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You should read this section in conjunction with our combined financial statements for the years ended 31 March 2014 and 2015, including the notes thereto as set out in our Accountants’ Report in Appendix I to this [Redacted] (the “Combined Financial Statements”). The Combined Financial Statements have been prepared in accordance with the HKFRS, which may differ in significant respects from generally accepted accounting principles in other jurisdictions.

The following discussion and analysis of our financial condition and results of operations are based on the financial information set out in the Combined Financial Statements and contains forward-looking statements that involve risks and uncertainties. These forward-looking statements are based on assumptions and analysis we made in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Risk Factors” and elsewhere in this [Redacted].

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 supplemental 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.

During the Track Record Period and up to the Latest Practicable Date, all of our sales were derived in Hong Kong. During the Track Record Period, our revenue increased 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, and our net profit increased from approximately HK\$7.2 million for the year ended 31 March 2014 to approximately HK\$14.3 million for the year ended 31 March 2015. Such increase was primarily attributable to the increase in the sale of our Premier Collectible Red Wine, being our key product category, which accounted for approximately 75.8% and 70.4% of our total revenue for the years ended 31 March 2014 and 2015, 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 (95.0%)	785	2,041	32,584	22,557	33.9	141,924 (97.4%)	980	1,464	96,922	38,979	27.5
Premier Collectible Red Wine	53,057 (75.8%)	1,291	5,417	9,794	15,527	29.3	102,566 (70.4%)	2,685	5,228	19,618	26,015	25.4
Fine Red Wine	10,319 (14.7%)	299	504	20,455	5,749	55.7	31,877 (21.9%)	313	436	73,082	10,685	33.5
Premier Collectible White Wine	2,002 (2.9%)	1,344	3,261	614	861	43.0	5,866 (4.0%)	2,813	4,154	1,412	1,872	31.9
Fine White Wine	1,133 (1.6%)	277	658	1,721	420	37.1	1,615 (1.1%)	284	575	2,810	407	25.2
Other alcoholic beverages	3,513 (5.0%)	621	1,895	1,854	2,131	60.7	3,724 (2.6%)	1,117	1,382	2,695	1,120	30.1
Wine accessory products (and others)	20 (0%)	123	99	203	3	15.0	39 ^(Note 2) (0%)	113	29	1,331	1 ^(Note 2)	2.6
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.

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RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

The decrease in the average selling price of most of our wine products for the four months ended 31 July 2015 as compared with the year ended 31 March 2015 was primarily attributable to the downward adjustment of our product pricing pursuant to our pricing strategy in response to the seasonal pattern of our sales. As the four months ended 31 July 2015 was our low seasons, we adjusted our product pricing downward by decreasing our mark-up percentage in order to stimulate and promote sales.

Our business model, revenue structure, financial performance, profitability and cost structure remained unchanged since 31 March 2015. Save as disclosed in the paragraph headed “[Redacted]” in this section and the section headed “History, Reorganisation and Corporate Structure — [Redacted] investments” in this [Redacted], our Directors, after performing reasonable due diligence, confirmed that since 31 March 2015 and up to the date of this [Redacted], (i) there had been no material adverse change in the market conditions, the industry and the regulatory environment in which our Group operates that would affect our financial or operating position materially and adversely, (ii) there was no material change in the business, trading and financial position and prospects of our Group, and (iii) no event had occurred that would affect the information shown in the Accountants’ Report set out in Appendix I to this [Redacted] materially and adversely.

As at 31 August 2015, approximately 30.8% of our inventories balance as at 31 March 2015 had been subsequently sold, 96.3% of the outstanding trade receivable balance as at 31 March 2015 had been subsequently settled and all of the outstanding trade payables balance as at 31 March 2015 had been subsequently settled.

As at 31 August 2015, all of the amount due to one of our Directors had been settled in full, and our intra-group liabilities, our Group did not have any outstanding indebtedness, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

from 1 April and ended 31 July for 2013, 2014 and 2015:

For the four months commencing from 1 April and ended 31 July

1. For the four months ended 31 July 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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We recorded a general decrease in the average selling price in respect of most of our wine products for the year ended 31 March 2015 as compared with 31 March 2014. The decrease was primarily attributable to the increase in our sales volume to our wholesale customers for the corresponding years. 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 so as to maintain the competitiveness of such products. In addition, wholesale customers generally prefer to make single-product purchases in bulk volumes so as to enjoy our bulk purchase discounts. Accordingly, the increase in sales volume to our wholesale customers had resulted in a decrease in the average selling price of our wine products during the years.

The decrease in the average selling price of most of our wine products for the four months ended 31 July 2015 as compared with the year ended 31 March 2015 was primarily attributable to the downward adjustment of our product pricing pursuant to our pricing strategy in response to the seasonal pattern of our sales. As the four months ended 31 July 2015 was our low seasons, we adjusted our product pricing downward by decreasing our mark-up percentage in order to stimulate and promote sales.

The increase in revenue from HK\$12.5 million for the four months period ended 31 July 2013 to HK\$26.6 million for the four months period ended 31 July 2014 was primarily driven by the increase in sales volume as a result of the decrease in the mark up percentage, and consequently, the reduced average selling price, of our Premier Collectible Red Wine, Fine Red Wine, Premier Collectible White Wine and Fine White Wine for the four months period ended 31 July 2014 as compared with the same period in 2013, which was in line with the decrease for the corresponding years ended 31 March 2013 and 2014. For further details, please refer to the paragraph headed “Management discussion and analysis — Description of selected combined statements of profit or loss line items — Gross profit” in this section.

The increase in revenue from HK\$26.6 million for the four months period ended 31 July 2014 to HK\$35.9 million for the four months period ended 31 July 2015 was primarily driven by the adoption of a less competitive cost-plus pricing approach for the sale of our wine products during the four months period ended 31 July 2015 as compared with the same period in 2014, as we were satisfied with our inventory level and our working capital status and we were able to procure certain wine products, in particular our Fine Red Wine and Fine White Wine, at a lower price. As a result, we recorded an increase in the gross profit margin of our Premier Collectible Red Wine, Premier Collectible White Wine and Fine White Wine sold during the four months period ended 31 July 2015. While we applied a relative higher profit margin generally during the four months period ended 31 July 2015, we recorded a decrease in our gross profit margin for the sale of our Fine Red Wine during the period as we sold our Fine Red Wine in bulk volume to certain of our wholesale customers during the period.

Taking into account that (i) the six months period from April to September are our low season and revenue generated from the low season accounted for approximately 31.5% and 26.4% of our total revenue for the years ended 31 March 2014 and 2015, respectively and (ii) based on our unaudited

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management accounts, the (unaudited) revenue generated for the four months period subsequent to the Track Record Period, being the four months commencing from 1 April 2015 to 31 July 2015, we continued to record a stable growth of turnover and profitability, which our Directors considered are primarily attributable to the continuous expansion of our business.

BASIS OF PRESENTATION OF OUR COMBINED FINANCIAL INFORMATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 15 April 2015. Upon completion of our Reorganisation, our Company became the holding company of the companies comprising our Group. For further details of our Reorganisation, please refer to the section headed “History, Reorganisation and Corporate Structure — Reorganisation” in this [Redacted]. Our Company acts as an investment holding company and has not carried out any business since the date of its incorporation save for the Reorganisation.

The financial information of our Group has been prepared by our Directors based on the underlying financial statements of our Group in accordance with HKFRS issued by the HKICPA, on the basis provided in note 2 of section A to the Accountants’ Report set out in Appendix I to this [Redacted], with no adjustments thereto, and in accordance with the applicable disclosures required by the GEM Listing Rules and by the Companies Ordinance.

The financial information has been prepared on a historical basis, which is generally based on the fair value of the consideration given in exchange for goods and services. These financial statements are presented in Hong Kong dollars, all values are rounded to the nearest thousands, except where otherwise indicated.

KEY FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our financial condition and results of operations have been and will continue to be affected by a number of factors, many of which may be beyond our control, including those factors set out in the section headed “Risk Factors” in this [Redacted] and those set out below:

- Fluctuations in our operational costs
- Fluctuations in prevailing market prices of wine products
- Seasonal fluctuations
- Economic conditions and regulatory framework in Hong Kong
- Competition

Fluctuations in our operational costs

Our operational costs primarily consist of cost of sales, staff cost and rental expenses.

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Cost of sales

Cost of sales represented our cost in relation to the purchases of wine products from our suppliers, which will be recognised when we conclude a sales transaction. Cost of sales is the largest component of our operational cost and overheads, and has a direct and significant impact on our profit margins. For the years ended 31 March 2014 and 2015, our cost of sales were approximately HK\$45.4 million and HK\$105.6 million, respectively, representing approximately 64.9% and 72.5% of our total revenue, respectively. We consider the increase in cost of sales is generally in line with our business growth and the increase in our sales volume during the Track Record Period. Save as disclosed in the section headed “Business — Procurement and supply — Purchases from wine merchants and wineries — purchases from wine merchants” in this [Redacted], we did not have any other long-term supply contracts with our suppliers as at the Latest Practicable Date and we make our purchases on an order-by-order basis. As such, changes in product pricing listed by our suppliers will have a direct impact on our profit margin. For further details regarding our procurement, please refer to the section headed “Business — Procurement and supply” in this [Redacted].

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our cost of sales on our gross profit for the years ended 31 March 2014 and 2015. Fluctuations are assumed to be 4.0%, 8.0% and 12.0% for the years ended 31 March 2014 and 2015, which correspond to the range of historical fluctuations of our cost of sales during the Track Record Period.

Hypothetical fluctuation	-12%	-8%	-4%	4%	8%	12%
<i>For the year ended 31 March 2014</i>						
Change in cost of sales (HK\$'000)	(5,442)	(3,628)	(1,814)	1,814	3,628	5,442
Change in gross profit (HK\$'000)	5,442	3,628	1,814	(1,814)	(3,628)	(5,442)
<i>For the year ended 31 March 2015</i>						
Change in cost of sales (HK\$'000)	(12,670)	(8,447)	(4,223)	4,223	8,447	12,670
Change in gross profit (HK\$'000)	12,670	8,447	4,223	(4,223)	(8,447)	(12,670)

Staff costs

We seek to motivate and retain valuable and talented staff by offering competitive compensation and remuneration packages. For the years ended 31 March 2014 and 2015, our total staff costs amounted to approximately HK\$5.4 million and HK\$9.4 million, respectively, representing approximately 7.7% and 6.5% of our total revenue, respectively. Our staff costs comprised (i) the remuneration we paid to our Directors, (ii) the salaries, allowance and other benefits we paid to our employees, (iii) sales commission, and (iv) our contributions to retirement benefit scheme. As our business operations expand, we expect to hire more staff and our staff costs will continue to increase. We consider any future changes in minimum wage rate have limited implications on our operations as we offer attractive remuneration packages beyond the minimum wage rate. Nevertheless, competition in the labour market for staff with appropriate experience may increase the salary level and correspondingly, our costs associated with hiring and retaining staff, which in turn may affect our results of operations.

