wine and Fine White Wine, (ii) other alcoholic beverages and (iii) wine accessory products. During the Track Record Period, our inventory included wine products from across more than 11 countries with a focus on Australian and French red wine and spans 72 different vintages dating back to year 1860 with historical selling prices ranging from approximately HK\$50 to approximately HK\$237,500. During the Track Record Period, we determined the composition of our product portfolio taking into account, among others, price segment, origin, wine type and vintage. For further details, please refer to the paragraph headed “Product portfolio” in this section.

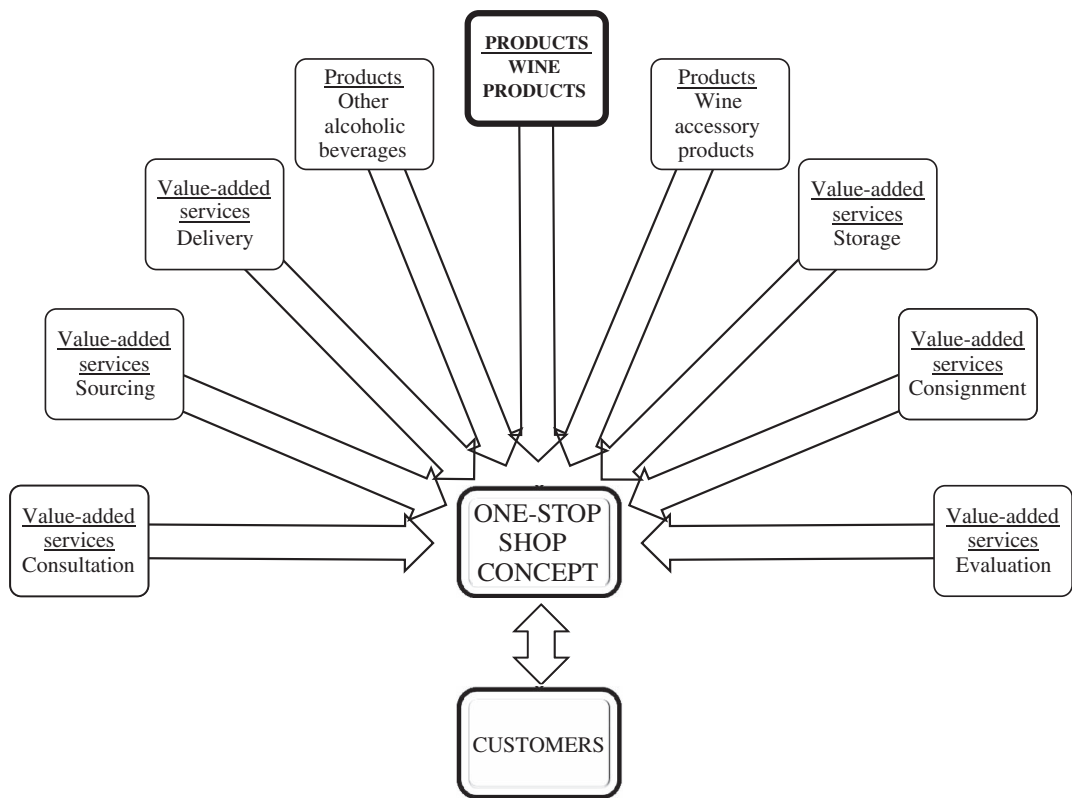
Our sales and services

During the Track Record Period, we have offered our products and services to our customers for (i) direct sales consisting of retail sales and wholesales, (ii) consignment sales as consignee and (iii) consignment sales as consignor at the premises of our sole consignee, Fook Lam Moon Kowloon. Save for our consignment with Fook Lam Moon Kowloon, we have offered our products and services at our point of sales comprising (a) our flagship store since mid June 2015, (b) our old store from November 2012 to mid June 2015, and (c) our head office since June 2014. For further details, please refer to the paragraph headed “Sales” in this section.

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OUR ONE-STOP SHOP CONCEPT

Predominantly, our business is customer-driven, customer-oriented and customer-directed with an objective to enhancing our customer convenience, satisfaction and retention. To this end, we have implemented an integrated one-stop shop concept, which is illustrated in the following diagram, covering wine related products and supplementary services that cut across every aspect of the wine industry:

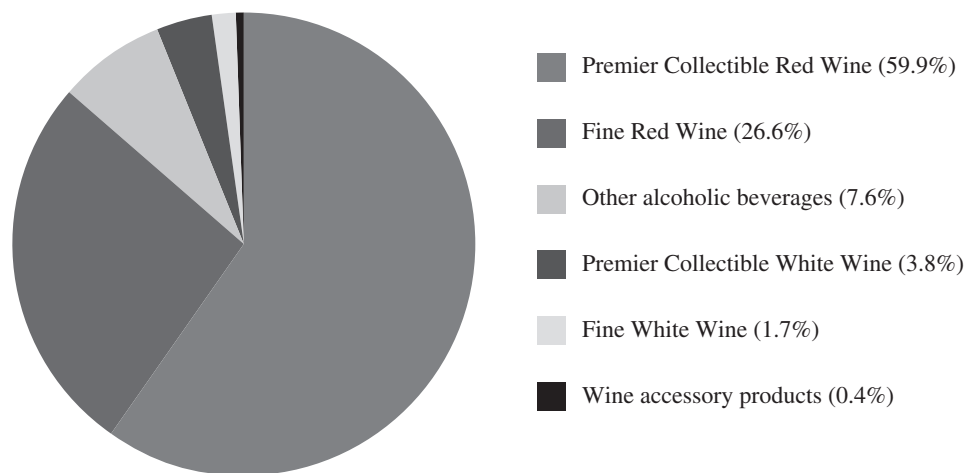


At the heart of our one-stop shop concept is our product portfolio, comprising (i) wine products, (ii) other alcoholic beverages, and (iii) wine accessory products, and our product portfolio is supplemented by (a) our paid value-added services including delivery services, storage services and consignment services and (b) our non-revenue generating value-added services including consultation services, sourcing services and evaluation services. For further details, please refer to the paragraphs headed “Product portfolio” and “Value-added services” in this section.

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PRODUCT PORTFOLIO

Our product portfolio, which is the core of our business as well as our principal source of revenue, is divided into three product categories, (i) wine products, (ii) other alcoholic beverages and (iii) wine accessory products, within which, our wine products are further classified into Premier Collectible Red Wine, Fine Red Wine, Premier Collectible White Wine and Fine White Wine. As at 31 March 2015, with reference to the inventory value our inventory consisted of approximately 59.9% of Premier Collectible Red Wine, 26.6% of Fine Red Wine, 3.8% of Premier Collectible White Wine, 1.7% of Fine White Wine, 7.6% of other alcoholic beverages and 0.4% of wine accessory products and, with reference to the number of bottles, our inventory consisted of approximately 17.2% of Premier Collectible Red Wine, 66.2% of Fine Red Wine, 1.7% of Premier Collectible White Wine, 7.0% of Fine White Wine, 5.4% of other alcoholic beverages and 2.4% of wine accessory products. The chart below illustrates the approximate composition of our inventories with reference to the inventory value as at 31 March 2015:



For further details of our revenue by product categories and classifications, please refer to the section headed “Financial Information — Management discussion and analysis — Description of selected combined statements of profit or loss line items — Revenue” in this [Redacted].

Wine products

We classify our wine products into four categories, namely, Premier Collectible Red Wine, Fine Red Wine, Premier Collectible White Wine and Fine White Wine.

According to the Ipsos Report, there is currently no internationally recognised standard classification for Premier Collectible Wines in the global wine market or in the wine industry in Hong Kong. In order to understand the market, market size and market potential for Premier Collectible Wines in Hong Kong, a price benchmark based on retail prices in Hong Kong was adopted as it provides the most objective means of categorisation that can be applied across wine products with different vintages and different origins. Taking into account the limited wine classifications for Premier Collectible Wines in the market, the average minimum price for Premier Collectible Wines with quality classifications, such as the Bordeaux 1855 Classification and the St Emilion

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Classification, and those that are considered as Premier Collectible Wines by merchants in the Hong Kong wine industry, a benchmark at HK\$1,000 was adopted, which was considered by Ipsos, our industry consultant, a reasonable benchmark in the market to identify Premier Collectible Wines in Hong Kong. In light of the price segment, origin, wine types and vintages of our inventories, our Directors considered HK\$1,000 a reasonable benchmark for identifying the Premier Collectible Red Wine and the Premier Collectible White Wine among our inventories.

In compiling our wine products portfolio, we aim to develop a market-driven and customer-oriented product portfolio while maximising our cost-effectiveness and taking into account our cash flow, liquidity and cash reserves. We review and assess our wine products portfolio from time to time based on direct customer feedback and market information collected through communication and interaction with other market participants, such as our suppliers as well as through public industry reports and other publications.

As at 31 March 2014 and 2015, the inventory value of our wine products inventories amounted to approximately HK\$31.3 million and HK\$24.2 million, respectively. For further details of our inventories by product categories and classifications, please refer to the section headed “Financial Information — Net current assets and selected items of combined statements of financial position — Inventories” in this [Redacted].

During the Track Record Period, our inventory included wine products from across more than 11 countries and spans 72 different vintages dating back to year 1860 with historical selling prices during the Track Record Period ranging from approximately HK\$50 to approximately HK\$237,500. During the Track Record Period, we determined the composition of our wine product inventory taking into account, among others, the following factors:

- **price segment:** we offer wine products at a diverse selling price range, which includes Premier Collectible Red Wine with selling prices ranging from HK\$1,000 to approximately HK\$237,500 per bottle, Fine Red Wine with selling prices ranging from approximately HK\$50 to HK\$1,000 per bottle, Premier Collectible White Wine with selling prices ranging from HK\$1,000 to approximately HK\$52,000 per bottle and Fine White Wine with selling prices ranging from approximately HK\$50 to approximately HK\$1,000 per bottle;
- **origin:** a significant portion of our inventories were Australian or French wine products, of which (a) French wine accounted for approximately 43.3% and 32.1% of our total inventories (*by reference to the number of bottles*) as at 31 March 2014 and 2015, respectively, and (b) Australian wine accounted for approximately 47.0% and 58.5% of our total inventories (*by reference to the number of bottles*) as at 31 March 2014 and 2015, respectively;
- **wine type:** primarily, we focused on red wine products, of which (a) Premier Collectible Red Wine accounted for approximately 54.3% and 17.2% of our total inventories (*by reference to the number of bottles*) as at 31 March 2014 and 2015, respectively, and (b) Fine Red Wine accounted for approximately 31.7% and 66.2% of our total inventories (*by reference to the number of bottles*) as at 31 March 2014 and 2015, respectively; and

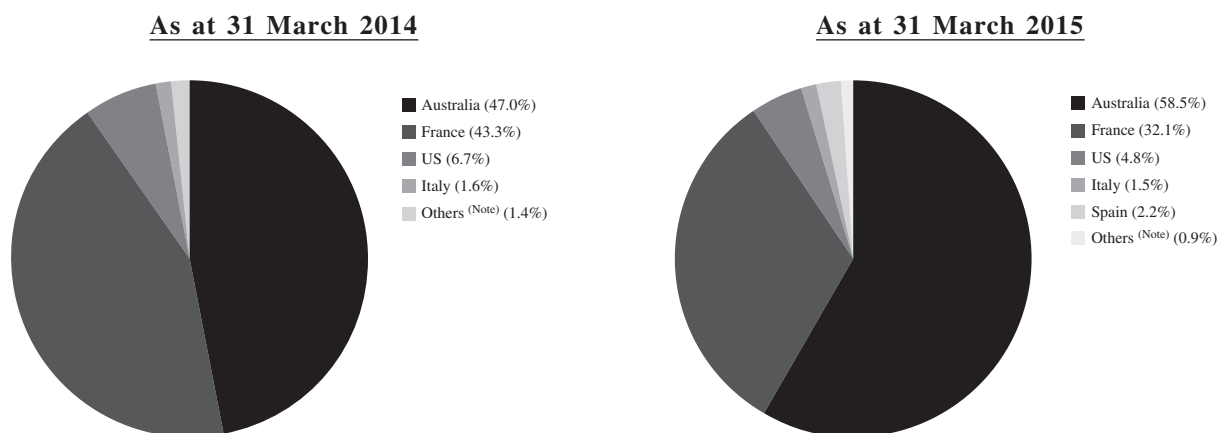
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- **vintages:** most of our wine products are within twenty years of age, (a) wine products within ten years of age accounted for approximately 74.0% and 82.9% of our total inventories (*by reference to the number of bottles*) as at 31 March 2014 and 2015, respectively, and (b) wine products within twenty years of age accounted for approximately 89.0% and 93.8% of our total inventories (*by reference to the number of bottles*) as at 31 March 2014 and 2015, respectively.

