



# 英記茶莊

YING KEE TEA HOUSE

**YING KEE TEA HOUSE GROUP LIMITED**

**英記茶莊集團有限公司**

(Incorporated in Hong Kong with limited liability)

Stock code : 8241

## SHARE OFFER



**Sole Sponsor, Sole Global Coordinator,  
Sole Bookrunner and Sole Lead Manager**



**KGI**

CHINA  
DEVELOPMENT  
FINANCIAL

KGI Capital Asia Limited

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## IMPORTANT

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*If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.*



### YING KEE TEA HOUSE GROUP LIMITED

英記茶莊集團有限公司

*(Incorporated in Hong Kong with limited liability)*

#### LISTING ON GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Number of Offer Shares	: 90,000,000 Shares
Number of Placing Shares	: 81,000,000 Shares (subject to re-allocation)
Number of Public Offer Shares	: 9,000,000 Shares (subject to re-allocation)
Offer Price	: Not more than HK\$0.54 per Offer Share and not less than HK\$0.48 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Stock Code	: 8241

**Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager**



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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed “Documents delivered to the Registrar of Companies and Available for Inspection” in Appendix V to this prospectus, has been registered with the Registrar of Companies as required by Section 38D of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above. The Offer Price is expected to be determined by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before 6:00 p.m. on the Price Determination Date.

The Offer Price is expected to be not more than HK\$0.54 per Offer Share and not less than HK\$0.48 per Offer Share. If, for any reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by 6:00 p.m. on Thursday, 29 March 2018, the Share Offer will not proceed and will lapse.

The Sole Global Coordinator (for itself and on behalf of the Underwriters), may, with the consent of our Company, reduce the indicative Offer Price range and/or the number of Offer Shares below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, announcement of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be made on our Company’s website at [www.yingkeetea.com](http://www.yingkeetea.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) not later than the morning of the day which is the last day for lodging applications under the Public Offer.

Prior to making an investment decision, prospective investors should carefully consider all the information set out in this prospectus, including the risk factors set out in the section headed “Risk factors” in this prospectus. Pursuant to the termination provisions contained in the Underwriting Agreements, the Sole Global Coordinator (for itself and on behalf of the Underwriters) have the right in certain circumstances, in its absolute determination, to terminate the obligations of the Sole Global Coordinator and the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of the terms of the termination provisions are set out in the section headed “Underwriting – Underwriting arrangements and expenses – Public Offer – Grounds for termination” in this prospectus. It is important that you refer to the said sections for further details.

23 March 2018

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## CHARACTERISTICS OF GEM

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**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to higher market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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## EXPECTED TIMETABLE

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*If there is any change to the following expected timetable, we will publish an announcement on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.yingkeetea.com](http://www.yingkeetea.com).*

**Date<sup>(1)</sup>**

Public Offer commences and **WHITE** and  
**YELLOW** Application Forms available from .....9:00 a.m. on  
Friday, 23 March 2018

Application lists of Public Offer open<sup>(2)</sup> .....11:45 a.m. on  
Wednesday, 28 March 2018

Latest time for lodging **WHITE** and **YELLOW**  
**Application Forms** and giving **electronic application**  
**instructions** to HKSCC<sup>(3)</sup> .....12:00 noon on  
Wednesday, 28 March 2018

Application lists of Public Offer close<sup>(2)</sup> .....12:00 noon on  
Wednesday, 28 March 2018

Expected Price Determination Date<sup>(4)</sup> .....on or around Thursday, 29 March 2018

Announcement of the final Offer Price, the level of  
indications of interest in the Placing, the level of  
applications in the Public Offer and the basis of  
allocation of the Public Offer Shares under the  
Public Offer to be published on our Company's  
website at [www.yingkeetea.com](http://www.yingkeetea.com) and the website of  
the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) on or before .....Friday, 13 April 2018

Results of allocations in the Public Offer (with successful  
applicants' identification document numbers,  
where applicable) to be available through a variety  
of channels as described in the section headed  
"How to apply for Public Offer Shares –  
10. Publication of results" in this prospectus .....Friday, 13 April 2018

Results of allocations in the Public Offer will be  
available at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a "search by  
ID Number/Business Registration Number" function from ..... Friday, 13 April 2018

Despatch/collection of refund cheques in respect of  
wholly or partially unsuccessful applications pursuant  
to the Public Offer on or before<sup>(5)</sup> .....Friday, 13 April 2018

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## EXPECTED TIMETABLE

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Despatch/collection of share certificates or deposit of the share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Public Offer on or before<sup>(5)</sup> . . . . . Friday, 13 April 2018

Dealings in the Shares on GEM expected to commence at . . . . . 9:00 a.m. on Monday, 16 April 2018