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Rental expenses

Rental expense is one of the major costs in our business operations. As at the Latest Practicable Date, we did not own any properties. For the years ended 31 March 2014 and 2015, the operating lease payments in respect of our head office, our old store and our external warehouse amounted to approximately HK\$4.5 million and HK\$5.7 million, respectively, representing approximately 6.4% and 3.9% of our total revenue, respectively. As at the Latest Practicable Date, (i) our head office, which includes our self-operated warehouse, is situated in North Point with an aggregate area of 9,000 sq. ft. and lease term of three years commencing from 15 March 2014 to 14 March 2017, (ii) our old store is situated in Wan Chai with an aggregate area of 2,132 sq. ft. and lease term of three years commencing from 25 July 2012 to 24 July 2015 and (iii) our external warehouse which is situated in Kennedy Town. In mid June 2015, we relocated our old store to our new flagship store premises in Wan Chai with an area of 2,200 sq. ft. in aggregate and lease term of three years commencing from 1 April 2015 to 31 March 2018.

According to the relevant leases, we can negotiate with relevant landlords for renewal three months before the expiry of the lease agreements. Given that there has been a general rising trend of rental expenses in Hong Kong in recent years, we may not be able to renew the existing leases on terms and conditions that are commercially acceptable to us, or we may have to renew such leases on a more expensive basis. Any substantial increase in rental expenses in future will increase the costs of our operation and may have a material adverse impact on our profitability. For further details, please refer to the section headed “Risk Factors — Risks relating to our business — Our lease renewals are affected by the condition of the rental market” in this [Redacted].

Fluctuations in prevailing market prices of wine products

While we adopt a cost-plus approach as our primary pricing strategy, in order to maintain our competitiveness, we also make reference to prevailing market prices when we price our wine products. The market prices of most wine products are publicly available and can be found on www.liv-ex.com and www.wine-searcher.com. The market prices of wine products may fluctuate significantly and are subject to numerous factors including the tastes and preferences of consumers and their perceptions to the quality and safety of wine products. The shift of consumers’ tastes, preferences and perceptions for wine products may be attributable to, inter alia, a change in market trends, a recommendation or criticism from wine critics, a promotion campaign or a change in marketing strategies. During the Track Record Period, we did not experience any significant decrease in the market price and market condition of our wine products. However, if the market prices of wine products decrease in the future, we may not be able to effectively adopt our cost-plus approach by passing on the increase in our operating costs to our customers, which in turn may adversely affect our results of operations.

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The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our average selling prices on our net profit for the years ended 31 March 2014 and 2015. Fluctuations are assumed to be 4.0%, 8.0% and 12.0% for the years ended 31 March 2014 and 2015, which correspond to the range of historical fluctuations of our average selling prices during the Track Record Period.

Hypothetical fluctuation	-12%	-8%	-4%	4%	8%	12%
<i>For the year ended 31 March 2014</i>						
Change in average selling price (HK\$)	(244)	(163)	(81)	81	163	244
Change in net profit (HK\$'000)	(8,403)	(5,602)	(2,801)	2,801	5,602	8,403
<i>For the year ended 31 March 2015</i>						
Change in average selling price (HK\$)	(175)	(117)	(58)	58	117	175
Change in net profit (HK\$'000)	(17,478)	(11,652)	(5,826)	5,826	11,652	17,478

Seasonal fluctuations

Our business and operating results are subject to seasonal fluctuations. We generally derived higher revenue during the six months period from October to March (the “Peak Season”), and we derived lower revenue during the six months period from April to September (the “Low Season”). During the years ended 31 March 2014 and 2015, our revenue recorded during the Peak Season for the years ended 31 March 2014 and 2015 accounted for approximately 68.5% and 73.6% of our total revenue, respectively, and our revenue during the Low Season for the years ended 31 March 2014 and 2015, accounted for approximately 31.5% and 26.4% of our total revenue, respectively. These seasonal patterns may cause our operating results to fluctuate from period to period. Comparisons of our results of operations on a quarterly basis as an indicator of our performance may not be meaningful and should not be relied upon as indicators of our future performance.

Economic conditions and regulatory framework in Hong Kong

Our business is based in Hong Kong. Our revenue is derived solely in Hong Kong during the Track Record Period, and our non-current assets are all located in Hong Kong as at 31 March 2015. Accordingly, our performance is particularly sensitive to the economic developments and regulatory framework in Hong Kong and the purchasing power of consumers in Hong Kong. According to the Ipsos Report, Hong Kong’s GDP per capita increased at a CAGR of approximately 5.2% from approximately HK\$253,000 in 2010 to approximately HK\$310,000 in 2014, and is expected to increase at a CAGR of approximately 4.1% from approximately HK\$325,000 in 2015 to approximately HK\$382,000 in 2019. Economic growth in Hong Kong over the past few years has led to a substantial growth in personal disposable income and has resulted in an increase in purchasing power and greater demand for non-necessity goods, including alcoholic beverages. According to the Ipsos Report, the average annual private consumption expenditure of alcoholic drinks per capital in Hong Kong has grown at a CAGR of approximately 22.3% from approximately HK\$1,303.6 in 2010 to approximately HK\$2,911.3 in 2014, and is expected to increase at a CAGR of approximately 3.8% from approximately HK\$3,113.4 in 2015 to approximately HK\$3,616.4 in 2019. Further, on 27 February 2008, the import duty on wine and liquor with an alcoholic strength of not more than 30% by volume measured at a temperature of 20 degrees Celsius was eliminated. As a result of the improved economic

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conditions and favourable regulatory framework toward the wine industry in Hong Kong, we experienced significant growth in our revenue during the Track Record Period. Our total revenue increased by 108.1% 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.

However, a recession in the economy of Hong Kong, or uncertainties regarding future economic prospects of Hong Kong, could affect consumer spending habits. We expect that our results of operations will continue to be significantly affected by changes in economic conditions and corresponding changes in disposable income and consumer spending in Hong Kong.

Competition

The Hong Kong wine industry is a competitive field. As the wine hub in Asia, there is 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% of the total market value for wine in Hong Kong for 2014, with the rest of the market highly fragmented. Intensified competition could reduce our operating margins and profitability. We strive to enhance our competitiveness by implementing our business strategies as set out in the section headed “Business — Business strategies” in this [Redacted]. Our financial condition and results of operations will be affected by our ability to maintain and expand our market share and compete effectively by rapidly responding to market trends and differentiating our product offerings from those offered by our competitors.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty as at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are provided in note 5 to the Accountants’ Report set out in Appendix I to this [Redacted].

CRITICAL ACCOUNTING POLICIES

We have identified certain accounting policies that are significant to the preparation of our financial information. These significant accounting policies are important for an understanding of our financial condition and results of operation and provided in note 4 of the Accountants’ Report set out in Appendix I to this [Redacted]. The following paragraphs discuss certain significant accounting policies applied in preparing our Group’s financial information.

Basis of consolidation

The financial information of our Group during the Track Record Period incorporates the financial information of the entities to be controlled by our Company upon the Reorganisation. Control is achieved when our Company:

- has power over the investee;

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- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Our Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when our Group obtains control over the subsidiary and ceases when our Group loses control of its subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the combined statements of profit or loss and other comprehensive income from the date our Group gains control until the date when our Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of our Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of our Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with our Group’s accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of our Group are eliminated in full on consolidation.

Changes in our Group’s ownership interests in existing subsidiaries

When our Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if our Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Merger accounting for business combination involving entities under common control

The combined financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

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The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party’s perspective. No amount is recognised in respect of goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party’s interest.

The combined statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from the sale of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- our Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- our Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to our Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Consignment income is recognised when the consignment inventories are sold.

Storage service income is recognised when services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to our Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

Plant and equipment

Plant and equipment are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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Depreciation is recognised so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in, first-out method. Net realisable value represented the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Our Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Employee benefits

Retirement benefit cost

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

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Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Taxation

Income tax expense represented the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before tax” as reported in the combined statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Our Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where our Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which our Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of results of operations

For the purpose of resources allocation and performance assessment, our Directors reviewed the overall results and financial position of our Group as a whole. Accordingly, our Group has only one single operating segment.

The following table presents selected financial data relating to our results of operations during the Track Record Period as extracted from the Accountants’ Report set out in Appendix I to this [Redacted]. Potential investors should read this section in conjunction with the Accountants’ Report contained in Appendix I to this [Redacted] and not merely rely on the information contained in this section.

Combined statements of profit or loss and other comprehensive income

	For the year ended 31 March	
	2014	2015
	(HK\$'000)	(HK\$'000)
Revenue	70,044	145,687
Cost of sales	(45,353)	(105,587)
Gross profit	24,691	40,100
Other income	28	1,446
Selling and distribution expenses	(10,290)	(13,034)
Administrative expenses	(5,774)	(10,477)
Finance costs	—	(745)
Profit before tax	8,655	17,290
Income tax expense	(1,451)	(2,976)
Profit for the year and total comprehensive income for the year	7,204	14,314

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Description of selected combined statements of profit or loss line items

Revenue

Our Group recorded an increase in overall revenue during the Track Record Period. For the years ended 31 March 2014 and 2015, our revenue amounted to approximately HK\$70.0 million and HK\$145.7 million, respectively, representing a year-on-year increase of approximately 108.1%.

We classify our 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 information provided to our Group from our customers and our internal records. Our wholesales refer to our sales to customers which are engaged in business operations involving the resale of our products, which includes customers such as auction houses and restaurants while all other sales are classified as retail sales, which includes all walk-in customers at our new flagship store and customers whom we do not have any information indicating 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, and we have 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 have generated revenue of approximately HK\$91.5 million and HK\$54.2 million from our retail sales and wholesales, respectively, and we have generated gross profit of approximately HK\$26.2 million and HK\$13.9 million from our retail sales and wholesales, respectively. Accordingly, our gross profit margins for each of our retail sales and wholesales are 41.2% and 18.4% for the year ended 31 March 2014, respectively, and 28.6% and 25.7% for the year ended 31 March 2015, respectively.