The table below sets out a breakdown of our inventories by product categories and classifications in terms of quantity for the periods indicated:

	As at 31 March	
	2014	2015
	Quantity	Quantity
	(Bottles/Units)	(Bottles/Units)
Wine products	29,230	28,984
<i>Premier Collectible Red Wine</i>	17,071	5,422
<i>Fine Red Wine</i>	9,955	20,818
<i>Premier Collectible White Wine</i>	1,260	545
<i>Fine White Wine</i>	944	2,199
Other alcoholic beverages	1,685	1,691
Wine accessory products	509	770
Total	31,424	31,445

The charts below illustrate the approximate composition of our inventories by the number of wine products with reference to the country of origin as at 31 March 2014 and 2015:



Note: Others refer to all other countries that each accounted for less than 1% of our total inventories.

During the Track Record Period, we procured our wine products from across more than 11 countries, including France, Australia, the United States, Italy, Spain, Germany and Austria, of which wine products procured from France and Australia accounted for approximately 43.3% and 47.0% of our wine products inventory (*by reference to the number of bottles*) as at 31 March 2014, respectively, and 32.1% and 58.5% of our wine products inventory (*by reference to the number of bottles*) as at 31 March 2015, respectively.

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The table below illustrates the approximate composition of our inventories of wine products by years of vintage as at 31 March 2014 and 2015:

	As at 31 March	
	2014	2015
	Quantity	Quantity
	(Bottles)	(Bottles)
Vintage ^(Note 1)		
non vintage ^(Note 2)	697	725
within 10 years of age	22,864	25,421
between 10 to 20 years of age	4,639	3,349
between 20 to 30 years of age	1,521	813
over 30 years of age	1,194	367
Total	30,915	30,675

Notes:

- 1: This table illustrates the approximate composition of our inventories of wine products by years of vintage as at 31 March 2014 and 2015. While the figures indicate that we carry wine products with years of vintage within the specified periods, we may not carry wine products in every single year of vintage within those specified periods.
- 2: Non vintage wine products include sparkling wine which are not typically labelled with years of vintage.

Our wine products inventory comprises of a wide spectrum of vintages ranging from 1860 to 2013. Most of our wine products are within twenty years of age. As at 31 March 2014 and 2015, 89.0% and 93.8% of our wine products inventory (*by reference to the number of bottles*) were within twenty years of age, respectively, and 74.0% and 82.9% of our wine products inventory (*by reference to the number of bottles*) were within ten years of age, respectively.

Premier Collectible Red Wine

In line with the classification adopted by Ipsos, Premier Collectible Red Wine refers to red wine with unit price at or above HK\$1,000. For the years ended 31 March 2014 and 2015, we generated revenue of approximately HK\$53.1 million and HK\$102.6 million, respectively, from the sales of our Premier Collectible Red Wine, and the selling prices of our Premier Collectible Red Wine have ranged from HK\$1,000 to HK\$237,500 per bottle.

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The table below sets out the breakdown of the revenue contributed by our Premier Collectible Red Wine, which is sub-divided by different price range:

	For the year ended 31 March 2014					For the year ended 31 March 2015				
	Revenue	Percentage of total revenue	Quantity	Percentage of total quantity	Average selling price	Revenue	Percentage of total revenue	Quantity	Percentage of total quantity	Average selling price
	(HK\$'000)	%	(Bottles)	%	(HK\$)	(HK\$'000)	%	(Bottles)	%	(HK\$)
HK\$1,000 to HK\$4,999	16,170	30.5	7,438	75.9	2,174	36,726	35.8	14,760	75.2	2,488
HK\$5,000 to HK\$9,999	8,015	15.1	1,158	11.8	6,921	18,604	18.2	2,488	12.7	7,477
HK\$10,000 to HK\$19,999	11,484	21.7	847	8.7	13,560	23,319	22.7	1,701	8.7	13,709
HK\$20,000 to HK\$49,999	7,500	14.1	245	2.5	30,612	18,467	18.0	606	3.1	30,474
HK\$50,000 and above	9,888	18.6	106	1.1	93,283	5,450	5.3	63	0.3	86,508
Total	53,057	100	9,794	100	—	102,566	100	19,618	100	—

Our Premier Collectible Red Wine selection primarily consists of wines originating from countries such as Australia, France and the United States, which are renowned for producing high quality wines. Our collection of Premier Collectible Red Wine is characterised by our premier cru in Bordeaux and the grand cru in Burgundy, red wine selections with cellaring period over 10 years and which are rare or otherwise not readily available in the market. The target clientele of our Premier Collectible Red Wine are primarily high-end spending class individual collectors and connoisseurs and other wine merchants specialised in selling Premier Collectible Red Wine.

The table below sets out the breakdown of the inventory balance of our Premier Collectible Red Wine, which is sub-divided by different price range:

	As at 31 March 2014				As at 31 March 2015			
	Inventory value	Percentage of total inventory value	Quantity	Percentage of total quantity	Inventory value	Percentage of total inventory value	Quantity	Percentage of total quantity
	(HK\$'000)	%	(Bottles)	%	(HK\$'000)	%	(Bottles)	%
HK\$1,000 to HK\$4,999	9,191	37.2	14,768	86.5	6,268	43.2	4,184	77.2
HK\$5,000 to HK\$9,999	4,942	20.0	1,186	6.9	3,814	26.3	902	16.6
HK\$10,000 to HK\$19,999	4,475	18.1	788	4.6	1,783	12.3	213	3.9
HK\$20,000 to HK\$49,999	3,648	14.7	267	1.6	1,853	12.8	106	2.0
HK\$50,000 and above	2,484	10.0	62	0.4	780	5.4	17	0.3
Total	24,740	100	17,071	100	14,498	100	5,422	100

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Fine Red Wine

In line with the classification adopted by Ipsos, Fine Red Wine refers to red wine with unit price below HK\$1,000. For the years ended 31 March 2014 and 2015, we generated revenue of approximately HK\$10.3 million and HK\$31.9 million, respectively, from the sales of our Fine Red Wine, and the selling prices of our Fine Red Wine ranged from approximately HK\$50 to HK\$1,000 per bottle. Our Fine Red Wine selection primarily consists of wines originating from countries such as Australia, France and the United States. Our collection of Fine Red Wine is characterised by our premier cru and other wine selections which have a consensus among wine critics and lovers as to their taste and quality. The target clientele of our Fine Red Wine are primarily relatively small scale wine merchants and individual connoisseurs.

Premier Collectible White Wine

In line with the classification adopted by Ipsos, Premier Collectible White Wine refers to white wine with unit price at or above HK\$1,000. For the years ended 31 March 2014 and 2015, we generated revenue of approximately HK\$2.0 million and HK\$5.9 million, respectively, from the sales of our Premier Collectible White Wine, and the selling prices of our Premier Collectible White Wine ranged from approximately HK\$1,000 to HK\$52,000 per bottle.

The table below sets out the breakdown of the revenue contributed by our Premier Collectible White Wine, which is sub-divided by different price range:

	For the year ended 31 March 2014					For the year ended 31 March 2015				
	Revenue	Percentage of total revenue	Quantity	Percentage of total quantity	Average selling price	Revenue	Percentage of total revenue	Quantity	Percentage of total quantity	Average selling price
	(HK\$'000)	%	(Bottles)	%	(HK\$)	(HK\$'000)	%	(Bottles)	%	(HK\$)
HK\$1,000 to HK\$4,999	1,119	55.9	547	89.1	2,046	2,133	36.4	1,087	77.0	1,962
HK\$5,000 to HK\$9,999	386	19.3	50	8.1	7,720	1,470	25.0	229	16.2	6,419
HK\$10,000 to HK\$19,999	51	2.5	4	0.7	12,750	761	13.0	61	4.3	12,475
HK\$20,000 to HK\$49,999	446	22.3	13	2.1	34,308	877	14.9	23	1.6	38,130
HK\$50,000 and above	—	0	—	0	—	625	10.7	12	0.9	52,083
Total	2,002	100	614	100	—	5,866	100	1,412	100	—

Our collection of Premier Collectible White Wine include our Bordeaux, Burgundy and Rhone in France and Mosel in Germany, white wine selections with cellaring period over 10 years which are rare or otherwise not readily available in the market. The target clientele of our Premier Collectible White Wine are primarily high-end spending class individual collectors and connoisseurs and other wine merchants specialised in selling Premier Collectible White Wine.

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The table below sets out the breakdown of the inventory balance of our Premier Collectible White Wine, which is sub-divided by different price range:

	As at 31 March 2014				As at 31 March 2015			
	Percentage of total inventory		Percentage of total quantity		Percentage of total inventory		Percentage of total quantity	
	Inventory value	inventory value	Quantity	quantity	Inventory value	inventory value	Quantity	quantity
	(HK\$'000)	%	(Bottles)	%	(HK\$'000)	%	(Bottles)	%
HK\$1,000 to HK\$4,999	1,031	62.4	1,093	86.8	595	64.3	527	96.7
HK\$5,000 to HK\$9,999	370	22.4	124	9.8	16	1.7	6	1.1
HK\$10,000 to HK\$19,999	69	4.2	32	2.5	12	1.3	1	0.2
HK\$20,000 to HK\$49,999	181	11.0	11	0.9	87	9.4	5	0.9
HK\$50,000 and above	—	0	—	0	216	23.3	6	1.1
Total	1,651	100	1,260	100	926	100	545	100

Fine White Wine

In line with the classification adopted by Ipsos, Fine White Wine refers to white wine with unit price below HK\$1,000. For the years ended 31 March 2014 and 2015, we generated revenue of approximately HK\$1.1 million and HK\$1.6 million, respectively, from the sales of our Fine White Wine, and the selling prices of our Fine White Wine ranged from approximately HK\$50 to HK\$1,000 per bottle. Our collection of Fine White Wine is characterised by our white wine selections which have a consensus among wine critics as to their taste and quality. The target clientele of our Fine White Wine are primarily relatively small scale wine merchants and individual connoisseurs.

Other alcoholic beverages

Other alcoholic beverages included our selections of champagnes, proseccos, sparkling wines, cognacs, whiskies, noble wines, which span across Sauternes & Barsac, Austria, and Germany with vintages from 1920s to 2010s as well as non-vintaged products. The target clientele of our other alcoholic beverages are individual connoisseurs seeking for other types of taste.

For the years ended 31 March 2014 and 2015, we generated revenue of approximately HK\$3.5 million and HK\$3.7 million, respectively, from the sales of our other alcoholic beverages, and the selling prices of our other alcoholic beverages ranged from approximately HK\$145 to HK\$89,900 per bottle.

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Wine accessory products

We offer wine accessory products principally for our customers’ convenience to enhance our one-stop shop concept. Our wine accessory products are products ancillary to our wine products and other alcoholic beverages and includes wine opening devices, decanters and wine glasses. As such, the target clientele of our wine accessory products includes all of our customers, and primarily, customers visiting our old store. For the years ended 31 March 2014 and 2015, we generated revenue in the amount of approximately HK\$20,000 and HK\$34,000, respectively, from the sales of our wine accessory products.

VALUE-ADDED SERVICES

Our value-added services are services supplemental to our core product offerings, which are intended to enhance our customer convenience satisfaction and retention. By combining the strengths of our consultation, sourcing, assessment, delivery, storage and consignment services, we believe we are able to assist our customers in replenishing and managing all aspects of their wine portfolios. Our value-added services encompasses (a) our paid value-added services, including (i) delivery services, (ii) storage services and (iii) consignment services, and (b) our non-revenue generating value-added services, including (i) consultation services, (ii) sourcing services and (iii) evaluation services.

Paid value-added services

Delivery services

To ease our customers’ logistics concerns and to enhance our customers’ convenience, we provide complimentary delivery within Hong Kong upon requests by our customers for purchase orders with a net amount of over HK\$3,500, while in all other purchase orders, we charge a standard delivery fee of not more than HK\$350 depending on the location for delivery in Hong Kong. For further details of our logistics, please refer to paragraph headed “Logistics and warehousing” in this section.

Storage services

We offer a range of storage options at our self-operated warehouse situated within our head office in North Point to our customers. All of our storage options include complimentary insurance fees, pick-up and one-time delivery. As at the Latest Practicable Date, we had over 400 bottles of wine products stored at our self-operated warehouse for our customers. We did not store any wine products for our customers in our external warehouse during the Track Record Period and as at the Latest Practicable Date. For further details on our storage facilities, please refer to paragraph headed “Inventory management” in this section.

Consignment services

In view of the number of private collectors and speculative collectors within our customer base, we launched our “Madison Premier Collectors Program” in November 2014, which includes our evaluation and consignment services aimed at encouraging our customers to offer their Premier Collectible Red Wine and Fine Red Wine for sale by our Company as consignee by way of

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consignment. During the Track Record Period and up to the Latest Practicable Date, we have entered into seven consignment agreements with our consignors, of which we have successfully sold all the consigned products under three consignment agreements and such consignments have been completed and settled without any outstanding obligations, and four consignment agreements remained effective as at the Latest Practicable Date.