*Notes:*

1. All times and dates refer to Hong Kong local time and date unless otherwise stated in this prospectus. Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and conditions of the Share Offer” in this prospectus.
2. If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. to 12:00 noon on Wednesday, 28 March 2018, the application lists will not open or close on that day. Further information is set out in the section headed “How to apply for Public Offer Shares – 9. Effect of bad weather on the opening of the application lists” in this prospectus.
3. Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to apply for Public Offer Shares – 5. Applying by giving **electronic application instructions** to HKSCC via CCASS” in this prospectus.
4. The Price Determination Date is expected to be on or around Thursday, 29 March 2018. If, for any reason, the final Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of Underwriters) and our Company on Thursday, 29 March 2018, the Share Offer will not proceed and will lapse.
5. Refund cheques will be used in respect of wholly or partially unsuccessful applications pursuant to the Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identify card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.

Applicants who have applied on **WHITE Application Forms** for 1,000,000 or more Public Offer Shares and have provided all information required by their Application Forms may collect their refund cheques and/or Share certificates in person from our Company’s Hong Kong Share Registrar, Tricor Investor Services Limited, at level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, 13 April 2018. Applicants being individuals who are eligible for personal collection may not authorise any other person to collect on their behalf. Applicants being corporations which are eligible for personal collection must attend through their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations’ chops. Both individuals and authorised representatives of corporations must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied on **YELLOW Application Forms** for 1,000,000 or more Public Offer Shares may collect their refund cheques, if any, in person but may not elect to collect their Share certificates as such Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW Application Form** applicants are the same as those for **WHITE Application Form** applicants.

Applicants who have applied on Public Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to apply for Public Offer Shares – 13. Despatch/Collection of share certificates and refund monies” in this prospectus for details.

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## EXPECTED TIMETABLE

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Applicants who have applied for less than 1,000,000 Public Offer Shares and any uncollected share certificates and/or refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in the section headed "How to apply for Public Offer Shares – 12. Refund of application monies" and "How to apply for Public Offer Shares – 13. Despatch/Collection of share certificates and refund monies" in this prospectus.

Share certificates will only become valid certificates of title to which they relate at 8:00 a.m. (Hong Kong time) on the Listing Date provided that (i) the Share Offer has become unconditional in all respects; and (ii) the right of termination described in the section headed "Underwriting – Underwriting arrangements and expenses – Public Offer – Grounds for termination" in this prospectus has not been exercised and has lapsed. Investors who trade Shares prior to the receipt of share certificates or the share certificates becoming valid certificates of title do so entirely at their own risk.

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### IMPORTANT NOTE TO INVESTORS

*This prospectus is issued by our Company solely in connection with the Share Offer and the Offer Shares in Hong Kong and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Offer Shares. This prospectus may not be used for the purpose of, and does not constitute an offer to sell or solicitation of an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than in Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.*

*Prospective investors should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the Underwriters have not authorised anyone to provide prospective investors with information that is different from what is contained in this prospectus. Any information or representation not contained in this prospectus and the Application Forms must not be relied on by prospective investors as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the Underwriters, any of their respective affiliates, directors, officers, employees, agents, or representatives, or any other person or party involved in the Share Offer. The contents of our Company's websites of [www.yingkeetea.com](http://www.yingkeetea.com) do not form part of this prospectus.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus and therefore does not contain all the information which may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this section are defined in the section headed “Definitions” in this prospectus.*

### BUSINESS OVERVIEW

We are a Chinese tea leaves retailer in Hong Kong. During the Track Record Period, we derived our revenue mainly from the sale of Chinese tea leaves and to lesser extent, from the sale of tea wares and tea gift sets in Hong Kong. As at the Latest Practicable Date, we operate 10 retail shops and concession counters for selling our tea products in Hong Kong. Our retail shops, showroom and concession counters generated most of our sales, accounting for approximately 91.2%, 92.9% and 91.8% of our total revenue, for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. During the Track Record Period, we also generated revenue from selling our tea products to our retail customers through online sales on our own website, sales through platforms provided by our business partners, and exhibition and/or other booth sales and direct sale to our commercial customers.

We offer to sell over 70 products of Chinese tea leaves which are broadly categorised into eight types including Pu-erh tea, old Luk On tea, white tea, black tea, Oolong tea, green tea, fragrant tea and miscellaneous (including health medley and blossom globeamaranth). During the Track Record Period, our best-selling tea leaves were Pu-erh tea, Oolong tea and fragrant tea. Sale of Pu-erh tea represented approximately 41.5%, 46.2% and 40.0% of our total revenue for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively.

The Hong Kong Tourism Board certified our compliance with the assessment criteria of the Quality Tourism Services Scheme (QTSS) and has authorised our certification mark “Ying Kee Tea House” to use upon “Retail Shops” category. Our Ying Kee Tea House brand was granted the license from the Chinese Manufacturers’ Association of Hong Kong and the Hong Kong Brand Development Council for the right to use Hong Kong Top Brand Mark (Top Mark) on tea and floral tea registered product categories since 2012 and on tea cake registered product category since 2016. In 2013, we have been recognised as a “Quality Shop” by the Hong Kong Tourism Board for 10 consecutive years.