We generate revenue principally from the sale of wine products. We offer an extensive range of wine products for sale, namely (i) Premier Collectible Red Wine, (ii) Fine Red Wine, (iii) Premier Collectible White Wine, and (iv) Fine White Wine. For further details of our product portfolio, please refer to the section headed “Business — Product portfolio” in this [Redacted]. During the Track Record Period, all of our revenue were solely derived in Hong Kong.

As observed by our Directors, most of our customers are local or overseas wine merchants, avid wine collectors in Hong Kong and China, renowned Hong Kong restaurants and high net worth individuals. For further details of our customer portfolio, please refer to the section headed “Business — Customers” in this [Redacted]. As we continue to increase our market shares in Hong Kong and actively cultivate our clientele by implementing various marketing initiatives, including the collaboration with Fook Lam Moon Kowloon, independent customers being registered in our data base increased from a total of 501 retail customers and 55 wholesale customers for the year ended 31 March 2014 to a total of 830 retail customers and 86 wholesale customers for the year ended 31 March 2015. The expansion of our customer portfolio also reduced the level of reliance on our major customers. The revenue generated from our five largest customers accounted for approximately 26.9% and 18.5% of our total revenue, respectively, representing a decrease of approximately 8.4%. The revenue generated from our single largest customer for the years ended 31 March 2014 and 2015 accounted for approximately 7.3% and 5.4% of our total revenue, respectively, representing a decrease of approximately 1.9%. During the Track Record Period, no single customer contributed over 10% of our total revenue.

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We have been collaborating with Fook Lam Moon Kowloon as our consignee since September 2014. Income from the consignment sales in Fook Lam Moon Kowloon is recognised when our consigned wine products are sold.

The following table sets out the breakdown of our revenue by product categories and classifications for the periods indicated:

	For the year ended 31 March			
	2014		2015	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(HK\$'000)	(%)	(HK\$'000)	(%)
Wine products				
<i>Premier Collectible Red Wine</i>	53,057	75.8	102,566	70.4
<i>Fine Red Wine</i>	10,319	14.7	31,877	21.9
<i>Premier Collectible White Wine</i>	2,002	2.9	5,866	4.0
<i>Fine White Wine</i>	1,133	1.6	1,615	1.1
Other alcoholic beverages	3,513	5.0	3,724	2.6
Wine accessory products (and others)	20	—	39 ^(Note)	—
Total	<u>70,044</u>	<u>100</u>	<u>145,687</u>	<u>100</u>

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.

We generated a significant portion of our revenue from the sale of our wine products. For the years ended 31 March 2014 and 2015, revenue generated from the sales of wine products accounted for approximately 95.0% and 97.4% of our total revenue, respectively.

During the Track Record Period, we generated significantly more revenue from the sales of red wine than the sales of white wine. This revenue distribution pattern was a result of our business strategies to focus on the sales of red wine rather than white wine. According to the Ipsos Report, Hong Kong consumers generally prefer red wine over other types of wine products. During the years ended 31 March 2014 and 2015, revenue generated from the sales of Premier Collectible Red Wine accounted for approximately 75.8% and 70.4% of our total revenue, respectively, and revenue generated from the sales of Fine Red Wine accounted for approximately 14.7% and 21.9% of our total revenue, respectively.

We recorded a general decrease in the average selling price in respect of our Premier Collectible Red Wine, Fine Red Wine and Fine White Wine as well as our other alcoholic beverages for the year ended 31 March 2015 as compared with 31 March 2014. This decrease was in line with the general decrease in gross profit margin in respect of the sale of our wine products and other alcoholic beverages during the corresponding years. For further details, please refer to the paragraph headed “Management discussion and analysis — Description of selected combined statements of profit or loss line items — Gross profit” in this section.

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For further details of the year-on-year change in our revenue, please refer to the paragraph headed “Year-on-year review of our results of operations — Year ended 31 March 2015 compared to year ended 31 March 2014 — Revenue” in this section.

Cost of sales

Cost of sales represented our cost in relation to the purchases of wine products from our suppliers, which is recognised when we conclude a sales transaction. During the Track Record Period, we procured our wine products through (i) purchases from wine merchants and wineries, (ii) purchases through auction houses and (iii) purchases from individual wine collectors. For further details of our procurement, please refer to the section headed “Business — Procurement and supply” in this [Redacted].

Our Group recorded an increase in overall cost of sales during the Track Record Period. For the years ended 31 March 2014 and 2015, our cost of sales amounted to approximately HK\$45.4 million and HK\$105.6 million, respectively, representing approximately 64.9% and 72.5% of our total revenue, respectively. For further details of the year-on-year change in our cost of sales, please refer to the paragraph headed “Year-on-year review of our results of operations — Year ended 31 March 2015 compared to year ended 31 March 2014 — Cost of sales” in this section.

Gross profit

Our gross profit represented our revenue less cost of sales. For the years ended 31 March 2014 and 2015, our gross profit amounted to approximately HK\$24.7 million and HK\$40.1 million, respectively.

The following table sets out the gross profit and the gross profit margin in respect of our wine products, other alcoholic beverages and wine accessory products for the periods indicated:

	For the year ended 31 March			
	2014		2015	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(HK\$'000)	(%)	(HK\$'000)	(%)
Wine products				
<i>Premier Collectible Red Wine</i>	15,527	29.3	26,015	25.4
<i>Fine Red Wine</i>	5,749	55.7	10,685	33.5
<i>Premier Collectible White Wine</i>	861	43.0	1,872	31.9
<i>Fine White Wine</i>	420	37.1	407	25.2
Other alcoholic beverages	2,131	60.7	1,120	30.1
Wine accessory products (and others)	3	15.0	1 ^(Note)	2.6
Total	24,691	—	40,100	—

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

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We recorded a decrease in gross profit margin in respect of the sale of our Premier Collectible Red Wine from approximately 29.3% for the year ended 31 March 2014 to approximately 25.4% for the year ended 31 March 2015. We also recorded a decrease in gross profit margin in respect of the sale of our Premier Collectible White Wine from approximately 43.0% for the year ended 31 March 2014 to approximately 31.9% for the year ended 31 March 2015, and we recorded a decrease in gross profit margin in respect of the sale of our Fine White Wine from approximately 37.1% for the year ended 31 March 2014 to approximately 25.2% for the year ended 31 March 2015. These decreases were primarily attributable to the adoption of a more competitive cost-plus pricing approach for the sale of our Premier Collectible Red Wine in the year ended 31 March 2015 in order to increase our inventory turnover, improve our capital efficiency and generate cash flow for our business operations, having taken into account the level of the inventories as at 31 March 2014.

We recorded a decrease in gross profit margin in respect of the sale of our Fine Red Wine from approximately 55.7% for the year ended 31 March 2014 to approximately 33.5% for the year ended 31 March 2015. This decrease was primarily attributable to the increase in the sales of a Fine Red Wine branded Penfolds, which experienced an increased demand within the wine industry in Hong Kong during the year ended 31 March 2015. As our Directors considered such increase in demand an opportunity for our Company to expand our market penetration within the Fine Red Wine segment and to increase public awareness of our Company, we decided to adopt a low profit margin strategy to promote sales. We implemented a low profit margin strategy during the year ended 31 March 2015 as our temporary business strategy to enhance our working capital efficiency and to replenish our inventories, and our Directors were satisfied that the current inventory and working capital status of the Company had improved and currently, we plan to increase our selling prices gradually and to increase our profit margins.

For further details of the year-on-year change in our gross profit, please refer to the paragraph headed “Year-on-year review of our results of operations — Year ended 31 March 2015 compared to year ended 31 March 2014 — Gross profit” in this section.

Other income

Other income primarily consisted of (i) income from our consignment services under our “Madison Premier Collectors Program” and (ii) gain on disposal of a subsidiary. For further details, please refer to the section headed “Business — Value-added services — Paid value-added services — Consignment services” in this [Redacted].

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For the years ended 31 March 2014 and 2015, our other income amounted to approximately HK\$28,000 and HK\$1.4 million, respectively. The following table sets out the breakdown of our other income for the periods indicated:

	For the year ended 31 March			
	2014		2015	
	Amount	Percentage of total other income	Amount	Percentage of total other income
	(HK\$'000)	(%)	(HK\$'000)	(%)
Consignment income	—	—	1,146	79.3
Gain on disposal of a subsidiary	—	—	168	11.6
Others	28	100	132	9.1
Total	28	100	1,446	100

For further details of the year-on-year change in our other income, please refer to the paragraph headed “Year-on-year review of our results of operations — Year ended 31 March 2015 compared to year ended 31 March 2014 — Other income” in this section.

Selling and distribution expenses

Our selling and distribution expenses primarily consisted of (i) our rental expenses and related expenses in connection with our operations, (ii) salaries and benefits of our sales team, (iii) depreciation and (iv) warehouse and related charges. Our Group recorded an increase in overall selling and distribution expenses during the Track Record Period. For the years ended 31 March 2014 and 2015, our selling and distribution expenses amounted to approximately HK\$10.3 million and HK\$13.0 million, respectively.

The following table sets out the breakdown of our selling and distribution expenses for the periods indicated:

	For the year ended 31 March			
	2014		2015	
	Amount	Percentage of total selling and distribution expenses	Amount	Percentage of total selling and distribution expenses
	(HK\$'000)	(%)	(HK\$'000)	(%)
Rental expenses and related expenses in connection with our operations	4,921	47.8	5,357	41.1
Salaries and benefits of our sales team	3,062	29.8	4,787	36.7
Depreciation	1,567	15.2	1,669	12.8
Warehouse and related charges	538	5.2	1,087	8.3
Other expenses	202	2.0	134	1.1
Total	10,290	100	13,034	100

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For further details of the year-on-year change in our selling and distribution expenses, please refer to the paragraph headed “Year-on-year review of our results of operations — Year ended 31 March 2015 compared to year ended 31 March 2014 — Selling and distribution expenses” in this section.

Administrative expenses

Our administrative expenses primarily consisted of (i) staff costs and benefits in connection with our administration and operation staff, (ii) directors’ remuneration, (iii) advertising and promotion expenses, (iv) rental expenses and related expenses in connection with the operations of our head office, (v) depreciation and (vi) other expenses including bank charges, legal and professional fee and auditor’s remuneration. Our Group recorded an increase in overall administrative expenses during the Track Record Period. For the years ended 31 March 2014 and 2015, our administrative expenses amounted to approximately HK\$5.8 million and HK\$10.5 million, respectively.