Subject to satisfactory inspection, we offer consignment services to members of our “Madison Premier Collectors Program” to assist the sale of their private collection or speculative wine products via our sales network, and thereby assisting our customers in their wine management. As with our inventory sales, we adopt a cost-plus approach in determining the selling prices of our consignment products. Pursuant to our standard consignment agreement, we, as consignees, are entitled to retain the remaining balance from the selling price less the minimum selling price acknowledged by our consignors. We encourage consignment sales as consignment promotes a flexible operation model and a healthy financial model by reducing the stress on cash flow for compiling our product portfolio while expanding our inventory with consignment products. Since the launch of our “Madison Premier Collectors Program” in November 2014 and up to 31 March 2015, we successfully sold 360 bottles of wine products by way of consignment and recorded a consignment income of approximately HK\$1.1 million. In all consignment arrangements, we do not have to make any upfront payments or guarantees to our consignors. We do not provide any sales commitment to any of our consignors. Details of our standard form consignment agreement are summarised as follows:

- ***description of consignment products:*** the estate, vintage, bottle size and quantity of the consignment products will be set out in the consignment agreement;
- ***minimum selling price:*** the agreed minimum selling prices of the consignment products will be set out in the consignment agreement;
- ***settlement with consignees:*** the settlement shall be made on the last business day of every month by way of bank draft unless the consignor specified otherwise;
- ***risks and liabilities:*** the consignment agreement has specified that our Group, as consignee, will not be responsible for any loss or damage on the consigned products pending for consignment sale; and
- ***termination:*** our Group, as consignee, can unilaterally terminate the consignment agreement and return the consignment stock to the consignor.

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Non-revenue generating value-added services

Consultation services

To ensure our customers are satisfied with their purchases, we offer a variety of complimentary consultancy services, including personalised wine consultancy, wine cellar management consultancy and wine appreciation consultancy services. Our personalised wine consultancy involves identifying our customers’ specific preferences and recommending appropriate products for our customers’ consideration, and providing food pairing advices. Wine cellar management consultancy refers to consultancy advice such as storage advices in respect of our customers’ private cellar. Wine appreciation consultancy involves suggestions by our sales on consuming a particular wine product, and providing wine handling and decanting advices.

Sourcing services

We believe one of our key strengths lies in our procurement and supply network, which equips us with the ability to source virtually any wine, be it rare, old vintage, or otherwise not readily available in the open market. We assist customers to search for specific wine products by sourcing the relevant products upon confirmation of purchase orders and full payment in advance. This service supplements our product portfolio and enables us to broaden our product portfolio beyond our inventory limitations.

Evaluation services

Evaluation services refers to wine inspection and value assessment services to enable our customers to assess the value of their wine products. We conduct our evaluation and assessment by means of inspecting their physical appearance and obtaining and comparing the latest market selling prices by utilising our procurement and supply network and with reference to the market prices shown on www.liv-ex.com and www.wine-searcher.com.

SALES

We are engaged in the retail sales and wholesales of a wide spectrum of wine products from major wine regions across the world and other alcoholic beverages in Hong Kong with a focus on Premier Collectible Red Wine and Fine Red Wine. During the Track Record Period, we have offered our products and services to our customers for (i) direct sales consisting retail sales and wholesales, (ii) consignment sales as consignee and (iii) consignment sales as consignor at the premises of our sole consignee, Fook Lam Moon Kowloon. Our retail sales and wholesales are determined with reference to the usage of our products by our customers based on the information provided to our Company from our customers and our internal records. Wholesales refer to our sales to customers who are engaged in business operations involving the resale of our products, and include customers such as auction houses and restaurants while all other sales are classified as retail sales, and include all walk-in customers at our new flagship store and customers whom we do not have any information indicating whether they are engaged in business operations involving the resale of our products. Consignment

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sales as consignee refer to consignment sales pursuant to the launch of our “Madison Premier Collectors Program” during the year ended 31 March 2015, while consignment sales as consignor refer to our consignment arrangement with our sole consignee, Fook Lam Moon Kowloon for consignment sale of our wine products at their premises.

We have established an extensive sales network which is coordinated and supported by our sales team. To enhance our customers’ convenience, customers may purchase our products with us via physical sales orders concluded at our point of sales and telephone orders or email orders placed with our sales team concluded electronically. During the Track Record Period and up to the Latest Practicable Date, we did not record any product returns or requests for cash refund or exchange for wine products from our customers. As our general policy, we do not offer product return or exchange in respect of wine products with vintages of over ten years and with selling prices above HK\$1,000 per bottle as such wine products are more susceptible to changes due to the prolonged period of storage and transfers prior to arrival at our warehouses and there is no assurance as to their storage conditions. Nonetheless, we offer product return or exchanges in respect of wine products with vintages of below 10 years and with selling prices below HK\$1,000 per bottle. In respect of unopened wine products with vintage(s) below 10 years and selling prices below HK\$1,000 per bottle, our customers could request for product return or exchange for other wine products within one day after such purchase is made, and in respect of opened wine products with vintage(s) below 10 years and selling prices below HK\$1,000 per bottle, our customers could request for cash refund within one day after such purchase is made if there is quality issue and such quality issue is verified by our staff. We do not accept product returns or requests for cash refund or exchange for other alcoholic beverages (e.g. champagnes and proseccos), all consigned wine products sold by our sole consignee, Fook Lam Moon Kowloon, and wine products with vintage beyond 10 years or with selling price at or above HK\$1,000 per bottle. Our Directors considered such return policy is customary within the wine industry in Hong Kong. During the Track Record Period, we did not record any incident of product recall and product return, and we were not involved in any product liability claim.

For the years ended 31 March 2014 and 2015, our total revenue amounted to approximately HK\$70.0 million and HK\$145.7 million, respectively. For further details of our customer portfolio, please refer to the paragraph headed “Customers” in this section.

Point of sales

As at the Latest Practicable Date, we operated our business at (i) our new flagship store situated at Shops 1 & 2, Ground Floor, Chinachem Century Tower, No.178 Gloucester Road, Hong Kong, which commenced business operations in mid June 2015 immediately upon cessation of business operations at our old store and (ii) our head office situated at Flats A and B, 10/F, North Point Industrial Building, 499 King’s Road, North Point, Hong Kong.

Old store

We commenced our operations with the opening of our old store in Wan Chai in November 2012. In March 2015, Madison Wine obtained the “Quality Tourism Services Scheme — Retail Shops” certification, which is a prestigious achievement in the service industry, awarded by

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the Hong Kong Tourism Board which recognised the excellent service provided by our Company. We ceased our business operations at our old store in mid June 2015 as our Directors decided to relocate our business operations at our old store to our new flagship store. For further details, please refer to the paragraph headed “Sales — Point of sales — New flagship store” in this section.

Head office

Our head office, which includes our self-operated warehouse, is currently situated in North Point, serves as our headquarters to oversee our overall business operations, and handles some of our sales and all of our administrative matters, including logistics, marketing, warehousing, liaisons with regards customers’ purchase orders.

New flagship store

Our Directors decided to relocate business operations at our old store to our new flagship store with an objective to further enhance our customers’ shopping experience and increase public awareness. We commenced business operations at our new flagship store in mid June 2015. Building on the success of our old store in Wan Chai, our new flagship store is also situated in Wan Chai. Furthermore, our new flagship store is situated within close proximity to luxury car retail shops, which we believe, share a similar customers base with our Company. In addition, as we are expecting higher street traffic at our new flagship store, our Directors considered our new flagship store will attract a higher level of public awareness and a wider range of customer base.

Given our established relationships with most of our customers and the proximity of our new flagship store and our old store, our Directors believe our strategic relocation to our new flagship store will not have any material impact on our business operations.

We incurred total capital expenditure of approximately HK\$3.7 million in connection with the renovation of our new flagship store, which will be recognised in our financial statements for the year ending 31 March 2016. Taking into account, among others, (i) the monthly lease payment for the new flagship store of HK\$205,000 (exclusive of government rates and management fee), which is HK\$75,000 less than the monthly rate of our old store in the amount of HK\$280,000 (exclusive of government rates, management fees and air-conditioning charges) and (ii) other operating costs relating to our new flagship store, which are expected to be comparable to our old store, the investment payback period of our new flagship store is currently estimated to be approximately six months. Having considered the amount of estimated total capital expenditure and the estimated investment payback period, our Directors are of the view that the relocation will not have a material adverse impact on our financial performance for the year ending 31 March 2016.

Direct sales conducted by Madison Wine Trading

Mr. James Peter Woodhead, the sales director of Madison (China), who possesses valuable skill set and has extensive network among wine merchants in Hong Kong who usually purchase wine products in bulk volume. To leverage the business network of Mr. James Peter Woodhead, we set up Madison Wine Trading which was owned as to 80% by Madison Fine Wine and 20% by Mr. James Peter Woodhead as at the Latest Practicable Date. The revenue generated from the sales of our

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products to the clientele of Mr. James Peter Woodhead would be recorded as the revenue of Madison Wine Trading, while the revenue generated from the sales of our products to the clientele of our other staff members and walk-in customers would be recorded as the revenue of Madison (China). We consider the setting up of Madison Wine Trading with Mr. James Peter Woodhead to be in line with our business strategy as it allows us to gain from the sales generated from the business network and clientele of Mr. James Peter Woodhead.

The customer base of Madison Wine Trading is the potential client list of Mr. James Peter Woodhead (“**JPW Potential Client List**”). During the Track Record Period and up to the Latest Practicable Date, the JPW Potential Client List comprised 112 potential customers. The customer base of Madison (China) is the retail and wholesale customers which has no overlapping with Madison Wine Trading. For further details in respect of the customer portfolio of our Group, please refer to the paragraph headed “Customers” in this section.

Since the commencement of operation of Madison Wine Trading in December 2014, our Group has given guidance to our staff to prevent any potential conflict and competition between Madison Wine Trading and Madison (China). Every time when Mr. James Peter Woodhead identifies potential customers, he has to inform the senior management of our Group who will procure those names be entered into the JPW Potential Client List. Should there be any potential customers whose names are not appeared in the JPW Potential Client List, such potential customers shall belong to the potential customers list of Madison (China). In case that the staff member is aware of any potential overlapping of customers in Madison Wine Trading and Madison (China), the staff member shall report the issue to the senior management to resolve the potential conflict. Any customers which are not in the JPW Potential Client List shall be assigned to the sales persons of Madison (China) for following-up. During the Track Record Period and up to the Latest Practicable Date, there was no overlapping of customers between Madison Wine Trading and the rest of our Group.

Our Directors consider that the setting up of Madison Wine Trading with Mr. James Peter Woodhead is a successful joint venture in view that the revenue generated from clients referred by Mr. James Peter Woodhead increased from approximately HK\$22.9 million for the eight months ended 30 November 2014 (prior to the setting up of Madison Wine Trading) to approximately HK\$26.3 million for the eight months ended 31 July 2015 (after the setting up of Madison Wine Trading).

Cash management

Our sales is primarily settled by bank transfer, bank cheques, cash and credit cards. Customary with most sales businesses, we implement tight controls over the unauthorised access to cash proceeds and improper handling of cash. Cash payment by our customers are handled by our sales staff and cashier and all cash sales proceeds are deposited directly into the banks before the close of next business day and our account department would check the cash sales proceeds against sales invoices and bank records on a timely basis.

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Pricing strategy

In view of the volatility of procurement prices of various wine products, we determine the prices of our wine products competitively and dynamically by adopting a cost-plus approach with reference to numerous considerations including but not limited to (i) the prevailing market prices, (ii) the procurement costs, (iii) product availability, (iv) market demand, (v) vintages, (vi) product quality, (vii) frequency of purchase made by relevant customers, (viii) our relationship with the relevant customers and (ix) the prevailing foreign currency rates. Our management reviews our pricing strategy from time to time to ensure our selling prices remain competitive as compared to our competitors.

Our primary objective underlying our pricing strategy is to maintain and expand our market share and to further develop our presence in Hong Kong.

In addition to our primary objective, our Directors will review our business and financial condition and set out a detailed annual objective for our pricing strategy. Our annual objective for our pricing strategy for the year ended 31 March 2014 was aimed at selling our products at a profitable rate and we adopted a product pricing with higher mark-up percentage ranging from 30% to 40% and the mark-up percentage of each product was further assessed with reference to, among others, prevailing market price, product availability and market demand.

During the year ended 31 March 2014, the highest price per bottle, the lowest price per bottle and the average price per bottle sold by our Group was approximately HK\$237,500, HK\$120 and HK\$2,000, respectively. Taking into account our level of inventories as at 31 March 2014, our annual objective for our pricing strategy for the year ended 31 March 2015 was aimed at expanding our market share and improving our inventory turnover, capital efficiency and to generate cash flow for our business operations by increasing the quantities sold. For the year ended 31 March 2015, we adopted a relatively competitive product pricing with mark-up percentage ranging from 20% to 30% and the mark-up percentage of each product was further assessed with reference to, among others, prevailing market price, product availability and market demand.