The table below sets out a breakdown of our revenue by product category for the years/periods indicated:

	Year ended 31 March				Six months ended 30 September			
	2016		2017		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Tea leaves	40,321	94.3	42,230	94.8	13,922	93.1	15,042	93.8
Tea wares	2,264	5.3	2,078	4.7	953	6.4	857	5.4
Tea gift sets	187	0.4	225	0.5	71	0.5	119	0.7
Others (Note)	9	0.0	7	0.0	0	–	21	0.1
<b>Total</b>	<b>42,781</b>	<b>100.0</b>	<b>44,540</b>	<b>100.0</b>	<b>14,946</b>	<b>100.0</b>	<b>16,039</b>	<b>100.0</b>

*Note:* As confirmed by our Directors, others include service fees for providing tea appreciation courses to customers, providing shop space to media for video taking and wrapping services for tea products.

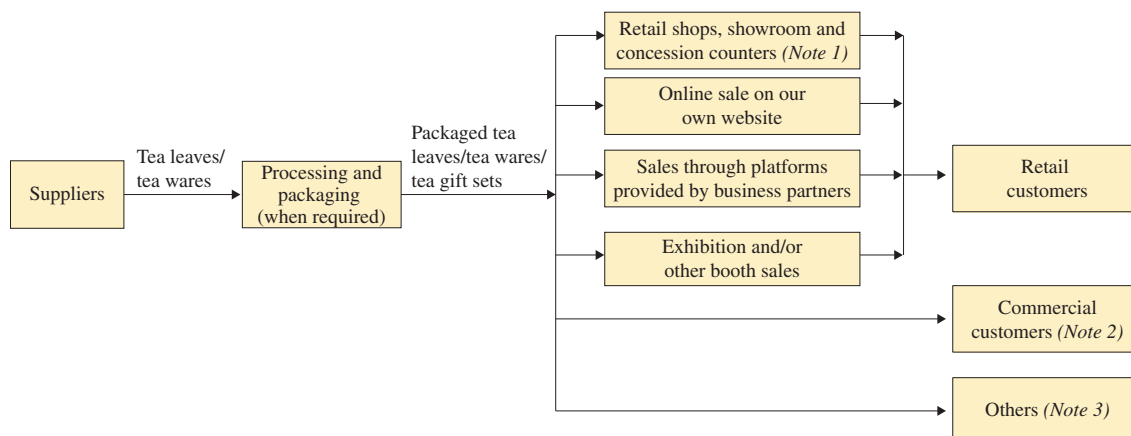
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## SUMMARY

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### BUSINESS MODEL

The diagram below illustrates our business model:



Notes:

1. Retail shops, showroom and concession counters exclude commercial customers under Note 2 and others under Note 3 below. During the Track Record Period, some customers may also purchase our tea products at our showroom in Siu Sai Wan.
2. Commercial customers mean the customers, whether individual or corporate, who placed orders to our Group and our head office in Siu Sai Wan has issued invoices to such customers.
3. Others include sales to our staff (including our Directors) and Golden Ocean and/or Chan Sing Hoi Enterprises, which are entities held by our Controlling Shareholders.

### SUPPLIERS

We source tea leaves and packaging materials (such as tea canisters) from our suppliers mainly located in Hong Kong and tea wares from our suppliers mainly located in the PRC. During the Track Record Period, our five largest suppliers are mainly our tea leaves suppliers. Our purchases from our five largest suppliers for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017 amounted to approximately HK\$5.7 million, HK\$5.5 million and HK\$3.0 million, respectively, representing approximately 64.0%, 70.9% and 73.6% of our total purchases, respectively. Our purchases from the largest supplier for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017 amounted to approximately HK\$1.6 million, HK\$1.9 million and HK\$1.0 million, respectively, representing approximately 18.3%, 24.4% and 24.2% of our total purchases, respectively.

### CUSTOMERS

Due to the nature of our business, our customers were mainly retail customers from the general public and we did not rely on any single customer during the Track Record Period. We adopt a uniform retail pricing policy which is implemented by our retail shops, concession counters, as well as our online shop on our company website. During the Track Record Period, our five largest customers consist of individual and corporate customers. Our revenue generated from our five largest customers for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017 amounted to approximately HK\$1.5 million, HK\$1.7 million and HK\$1.0 million, respectively, representing approximately 3.6%, 3.9% and 6.4% of our total revenue, respectively. Our revenue from the largest customer for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017 amounted to approximately HK\$0.4 million, HK\$0.4 million and HK\$0.5 million, respectively, representing approximately 0.9%, 0.9% and 3.0% of our total revenues, respectively.