The following table sets out the breakdown of our administrative expenses for the periods indicated:

	For the year ended 31 March			
	2014		2015	
	Percentage of total administrative expenses		Percentage of total administrative expenses	
	Amount		Amount	
	(HK\$’000)	(%)	(HK\$’000)	(%)
Staff costs and benefits in connection with our operation and administration staff	1,916	33.2	3,927	37.5
Directors’ remuneration	724	12.5	1,167	11.1
Advertising and promotion expenses	1,413	24.5	1,196	11.4
Rental expenses and related expenses in connection with the operations of our head office	139	2.4	1,308	12.5
Depreciation	51	0.9	810	7.8
Other expenses	1,531	26.5	2,069	19.7
Total	5,774	100	10,477	100

For further details of the year-on-year change in our administrative expenses, please refer to the paragraph headed “Year-on-year review of our results of operations — Year ended 31 March 2015 compared to year ended 31 March 2014 — Administrative expenses” in this section.

PRC employee

While (i) our Group’s business operations are conducted in Hong Kong, (ii) all of its sales were also derived in Hong Kong and (iii) we did not have any business operations in the PRC during the Track Record Period and up to the Latest Practicable Date, we have employed one employee in the PRC, who served as Mr. Zhu’s personal assistant in the PRC during the year ended 31 March 2015.

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Mr. Zhu is a PRC national who joined our Group in February 2012 and was appointed as an executive Director of our Company on 14 May 2015. In anticipation of the increasing responsibilities of Mr. Zhu during the year ended 31 March 2015 and given that Mr. Zhu is a valuable employee to our Company, the employment of a personal assistant in the PRC formed part of the compensation package of Mr. Zhu so as to relieve Mr. Zhu from frequent travels to the PRC and to allow Mr. Zhu to dedicate more time and focus on our Group’s business in Hong Kong. Accordingly, the remuneration of such personal assistant of Mr. Zhu was paid by our Group and was charged to our Group’s financial statements during the Track Record Period. For the years ended 31 March 2014 and 2015, the amount of remuneration paid by the Group to the personal assistant were nil and RMB42,050, respectively. Such PRC personal assistant arrangement has been terminated as at the Latest Practicable Date.

Finance costs

We recorded finance costs of approximately HK\$0.7 million for the year ended 31 March 2015, and we did not record any finance costs for the year ended 31 March 2014. Such finance costs represented the interests paid to Mr. Ting pursuant to an interests-bearing shareholder’s loan in the sum of HK\$13.5 million granted to our Group in May 2014 with an interest rate of 12.0% per annum. For further details, please refer to the section headed “Discontinued Connected Transactions — Discontinued connected transactions — Shareholder’s loan provided by Mr. Ting” in this [Redacted].

For further details of the year-on-year change in our financial costs, please refer to the paragraph headed “Year-on-year review of our results of operations — Year ended 31 March 2015 compared to year ended 31 March 2014 — Finance costs” in this section.

Income tax expense

We recorded an increase in income tax expense during the Track Record Period. For the years ended 31 March 2014 and 2015, our income tax expense amounted to approximately HK\$1.5 million and HK\$3.0 million, respectively, representing approximately 2.1% and 2.1% of our total revenue, respectively.

Profits tax in Hong Kong is calculated at 16.5% of the estimated assessable profits. The following table sets out the breakdown of our income tax expense for the periods indicated:

	For the year ended 31 March	
	2014	2015
	(HK\$’000)	(HK\$’000)
Current tax:		
<i>Hong Kong Profits Tax</i>	1,642	3,243
Deferred taxation	(191)	(267)
Total	1,451	2,976

For further details of the year-on-year change in our income tax expense, please refer to the paragraph headed “Year-on-year review of our results of operations — Year ended 31 March 2015 compared to year ended 31 March 2014 — Income tax expense” in this section.

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Profit attributable to non-controlling interests

Non-controlling interests represented the interests held by the non-controlling shareholder of Madison Wine Trading, in which our Company indirectly held a controlling interest (through Madison Fine Wine, an indirectly wholly-owned subsidiary, holding a 80% shareholding interests in Madison Wine Trading) since December 2014.

During the Track Record Period and up to the Latest Practicable Date, Madison (China) and Madison Wine Trading were the major operating subsidiaries of our Group engaged in sale of alcoholic beverages. Their respective revenue, gross profit margin and net profit contribution (after deducting that attributed to non-controlling interests) during the Track Record Period and up to 31 July 2015 are set out as follows:

	For the year ended 31 March 2014			For the year ended 31 March 2015			For the 4 months commencing from 1 April 2015 to 31 July 2015	
	Revenue (Percentage of total revenue)	Gross profit margin	Net profit (loss) attributable to the owners of the Company/ (Percentage of total net profit)	Revenue (Percentage of total revenue)	Gross profit margin	Net profit (loss) attributable to the owners of the Company/ (Percentage of total net profit)	Revenue (Percentage of total revenue)	Gross profit margin
	(HK\$'000)	(%)	(HK\$'000)	(HK\$'000)	(%)	(HK\$'000)	(HK\$'000)	(%)
Madison (China)	70,044 (100%)	35.3	7,233 (100.4%)	131,676 (90.4%)	29.3	13,756 (97.2%)	23,603 (65.8%)	29.6
Madison Wine Trading	—	—	—	14,006 (9.6%)	11.1	619 (4.3%)	12,287 (34.2%)	15.4
Other Group companies	—	—	(29) (-0.4%)	5 (0%)	100 ^(Note)	(216) (-1.5%)	9 (0%)	100 ^(Note)
Total:	70,044	35.3	7,204	145,687	27.5	14,159	35,899	24.7

Note: Our Group only started engaging in wine storage business in November 2014. Given our wine storage business was still at start-up stage, revenue contributed by such business in the year ended 31 March 2015 and the four months from 1 April 2015 to 31 July 2015 were insignificant comparing to those from the sales of alcoholic beverage by Madison (China) and Madison Wine Trading. Due to the limited size, no direct costs (except for certain administrative expenses) had been incurred to operate our wine storage business and, hence, gross profit margin of 100% was recorded for the year ended 31 March 2015 and the four months from 1 April 2015 to 31 July 2015.

For further details, please refer to the section headed “History, Reorganisation and Corporate Structure — Our corporate development — Madison Wine Trading” in this [Redacted]. We had profit attributable to non-controlling interests of approximately HK\$155,000 for the year ended 31 March 2015.

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YEAR-ON-YEAR REVIEW OF OUR RESULTS OF OPERATIONS

Year ended 31 March 2015 compared to year ended 31 March 2014

Revenue

For the year ended 31 March 2014, we generated a total revenue of approximately HK\$70.0 million, of which approximately HK\$51.7 million and HK\$18.3 million were attributable to our retail sales and wholesales, respectively. For the year ended 31 March 2015, we have generated a total revenue of approximately HK\$145.7 million, of which approximately HK\$91.5 million and HK\$54.2 million were attributable to our retail sales and wholesales, respectively. Our overall revenue increased by approximately 108.1%, of which, our retail sales and wholesales increased by approximately 77.0% and 196.2%, respectively, as compared to the year ended 31 March 2014. The increases in our sales of wine products were primarily attributable to the following reasons:

- (i) *Premier Collectible Red Wine (accounting for approximately 75.8% and 70.4% of our total revenue for the years ended 31 March 2014 and 2015, respectively)*

Our revenue generated from the sale of Premier Collectible Red Wine, which increased by approximately 93.2% from approximately HK\$53.1 million for the year ended 31 March 2014 to approximately HK\$102.6 million for the year ended 31 March 2015. For the years ended 31 March 2014 and 2015, we sold 9,794 bottles and 19,618 bottles of Premier Collectible Red Wine, respectively, at average selling prices of HK\$5,417 and HK\$5,228, respectively. The increase in the number of bottles sold from 9,794 bottles for the year ended 31 March 2014 to 19,618 bottles for the year ended 31 March 2015 was attributable to, among others, the increase in the sales of Premier Collectible Red Wines branded Château Mouton Rothschild, Château Lafite Rothschild, Vega Sicilia and Domaine de la Romanée-Conti. The table below sets forth a summary of the sales breakdown in respect of the aforementioned Premier Collectible Red Wines:

Brand	For the year ended 31 March					
	2014			2015		
	Revenue	Gross profit	Quantity	Revenue	Gross profit	Quantity
	(HK\$'000)	(HK\$'000)	(Bottles)	(HK\$'000)	(HK\$'000)	(Bottles)
Chateau Mouton	3,957	772	616	11,429	2,650	1,717
Chateau Lafite	6,131	2,065	557	14,922	3,500	1,192
Vega Sicilia	168	42	42	2,179	543	992
Domaine de la Romanée-Conti	13,755	3,653	525	12,849	2,913	787

As shown in the sales breakdown, each of the Premier Collectible Red Wines branded Château Mouton Rothschild, Château Lafite Rothschild, Vega Sicilia and Domaine de la Romanée-Conti experienced a significant increase in revenue, gross profit and the number of bottles sold during the year ended 31 March 2015. Our Directors considered such increases were stimulated by our increased marketing initiatives to promote sales during the

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year ended 31 March 2015, which included our collaboration with Fook Lam Moon Kowloon commenced in September 2014. As a result of our various marketing initiatives, our registered customer base increased from 501 retail customers and 55 wholesale customers for the year ended 31 March 2014 to 830 retail customers and 86 wholesale customers for the year ended 31 March 2015. For further details, please refer to the section headed “Business — Sales — Sales channels — Consignment sales as consignor” in this [Redacted]. We recorded a reduction in the average selling price of Premier Collectible Red Wine by approximately 3.5% during the year ended 31 March 2015. The slight decrease in our average selling price represented our adjustment to our profit margin after taking into account the prevailing market selling prices in order to increase the competitiveness of our selling prices and increase our inventory turnover, which in line with our business objective to maintain and expand our market share and to further develop our presence in Hong Kong;

- (ii) *Fine Red Wine (accounting for approximately 14.7% and 21.9% of our total revenue for the years ended 31 March 2014 and 2015, respectively)*