During the year ended 31 March 2015, the highest price per bottle, the lowest price per bottle and the average price per bottle sold by our Group was approximately HK\$228,800, HK\$50 and HK\$1,500, respectively. The significant decrease in the lowest price per bottle and the average selling price sold by our Group during the year ended 31 March 2015 was primarily attributable to the reduction of our profit margin in respect of a Fine Red Wine branded Penfolds, which experienced increased demand and supply in the wine industry in Hong Kong during the same year, and our attempt to enhance our price competitiveness and to expand our market penetration in the Fine Wine segment. Our Directors considered the implementation of the low profit margin an exceptional instance, as our primary objective was to expand our market penetration in the Fine Wine segment. Nonetheless, taking into account the increased sales volume generated from such sales, we may adopt a low profit margin should our Directors consider appropriate in light of the relevant circumstances.

Currently, our annual objective for our pricing strategy for the year ending 31 March 2016 was aim at selling more products at a more profitable rate. For the year ending 31 March 2016, we plan to adopt a relatively competitive product pricing strategy with higher mark-up percentage ranging from 25% to 35%, as compared to the mark-up percentage for the year ended 31 March 2015. Nonetheless, in light of the competitive product pricing adopted for the year ended 31 March 2015 and

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in order to ensure our customers will not be discouraged by our product pricing, we will adjust our product pricing by increasing our mark-up percentage gradually. As such, save for unexpected instances, our Directors currently anticipate the price trend of our products, including the costs of procurement and the selling prices, will remain relatively constant.

Our Directors consider our flexible product pricing strategy will assist our Group to maintain the same level of turnover and profitability from the sales of our products going forward. For further details, please refer to the paragraph headed “Financial Information — Management discussion and analysis — Description of selected combined statements of profit or loss line items — Gross profit” in this [Redacted].

Taking into account the diverse product portfolio and in order to ensure our profitability, we adopted a product-oriented pricing policy and the same mark-up percentage is applied across all products offered to retail customers and wholesale customers. Pursuant to the product-oriented pricing policy, retail customers or wholesale customers would have to pay the same selling price for the same product purchased from our Company, subject to discounts offered in respect of bulk purchases, which is also offered to both retail customers and wholesale customers. Therefore, the gross profit margin in respect of a product would be identical for retail customers and wholesale customers. We offer our bulk purchase discounts to both our retail customers and wholesale customers with a view to encouraging bulk purchases from retail customers as well as wholesale customers as bulk purchases benefits our Group with the efficient inventory turnover and expedient cash flow, as compared to single item purchases. The mark-up percentage on each product is determined with reference to, among others, the market price and the product availability. For instance, in respect of a product procured by us at HK\$100 with a market price of HK\$120, we would be restricted to implement a cost-plus policy of up to HK\$20 to maintain the competitiveness of the product, while a product procured by us at HK\$100 with a market price of HK\$150, we would have the liberty to implement a flexible cost-plus policy of up to HK\$50. As such, the gross profit margin varies between products and is not an indicator of the mark-up percentage in relation to the cost-plus approach adopted by our Company.

The following table sets out the revenue, cost of goods sold, average selling price, quantity and the gross profit margin in respect of our retail sales during the Track Record Period:

	For the year ended 31 March											
	2014						2015					
	Revenue	Cost of goods sold	Average selling price	Quantity	Gross profit	Gross profit margin	Revenue	Cost of goods sold	Average selling price	Quantity	Gross profit	Gross profit margin
	(HK\$'000)	(HK\$'000)	(HK\$)	(Bottles/ Units)	(HK\$'000)	(%)	(HK\$'000)	(HK\$'000)	(HK\$)	(Bottles/ Units)	(HK\$'000)	(%)
Wine products												
<i>Premier Collectible</i>												
Red Wine	37,338	24,703	5,650	6,609	12,635	33.8	74,132	52,734	6,212	11,933	21,398	28.9
Fine Red Wine	8,283	2,905	530	15,622	5,378	64.9	6,608	5,121	479	13,785	1,487	22.5
<i>Premier Collectible</i>												
White Wine	1,945	1,096	3,269	595	849	43.7	5,729	3,885	4,228	1,355	1,844	32.2
Fine White Wine	893	507	624	1,431	386	43.2	1,502	1,116	584	2,570	386	25.7
Other alcoholic beverages	3,283	1,201	2,489	1,319	2,082	63.4	3,537	2,448	1,426	2,481	1,089	30.8
Wine accessory products (and others)	20	17	99	203	3	15.0	39 ^(Note)	38	29	1,331	1 ^(Note)	2.6

Note: For the year ended 31 March 2015, revenue and gross profit from wine accessory products (and others) included the revenue and gross profit generated from our storage services.

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The following table sets out the revenue, cost of goods sold, average selling price, quantity and the gross profit margin in respect of our wholesales during the Track Record Period:

	For the year ended 31 March											
	2014						2015					
			Average		Gross	Gross			Average		Gross	Gross
	Revenue	Cost of	selling	Quantity	profit	profit	Revenue	Cost of	selling	Quantity	profit	profit
	goods sold	price			margin		goods sold	price				margin
	(HK\$'000)	(HK\$'000)	(HK\$)	(Bottles/ Units)	(HK\$'000)	(%)	(HK\$'000)	(HK\$'000)	(HK\$)	(Bottles/ Units)	(HK\$'000)	(%)
Wine products												
Premier Collectible												
Red Wine	15,719	12,827	4,936	3,185	2,892	18.4	28,434	23,817	3,700	7,685	4,617	16.2
Fine Red Wine	2,036	1,665	421	4,833	371	18.2	25,269	16,071	426	59,297	9,198	36.4
Premier Collectible												
White Wine	57	45	3,000	19	12	21.1	137	109	2,404	57	28	20.4
Fine White Wine	240	206	828	290	34	14.2	113	92	471	240	21	18.6
Other alcoholic												
beverages	230	181	430	535	49	21.3	187	156	874	214	31	16.6
Wine accessory												
products (and												
others)	—	—	—	—	—	—	—	—	—	—	—	—

Despite the same product pricing applicable to our retail sales and wholesales, the significant difference between the gross profit margins from our retail sales and wholesales was primarily attributable to (i) the application of the discount for bulk purchases of up to 15% discount off the regular selling price and (ii) difference between preferences of retail customers and wholesale customers. As our wholesale customers are wine merchants and restaurants, they typically purchase products that are widely available in the market, which we have priced with a lower mark-up percentage to maintain the competitiveness of such products, and they generally prefer to make single-product purchases in bulk volumes so as to enjoy our bulk purchase discounts. Furthermore, preferences between wine merchants and restaurants wholesale customers vary as restaurants wholesale customers typically prefer to purchase small quantities of a diverse range of products and may not always enjoy our bulk purchase discounts. In contrast, preferences of retail customers vary between individuals and purposes, for instance, wine collectors tend to purchase wine products that are relatively rare and not readily available in the market, and hence, our gross profit margins on such products are generally higher. Accordingly, the gross profit margin for the years ended 31 March 2014 and 2015 did not correlate with our pricing strategy for the respective years.

Discounts

In order to encourage and reward bulk purchases, which exceed a designated transaction value determined from time to time, we offer discounts of up to 15% off the regular selling price. In addition, members of our “Madison Premier Membership Scheme” are eligible for up to 12% discount of the regular selling price. For further details, please refer to the paragraph headed “Customers — Madison premier membership scheme” in this section.

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Sales channels

Direct sales

We classify our direct sales into two sales channels, retail sales and wholesales, which are determined with reference to the usage of our products by our customers based on the information provided to our Company from our customers and our internal records. Wholesales refer to our sales to customers who are engaged in business operations involving the resale of our products, and include customers such as auction houses and restaurants while all other sales are classified as retail sales, and include all walk-in customers at our new flagship store and customers whom we do not have any information indicating whether they are engaged in business operations involving the resale of our products. During the Track Record Period and as at the Latest Practicable Date, we have conducted both retail sales and wholesales at our new flagship store, old store and head office and we treat all customers alike, regardless of the sales channels.

We adopt the same cost-plus approach for our retail sales and wholesales in accordance with the pricing strategy of our Group, and we do not offer any preferential sales or discounts to wholesale customers that are not offered to retail sales customers. Accordingly, (i) the gross profit margin in respect of the same product, (ii) the operation flows and (iii) the sales strategies in respect of our retail sales and our wholesales are identical. To the best knowledge and believe of our Directors, notwithstanding that we do not offer better pricing terms to our wholesale customers than our retail customers, our wholesale customers continue to purchase from us because, among others, (i) we have good reputation in the wine industry, (ii) we have readily available stock of rare wines, and (iii) the selling prices of our wine are competitive and are marked with reference to their prevailing market prices in accordance with the pricing strategy adopted by our Group.

For the year ended 31 March 2014, we generated revenue of approximately HK\$51.7 million and HK\$18.3 million from our retail sales and wholesales, respectively. For the year ended 31 March 2015, we have generated revenue of approximately HK\$91.5 million and HK\$54.2 million from our retail sales and wholesales, respectively. For the year ended 31 March 2014, we generated gross profit of approximately HK\$21.3 million and HK\$3.4 million from our retail sales and wholesales, respectively. For the year ended 31 March 2015, we generated gross profit of approximately HK\$26.2 million and HK\$13.9 million from our retail sales and wholesales, respectively.

Consignment sales as consignor

Since September 2014, we have been in collaboration with Fook Lam Moon Kowloon, a Michelin starred Chinese restaurant in Hong Kong and hosted wine dinners at the premises of Fook Lam Moon Kowloon with wineries from time to time. Up to the Latest Practicable Date, we have organised two wine dinners at Fook Lam Moon Kowloon, namely a wine dinner with a winery in September 2014, and a wine dinner with Pommard, Corton, St-Estephe and Beaune wines from a boutique burgundy winery in April 2015. The strategic collaboration with Fook Lam Moon Kowloon not only contributes to our sales directly, but also promotes our corporate image and our wine collection to our target clientele, which in turn enhances our corporate image and reinforces our position in the Hong Kong wine industry.

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In addition, we became the exclusive wine consignor of Fook Lam Moon Kowloon in September 2014 with a view to demonstrating the unmatched culinary experience of Chinese cuisine with our wines. Since entering the consignment agreement with Fook Lam Moon Kowloon in September 2014 and up to 31 March 2015, we have derived a revenue of approximately HK\$0.2 million from the consignment arrangement and recorded a gross profit of approximately HK\$38,000. We sold more than 300 bottles of wine products through Fook Lam Moon Kowloon up to 31 March 2015 and we have consigned more than 650 bottles of wine products of approximately HK\$0.9 million in value at the cellar of Fook Lam Moon Kowloon available for consignment sale as at 31 March 2015. The following table sets out the revenue and gross profit in respect of the consignment arrangement with Fook Lam Moon Kowloon by product category for the period from 1 September 2014 to 31 March 2015:

	1 September 2014 to 31 March 2015		
	Revenue	Quantity	Gross profit
	(HK\$)	(Bottles)	(HK\$)
Wine products			
<i>Premier Collectible Red Wine</i>	96,190	47	13,198
<i>Fine Red Wine</i>	67,300	152	15,916
<i>Premier Collectible White Wine</i>	9,000	8	2,573
<i>Fine White Wine</i>	18,400	66	4,296
Other alcoholic beverages	13,620	39	2,131
Total	<u>204,510</u>	<u>312</u>	<u>38,114</u>

The table below sets forth the salient terms of our consignment agreement with Fook Lam Moon Kowloon. For further details, please refer to the section headed “Risk Factors — Risks relating to our business — We have limited control over our consignee, Fook Lam Moon Kowloon, under our consignment arrangement in respect of the sale of our wine products by Fook Lam Moon Kowloon” for the risks involved in this [Redacted].

Consignment sales

We shall consign not less than 250 different wine labels across the world on a best effort basis to our consignee, Fook Lam Moon Kowloon, for consignment sale. The title to and ownership of all consigned products shall remain with our Group until they are sold by Fook Lam Moon Kowloon.

We have not set any sales targets for Fook Lam Moon Kowloon in respect of the consignment sales.

Selling prices

Fook Lam Moon Kowloon may determine the selling prices of our consigned products, subject to a minimum floor price pre-determined by us. In respect of each consigned wine product sold by Fook Lam Moon Kowloon, we shall be entitled to the pre-determined minimum floor price and Fook Lam Moon Kowloon shall be entitled to the remaining balance.