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## SUMMARY

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### COMPETITIVE LANDSCAPE AND COMPETITIVE STRENGTHS

According to the Euromonitor Report, based on sales data provided by us and the market size calculated by Euromonitor, we had 12.6% share of the specialist Chinese tea retailers market in Hong Kong in terms of our revenue in 2016. The overall market for packaged branded Chinese tea, tea wares and tea gift sets in Hong Kong is competitive and fragmented due to relatively low barriers of entry, with many small independent retailers operating alongside more established retailers who have been around for decades. However, soaring operating costs and a challenging retail environment has seen the market undergo a period of consolidations as smaller, less profitable retailers either exit the market or are absorbed by larger, more resilient retailers.

According to the Euromonitor Report, the main barriers of entry are the market knowledge and experience required for retailers to consistently select the best quality tea leaves from suppliers for sale and in ensuring the quality of their products is consistently high. The depth and reach of their supply network also matters in terms of retailers' ability to source for top quality and/or unique Chinese tea leaves from premium tea farms. We believe that (i) our well-established position in the Chinese tea market in Hong Kong, (ii) our ability to ensure provision of quality tea products, and (iii) our established business relationships with suppliers and commercial customers, have enabled and will continue to enable us to compete effectively.

We believe that the following competitive strengths of us have contributed to our success: (i) we have a stable, experienced and dedicated management team with extensive industry experience; (ii) we have an established position in the Chinese tea market in Hong Kong; (iii) we are able to ensure provision of quality tea products; (iv) our provision of different types of tea products allows us to serve customers with different requirements; and (v) our established business relationships with suppliers and commercial customers.

### BUSINESS STRATEGIES

We intend to pursue the following key business strategies: (i) open new retail points in Hong Kong; (ii) enhance our management capability and efficiency through improvement of our information system; (iii) expand our human resources; and (iv) improve working environment and efficiency through renovation.

### RISK FACTORS

There are certain risks involved in our operations and in connection with the Share Offer, many of which are beyond our control. These risks can be broadly categorised into: (i) risks relating to our business; (ii) risks relating to our industry; and (iii) risks relating to the Share Offer and this prospectus. These risk factors are further described in the section headed "Risk Factors" in this prospectus. Set out below are some of the major risks that could materially and adversely affect us:

- We have been, and may continue to be, substantially dependent on revenue from the sale of our tea leaves and tea related products. A decline in the sales or profitability of tea leaves and/or tea related products could materially and adversely affect our business, financial condition and results of operations.
- The expansion of our retail network may not be as successful as we expect.
- The expansion of our retail network could result in a significant increase in our operating expenses. Meanwhile, our expansion plan, profitability and operations may be adversely affected if we are not able to generate sufficient revenue from business.
- Our tenancy agreements and license agreements have concentration of lease expiry dates. We may not be able to renew all or some of the existing tenancy agreements or license agreements for our premises including retail shops and concession counters.

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## SUMMARY

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- The surroundings of the current and future sites of our retail shops and concession counters could become unattractive.
- We do not usually enter into long-term arrangements with our suppliers and customers. If we are unable to continue our business relationships with them, our business, financial condition and results of operations may be adversely affected.
- The blends of our tea leaves products are not patented, and misuse of our blends by our employees may damage our competitive position.
- Our success and business operations are largely dependent on our Directors and senior management.

### SHAREHOLDERS' INFORMATION

Immediately upon completion of the Bonus Issue and the Share Offer (without taking into account of any Shares which may be issued pursuant to the exercise the options which may be granted under the Share Option Scheme), Profit Ocean is expected to hold 75% of our Company's enlarged issued share capital and is therefore a Controlling Shareholder for purposes of the GEM Listing Rules.

Profit Ocean is a company incorporated under the laws of the BVI on 2 August 2017 and is held in equal shares (*i.e.*, 25% each) by Tri-Luck, Wealth City, Sky King and Coastal Lion, which are respectively owned by Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen. Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen, who are from the same Chan's family, confirmed that they have been acting in concert during the Track Record Period. On 13 October 2017, in preparation for the Listing, Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen executed an acting in concert deed, under which they confirmed the existence of an arrangement between them to act in concert (as such term is defined in the Takeovers Code) with respect to matters relating to Ying Kee and our Company since 19 October 1992 and 14 September 2017 respectively, as well as their intention to continue to act in concert upon the Listing to consolidate their control and management over our Group. In light of the above, Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen, Mr. Chan Kwong Yuen, Tri-Luck, Wealth City, Sky King, Coastal Lion and Profit Ocean are considered to be parties acting in concert with respect to the control of our Company for purposes of the Takeovers Code. Accordingly, notwithstanding that none of Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen, Mr. Chan Kwong Yuen, Tri-Luck, Wealth City, Sky King, Coastal Lion will individually hold 30% or more of the issued share capital of our Company immediately following the Listing, they are regarded as a group of controlling shareholders of our Company (within the meaning defined in the GEM Listing Rules) and are considered to be our Controlling Shareholders (whether jointly or individually) for purposes of the GEM Listing Rules under their acting in concert arrangement during the Track Record Period and after the Listing.

### REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

Our Company intends to raise funds by the Share Offer in order to pursue our business objectives. Our business objectives are to continue to grow our business, to maintain our established position in the Chinese tea leaves industry in Hong Kong and to promote the Chinese tea drinking culture and our tea products to our customers. A public listing status will enhance our corporate profile and recognition and assist us in reinforcing our Ying Kee Tea House brand exposure, and promote Chinese tea culture and our tea products to a broad audience.

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## SUMMARY

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The aggregate net proceeds from the Share Offer to be received by us (assuming the Office Price at HK\$0.51, being the mid-point of the Offer Price range) is estimated to be approximately HK\$22.7 million. For details, please refer to the section headed “Future plans and use of proceeds” in this prospectus. We intend to apply such net proceeds from the Share Offer as follows:

	<b>Approximate amount or % of net proceeds</b>
Opening new retail points in Hong Kong	HK\$11.3 million or 49.8%
Improving the information system	HK\$3.0 million or 13.4%
Recruitment	HK\$0.6 million or 2.6%
Renovation of office and warehouse	HK\$2.2 million or 9.6%
Partial repayment of bank loan	HK\$3.4 million or 15.0%
General working capital	HK\$2.2 million or 9.6%

### **DIVIDEND**

Save for a dividend of HK\$20.0 million declared and paid by Ying Kee to its then shareholders through book entries to their respective current accounts in March 2017 (i.e. the dividend was settled by netting off with the amounts due to/due from the related parties); and an interim cash dividend of HK\$2.0 million paid by us to our ultimate shareholders in December 2017, we had not declared other dividend during the Track Record Period and up to the Latest Practicable Date.

Our Group does not have any dividend policy and has not adopted a fixed dividend payout ratio. Our Directors may recommend a payment of dividend in the future after taking into account our operations, financial condition, the payment by our Group’s subsidiary of cash dividends to us, and other factors the Board may deem relevant. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Board in the future.

### **NON-COMPLIANCE INCIDENT**

We had failed to make profit tax adjustment and make disallowances in profits tax returns and computations for the years of assessment of 2013/14 and 2014/15 as required under the IRO. Except for the aforesaid material non-compliance incident, during the Track Record Period and up to the Latest Practicable Date, we have complied with applicable laws and regulations in Hong Kong in all material aspects. For details, please refer to the section headed “Business – Compliance – Legal compliance” in this prospectus.

## SUMMARY

### SUMMARY OF FINANCIAL INFORMATION

#### Key Financial Information

	Year ended 31 March		Six months ended 30 September	
	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000
	(unaudited)			
<b>Result of operations</b>				
Revenue	42,781	44,540	14,946	16,039
Gross profit	34,010	35,549	11,729	12,613
Profit/(Loss) before income tax	9,571	14,800	2,807	(3,842)
Profit/(Loss) for the year/period and total comprehensive income/(expense) for the year/period	7,889	12,295	2,352	(4,194)
	As at 31 March		As at 30 September	
	2016 HK\$'000	2017 HK\$'000	2017 HK\$'000	
<b>Net current assets</b>				
Current assets	17,248	15,561	15,459	
Current liabilities	3,611	9,320	13,299	
Net current assets	13,637	6,241	2,160	

#### Gross profits and gross margins

The following table sets out a breakdown of gross profits and gross margins by products category for the years/periods indicated:

	Year ended 31 March				Six months ended 30 September			
	2016 HK\$'000	%	2017 HK\$'000	%	2016 HK\$'000	%	2017 HK\$'000	%
	(unaudited)							
Tea leaves	32,280	80.1	34,030	80.6	11,035	79.3	11,926	79.3
Tea wares	1,570	69.3	1,394	67.1	648	68.0	595	69.4
Tea gift sets	151	80.7	118	52.4	46	64.8	71	59.7
Others (Note)	9	100.0	7	100.0	0	100.0	21	100.0
<b>Overall</b>	<b>34,010</b>	<b>79.5</b>	<b>35,549</b>	<b>79.8</b>	<b>11,729</b>	<b>78.5</b>	<b>12,613</b>	<b>78.6</b>

*Note:* As confirmed by our Directors, others include service fees for providing tea appreciation courses to customers, providing shop space to media for video taking and wrapping services for tea products.

The relatively high gross margin from sale of tea gift sets for the financial year ended 31 March 2016 was mainly due to the sales of tea gift sets for the special celebration of anniversary of our business.