Our revenue generated from the sale of Fine Red Wine, which increased by approximately 209.7% from approximately HK\$10.3 million for the year ended 31 March 2014 to approximately HK\$31.9 million for the year ended 31 March 2015. Such increase was primarily driven by the increase in the number of bottle sold from 20,455 for the year ended 31 March 2014 to 73,082 for the year ended 31 March 2015, due to the increase in the sales of a Fine Red Wine branded Penfolds, which experienced an increased demand in Hong Kong during the year ended 31 March 2015. Our revenue generated from the sales of our Fine Red Wine branded Penfolds increased from approximately HK\$1.6 million for the year ended 31 March 2014 to approximately HK\$15.7 million for the year ended 31 March 2015, representing approximately 2.3% and 10.8% of our total revenue during the years. The Fine Red Wine branded Penfolds we sold increased from 4,106 bottles for the year ended 31 March 2014 to 48,415 bottles for the year ended 31 March 2015. Our gross profit generated from the sales of our Fine Red Wine branded Penfolds increased from approximately HK\$0.3 million for the year ended 31 March 2014 to approximately HK\$1.7 million for the year ended 31 March 2015. Taking into account our extensive market research, which included customer feedbacks and market information gathering through interactions with other market participants and publicly available industry reports and related publications, as well as frequent review of our product portfolio in anticipation of market demands, we believe our success in procuring wine products that meet the customers’ demands was not an one-off event and we believe we will continue to identify and procure wine products that meet the customers’ demands with our continued efforts in market research and product portfolio analyses. In view of the foregoing, our established relationship with the supplier of Fine Red Wine branded Penfolds and our ample stock inventory of over 17,000 bottles of Fine Red Wine branded Penfolds of approximately HK\$5.0 million in value as at 31 July 2015, our Directors believe that our Group is able to maintain the same level of turnover and profitability from the sales of our Fine Red Wine going forward.

In addition, the increase in sales volume was also attributable to the lowering of the average selling price of Fine Red Wine by approximately 13.5% from approximately HK\$504 for the year ended 31 March 2014 to HK\$436 for the year ended 31 March 2015 in order to increase the competitiveness of our selling prices, increase our inventory turnover and to maintain and expand our market share.

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- (iii) *Premier Collectible White Wine (accounting for approximately 2.9% and 4.0% of our total revenue for the years ended 31 March 2014 and 2015, respectively)*

Our revenue generated from the sale of Premier Collectible White Wine, which increased by approximately 195.0% from approximately HK\$2.0 million for the year ended 31 March 2014 to approximately HK\$5.9 million for the year ended 31 March 2015. Such increase was primarily driven by (i) the increase in the average selling price of our Premier Collectible White Wine from approximately HK\$3,261 for the year ended 31 March 2014 to HK\$4,154 for the year ended 31 March 2015 after taking into account the prevailing market selling prices and (ii) the increase in number of bottle sold from 614 for the year ended 31 March 2014 to 1,412 for the year ended 31 March 2015 due to the marketing initiatives implemented by us. For further details of our marketing effort, please refer to the section headed “Business — Marketing and public relations” in this [Redacted]; and

- (iv) *Fine White Wine (accounting for approximately 1.6% and 1.1% of our total revenue for the years ended 31 March 2014 and 2015, respectively)*

Our revenue generated from the sale of Fine White Wine, which increased by approximately 45.5% from approximately HK\$1.1 million for the year ended 31 March 2014 to approximately HK\$1.6 million for the year ended 31 March 2015. Such increase was primarily driven by the increase in the number of bottle sold from 1,721 for the year ended 31 March 2014 to 2,810 for the year ended 31 March 2015, due to the marketing initiatives implemented by us. For further details of our marketing effort, please refer to the section headed “Business — Marketing and public relations” in this [Redacted]. In addition, the increase in sales volume was also attributable to the lowering of the average selling price of Fine White Wine from approximately HK\$658 for the year ended 31 March 2014 to HK\$575 for the year ended 31 March 2015 in order to increase the competitiveness of our selling prices and to maintain our market share.

For the years ended 31 March 2014 and 2015, from our retail sales, we have generated revenue of approximately HK\$51.7 million and HK\$91.5 million, respectively, gross profits of approximately HK\$21.3 million and HK\$26.2 million, respectively, and recorded gross profit margins of approximately 41.2% and 28.6%, respectively. The increase of the revenue from our retail sales is primarily attributable to (i) the increase of our retail customer base, which increased from 501 retail customers for the year ended 31 March 2014 to 830 retail customers for the year ended 31 March 2015 and (ii) the increase in the sale of Premier Collectible Red Wine. The decrease in the gross profit margin of retail sales is primarily attributable to the adoption of the competitive pricing strategy. For the years ended 31 March 2014 and 2015, from our wholesales, we have generated revenue of approximately HK\$18.3 million and HK\$54.2 million, respectively, gross profits of approximately HK\$3.4 million and HK\$13.9 million, respectively, and recorded gross profit margins of approximately 18.4% and 25.7%, respectively. The increase of the revenue from our wholesales is primarily attributable to (i) the increase in the sale of Fine Red Wine and (ii) the increase of our wholesale customer base from 55 wholesale customers for the year ended 31 March 2014 to 86 wholesale customers for the year ended 31 March 2015. The increase in the gross profit margin of wholesales is primarily attributable to the increase of wholesale customers engaged in the catering business during the year ended 31 March 2015, which we generated higher gross profit margins in respect of sales to such wholesale customers. During the year ended 31 March 2014, our wholesale customer base consisted of wine merchants only.

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Cost of sales

Our cost of sales increased from approximately HK\$45.4 million for the year ended 31 March 2014 to approximately HK\$105.6 million for the year ended 31 March 2015, representing an increase of approximately 132.6%. As we recognise our cost of sales upon conclusion of a sales transaction, our cost of sales is directly correlated with our revenue.

Gross profit

As a result of the foregoing factors, our gross profit increased from approximately HK\$24.7 million for the year ended 31 March 2014 to approximately HK\$40.1 million for the year ended 31 March 2015, representing an increase of approximately 62.3%.

Gross profit margin

Our gross profit margin decreased from 35.3% for the year ended 31 March 2014 to 27.5% for the year ended 31 March 2015. The decrease in our gross profit margin was primarily attributable to our sales strategy adopted during the year ended 31 March 2015, which focused on increasing our inventory turnover, improving our capital efficiency and generating cash flow for our business operations by applying a more competitive pricing approach whereby the selling price for the same product was reduced during the year ended 31 March 2015 as we strategically priced at a lower profit margin for our sales for the year ended 31 March 2015. As a result of the decrease in our gross profit margin, the average selling prices in respect of each of our Premier Collectible Red Wine, Fine Red Wine and Fine White Wine decreased for the year ended 31 March 2015. However, the average selling prices in respect of our Premier Collectible White Wine increased, which our Directors considered was attributable to the increase in the sales of higher-priced products.

Other income

Our other income increased significantly from approximately HK\$28,000 for the year ended 31 March 2014 to approximately HK\$1.4 million for the year ended 31 March 2015. The increase in our other income was mainly attributable to the launch of our “Madison Premier Collectors Program” in November 2014, pursuant to which, we, as consignee, offered for sale by way of consignment wine products consigned to our Company from members of our “Madison Premier Collectors Program”. Since the launch of our “Madison Premier Collectors Program” in November 2014 to 31 March 2015, we had generated consignment income of approximately HK\$1.1 million. For further details of our “Madison Premier Collectors Program”, please refer to the section headed “Business — Value-added services — Paid value-added services — Consignment services” in this [Redacted].

In addition, we also recorded a gain in the sum of HK\$168,000 in relation to the disposal of Wine Financier in January 2015.

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Selling and distribution expenses

Our selling and distribution expenses increased from approximately HK\$10.3 million for the year ended 31 March 2014 to approximately HK\$13.0 million for the year ended 31 March 2015, representing an increase of approximately 26.2%. The increase was primarily due to the increase in the salaries and benefits of our sales team from approximately HK\$3.1 million for the year ended 31 March 2014 to approximately HK\$4.8 million for the year ended 31 March 2015, which primarily due to the salary increment of our sales team and increase in headcounts during the year ended 31 March 2015.

Administrative expenses

Our administrative expenses increased from approximately HK\$5.8 million for the year ended 31 March 2014 to approximately HK\$10.5 million for the year ended 31 March 2015, representing an increase of approximately 81.0%. The increase was primarily due to (i) the increase in the staff costs and benefits in connection with our operation and administration staff from approximately HK\$1.9 million for the year ended 31 March 2014 to approximately HK\$3.9 million for the year ended 31 March 2015, which primarily due to the salary increment of our operation and administration staff and increase in headcounts during the year ended 31 March 2015, (ii) rental expenses and related expenses in connection with the operations of our head office leased in February 2014 whereby we incurred additional expenses of approximately HK\$1.2 million for the year ended 31 March 2015, and (iii) the increase in our depreciation from approximately HK\$51,000 to HK\$810,000 as we have been subject to the depreciation in respect of our head office leased in February 2014.

Finance costs

We recorded finance costs of approximately HK\$0.7 million for the year ended 31 March 2015, and we did not record any finance costs for the year ended 31 March 2014. Such finance costs represented the interest we paid to Mr. Ting pursuant to an interest-bearing shareholders’ loan in the sum of HK\$13.5 million granted to our Group in May 2014 with an interest rate of 12.0% per annum. For further details, please refer to the section headed “Discontinued Connected Transactions — Discontinued connected transactions — Shareholder’s loan provided by Mr. Ting” in this [Redacted].

Income tax expense

Our income tax expense increased from approximately HK\$1.5 million for the year ended 31 March 2014 to approximately HK\$3.0 million for the year ended 31 March 2015, representing an increase of approximately 100.0%. The income tax expense for the years can be reconciled to the profit before tax per the combined statements of profit or loss and other comprehensive income.

Profit for the year and total comprehensive income for the year

As a result for the foregoing factors, our profit for the year and total comprehensive income for the year increased from approximately HK\$7.2 million for the year ended 31 March 2014 to approximately HK\$14.3 million for the year ended 31 March 2015, representing an increase of approximately 98.6%.

FINANCIAL INFORMATION

NET CURRENT ASSETS AND SELECTED ITEMS OF COMBINED STATEMENTS OF FINANCIAL POSITION

The following table sets out our Group’s current assets, current liabilities and selected items of the combined statements of financial position as at the respective financial position dates below.