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	Such pre-determined minimum floor prices shall be the same as the selling prices of our inventories in accordance with our pricing strategy.
Payment and credit terms	Fook Lam Moon Kowloon shall settle the invoice issued by us within 30 days in cash or by cheque.
Products return arrangements	All consigned products sold by our consignee pursuant to the consignment arrangement are not entitled to any product exchange or product refund.
Inventory storage	<p>Fook Lam Moon Kowloon shall store the consigned products appropriately. If our operation team members discover any labelling damage or leakage of the consigned wine products, such product will be considered as having been purchased by Fook Lam Moon Kowloon at the pre-determined minimum floor price.</p> <p>Fook Lam Moon Kowloon shall provide inventory summaries to us on a monthly basis. Upon receiving an inventory summary, members of our operation team shall visit Fook Lam Moon Kowloon to perform stock counts, which will allow us to determine and manage the amount of excess inventory.</p>
Slow-moving stock arrangements	If any consignment wine products generated limited or no sales for more than one month, we may request Fook Lam Moon Kowloon to return these consigned wine products to us.
Term of agreement	The existing consignment agreement will expire in December 2015. We intend to renew the consignment agreement before its expiration and will negotiate with Fook Lam Moon Kowloon in due course. In view of the established relationship with Fook Lam Moon Kowloon, we believe we will be able to renew the consignment arrangement upon its expiration in December 2015.
Termination	The agreement may be terminated by either party with a minimum of 30 days prior written notice.

Our consignment arrangement with Fook Lam Moon Kowloon will expire in December 2015. Nonetheless, taking into account our established relationship with Fook Lam Moon Kowloon, we believe we will be able to renew the consignment arrangement upon its expiration.

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Sales team

As at the Latest Practicable Date, our sales team consisted of 11 members under the leadership of Mr. Kao, our executive Director. Two of our 11 sales team members possess WSET awards level three (Advanced certificate in wines and spirits) and two of our 11 sales team members possess WSET awards level two (Intermediate certificate in wines and spirits). In order to enhance the shopping experience of our walk-in customers, most of the customers attending our new flagship store are served by one of our sales team members. In order to enhance our sales performance, each of our sales team members is entitled to a commission with reference to the sales volume achieved by them.

Seasonal fluctuations

Our business and operating results are subject to seasonal fluctuations. We generally derived a higher amount of revenue during October to March, and we derived a relatively lower amount of revenue during April to September. For further details, please refer to the section headed “Financial Information — Key factors affecting our financial condition and results of operations — Seasonal fluctuations” in this [Redacted].

MARKETING AND PUBLIC RELATIONS

We market ourselves as a corporate wine connoisseur with the goal of attracting and accumulating a loyal customer base of wine collectors and wine lovers. To this end, we actively promote our extensive product portfolio and supplementary wine related services targeting and serving our private and corporate customers. This is achieved through promotional events conducted at our point of sales, internet marketing, telemarketing, direct mailing, online marketing as well as strategic collaboration and consignment arrangement with a renowned restaurant in Hong Kong. We also strive to maintain positive public relations and awareness via integrated marketing media such as printed advertisements and customer services. For the years ended 31 March 2014 and 2015, our advertising and promotion expenses were HK\$1.4 million and HK\$1.2 million, respectively, accounting for approximately 2.0% and 0.8% of our total revenue, respectively.

During the Track Record Period, our sales and marketing team carried out the following marketing and public relation activities:

Advertising campaigns

In order to attract and maintain public awareness, from time to time we commissioned printed advertisements, published wine reviews and related publications and assisted with wine recommendations in food and wine magazines, newspapers and other industry publications. Occasionally and upon invitations, members of our core management team made personal contributions through appearances, attending trade interviews, and contributing publications in magazines and newspapers.

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Marketing events

As a means of tightening bonds with our customers, promoting our wine products and our corporate image and ultimately, cultivating customers’ loyalty, we hosted parties and marketing events for our customers, for which we invited our customers to explore our wine products, to encourage wine appreciation and/or to promote better enjoyment of our wine products. Historically, we hosted marketing events such as wine pairing dinners with top wineries, informal stand-up wine tastings and wine appreciation talks and seminars. Most notably, we invited the owner of a winery from St. Julian to host a wine-pairing dinner, invited a renowned champagne expert to host an educational class on champagne knowledge and organised a dinner with a renowned fashion brand and the owner of a Spanish winery.

Internet and social networks

Our website, www.madison-wine.com, serves as an important channel for us to communicate with our customers as well as an information sharing platform for the wine dedicated community of our customers, suppliers and ourselves. Through our website, we update our customers and suppliers from time to time on developments in our product portfolio, and our customers are informed of our latest marketing and promotional initiatives, such as details relating to our upcoming events and special promotions.

To take advantage of the rapid development of digital communication channels, we have also increased our marketing and public relation activities by leveraging online social networks such as Weibo (微博), WeChat (微信), Instagram, Facebook and YouTube with the goal of creating interaction and exchanges with customers, thereby promoting our wine products, wine events and wine dinners.

CUSTOMERS

As observed by our Directors, most of our customers are local and overseas wine merchants, avid wine collectors in Hong Kong and China, renowned Hong Kong restaurants and high net worth individuals. We endeavour to maximise the satisfaction of our customers by offering a series of value-added services to them. For further details, please refer to the paragraph headed “Our one-stop shop concept” in this section.

Generally, we do not offer credit period to our customers, save with the approval of our management where we may offer a credit period of up to 30 days to our customers.

During the Track Record Period, we have not entered into any long-term sales agreement with any of our customers. Save for the consignment agreement with Fook Lam Moon Kowloon, we did not enter into any distributorship, franchising, and consignment with any of our customers. For further details, please refer to the paragraph headed “Sales — Sales channels — Consignment sales as consignor” in this section.

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Largest customers during the Track Record Period

For the years ended 31 March 2014 and 2015, the revenue generated from our five largest customers accounted for approximately 26.9% and 18.5% of our total revenue, respectively, and the revenue generated from our single largest customer accounted for approximately 7.3% and 5.4% of our total revenue, respectively. The table below sets out details of our five largest customers during the Track Record Period:

Ranking	Customer	Nationality/ Principal place of business	Nature	Purpose of purchase ^(Note)	Year(s) of business relationship with our Group	Percentage of total revenue
<i>For the year ended 31 March 2014</i>						
1	A	PRC	a PRC national ordinarily residing in Hong Kong	personal consumption	2	7.3%
2	B	HK	a wine merchant in Hong Kong engaged in the sale of wine products in its ordinary business	re-sale of products in Hong Kong	2	5.9%
3	C	PRC	a PRC national ordinarily residing in Hong Kong	personal consumption	3	5.4%
4	D	PRC	a PRC national ordinarily residing in Hong Kong	personal consumption	2	4.5%
5	E	Macau	a wine merchant headquartered in Macau engaged in the sale of wine products in its ordinary business	re-sale of products in Macau	2	3.8%
<i>For the year ended 31 March 2015</i>						
1	F	HK	a restaurant in Hong Kong engaged in the sale of wine products in its ordinary business	re-sale of products in Hong Kong	1	5.4%
2	G	Macau	a wine merchant headquartered in Macau engaged in the sale of wine products in its ordinary business	re-sale of products in Macau	2	4.1%

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Ranking	Customer	Nationality/ Principal place of business	Nature	Purpose of purchase ^(Note)	Year(s) of business relationship with our Group	Percentage of total revenue
3	H	HK	a restaurant in Hong Kong engaged in the sale of wine products in its ordinary business	re-sale of products in Hong Kong	1	3.9%
4	I	HK	an auction house in Hong Kong engaged in the auction and retail sales of wine products in its ordinary business	re-sale of products in Hong Kong	3	2.6%
5	J	HK	a Hong Kong national ordinarily residing in Hong Kong	personal consumption	1	2.5%

Note: These information are based on our Directors' understanding and our Company's internal records.

During the Track Record Period and up to the Latest Practicable Date, (i) we did not receive any requests for delivery of our products in the PRC and (ii) we did not receive any requests for assistance from any customers with customs clearance for the purposes of importing products purchased with our Company into the PRC. Taking into account that, (i) we did not receive any of the aforementioned requests from our customers, (ii) based on the information currently available to our Company, none of our individual customers are engaged in wine businesses in the PRC, and (iii) the population of PRC immigrants ordinarily residing in Hong Kong, there are no information indicating that our individual customers purchased products from our Company for the purposes of consumption in the PRC or resale in the PRC. Furthermore, while some of our customers are principally engaged in the sale of wine products overseas, such as customer E, being our fifth largest customer for the year ended 31 March 2014, and customer G, being our second largest customer for the year ended 31 March 2015, both of which are principally engaged in the sale of wine products in Macau, which is within close proximity with the PRC, we did not receive any requests from such overseas suppliers for delivery of our products in the PRC and all of our products are delivered to a Hong Kong address, which, to the best knowledge of our Directors, are the address of the Hong Kong branch of such suppliers who have been recorded as an overseas customer for billing purposes only. Based on the limited information relating to such overseas customers' business operations, our Directors considered that none of our overseas customers purchased products from our Company for the purposes of consumption in the PRC or resale in the PRC.

So far as is known to our Directors, none of our Directors or executive officers, or our Controlling Shareholders, or any of their respective close associates held any interests, directly or indirectly, in any of our five largest customers during the Track Record Period.

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Madison Premier Membership Scheme

In order to reward and retain our customers, we implemented the “Madison Premier Membership Scheme”. The “Madison Premier Membership Scheme” comprises two tiers, namely, Black Diamond and Diamond, whose members can enjoy up to 12% and 5% discounts on regular priced beverages, respectively. These special privileges are granted to our customers who become members through spending up to a certain amount on purchases. As at 31 March 2015, we have accumulated over 500 members in the “Madison Premier Membership Scheme”, with 34% in the Black Diamond tier and 66% in the Diamond tier.

PROCUREMENT AND SUPPLY

Procurement and compilation of our product portfolio is conducted by our purchasing staff under the leadership of our Board. Our core management team and our purchasing staff meet from time to time to discuss the market demand and supply and price trend of different types of wine products in order to determine the type, the quantity and the acceptable price range for different types of wine products to be procured.

As our core business strategy, we endeavour to procure wine products which our Directors consider are in demand. As Hong Kong consumers generally prefer red wine over other types of wine products, we focus on Premier Collectible Red Wine and Fine Red Wine strategically by increasing our vintage spectrum as well as our red wine inventory level so as to enable us to capture future growth opportunities. Nonetheless, to expand our customer base and cultivate our relationship with those newcomers interested in expanding their knowledge and appreciation of the different wines of the world, we maintain an extensive product portfolio with different types, varieties, vintages at an extensive range of selling prices for our customers’ selection.

We compile our product portfolio by procuring wine products across the world including, Australia, France, Singapore and the United States. While a majority of our Group’s suppliers are overseas suppliers and procurement invoices are billed in foreign currencies, such as GBP, EUR, etc., we have mutually agreed with most of our overseas suppliers to settle the invoice amounts in Hong Kong dollars as Hong Kong dollars is our functional currency and payments in Hong Kong dollars will facilitate swift payment by our Group. A majority of our overseas suppliers had agreed to accept payments translated into Hong Kong dollars on the actual payment date at the then prevailing market exchange rate and, hence, we did not record a significant amount of purchases in foreign currencies.

Depending on our terms with different suppliers, we either pay in advance of inventory delivery or pay after receipt of inventories from our suppliers. Regardless of the payment timing, we recognise inventories upon receipt of goods from our suppliers, when risks and rewards pertaining to the goods have been transferred to our Group. In respect of foreign currency purchases where we pay in advance of inventory delivery, no exchange difference is recognised as our Group has locked the exchange rate for such purchases in Hong Kong dollars at the payment date. While for foreign currency purchases where inventories arrive at our Group before the relevant payments are made, exchange difference may arise as the exchange rate applied in translating foreign currency payments at the payment date and the exchange rate applied in recognising inventories upon receipt of such inventories may be different.

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Building on our extensive supply network, we believe we have sufficient alternative sources for our wine products that can provide us with substitutes wine products with comparable quality and prices.

We procure our wine products through (i) purchases from wine merchants and wineries, (ii) purchases through auction houses and (iii) purchases from individual wine collectors. The table below sets forth the breakdown of our purchases by sourcing channels during the Track Record Period:

	For the year ended 31 March			
	2014		2015	
	(HK\$'000)	(%)	(HK\$'000)	(%)
Purchases from wine merchants and wineries	27,527	65.8	70,352	70.9
Purchases through auction houses	12,088	28.9	27,558	27.8
Purchases from individual wine collectors	2,236	5.3	1,248	1.3
Total	41,851	100	99,158	100

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material shortage in supply or any material delays in supply.

Purchases from wine merchants and wineries

Our core management team and our purchasing staff maintain contacts with wineries, wine merchants and wine distributors across the world. The years of established relationships with these market players allow us to purchase their quality wine products at competitive market price as well as to get up-to-date information in the wine industry, including the ratings, the prevailing market prices and the demand of the wine products available in the market. Prior to placing our orders with wine merchants and wineries, we carefully inspect sample wine products provided to us, if any, and we ask for photos for old and expensive stock for checking. To bargain for the best price for purchase, we make reference to our previous purchase prices and selling prices for similar wine products, as well as the market prices shown on www.liv-ex.com and www.wine-searcher.com. We also conduct quality control inspection upon receiving our orders and we may return wine products that do not pass our quality control inspection.