## SUMMARY

### Cash flow

	Year ended 31 March		Six months ended 30 September	
	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Cash and cash equivalents at the beginning of the year/period	561	1,182	1,182	2,136
Net cash from/(used in) operating activities	9,446	13,670	2,507	(5,416)
Net cash from/(used in) investing activities	4,094	(7,882)	(9,768)	4,118
Net cash (used in)/from financing activities	(12,919)	(4,834)	7,572	2,205
Net increase in cash and cash equivalents	621	954	311	907
Cash and cash equivalents at the end of the year/period	1,182	2,136	1,493	3,043

We recorded net cash inflow from operating activities and net increases in cash and cash equivalents for the financial year ended 31 March 2016 and the financial year ended 31 March 2017. We recorded a net cash outflow from operating activities for the six months ended 30 September 2017 of approximately HK\$5.4 million mainly because of non-recurring listing expenses of approximately HK\$6.0 million incurred during this period. Our Group generated approximately HK\$10.2 million, HK\$15.2 million and HK\$3.0 million cash inflow from operating profit before working capital changes for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2016 respectively. For the six months ended 30 September 2017, our Group had approximately HK\$3.6 million cash outflow from operating loss before working capital changes, mainly because of the non-recurring listing expenses incurred during this period. Without taking into account the listing expenses, our Group would generate a positive cash inflow from operating activities of approximately HK\$0.6 million.

### Key financial ratios

	As at/For the year ended 31 March		As at/For the six months ended 30 September
	2016	2017	2017
Gross profit margin	79.5%	79.8%	78.6 %
Net profit margin	18.4%	27.6%	(26.1)%
Adjusted net profit margins ( <i>Note 1</i> )	18.4%	27.6%	11.6 %
Return on equity	52.6%	168.7%	(135.0)%
Return on total assets	40.4%	70.8%	(23.5)%
Current ratio ( <i>unit: times</i> )	4.8	1.7	1.2
Quick ratio ( <i>unit: times</i> )	2.8	0.9	0.6
Gearing ratio ( <i>Note 2</i> )	8.5%	68.6%	322.0 %
Debt-to-equity ratio	Nil	30.9%	204.2 %
Interest coverage ( <i>unit: times</i> )	38.2	85.6	Nil

*Note 1:* Adjusted net profit margin is derived by dividing the net profit (excluding listing expenses) by the revenue for the respective year multiplied by 100%. The term of adjusted profit margin is not defined under IFRs. The use of adjusted net profit margin has material limitation as an analytical tool, as it does not include all items that impact our profit or loss for the relevant periods. Items excluded from adjusted profit margin are significant components in understanding and assessing our operating and financial performance.

*Note 2:* Gearing ratio equals total debt divided by the total equity as at the end of the respective year/period and multiplied by 100%. Debts are defined to include interest bearing payables incurred not in the ordinary course of business.



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## SUMMARY

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Our gross margins remained relatively stable for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively.

Adjusted net profit margin increased from approximately 18.4% for the year ended 31 March 2016 to approximately 27.6% for the year ended 31 March 2017 mainly due to the increase in sales of Pu-erh tea leaves and the decrease in rent and license fee due to the close down of a retail shop in Yau Tong and the reduction of monthly rent of certain properties. Our Group recorded adjusted net profit margin of approximately 11.6% for the six months ended 30 September 2017. The main reason for the decrease in the adjusted net profit margin for the six months ended 30 September 2017 as compared to the adjusted net profit margin of approximately 15.7% of the corresponding period of 2016 was the increase in advertising expenses by approximately HK\$0.4 million due to the placing of television commercials.

Our return on equity ratio was improved for the financial year ended 31 March 2017 mainly because of the increase in net profit from approximately HK\$7.9 million for the financial year ended 31 March 2016 to approximately HK\$12.3 million for the financial year ended 31 March 2017 and the dividend of HK\$20.0 million paid during the financial year ended 31 March 2017. Our return on equity ratio decreased significantly to approximately (135.0)% for the six months ended 30 September 2017 mainly due to the fact that the listing expenses were incurred which resulted in net loss during the period.

Our return on total assets ratio was improved for the financial year ended 31 March 2017 mainly because of the increase in net profit from approximately HK\$7.9 million for the financial year ended 31 March 2016 to approximately HK\$12.3 million for the financial year ended 31 March 2017. Our return on total assets ratio decreased significantly to approximately (23.5)% for the six months ended 30 September 2017 mainly due to the fact that the listing expenses were incurred which resulted in the net loss during the period.