	As at 31 March		As at 31 July
	2014	2015	2015
	HK\$'000	HK\$'000	HK\$'000 (unaudited)
Current Assets			
Inventories	31,331	24,221	27,312
Trade and other receivables	6,638	15,666	23,141
Amount due from ultimate holding company	9	9	9
Amount due from intermediate holding company	8	13	19
Bank balances and cash	13,236	28,022	6,310
Total current assets	51,222	67,931	56,791
Current Liabilities			
Trade and other payables	4,154	11,562	10,180
Amount due to a related company	6,898	—	—
Amount due to a director	7,154	9,258	34
Tax payable	1,642	3,243	3,454
Total current liabilities	19,848	24,063	13,668
Net Current Assets	31,374	43,868	43,123

Inventories

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

	As at 31 March			
	2014		2015	
	Cost of procurement	Percentage of total cost of procurement	Cost of procurement	Percentage of total cost of procurement
	(HK\$'000)	(%)	(HK\$'000)	(%)
Wine products				
Premier Collectible Red Wine	24,739	79.0	14,498	59.9
Fine Red Wine	3,244	10.3	6,441	26.6
Premier Collectible White Wine	1,651	5.3	926	3.8
Fine White Wine	258	0.8	418	1.7
Other alcoholic beverages	1,359	4.3	1,834	7.6
Wine accessory products	80	0.3	104	0.4
Total	31,331	100	24,221	100

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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)	(Bottles)
Wine products		
<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
Total	30,915	30,675

For further details on our inventory analyses, please refer to the section headed “Business — Product portfolio — Wine products” in this [Redacted]. Our inventories of Premier Collectible Red Wine and Premier Collectible White Wine decreased from approximately HK\$24.7 million and approximately HK\$1.7 million as at 31 March 2014, respectively, to approximately HK\$14.5 million and approximately HK\$0.9 million as at 31 March 2015, respectively. The number of bottles of Premier Collectible Red Wine and Premier Collectible White Wine in our inventory decreased from 17,071 bottles and 1,260 bottles as at 31 March 2014, respectively, to 5,422 bottles and 545 bottles as at 31 March 2015, respectively. These decreases were primarily attributable to the increases in our sales volume for the year ended 31 March 2015 because of the combined effects of (i) a more competitive pricing approach adopted by our management for the sales conducted in the year ended 31 March 2015 in order to increase our inventory turnover, improve our capital efficiency and generate cash flow for our business operations, and (ii) the implementation of various marketing initiatives including the collaboration with Fook Lam Moon Kowloon.

Despite the increase in our inventory turnovers for the year ended 31 March 2015, our inventories of Fine Red Wine and Fine White Wine increased from approximately HK\$3.2 million and approximately HK\$0.3 million as at 31 March 2014, respectively, to approximately HK\$6.4 million and approximately HK\$0.4 million as at 31 March 2015, respectively. The number of bottles of Fine Red Wine and Fine White Wine in our inventory increased from 9,955 bottles and 944 bottles as at 31 March 2014, respectively, to approximately 20,818 bottles and 2,199 bottles as at 31 March 2015, respectively. These increases were primarily attributable to certain bulk purchases of Fine Red Wine and Fine White Wine made by our Group during the year ended 31 March 2015 as our management believed that such purchases are rewarding and are expected to experience strong market demand.

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The table below sets out the aging analysis of our inventories for the periods indicated:

Aging analysis on inventories

	As at 31 March	
	2014	2015
	(HK\$'000)	(HK\$'000)
0 to 90 days	11,165	7,230
91 to 180 days	4,886	1,433
181 to 360 days	4,665	10,708
Over 360 days	10,615	4,850
Total	31,331	24,221

Save for inventories which aged for 181 to 360 days, our inventory aging generally decreased from 31 March 2014 to 31 March 2015. Such decrease was primarily attributable to the increases in our sales volume for the year ended 31 March 2015 because of the combined effects of (i) a more competitive pricing approach adopted by our management for the sales conducted in the year ended 31 March 2015 in order to increase our inventory turnover, improve our capital efficiency and generate cash flow for our business operations, and (ii) the implementation of various marketing initiatives including the collaboration with Fook Lam Moon Kowloon.

The increase in our inventories which aged for 181 to 360 days was primarily attributable to certain bulk purchases of Fine Red Wine and Fine White Wine made by our Group between April 2014 and September 2014 as our management believed that such purchases are rewarding and are expected to experience strong market demand.

For the years ended 31 March 2014 and 2015, our inventory turnover days were 278 days and 97 days, respectively. For further details about our inventory turnover days, please refer to the paragraph headed “Financial ratio — Capital adequacy ratios — Inventory turnover days” in this section.

As at 31 August 2015, 30.8% of our inventory balance as at 31 March 2015 was subsequently sold.

We did not make any provisions for our inventories during the Track Record Period, notwithstanding that we maintained inventories of wine products with long cellaring periods, old vintages or long-aged. For further details, please refer to the section headed “Business — Inventory management — Policy for inventory provisions” in this [Redacted]. Similarly, we do not assess the net realisable value of our inventories until there is any indication that the then net realisable value of inventories falls below their costs after considering (i) the costs of procurement and (ii) the proposed selling prices adopting a cost-plus strategy taking into account, among others, our costs of procurement as translated into Hong Kong Dollar. For detail of our pricing policy, please refer to the section headed “Business — Sales — Pricing strategy” in this [Redacted].

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Trade and other receivables

The table below sets out a breakdown of our trade and other receivables by categories for the periods indicated:

	As at 31 March	
	2014	2015
	(HK\$'000)	(HK\$'000)
Trade receivables	3,220	5,840
Payments in advance	2,366	7,095
Prepayments	836	1,518
Deposits and other receivables	1,649	2,288
Trade and other receivables	8,071	16,741
Analysed as:		
Current	6,638	15,666
Non-current (rental deposits)	1,433	1,075
	8,071	16,741

Payments in advance refer to trade nature payments made by our Group to our suppliers for procuring our products for sales, while prepayments refer to non-trade nature payments made by our Group in the course of our administrative operations and other expenses, such as our prepayments to our professional parties in connection with [Redacted], prepayments to our landlords in connection with the leases of our office premises, self-operated warehouse and our new flagship store or prepayments for our various insurance. Our trade and other receivable increased from approximately HK\$6.6 million as at 31 March 2014 to approximately HK\$15.7 million as at 31 March 2015, representing an increase of approximately 137.9%. The increase was primarily due to the increase of payments in advance from approximately HK\$2.4 million to approximately HK\$7.1 million, representing an increase of approximately 195.8% in connection with the payment made by us during the year ended 31 March 2015 for certain wine orders pending delivery.

The following is an aging analysis of trade receivables from third parties net of allowance for doubtful debts presented based on the delivery date at the end of the reporting period, which approximated the respective revenue recognition dates:

Aging analysis on trade receivables

	As at 31 March	
	2014	2015
	(HK\$'000)	(HK\$'000)
Within 30 days	381	2,189
31 to 60 days	1,464	3,084
61 to 90 days	626	17
91 to 180 days	688	223
181 to 365 days	61	232
Over 365 days	—	95
Total	3,220	5,840

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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. Our trade receivables turnover days were 10 days and 12 days for the years ended 31 March 2014 and 2015, respectively. For further details of trade receivable turnover days, please refer to the paragraph headed “Financial ratios — Capital adequacy ratios — Trade receivables turnover days” in this section.

All the trade receivables that are neither past due nor impaired are due from customers with good settlement history and no default on settlement were noted. No allowance for doubtful debts was recognised as at 31 March 2014 and 2015. Trade receivables are individually impaired and recognised based on the credit history of our customers, such as financial difficulties or default in payments, and current market condition.

As at 31 March 2014 and 2015, we have included in our trade receivables, debtors with a carrying amount of approximately HK\$3.2 million and HK\$5.4 million, respectively, which are past the respective payment due dates as at the end of the respective reporting periods for which we have not provided for impairment loss as there were either subsequent settlement or no historical default of payments by the respective customers and the amounts are still considered recoverable. We did not hold any collateral over these balances.

As at 31 August 2015, 96.3% of the outstanding trade receivable balance as at 31 March 2015 has been subsequently settled.

Trade and other payables

The following is the breakdown of our trade payables:

	As at 31 March	
	2014	2015
	(HK\$'000)	(HK\$'000)
Trade payables	2,291	9,064
Receipts in advance	1,256	1,907
Other payables and accruals	607	591
Total	4,154	11,562

Our trade and other payables increased from approximately HK\$4.2 million as at 31 March 2014 to approximately HK\$11.6 million as at 31 March 2015, representing an increase of approximately 176.2%. The increase was primarily due to an amount payable to one of our suppliers in relation to a purchase made by us in February 2015 for the sum of HK\$8.4 million which was subsequently settled by us in April 2015.

The average credit period for purchases of goods is 30 to 90 days. Our trade payables turnover days were 15 days and 20 days for the years ended 31 March 2014 and 2015, respectively. For further details of trade payable turnover days, please refer to the paragraph headed “Financial ratios — Capital adequacy ratios — Trade payables turnover days” in this section.

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The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

Aging analysis on trade payables

	As at 31 March	
	2014	2015
	(HK\$'000)	(HK\$'000)
Within 30 days	—	194
31 to 60 days	—	8,447
61 to 90 days	43	—
91 to 180 days	1,825	—
181 to 365 days	423	—
Over 365 days	—	423
Total	2,291	9,064

As at 31 March 2014, we recorded a trade payable aged between 91 days to 180 days in the sum of approximately HK\$1.8 million. Such outstanding trade payables primarily represented the final payment in connection with a purchase order in the aggregate sum of approximately HK\$1.6 million placed with one of our suppliers. Such outstanding trade payables was settled in full in March 2015.

As at 31 March 2014, we recorded a trade payable aged between 181 days to 365 days in the sum of approximately HK\$423,000, and as at 31 March 2015, we recorded a trade payable aged over 365 days in the sum of approximately HK\$423,000. The outstanding amount of approximately HK\$423,000 represented the final instalment payment in respect of a purchase order for 6,118 bottles of Fine Red Wine and Premier Collectible Red Wine purchased from supplier A, who is our largest supplier during the year ended 31 March 2014. Pursuant to the mutual arrangement between our Company and supplier A, the total payment for the purchase order of approximately €391,000 (representing approximately HK\$4.0 million) shall be payable in 10 instalments over a period of two years with the final instalment payment payable on a date to be mutually agreed between both parties after the completion of all administrative procedures, which included the satisfactory inspection of all of the wine bottles by our Company and the reconciliation of all the transaction details including the specific details of each of the wine bottles, including the vintage, the brand and the condition, delivered by supplier A to our Company under the purchase order. Due to the volume of our purchase order and the lengthy administrative procedures, supplier A and our Company completed the reconciliation process in May 2015 and the final instalment payment of approximately HK\$423,000 was settled in full in May 2015.