For the years ended 31 March 2014 and 2015, the amount of wine products purchased from wine merchant and wineries accounted for approximately 65.8% and 70.9% of our total purchases, respectively. During the Track Record Period, we have developed business relationships with various wine merchants and wineries in Australia, France, Singapore and the United States.

Purchases from wine merchants

During the Track Record Period, we have entered into a three-year distributorship agreement expiring on 1 December 2015, pursuant to which, we have been appointed as the exclusive distributor of two named wines, which, to the best knowledge of our Directors, had been sold out as at the Latest Practicable Date. Accordingly, we will not renew the distributorship agreement upon its expiration.

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Save for the aforesaid, we did not enter into any long-term supply contracts during the Track Record Period and up to the Latest Practicable Date. We procure wine products by purchase orders which include pricing terms, product specifications and quantity requirements. Without long-term supply contracts, we are able to purchase flexibly and may cease procuring from any wine merchants whose wine products do not meet our standard.

Purchases from wineries

We procure wine products from wineries directly by applying for their direct allocations whenever possible so as to eliminate any intermediary margin and develop business relationships with wineries directly. To the best information and knowledge of our Directors, due to the limited production volume of wine products, wineries only sell their own productions to an exclusive list of purchasers who had applied for direct allocations. As the competition and demand for direct allocations of Premier Collectible Wine is fierce, in particular, those from top wineries, wineries prefer to allocate wine products to applicants who had developed relationships with them and those who had established a reputation within the wine industry. Leveraging on our reputation and established relationships with wineries, a number of wineries are willing to grant direct allocations to us and had included our Company in their exclusive list of applicants.

For further details of relevant risks, please refer to the section headed “Risk Factors — Risks relating to our business — Direct allocations of wine products from wineries are unstable and beyond our control” in this [Redacted].

Purchases through auction houses

In order to offer rare and unique wine products for our customers’ selection, we participate at auctions in Hong Kong and overseas organised by auction houses for the purchase of wine products, especially for Premier Collectible Red Wine. During the Track Record Period, we have also purchased from auction houses directly for wine products which our Directors consider are in demand. For the years ended 31 March 2014 and 2015, the total amount of purchases from auction houses accounted for approximately 28.9% and 27.8% of our total purchases, respectively.

Prior to making our bids in auctions, we carefully peruse the product catalogues issued by auction houses which listed out the relevant details of the wine products to be auctioned including the vintage, the package and the volume of the wine product. We will also make reference to our previous purchase prices and selling prices for similar products, as well as the market prices shown on www.liv-ex.com and www.wine-searcher.com.

Purchases from individual wine collectors

Due to our reputation in the industry, individual wine collectors may occasionally offer to sell their wine collection to us. For the years ended 31 March 2014 and 2015, the amount of wine products purchased from individual wine collectors accounted for approximately 5.3% and 1.3% of our total purchases, respectively.

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Prior to placing our orders with individual wine collectors, we carefully inspect sample wine products provided to us, if any, and we ask for photos for old and expensive stock for checking. To bargain for the best price for purchase, we make reference to our previous purchase prices and selling prices for similar wine products, as well as the market prices shown on www.liv-ex.com and www.wine-searcher.com. We also conduct quality control inspection upon receiving our orders and we may return wine products that do not pass our quality control inspection.

SUPPLIERS

As part of our quality control measures and in order to preserve our corporate image, we typically select our suppliers based on their reputation for product quality and supply reliability, history of operations, our trading records with them, size of business, overall reputation, ability to procure delivery on a timely basis, products portfolio, product availability, and promotions offered by the suppliers. The average credit period for the purchases from our suppliers ranged from 30 to 90 days. We normally settle the relevant invoices from suppliers in Hong Kong dollars by way of bank transfer, which will be translated into the local currencies of our suppliers. During the Track Record Period, we have procured our wine products from approximately 150 suppliers across the world, including Denmark, Australia, the United States, the United Kingdom, Singapore, France. For details of our procurement and supply, please refer to the paragraph headed “Procurement and supply” in this section.

Largest suppliers during the Track Record Period

For the years ended 31 March 2014 and 2015, the purchases from our five largest suppliers accounted for approximately 48.6% and 59.9% of our total purchases, respectively, and the purchases from our single largest supplier accounted for approximately 16.0% and 24.3% of our total purchases, respectively. All of our top five suppliers during the Track Record Period are Independent Third Parties. The table below sets out details of our five largest suppliers during the Track Record Period:

Ranking	Supplier	Principal business	Nationality/ place of establishment	Size of operation	Years of business relationship with our Group	Percentage of purchase attributed
<i>For the year ended 31 March 2014</i>						
1	A	wine merchant	Denmark	private company	2	16.0%
2	B	auction house	Hong Kong	private company	3	12.0%
3	C	wine distributor	Australia	private company	2	11.3%
4	D	wine merchant	Singapore	private company	2	4.9%
5	E	auction house	US	private company	2	4.4%
<i>For the year ended 31 March 2015</i>						
1	B	auction house	Hong Kong	private company	3	24.3%
2	C	wine distributor	Australia	private company	2	23.3%
3	F	wine distributor	Hong Kong	private company	2	5.2%

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Ranking	Supplier	Principal business	Nationality/ place of establishment	Size of operation	Years of business relationship with our Group	Percentage of purchase attributed
4	G	online wine merchant	United Kingdom	private company	2	3.9%
5	H	wine merchant	France	private company	2	3.2%

Save as disclosed in the paragraph headed “Procurement and supply — Purchases from wine merchants and wineries — Purchases from wine merchants” in this section, we did not enter into any long-term supply contracts with our suppliers during the Track Record Period and up to the Latest Practicable Date.

So far as is known to our Directors, none of our Directors or executive officers, or our Controlling Shareholders, or any of their respective close associates held any interests, directly or indirectly, in any of our five largest suppliers during the Track Record Period.

Procurement cost

In line with industry practices, purchase prices of wine products generally vary depending on, among others, the vintage, the reputation of the vineyard and brand, market demand and supply, and grading and reviews by wine critics. All wine purchases from our suppliers are subject to preliminary review by our procurement staff, and the purchase prices must be approved by at least one of our Directors prior to placing purchase order.

Return of unsatisfactory products to suppliers

In line with industry practice, we adhere to the return policies of our suppliers pursuant to the terms of the relevant purchases. We may request for refund in the event that our Directors conclude that the product is unsatisfactory after conducting our quality control inspections. Under such circumstances, our purchasing team will liaise with the relevant supplier informing it of such defects with photograph images in support of our complaint, and will arrange for return of the defective product, and subsequently, refund of our purchase order. We have not obtained any refund guarantee on our purchase orders of wine accessory products from the suppliers of our wine accessory products.

During the Track Record Period and up to the Latest Practicable Date, we did not have any material requests for return of wine products delivered to us.

OVERLAPPING CUSTOMERS-SUPPLIERS

According to the Ipsos report, due to the wine-making process, and the inability to replenish supply after each wine production, each wine produced is unique and limited in volume, and is therefore subject to the risks of scarcity. As time goes by, the supply of each wine product in the market decreases as the wine products are consumed, preserved, and collected by wine collectors, or damaged in transit or by poor storage. In addition, given the rare and scarce nature of Premier Collectible Wine,

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the long cellaring period, and drinking-window plateau, these products have become a popular collectible among wine connoisseurs. As a result, Premier Collectible Wines, in particular, vintage wine products produced by top vineyards and wineries may not be readily available in the open market, and wine merchants may face difficulties in procuring certain Premier Collectible Wines. Furthermore, as the information on the number of premier collectible wines becomes private or limited over time, it becomes difficult to assess the availability of particular wine products, particularly Premier Collectible Wines, for purchasing and selling in the market. Consequently, in light of the limited supply pool, it is not uncommon in this industry for wine merchants to be customers and sellers the same time within the wine market. For further details, please refer to the section headed “Industry Overview” in this [Redacted].

During the Track Record Period, there were 18 Customers-Suppliers consisting of (i) one auction house Customer-Supplier, (ii) 13 local and overseas wine merchant Customers-Suppliers, (iii) two individual Customers-Suppliers, and (iv) two connected persons, namely, Mr. Ting and Lucky Target. Out of our 18 Customers-Suppliers, (a) the auction house Customer-Supplier is one of our five largest customers for the year ended 31 March 2015 as well as one of our five largest suppliers for the years ended 31 March 2014 and 2015, and (b) one of the wine merchant Customers-Suppliers is one of our five largest suppliers for the year ended 31 March 2015. Our Directors confirmed that all of our sales to and purchases from our Customers-Suppliers were incidental transactions, were not inter-conditional, inter-related or otherwise considered as one transaction and did not involve the same products. To the best information and knowledge of our Directors, save for the sales and purchases with two connected persons, all of our Customers-Suppliers are Independent Third Parties and none of our Group’s Customers-Suppliers have any past or present relationships with our Group, shareholders, Directors, senior management, employees or their respective associates during the Track Record and up to the Latest Practicable Date.

The following table sets out the total sales and total purchases attributable to our 18 Customers-Suppliers for the periods indicated:

	For the year ended 31 March	
	2014	2015
	(HK\$’000)	(HK\$’000)
Sales to Customers-Suppliers		
Revenue	2,805	13,175
Percentage of our Company’s total revenue	4.0%	9.0%
Total cost of sales	2,244	10,948
Percentage of our Company’s total cost of sales	4.9%	10.4%
Average gross profit margin	20.0%	16.9%
Purchases from Customers-Suppliers		
Total purchases	11,132	32,127
Percentage of our Company’s total purchases	26.6%	32.4%

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Our Directors confirmed that all of our sales to our Customers-Suppliers were conducted in the ordinary course of business under normal commercial terms and on arm’s length basis.

Our Directors confirmed that all of our purchases from our Customer-Suppliers were (i) entered into after due consideration taking into account the prevailing purchase and selling prices at the relevant time, (ii) conducted in the ordinary course of business under normal commercial terms and on arm’s length basis, and (iii) at prices that are no less favourable than from other Independent Third Party who are not Customer-Supplier.

Auction house major Customer-Supplier

The auction house Customer-Supplier (the “**Auction House Major Customer-Supplier**”) is one of our five largest customers for the year ended 31 March 2015 as well as one of our five largest suppliers for the years ended 31 March 2014 and 2015. For the year ended 31 March 2014, the total purchases attributable to the Auction House Major Customer-Supplier amounted to approximately HK\$5.0 million, representing approximately 11.9% of our total purchases. For the year ended 31 March 2015, the total revenue and the total purchases attributable to the Auction House Major Customer-Supplier amounted to approximately HK\$3.8 million and HK\$24.0 million, respectively, representing approximately 2.6% of our total revenue and approximately 24.2% of the purchases, respectively. We mainly purchase Premier Collectible Red Wine from the Auction House Major Customer-Supplier.

To the best information and knowledge of our Directors, the Auction House Major Customer-Supplier possesses an extensive network of high net-worth customer base of private wine collectors as well as its self-operated wine merchant store. Therefore, it is able to procure certain vintage wine products that are not readily available in the open market, organise auctions and private sales and offer for public sales through its store featuring Premier Collectible Wine and fine wine targeted at high net-worth customers. Accordingly, we participate at auctions and private sales and offer our Premier Collectible Red Wine for sale via auctions from time to time. Our Directors considered sale via auctions an effective means of sales and marketing, which enables our Company to extend our reach to high net-worth customers while enhancing our corporate image. For further details, please refer to the paragraph headed “Procurement and supply — Purchases through auction houses” in this section.

Wine Merchant major Customer-Supplier

One of the wine merchant Customers-Suppliers is one of our five largest suppliers for the year ended 31 March 2015 (“**Wine Merchant Major Customer-Supplier**”). For the year ended 31 March 2015, the total revenue attributable to the Wine Merchant Major Customer-Supplier amounted to approximately HK\$1.9 million, representing approximately 1.3% of our total revenue, respectively. For the years ended 31 March 2014 and 2015, the total purchases attributable to the Wine Merchant Major Customer-Supplier amounted to approximately HK\$1.5 million and HK\$3.9 million, respectively, representing approximately 3.6% and 3.9% of our purchases, respectively.

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To the best information and knowledge of our Directors, the Wine Merchant Major Customer-Supplier is an overseas wine merchant with an extensive product portfolio of Premier Collectible Red Wine and Fine Red Wine and an extensive network of overseas high net-worth customer base, and is our supplier primarily. Through our course of dealings, we exchange and share market information and inventory information with the Wine Merchant Major Customer-Supplier and we believe the Wine Merchant Major Customer-Supplier had developed confidence with our provenance and quality control measures and with the diversity of the availability of our product portfolio. As such, from time to time, we receive queries from the Wine Merchant Major Customer-Supplier for certain wine products that are not within the inventory and are not readily available in the open market.