Our Group recorded high and increasing gearing ratios during the Track Record Period due to high level of bank borrowings recorded. In particular, the increases in our gearing ratio were mainly due to (i) the substantial increase in bank borrowings from approximately HK\$1.3 million as at 31 March 2016 to HK\$5.0 million as at 31 March 2017 and to HK\$10.0 million as at 30 September 2017; and (ii) the lower total equity. The increases in bank borrowings are related to drawdown of bank loans for payments of listing expenses incurred or to be incurred. The lower total equity as at 31 March 2017 compared to 31 March 2016 was mainly due to the dividend of HK\$20.0 million paid by Ying Kee during the financial year ended 31 March 2017 and the lower total equity as at 30 September 2017 compared to 31 March 2017 was mainly due to the listing expenses which lowered the retained earnings.

Please refer to the section headed “Financial information – Major financial ratios” in this prospectus for details.

### LISTING EXPENSES

The estimated expenses in relation to the Listing, primarily consisting of fees paid or payable to professional parties and underwriting fees and commission, are approximately HK\$23.2 million (based on the Offer Price of HK\$0.51, being the midpoint of the indicative Offer Price range of HK\$0.48 to HK\$0.54 per Offer Share), of which approximately HK\$5.9 million is directly attributable to the issue of the Offer Shares under the Share Offer and is expected to be accounted for as a deduction from equity. We had incurred listing expenses of approximately HK\$6.0 million for the six months ended 30 September 2017 and the remaining listing expenses of approximately HK\$1.6 million is expected to be charged to equity after the completion of the Share Offer. The remaining listing expenses of approximately HK\$11.3 million and HK\$4.3 million are expected to be charged to the profit or loss and equity of our Group for the year ending 31 March 2018, respectively.

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## SUMMARY

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### RECENT DEVELOPMENTS

Based on the unaudited management accounts of our Group, revenue of our Group decreased slightly for the four months ended 31 January 2018 as compared to the corresponding period in 2017. Our Directors advised that this is mainly due to the decline of revenue in January 2018 because of the promotion activities (i.e. discounts on certain types of limited edition tea cakes) held from time to time since end of January 2017 following the Chinese Lunar New Year whereas no similar promotion activities were conducted in January 2018. Selling and distribution costs maintained at similar level for the four months ended 31 January 2017 and the four months ended 31 January 2018, respectively.

Administrative expenses increased largely for the four months ended 31 January 2018 as compared to the corresponding period in 2017 mainly due to the listing expenses, the increase in staff salaries and benefits following the employment of our chief financial officer since June 2017 and certain new staff as well as the increase in other administrative expenses such as rent and rates and depreciation on fixed assets. If excluding the listing expenses, we would record a net profit for the four months ended 31 January 2018 although it would be a decrease as compared with that of the corresponding period in 2017 mainly because of the slight decrease in revenue, the increase in staff salaries and benefits and the increase in other administrative expenses as mentioned above.

In October 2017, we entered into a tenancy agreement for the leasing of Shop Unit 431 in Telford Plaza, Kowloon Bay, Hong Kong as our retail shop for selling tea products. We commenced business in this shop on 17 October 2017.

Our Directors confirmed that except for the Listing related expenses which had been incurred, there has been no material adverse change in the financial or trading position of our Group since 30 September 2017 (being the date to which the latest audited combined financial information was prepared which was set out in the Accountants' Report in Appendix I to this prospectus) to the date of this prospectus. In view of the listing expenses, it is expected that our Group will record net loss for the financial year ending 31 March 2018. Our Directors currently expect that there will be a moderate decrease in net profit for the financial year ending 31 March 2018 mainly because of the decline of revenue in January 2018 mentioned above and the incurring of listing expenses.

### THE SHARE OFFER AND OFFER STATISTICS

The figures set out in the following table are based on the assumptions that the Share Offer is completed and 90,000,000 Shares are issued and sold in the Share Offer:

	<b>Based on an Offer Price of HK\$0.48 per Share</b>	<b>Based on an Offer Price of HK\$0.54 per Share</b>
Market capitalisation of the Shares to be issued under the Share Offer	HK\$172,800,000	HK\$194,400,000
Unaudited pro forma adjusted combined net tangible assets per Share <sup>(1)</sup>	HK\$0.08	HK\$0.10

- (1) Unaudited pro forma adjusted combined net tangible assets per Share as at 30 September 2017 is calculated upon adjustment set out in Appendix II to this prospectus.
- (2) The unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 does not take into account of dividend of HK\$2,000,000 declared and paid in December 2017 by a subsidiary of our Group. Had the dividend been taken into account, the unaudited pro forma adjusted combined net tangible assets per Share would be HK\$0.09 (assuming an Offer Price of HK\$0.54 per Offer Share) and HK\$0.08 (assuming an Offer Price of HK\$0.48 per Offer Share), respectively.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following terms and expressions shall have the following meanings:*