As at 31 August 2015, all of the outstanding trade payables balance as at 31 March 2015 has been subsequently settled. We have financial risk management in place to ensure that all payables are settled within the credit timeframe.

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RELATED PARTY TRANSACTIONS

Shareholder’s loan provided by Mr. Ting

Pursuant to a loan agreement dated 15 May 2014, Mr. Ting provided a shareholder’s loan in the principal amount of HK\$13.5 million to Madison (China) with an interest rate of 12% per annum. During the year ended 31 March 2015, interest paid to Mr. Ting pursuant to the shareholder’s loan amounted to approximately HK\$745,000, and the principal loan amount together with all interests were repaid in full before January 2015. For further details, please refer to the section headed “Discontinued Connected Transactions — Discontinued connected transactions — Shareholder’s loan provided by Mr. Ting” in this [Redacted].

Sales to and purchases from our connected Customers-Suppliers

We purchased certain wine products from and sold certain wine products to Mr. Ting and Lucky Target. Such transactions had been discontinued or would not subsist after [Redacted]. For the year ended 31 March 2015, our sales to Mr. Ting amounted to approximately HK\$32,000 and our purchases from Mr. Ting amounted to approximately HK\$139,000. As at 31 March 2015, we had an amount due to Mr. Ting in the sum of approximately HK\$9.3 million which will be settled in full prior to [Redacted].

For the year ended 31 March 2014, our sales to Lucky Target amounted to approximately HK\$98,000. For the years ended 31 March 2014 and 2015, our purchases from Lucky Target amounted to approximately HK\$1.0 million and HK\$0.7 million, respectively. As at 31 March 2014, we accrued an amount due to Lucky Target in the sum of approximately HK\$6.9 million which had been settled in full during the year ended 31 March 2015, and no balance was outstanding as at 31 March 2015.

For further details, please refer to the sections headed “Business — Overlapping Customers-Suppliers — Connected Customers-Suppliers” and “Discontinued Connected Transactions — Discontinued connected transactions” in this [Redacted].

General

With respect to the related party transactions set out above and other related party transactions provided in the Accountants’ Report set out in Appendix I to this [Redacted], our Directors confirm that these transactions were conducted on normal commercial terms and on arm’s length basis and did not have a material impact on our results of operations during the Track Record Period.

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LIQUIDITY AND CAPITAL RESOURCES CASH FLOWS

The table below sets out a summary of our cash flows for the periods indicated:

	For the year ended 31 March	
	2014	2015
	(HK\$'000)	(HK\$'000)
Net cash from operating activities	15,434	17,756
Net cash used in investing activities	(1,703)	(6,251)
Net cash (used in) from financing activities	(1,897)	3,281

Operating activities

We derive our cash inflow from operating activities primarily through the receipt of payments from the sale of our products. Our cash outflow from operating activities is primarily for the purchase of wine products for resale, settlement of rental expenses, staff costs and advertising and promotion expenses. Our net cash flow generated from operating activities reflects our profit before income tax, as adjusted for non-cash items, and the effect of changes in inventories, trade and other receivables, deposits and prepayments, trade and other payables, accrued expenses and deposits received and amounts due to related parties.

Year ended 31 March 2014

For the year ended 31 March 2014, we had net cash generated from operating activities of approximately HK\$15.4 million, which was primarily attributable to (i) profit before tax of approximately HK\$8.7 million, (ii) adjustments for depreciation of plant and equipment of approximately HK\$1.6 million, (iii) decrease in inventories of approximately HK\$6.3 million and (iv) increase in amount due to a related company, i.e. Lucky Target, of approximately HK\$0.9 million, which was partially offset by the increase in trade and other receivables and deposits of approximately HK\$2.0 million.

Year ended 31 March 2015

For the year ended 31 March 2015, we had net cash generated from operating activities of approximately HK\$17.8 million, which was primarily attributable to (i) profit before tax of approximately HK\$17.3 million, (ii) adjustments for depreciation of plant and equipment of approximately HK\$2.5 million, (iii) adjustments for finance costs, (iv) decrease in inventories of approximately HK\$7.1 million, and (v) increase in trade and other payables of approximately HK\$7.4 million, which was partially offset by (i) increase in trade and other receivables, deposits of approximately HK\$8.7 million, (ii) decrease in amount due to a related company, i.e. Lucky Target, of approximately HK\$6.9 million, and (iii) income tax paid.

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Investing activities

Our investing activities consist primarily of deposits paid for acquisition of plant and equipment and purchases of plant and equipment.

Year ended 31 March 2014

For the year ended 31 March 2014, we had net cash used in investing activities in the amount of approximately HK\$1.7 million, which was primarily attributable to (i) deposits paid for acquisition of plant and equipment of approximately HK\$1.5 million, and (ii) purchases of property, plant and equipment of approximately HK\$0.2 million.

Year ended 31 March 2015

For the year ended 31 March 2015, we had net cash used in investing activities in the amount of approximately HK\$6.3 million, which was primarily attributable to (i) deposits paid for acquisition of plant and equipment of approximately HK\$2.2 million, (ii) purchases of property, plant and equipment of approximately HK\$2.2 million, and (iii) net cash outflow from disposal of a subsidiary of approximately HK\$1.9 million.

Financing activities

Our financing activities consist primarily of cash flows related to borrowings from our related parties.

Year ended 31 March 2014

For the year ended 31 March 2014, we had net cash used in financing activities in the amount of approximately HK\$1.9 million, which was attributable to the repayment to the advance from Mr. Ting of approximately HK\$1.9 million.

Year ended 31 March 2015

For the year ended 31 March 2015, we had net cash from financing activities in the amount of approximately HK\$3.3 million, which was attributable to (i) loan from Mr. Ting of approximately HK\$13.5 million, (ii) the advance from Mr. Ting of approximately HK\$4.0 million and (iii) the advance from Lucky Target of approximately HK\$29,000, which was partially offset by the interest paid of approximately HK\$0.7 million and repayment of loan from Mr. Ting of approximately HK\$13.5 million.

WORKING CAPITAL

Our Directors are of the opinion that, and the Sole Sponsor concurs, that taking into account the financial resources presently available to us, including internally generated funds and the estimated net proceeds of [Redacted], the working capital available to our Group is sufficient for our present requirements, that is, for at least the next 12 months from the date of this [Redacted].

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INDEBTEDNESS

As at 31 July 2015, being the latest practicable date for the purpose of this statement of indebtedness, our Group had an amount due to a director of approximately HK\$34,000, which was unsecured, non-interest bearing and repayable on demand and had been fully settled before [Redacted]. Furthermore, our Group had no unutilised banking facilities as of 31 July 2015.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, our Group did not have outstanding as at the close of business on 31 July 2015, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities. Our Directors have confirmed that there have been no material changes in the indebtedness of our Group since 31 March 2015 and up to the date of this [Redacted].

CONTINGENT LIABILITIES

As at 31 July 2015, we did not have any material contingent liabilities.

Our Directors confirmed that there was no material adverse change in our Group’s contingent liabilities since 31 July 2015, being the latest practicable date for determining our Group’s contingent liabilities.

DISPOSAL OF SUBSIDIARY

During the Track Record Period, we have explored the provision of wine-related financial services to expand our value-added services to our customers. In anticipation of such, we incorporated Wine Financier in September 2014 and Mr. Ting, via Madison (China) by way of an assignment to Wine Financier of certain repayments from Madison (China) under a shareholder loan owed by Madison (China) to Mr. Ting (the “Assignment”), injected an amount of approximately HK\$2.0 million into Wine Financier for general working capital purposes. In January 2015, Wine Financier obtained the Money Lenders Licence for the provision of money lender’s business, as defined in the Money Lenders Ordinance. However, taking into account, among others, the risks and capital involved and the uncertainties relating to the receptiveness of the wine-related financial services to our customers, as our Directors considered that it would be in our Company’s best interest to stay focused on our current business and to develop our current range of value-added services and decided to abort the proposed provision of wine related financial services, we disposed of our entire equity interest in Wine Financier on 29 January 2015 to China Runking Financing Group Limited, a company which is owned as to 70% by Mr. Ting, at a cash consideration of HK\$10,000. As at the disposal date of Wine Financier, Wine Financier recorded net liabilities of HK\$158,000, representing (i) other receivables of HK\$12,000, which included the rental deposits paid in connection with the lease of the office premises of Wine Financier, (ii) amount due from a related company of HK\$10,000, (iii) bank balances of approximately HK\$1.9 million, which included the HK\$2.0 million injected into Wine Financier for general working capital purposes, (iv) other payables of HK\$18,000, which included the expenses incurred in connection with the incorporation of Wine Financier, (v) amount due to a related company

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of HK\$29,000, representing certain expenses paid by a related company on behalf of Wine Financier, and (vi) amount due to a director of HK\$2.0 million, representing the capital injection from Mr. Ting via Madison (China) pursuant to the Assignment. Upon the disposal, we recorded a gain on disposal of HK\$168,000 for the year ended 31 March 2015.

CAPITAL COMMITMENTS

We did not have any capital commitments as at 31 March 2014 and 2015.

CAPITAL EXPENDITURE FOR THE YEAR ENDING 31 MARCH 2016

Save for the capital expenditure of approximately HK\$3.7 million in connection with the renovation of our new flagship store, no capital expenditure is expected to incur for the year ending 31 March 2016.

PROPERTY INTERESTS

During the Track Record Period and up to the Latest Practicable Date, we did not own any properties. For further details, please refer to the section headed “Business — Properties” in this [Redacted].