Connected Customers-Suppliers

Prior to the Track Record Period, Mr. Ting injected some of his wine collection from his personal cellar, which are held by himself and his indirect wholly-owned company, Lucky Target, to our Group. During the Track Record Period, where we considered it expedient and efficient taking into account the logistics time for delivery, we procured such products from Mr. Ting’s personal wine collection, where available. From time to time, Mr. Ting, personally as well as through Lucky Target, purchases wine products from our Company for his personal consumption.

For the years ended 31 March 2014 and 2015, (i) our sales to Mr. Ting and Lucky Target collectively accounted for approximately 0.1% and nil of our total revenue, respectively, (ii) our purchases from Mr. Ting and Lucky Target collectively accounted for approximately 2.5% and 0.9% of our total purchases, respectively, (iii) our gross profit derived from the sale to Mr. Ting and Lucky Target collectively accounted for approximately HK\$40,000 and HK\$6,000, respectively, and (iv) our gross profit margin in respect of the sales to Mr. Ting and Lucky Target collectively accounted for approximately 40.8% and 17.5%, respectively. The gross profit margin from those sales is within the range of our general profit margin from the years ended 31 March 2014 and 2015.

Sales to Mr. Ting and Lucky Target had been discontinued since the year ended 31 March 2014 and purchases from Mr. Ting and Lucky Target had been discontinued since the year ended 31 March 2015. For further details, please refer to the section headed “Discontinued Connected Transactions — Discontinued connected transactions” in this [Redacted].

PROVENANCE AND QUALITY CONTROL

We believe wine provenance is of great importance and the quality of provenance of a wine product may adversely affect its selling price in the market. During our wine product procurement process, our core management team and procurement staff will get up-to-date information in the wine industry, including the ratings, market prices and quality of the wine products available in the market. We also gather information about the grape production and wine making process from wineries. In addition, before we procure wine products from our suppliers, we may ask for photos of old and expensive wine products for checking. As at the Latest Practicable Date, our provenance and quality control team was led by Mr. Kao, our deputy chairman and executive Director, consisted of three members of our operations team, which include one staff who possesses WSET awards level two (Intermediate certificate in wines and spirits).

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Our staff will inspect and examine the procured wine products upon arrival at our head office. Due to the nature of consumable products we procured, it is not feasible for us to arrange sampling or tasting inspections to discern the quality of the procured wine products. As such, our product inspection process is limited to examination of the physical appearance of the products based on their labelling, wine level, sealing and overall appearance.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material damages, deterioration and contamination of wine products in the course of our wine product transportation and storage process. For further details in connection with provenance and quality control related risks, please refer to the section headed “Risk Factors — Risks relating to our business — We cannot control the quality of wine products and we rely on our quality control measures to ensure quality of our products. Any quality issues relating to our wine products could adversely affect our reputation and business” in this [Redacted].

INVENTORY MANAGEMENT

As at 31 July 2015, in respect of our inventories with reference to the number of bottles, we stored approximately 20.6% of our total inventories at our new flagship store, 62.7% of our total inventories at our self-operated warehouse, 13.3% of our total inventories at our external warehouse and approximately 3.3% of our total inventories at our consignee, Fook Lam Moon Kowloon, for consignment sale. In considering the allocation of our inventories among our new flagship store, self-operated warehouse and external warehouse, our primary objective is to ensure we maintain a sufficient and diverse selection of wine products, which included some of our most prestigious, rare and vintage premier collectible wine products as well as our fine wine products at our new flagship store to satisfy our anticipated customers’ demand. As our self-operated storage is organised in compartments, we store some of our bulky unopened wooden boxes of wine products at our external warehouse to safe storage of all of our wine products.

As wine products are susceptible to their storage environment, each of our new flagship store, self-operated warehouse and our external warehouse implemented with automatic air-conditioning facilities. At our new flagship store, some of our premier collectible wine products are stored at wine refrigerators, which are maintained at a temperature between 13 to 15 degree Celsius at all times, while other products are kept at our shelves, and we maintain an overall temperature of 16 degree Celsius to 18 degree Celsius at our flagship store at all times to preserve our product quality. Our self-operated warehouse is equipped with temperature and humidity control system to maintain an optimal environment with a temperature between 13 to 18 degree Celsius and humidity levels of 55% to 80%, and is fitted with insulation and anti-vibration materials on the floor and ceilings to protect our wine products from light and vibration in the external environment. In the event of electricity failure, our back-up power system at our self-operated warehouse will automatically generate power to support our temperature and humidity control system for a continuous period of up to eight hours. Taking into account the space required for the back-up power system, we did not install the back-up power system at our flagship store. In order to ensure proper functioning of our temperature and humidity control system, we have assigned a staff at each of our new flagship store and self-operated warehouse to monitor the temperature and humidity levels from time to time. During the Track Record Period and up to the Latest Practicable Date, we did not experience any electricity failure or any temperature and humidity control system malfunction. Our dedication to our self-operated warehouse

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facilities has earned us the HKQAA certification issued by the Hong Kong Quality Assurance Agency. Similarly, to ensure proper maintenance of our wine products at our external warehouse, we have selected a HKQAA accredited wine storage provider. We have also engaged a security alarm company in Hong Kong to install and monitor our burglar alarm system at each of our new flagship store and self-operated warehouse to secure the safety of wine products.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material damages, deterioration or contamination of wine products due to improper storage.

Inventory management

With a view to developing a structured inventory management system, we have implemented a structured manual to regulate our inventory and storage management. To facilitate product identification and management, each of our products is assigned an identification number, and all relevant product details, such as the brand, description, vintage, volume, region, category, unit and net cost are maintained in our electronic system, which is monitored and reviewed from time to time. Furthermore, we conduct bi-annual stock-take of our inventories to ensure the accuracy of our inventory records. We differentiate our stock inventories with wine products belonging to our customers at our self-operated warehouse by compartmenting our self-operated warehouse storage space and we set a maximum storage capacity to ensure we maintain an optimal storage condition at each compartment.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material loss of inventory as a result of the defects of our storage management system and our external warehouse.

Inventory turnover days

For the years ended 31 March 2014 and 2015, our inventory turnover days were 278 days and 97 days, respectively, while our inventory as at 31 March 2014 and 2015 was approximately HK\$31.3 million and HK\$24.2 million, respectively. For further details, please refer to the section headed “Financial Information — Net current assets and selected items of combined statements of financial position — Inventories” in this [Redacted].

Policy for inventory provisions

Based on our Directors’ industry experience, our Directors are of the view that (i) the market price and market condition of wine products typically increase with age, (ii) the market price and market condition of each wine products should be assessed separately taking into account factors such as the retail prices of similar products of some of our competitors, the retail prices in the open market, the historical sales performance of similar products, recent market trends, reviews of the particular wine and spirits products by wine critics or grading by other industry authoritative magazines, if any, and (iii) there is a demand for each product subject to the competitiveness of its pricing. Our Directors’ views are consistent with the Ipsos Report, which provides that (i) the market price and market condition of wine products increases with age and vintage, (ii) the value and quality of wine products will not be affected by the cellaring period, and (iii) it is not uncommon that wine products

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of an older vintage are more expensive than wine products of a relatively newer vintage. Accordingly, our Directors considered the implementation of a rigid inventory provision policy inappropriate in light of the nature of our products and the market and industry we operate in. Nonetheless, we review our inventories quarterly. During our inventory review, we will identify and provide for allowance for inventories where our Directors consider there is any indication that the net realisable value of inventories fall below their respective costs after taking into account various factors, including but not limited to, (i) the costs of procurement and (ii) our recent selling prices for similar products, the market condition and our pricing policy determined on a cost-plus approach. If there is indication that the net realisable value of inventories has fallen below the cost, we will determine the net realisable value of the relevant inventories with reference to aforementioned factors and provide for the shortfall accordingly. Otherwise, we will continue to account for its inventory at cost as required by HKAS and its accounting policy. During the Track Record Period and up to the Latest Practicable Date, notwithstanding we had maintained wine products with long cellaring periods, old vintages or long aged at our inventories, we did not make any provision in respect of any of our Group’s inventories since there had not been any indication that the net realisable value of inventories fell below their respect costs of procurement. To ensure we maintain a healthy inventory control and cash-flow, we adopt a flexible pricing strategies, which are reviewed from time to time taking into account our inventory balance and inventory aging.

For further details on the aging analysis on our inventories, please refer to the section headed “Financial Information — Net current assets and selected items of combined statements of financial position — Aging analysis on inventories” in this [Redacted].

LOGISTICS AND WAREHOUSING

Logistics

In order to ensure cost-effective and timely transportation of wine products between our new flagship store, our self-operated warehouse and our external warehouse, and to provide delivery services to places designated by our customers in Hong Kong, we have one van and two full time drivers as at the Latest Practicable Date.

During the Track Record Period, we did not face any material disruption in the delivery of our products and we did not suffer any loss or pay any compensation as a result of delays in delivery.

Self-operated warehouse

Our operations team consists of eight full time members, which is responsible for our warehousing and responsible for coordinating with various departments of our Group for the purposes of (i) allocating appropriate storage places for upcoming products, (ii) inspecting the condition of the products upon their arrival to our self-operated warehouse, and (iii) arranging the delivery of the products to our customers according to the purchase orders received by our sales division.

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Our security system

We have in place a comprehensive and robust security system to safeguard our inventory, which include 24-hour surveillance at our self-operated warehouse and our new flagship store as well as insurance coverage. Further, our self-operated warehouse has restricted access and only a limited number of staff have the keys and passwords and visitors have access to it. We also record the visitors’ information before they enter our warehouse.

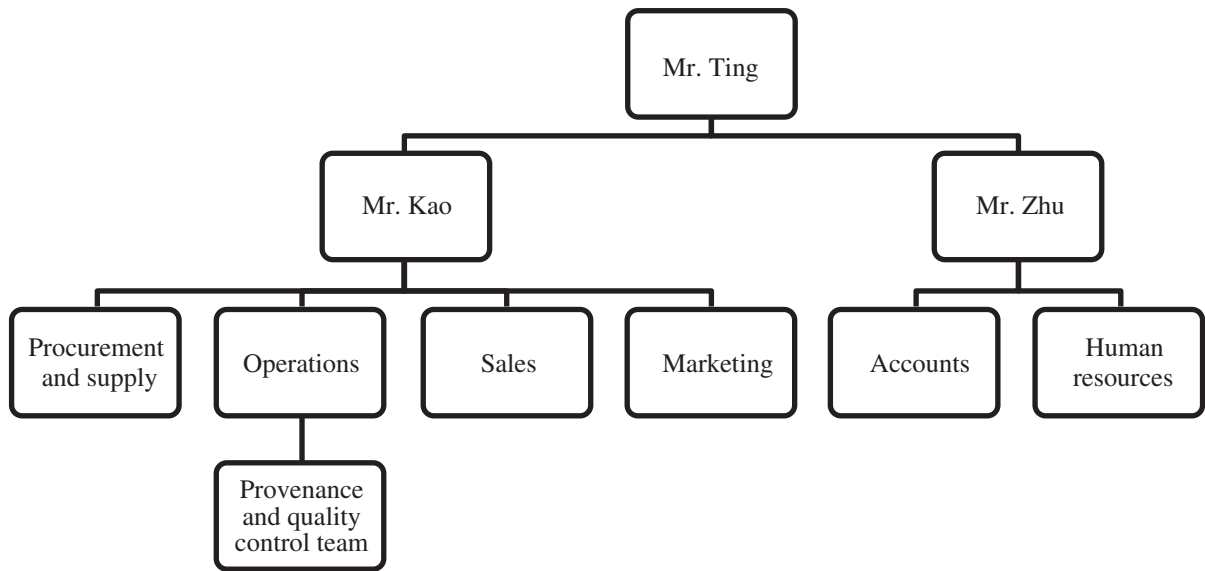
External warehouse

Due to the bulk size of some of the wine boxes containing our wine products, which cannot be stored at our storage facility, we have stored some of such wine boxes at a HKQAA certified public wine storage service provider (the “**External Storage Service Provider**”). To ensure our products are properly stored at the external wine storage service provider, we will review the storage capabilities from time to time. As we did not enter into a long-term storage plan with our External Storage Service Provider, no lease agreement was entered into for such lease arrangement. Currently, our storage payments were determined with reference to the number of wine bottles stored and on a monthly basis, which can be terminated at any time by our Company.

During the Track Record Period and up to the Latest Practicable Date, there had been no material loss of inventory at our self-operated warehouse and our external warehouse as a result of theft, embezzlement or other acts of misappropriation.

EMPLOYEES

We are a diversified team under the leadership of our three executive Directors and we are dedicated to establishing our cultural tones, our corporate values and our customer-centric culture. As at the Latest Practicable Date, we had a total of 31 full-time employees. The diagram below illustrates the management structure of our Group and identifies the major business functions of our Group:



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In order to foster a work environment that attracts and inspires our people to achieve excellent performance, remuneration packages and staff benefits are reviewed on an annual basis. Our standard remuneration package includes base salary, discretionary bonuses and medical insurance. In addition, each of our sales team members is entitled to a commission with reference to the sales volume achieved by them. Each of our employee’s remuneration package is determined in light of his/her qualification, position and seniority. For the years ended 31 March 2014 and 2015, we incurred staff costs of approximately HK\$5.4 million and HK\$9.4 million, respectively, representing 7.7% and 6.5% of our total revenue for the corresponding financial years.