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any outstanding off-balance sheet guarantees, interest rate swap transactions, foreign currency and commodity forward contracts or other off-balance sheet arrangements during the Track Record Period. We do not engage in trading activities involving non-exchange traded contracts. In the course of our normal business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

[REDACTED]

We did not recognise any [Redacted] in the combined statements of profit or loss and other comprehensive income during the Track Record Period as the relevant work(s) undertaken by the respective professional parties in connection with [Redacted] had not commenced as at 31 March 2015. As such, the amounts paid by our Group to professional parties in connection with [Redacted] prior to 31 March 2015 had been recorded as deposits in the combined statements of financial position as at 31 March 2015, representing the prepayments for the work to be performed by the respective professional party. [Redacted] incurred will be recognised as [Redacted] in the combined statement of profit or loss and other comprehensive income during the year ending 31 March 2016, subject to the progress of the work to be performed by the respective professional party in connection with [Redacted]. Our Directors are of the views that (i) it is appropriate to recognise [Redacted] according to the progress of the work to be performed by the professional party in connection with [Redacted] and no [Redacted] has to be recognised during the Track Record Period, and (ii) such recognition is in compliance with the HKFRS issued by the HKICPA.

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Our Directors are of the view that the financial results of our Group for the year ending 31 March 2016 are expected to be adversely affected by, among others, [Redacted] in relation to [Redacted], the nature of which is non-recurring. The total [Redacted] in relation to [Redacted], primarily consisting of fees paid or payable to professional parties and underwriting fees and commission, are estimated to be approximately HK\$[Redacted] (based on a [Redacted] of HK\$[Redacted] per [Redacted], being the mid-point of the indicative [Redacted] range and assuming the [Redacted] is not exercised), of which approximately HK\$[Redacted] is expected to be recognised in the statements of profit or loss for the year ending 31 March 2016 and the remaining approximately HK\$[Redacted] will be capitalised.

Our Directors would like to emphasise that the amount of [Redacted] is a current estimate for reference only and the final amount to be recognised in the combined financial statements of our Group for the year ending 31 March 2016 is subject to adjustment based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ending 31 March 2016 is expected to be adversely affected by the estimated non-recurring [Redacted] mentioned above, and may or may not be comparable to the financial performance of our Group in the past.

FINANCIAL RATIOS

The following table sets forth the key financial ratios of our Group during the Track Record Period:

		For the year ended 31 March	
	Notes	2014	2015
PROFITABILITY RATIOS			
Gross profit margin	1	35.3%	27.5%
Net profit margin	2	10.3%	9.7%
Return on equity	3	19.2%	27.3%
LIQUIDITY RATIOS			
Current ratio	4	2.6	2.8
Quick ratio	5	1.0	1.8
CAPITAL ADEQUACY RATIOS			
Gearing	6	19.1%	17.9%
Net gearing	7	Net cash position	Net cash position
Inventory turnover days	8	278 days	97 days
Trade receivables turnover days	9	10 days	12 days
Trade payables turnover days	10	15 days	20 days

Notes:

- Gross profit margin is calculated based on the gross profit for the year divided by revenue and multiplied by 100%.
- Net profit margin is calculated based on the profit for the year of our Group divided by revenue and multiplied by 100%.

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3. Return on equity is calculated based on the profit for the year of our Group divided by total equity at the end of the year and multiplied by 100%.
4. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of the year.
5. Quick ratio is calculated based on the total current assets minus inventories divided by the total current liabilities as at the end of the year.
6. Gearing is calculated based on the debts of non-trade nature including amount due to a director divided by total equity at the end of the year and multiplied by 100%.
7. Net gearing is calculated based on all borrowings net of cash and cash equivalents, divided by total equity at the end of the year and multiplied by 100%. A net cash position is noted when cash and cash equivalents are larger than borrowings.
8. Inventory turnover days is calculated based on the average of opening and closing inventory balances for the year, divided by the total cost of sales during the year multiplied by 365 days.
9. Trade receivables turnover days is calculated based on the average of opening and closing trade receivable balances for the year, divided by total revenue during the year multiplied by 365 days.
10. Trade payables turnover days is calculated based on the average of opening and closing trade payables balances for the year, divided by total cost of sales for the year multiplied by 365 days.

Profitability ratios

Gross profit margin

For the years ended 31 March 2014 and 2015, our gross profit margin amounted to approximately 35.3% and 27.5%, respectively. For further details of the decrease in gross profit margin, please refer to paragraph headed “Year-on-year review of our results of operations — Year ended 31 March 2015 compared to year ended 31 March 2014 — Gross profit margin” in this section.

Net profit margin

For the years ended 31 March 2014 and 2015, our net profit margin amounted to approximately 10.3% and 9.7%, respectively. The decrease of our net profit margin was in line with the decrease in our gross profit margin.

Return on equity

For the years ended 31 March 2014 and 2015, our return on equity amounted to approximately 19.2% and 27.3%, respectively. The increase of our return on equity was primarily due to the increase in the profit and total comprehensive income for the year attributable to the owners of our Company.

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Liquidity ratios

Current ratio

As at 31 March 2014 and 2015, our current ratio amounted to approximately 2.6 and 2.8, respectively. The current ratio remained stable over the period.

Quick ratio

As at 31 March 2014 and 2015, our quick ratio amounted to approximately 1.0 and 1.8, respectively. The increase in quick ratio was primarily attributable to the decrease in our inventory value.

Capital adequacy ratios

Gearing

As at 31 March 2014 and 2015, our gearing amounted to approximately 19.1% and 17.9%, respectively. The decrease in gearing was mainly attributable to an increase in total equity.

Inventory turnover days

For the years ended 31 March 2014 and 2015, our inventory turnover days amounted to approximately 278 days and 97 days, respectively. The decrease in inventory turnover days was primarily attributable to the promotional sales of certain wine products from our old inventory at a discounted rate in order to utilise our capital more efficiently and generate cash flow for our business operation.

Trade receivables turnover days

For the years ended 31 March 2014 and 2015, our trade receivables turnover days amounted to approximately 10 days and 12 days, respectively. The increase of trade receivables turnover days remained stable over the period.

Trade payables turnover days

For the years ended 31 March 2014 and 2015, our trade payables turnover days amounted to approximately 15 days and 20 days, respectively. The increase in trade payable turnover days was primarily attributable to an amount payable to one of our suppliers in relation to a purchase made by us in February 2015 for the sum of HK\$8.4 million which was subsequently settled by us in April 2015.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Currency risk

The functional currency of our Group’s major operating subsidiaries is HK\$. Our Group’s major operating subsidiaries have foreign currency purchases, which expose our Group to foreign currency risk. Our Group currently does not have a foreign currency hedging policy. However, our management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Our Group’s exposure to foreign currency risk relates principally to its bank balances and payables denominated in foreign currencies other than the functional currency of relevant group entities.

The purchases made by our Group in foreign currencies during the Track Record Period are as follows:

	For the year ended 31 March	
	2014	2015
	(HK\$'000)	(HK\$'000)
US\$	3,159	1,441
EUR	12,558	5,219
GBP	6,982	11,267
AUD	—	5,428

The carrying amounts of our Group’s monetary assets and liabilities that are denominated in currencies other than the functional currency of relevant group entities at the end of the Track Record Period are as follows:

	For the year ended 31 March			
	2014		2015	
	Assets	Liabilities	Assets	Liabilities
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
US\$	4	—	4	—
SGD	—	—	40	—
EUR	—	430	—	423
GBP	12	—	—	93
AUD	—	—	—	76
RMB	—	—	54	—

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Liabilities denominated in foreign currencies in the table above are mainly payable balances to our suppliers. In order to minimise our Group’s exchange risk in relation to purchases in foreign currency, our Group strives to settle payables in foreign currency as soon as practicable, which eventually result in a lower payable balances in foreign currencies from time to time.

No sensitivity analysis is presented in the opinions of the Directors, the expected change in foreign currency rates will not have significant impact on the profit for the year during the Track Record Period.

Interest rate risk

Our Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances. To mitigate the impact of interest rate fluctuations, our Group continually assesses and monitors the exposure to interest rate risk.

Our Group’s exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this paragraph. Our Group’s cash flow interest rate risk is mainly concentrated on the fluctuation of the prevailing market rates on bank balances.

In the opinion of the Directors, the expected change in interest rate on bank balances will not be significant in the near future, hence no sensitivity analysis is presented.

Credit risk

As at the end of each reporting period, our Group’s maximum exposure to credit risk which will cause a financial loss to our Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position.

In order to minimise the credit risk, the management of our Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, our Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our Group’s credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by authorised credit-rating agencies.

Our Group’s concentration of credit risk by geographical location is in Hong Kong, which accounted for 65% and 57% of the total trade receivables as at 31 March 2014 and 2015, respectively. Our Group has limited concentration of credit risk as it has a large number of customers.

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Liquidity risk

In the management of the liquidity risk, our Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance our Group’s operations and mitigate the effects of fluctuations in cash flows.

The following table details our Group’s remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which our Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

	On demand or within one year	Total undiscounted cash flows	Carrying amount
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
As at 31 March 2014			
Non-derivative financial liabilities			
Trade and other payables	2,898	2,898	2,898
Amount due to a related company	6,898	6,898	6,898
Amount due to a director	7,154	7,154	7,154
	<u>16,950</u>	<u>16,950</u>	<u>16,950</u>
As at 31 March 2015			
Non-derivative financial liabilities			
Trade and other payables	9,655	9,655	9,655
Amount due to a director	9,258	9,258	9,258
	<u>18,913</u>	<u>18,913</u>	<u>18,913</u>

The amount included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

DISTRIBUTABLE RESERVE

The distributable reserve of our Company, representing the retained earnings and share premium of our Company, was nil as at 31 March 2015.

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DIVIDENDS

We may declare dividends after taking into account, among other things, our results of operations, cash flows, financial condition and position, operating and capital requirements. The amount of distributable profits is based on HKFRSs, the memorandum and articles of association of our Company, the Companies Law, applicable laws and regulations and other factors that are relevant to us.

No dividend was paid or declared by companies now comprising our Group during the Track Record Period.

TAXATION

We are incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law and, accordingly, are exempted from the payment of the Cayman Islands income tax. For our subsidiaries incorporated in the BVI, they are incorporated as BVI business companies under the BVI Business Companies Act and are exempted from payment of income tax of BVI.

For our subsidiaries incorporated in Hong Kong, our profits arising in or derived from Hong Kong are subject to Hong Kong profits tax. Provision for Hong Kong profits tax has been calculated at the applicable rate of 16.5% for the years ended 31 March 2014 and 2015, on the estimated assessable profits of our subsidiaries operating in Hong Kong. For the income tax expense recognised by our Group during the Track Record Period, please refer to note 11 of Appendix I to this [Redacted].

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

Our Directors have confirmed that, save as disclosed above, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.