As at the Latest Practicable Date, we had not experienced any material disputes with our employees in the past and have not experienced any significant difficulties in recruiting or retaining staff.

Training

We are committed to employee development and have implemented various training programs to strengthen their industry, technical and product knowledge. All our newly recruited employees are required to attend induction training. We believe our training program will equip our employees with skills and knowledge to enhance our services to our customers.

INSURANCE

As at the Latest Practicable Date, our insurance coverage included, among others, an all property risks insurance in respect of the stock in our new flagship store, our new flagship store and our self-operated warehouse, a business trust insurance in respect of our new flagship store and head office, business interruption insurance in respect of our head office, employees’ compensation insurance against employer’s liability arising under the Employees’ Compensation Ordinance and/or at common law, medical insurance for all of our full-time employees, motor vehicle insurance for our motor vehicle, as well as marine insurance in respect of products imported to Hong Kong by our Group. Our Group did not maintain any product liability in Hong Kong during the Track Record Period and we rely on the insurance coverage of our external warehouse service provider. Our Directors are of the view that we have maintained insurance as required by the relevant applicable laws in Hong Kong. To the best knowledge of our Directors, there is no prevailing industrial practice on the type of insurance to be maintained. Our Directors will review our insurance policies and insurance coverage from time to time to ensure our insurance coverage remain adequate in light of our business growth.

During the Track Record Period, we did not receive any material claims from customers relating to any liability in relation to our products. For further details, please refer to the section headed “Risk Factors — Risks relating to our business — We have limited insurance coverage and do not maintain any insurance to cover any claims arising from product liability” in this [Redacted].

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Health and work safety

Our Group strives to provide employees with a safe and healthy environment. Our Directors confirm that there were no material accidents, health injuries or any non-compliance incidents with the relevant laws and regulations during the Track Record Period and up to the Latest Practicable Date.

PROPERTIES

All of our operations are carried out on leased premises from Independent Third Parties and we did not own any real property as at the Latest Practicable Date. The table below sets forth a summary of the leased properties during the Track Record Period and as at the Latest Practicable Date:

No.	Usage	Location	Term	Monthly rental	Gross floor area
1.	old store <i>(Note)</i>	Shop B, Ground Floor, Tung Hey Building, No. 14/16 & 20 Queen’s Road East, Hong Kong	three years commencing from 25 July 2012 to 24 July 2015	HK\$280,000.00 (exclusive of government rates and management fees)	2,132 sq.ft.
2.	new flagship store	Shops 1 & 2, Ground Floor, Chinachem Century Tower, No.178 Gloucester Road, Hong Kong	three years commencing from 1 April 2015 to 31 March 2018	HK\$205,000.00 (exclusive of government rates, management fees and air-conditioning charges per month)	2,200 sq.ft.
3.	Head office and self-operated warehouse	Flats A & B, 10/F, North Point Industrial Building, 499 King’s Road, North Point, Hong Kong	three years commencing from 15 March 2014 to 14 March 2017	HK\$143,800.00 (inclusive of government rates, government rent and management fee)	9,000 sq.ft.

Note: We did not renew the relevant lease upon its expiration in July 2015. Business operations at our old store ceased in mid June 2015.

Our Directors confirm that all our current leases were negotiated on an arm’s length basis with reference to the prevailing market rates. As at the Latest Practicable Date, our Directors confirmed that we had complied with all the applicable laws and the relevant use in respect of our leased properties in all material respects.

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INTELLECTUAL PROPERTY RIGHTS

We recognise the importance of protecting our Group’s intellectual property rights and we have registered the trademark and domain name used by our Group in the course of our business in Hong Kong. Our Directors believe that we have taken all appropriate actions to protect our own intellectual property rights. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any pending or threatened claims against us, nor has any claim made by us against third parties, with respect to the infringement of any intellectual property rights owned by us or by third parties.

For further details on our registered trademark and domain name, please refer to the paragraph headed “Further information about the business of our Group — Intellectual property rights” in Appendix IV to this [Redacted].

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

Our business operations are subject to various laws and regulations in Hong Kong. For further details, please refer to the section headed “Laws and Regulations” in this [Redacted].

As advised by our legal advisers as to Hong Kong laws, save as disclosed in the paragraph headed “Historical non-compliance incidents” in this section, we have been in compliance with the applicable laws, rules and regulations in Hong Kong, which are material to our business and operation during the Track Record Period.

Licences and permits

As advised by our Hong Kong legal advisers, the sale and distribution of wine products, alcoholic beverages and wine accessory products are not licensed activities in Hong Kong and save for a valid business registration certificate issued by the Inland Revenue Department of the Hong Kong government, we are not required to obtain or maintain any other licences, permits or approvals to engage in our business operations in Hong Kong. During the Track Record Period and as at the Latest Practicable Date, we had obtained valid business registration certificates to conduct our business and operations in Hong Kong.

Legal proceedings

During the Track Record Period and as at the Latest Practicable Date, we were not involved in any legal proceedings, investigations and claims and we were not aware of any pending or threatened litigation or arbitration proceedings against any member of our Group.

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HISTORICAL NON-COMPLIANCE INCIDENTS

Non-compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Companies Ordinance

During the Track Record Period, Madison (China) and Madison Wine Club had inadvertently breached certain sections of the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Companies Ordinance. The table below summarises the historical non-compliance with the requirements of the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Companies Ordinance by Madison (China) and Madison Wine Club during the Track Record Period:

No.	Item of non-compliance	Particulars of the non-compliance	Cause for the non-compliance	Remedial actions	Potential maximum penalty/fine	Whether provisions have been made
1.	Non-compliance with section 158(4) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Madison (China) failed to file Form D2A with the Registrar of Companies in Hong Kong within 14 days after the resignation of its company secretary on 12 January 2014	The directors relied on the services provided by a secretarial service company engaged by Madison (China)	Filing was subsequently made on 4 February 2014	As confirmed by our legal advisers as to Hong Kong laws, Madison (China) and the officer who is in default shall be liable to a potential maximum fine of HK\$10,000 and daily default fine of HK\$300 for continued default	No. For details, please see below
2.	Non-compliance with section 645(4) of the Companies Ordinance	Madison (China) and Madison Wine Club failed to file Form ND2B with the Registrar of Companies in Hong Kong within 15 days after the change of address of one of their directors on 1 May 2014	The directors relied on the services provided by a secretarial service company engaged by Madison (China) and Madison Wine Club	Both filings were subsequently made on 13 August 2014	As confirmed by our legal advisers as to Hong Kong laws, Madison (China), Madison Wine Club and the officer who is in default shall be liable to a potential maximum fine of HK\$25,000 and daily default fine of HK\$700 for continued default	No. For details, please see below

During the Track Record Period and up to the Latest Practicable Date, there had not been any prosecution initiated against our Group or the current directors of the Hong Kong subsidiaries, nor has any of them been subjected to any fine relating to the above disclosed incidents of non-compliance. Pursuant to the Deed of Indemnity, our Controlling Shareholders have irrevocably undertaken, to fully indemnify our Group, on a joint and several basis, against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses, penalties and fines suffered or incurred or accrued by our Group directly or indirectly, arising from, as a result of or in connection with any loss and/or penalty resulting from or in respect of the above incidents of non-compliance. For further details of the indemnities given by our Controlling Shareholder, please refer to the paragraph headed “Other information — Tax and other indemnities” in Appendix IV to this [Redacted]. Therefore, no provision has been made in our financial statements in respect of the above potential liabilities. Our Directors are of the view that the above incidents of non-compliance should not result in a material operational or financial impact on our Group.

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INTERNAL CONTROL

It is the responsibility of our Board to ensure that we maintain sound and effective internal controls to safeguard our Shareholders’ investment and our assets at all times. In preparation of [Redacted], we have engaged the Internal Control Adviser in March 2015 as our independent external adviser to undertake a review of (i) our financial, operational and compliance procedures, (ii) our systems and controls (including accounting and management systems), and (iii) our risk management functions. The Internal Control Adviser has performed internal control review in March 2015 and follow-up review in May 2015. The Internal Control Adviser has provided some recommendations for our management’s consideration to enhance our internal control system. As confirmed by our Directors, all the remedial measures will be fully implemented by us upon [Redacted].

We have adopted a series of internal control policies and procedures designed to provide reasonable assurance for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system include the following:

- **employee handbook:** employee handbook has been established by our management to define our code of conduct, integrity and ethical values. Our employee handbook has been distributed to and acknowledged by each of our staff;
- **conflict of interests:** mechanisms for our employees to declare conflict of interests have been established in our internal control policy. All of our employees shall fill in a prescribed declaration form to declare any potential conflict of interest and submit to our management;
- **internal audit:** internal audit functions will be outsourced to independent professional party to evaluate and assess our internal control mechanism periodically. Our financial controller is responsible for supervising our internal audit function; and
- **compliance with GEM Listing Rules and relevant laws and regulations:** we will continue to monitor our compliance with relevant laws and regulations and our senior management team will work closely with our employees to implement actions required to ensure our compliance with relevant laws and regulations. We will also continue to arrange various trainings to be provided by external Hong Kong legal advisers to our Directors and senior management on the GEM Listing Rules, including but not limited to aspects relating to corporate governance and connection transactions.

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For our non-compliances with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Companies Ordinance, the Internal Control Adviser has reviewed our rectification measures and put forward recommendations to our Company. We have implemented such rectification measures and our internal control consultant has completed its follow-up review in May 2015. In order to prevent the above non-compliance in the future, we have undertaken the following measures:

- (a) the financial controller of our Company, with the assistance of our company secretary, will oversee the company secretarial matters of our Group to ensure compliance with the Companies Ordinance and other applicable regulatory and compliance requirements;
- (b) we intend to engage external Hong Kong legal advisers to continue to provide legal advice and on-going training on various compliance matters from time to time, as and when needed; and
- (c) we intend to engage a compliance adviser to advise us on compliance with the GEM Listing Rules and applicable laws.

The non-compliances were mainly caused by the reliance on the services provided by a secretarial service company. The inadvertent omission of such secretarial service company did not involve any issue in the integrity, character or competence of our Directors. Our Directors and the Sole Sponsor are of the view that (i) our internal control system is adequate, effective and sufficient and (ii) the above non-compliances do not affect the suitability of our Directors under Rules 5.01 and 5.02 of the GEM Listing Rules or our suitability for [Redacted] under Rule 11.06 of the GEM Listing Rules.

RISK MANAGEMENT

The ultimate goal of our risk management process is to bring focus and effort to the issues in our business operations that create impediments to our success. Our risk management process starts with identifying the major risks associated with our business, industry and market in the ordinary course of our business. For further details of our risks, please refer to the sections headed “Risk Factors” and “Financial Information — Quantitative and qualitative disclosures about market risks” in this [Redacted]. Depending on the likelihood and potential impacts of the relevant risks exposed to us, our management will prioritise the risks and will either take immediate mitigating action, devise contingency plan or conduct periodic review in accordance with the contingency plan. Our Board and senior management are responsible for identifying and analysing risks associated with its function, preparing risk mitigation plans, measuring effectiveness of such risk mitigation plans, and reporting status of risk management. Our financial controller, audit committee, and ultimately our Board will supervise the implementation of our risk management policy. For further details on the qualifications and experiences of the members of our audit committee and our Board, please refer to the section headed “Directors and Senior Management” in this [Redacted].

CORPORATE GOVERNANCE

Our Board serves as a collective decision-making body responsible for defining our fundamental policies, resolving our executive management issues, and supervising the execution of our business operations.

BUSINESS

Historically and up to the Latest Practicable Date, none of the members of our Group had experienced any dispute involving the respective shareholders, or among the respective themselves. Our Directors believe that we have implemented adequate corporate governance measures to protect the interest of our Shareholders. For further details on the corporate governance measures adopted by our Company to avoid potential conflict of interests between our Controlling Shareholders and our Company, please refer to the section headed “Relationship with Controlling Shareholders — Corporate governance measures” in this [Redacted].

AWARDS AND CERTIFICATES

During the Track Record Period, we have received the following certificates:

Year of grant	Expiry date (if any)	Certificate No.	Certificate	Certification body
2013	28 February 2016	R1688	Madison Wine complies with the assessment criteria of the Quality Tourism Services Scheme	Quality Tourism Services
2014	28 October 2017	CC 5887	Madison (China) Limited complies with the requirements of Fine Wine Storage Management Systems Standard of HKQAA Wine Storage Management Systems Certification Scheme of 2013 in respect of provision of fine wine storage services	Hong Kong Quality Assurance Agency