“Application Form(s)”	<b>WHITE</b> application form(s) and <b>YELLOW</b> application form(s) or, where the context so requires, any of them, which is used in relation to the Public Offer
“Articles of Association”	the articles of association of our Company, conditionally adopted on 14 March 2018 which will become effective upon Listing and as amended, supplemented or modified from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning given to it in the GEM Listing Rules
“Audit Committee”	the audit committee of the Board established pursuant to resolution of our Board passed on 14 March 2018
“Board”	the board of Directors
“Bonus Issue”	the allotment and issuance of 269,990,000 Shares, credited as fully paid, to Profit Ocean
“business day”	a day (other than a Saturday, Sunday or public holiday in Hong Kong) on which licensed banks in Hong Kong are open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	Compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant(s)”	a person admitted to participate in CCASS as an investor participant, who may be an individual, joint individuals or a corporation

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## DEFINITIONS

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“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant(s)”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chan Sing Hoi Enterprises”	Chan Sing Hoi Enterprises Limited (陳星海企業有限公司), a limited liability company incorporated in Hong Kong on 30 August 1972, owned by the following individuals in the proportions indicated in the parenthesis: Mr. Chan Ka Min (1%), Mr. Chan Kun Yuen (25%), Mr. Chan Kwong Yuen (24.5%), Mr. Chan Shu Yuen (24.5%) and Mr. Chan Tat Yuen (25%)
“China”, “PRC” or the “People’s Republic of China”	the People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires, references in this prospectus to “China” and the “PRC” do not include, Hong Kong, Macau and Taiwan
“close associate(s)”	has the meaning given to it in the GEM Listing Rules
“Coastal Lion”	Coastal Lion Limited, a limited liability company incorporated in the BVI on 26 July 2017, wholly owned by Mr. Chan Kwong Yuen
“Companies Ordinance” or “Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, “us” or “we”	Ying Kee Tea House Group Limited (英記茶莊集團有限公司), a limited liability company incorporated in Hong Kong on 14 September 2017
“connected person(s)”	has the meaning given to it in the GEM Listing Rules
“connected transaction(s)”	has the meaning given to it in the GEM Listing Rules

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## DEFINITIONS

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“Controlling Shareholder(s)”	has the meaning given to it in the GEM Listing Rules and, unless the context otherwise requires, refers to Mr. Chan Kun Yuen, Mr. Chan Kwong Yuen, Mr. Chan Shu Yuen, Mr. Chan Tat Yuen, Tri-Luck, Wealth City, Sky King, Coastal Lion, Profit Ocean or where the context so requires, any one of them
“core connected person(s)”	has the meaning given to it in the GEM Listing Rules
“Deed of Indemnity”	the deed of indemnity dated 5 December 2017 given by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time), regarding certain indemnities as more particularly set out in the section headed “Statutory and general information – 9. Other information – D. Tax and other indemnities – (e) Deed of indemnity” in Appendix IV to this prospectus
“Deed of Non-Competition”	the deed of non-competition dated 5 December 2017 entered into by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time), regarding the non-competition undertakings as more particularly set out in the section headed “Relationship with Controlling Shareholders – Deed of Non-competition” in this prospectus
“Director(s)”	the director(s) of our Company
“Euromonitor”	Euromonitor International Limited, a strategy research consultant and an Independent Third Party
“Euromonitor Report”	the industry expert report issued by Euromonitor on packaged branded Chinese tea, tea ware and gift sets retailing, details of which are set out in “Industry overview”
“GDP”	gross domestic product
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“Golden Ocean”	Golden Ocean International Holdings Limited (金海國際集團有限公司), a limited liability company incorporated in Hong Kong on 16 February 2004, owned by Mr. Chan Kun Yuen, Mr. Chan Kwong Yuen, Mr. Chan Shu Yuen and Mr. Chan Tat Yuen in equal shares
“Group”, “our Group”, “we”, “our” or “us”	our Company and our subsidiary or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiary, the business operated by such subsidiary or its predecessors (as the case may be)
“HK\$” or “HKD” or “Hong Kong dollars” or “HK dollars” or “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standard(s)
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchange and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”, “HK” or “HKSAR”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Conveyancing Legal Advisers”	Raymond T.M. Lau & Co., a Hong Kong solicitors firm, the legal advisers to our Company as to Hong Kong law in respect of tenancy and license issues
“Hong Kong Government”	the government of Hong Kong
“Hong Kong Legal Advisers”	Nixon Peabody CWL, a Hong Kong solicitors firm
“Hong Kong Legal Counsel”	Li, Janice Chee Kwan (李梓珺), a barrister-at-law in Hong Kong, the Hong Kong legal counsel to our Group in respect of legal issues on the use of certain representation by our Group

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## DEFINITIONS

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“Hong Kong Share Registrar”	Tricor Investor Services Limited, the share registrar and transfer office of our Company in Hong Kong
“Independent Third Party(ies)”	individual(s) or company(ies) who or which is/are independent of and not connected with (within the meaning of the GEM Listing Rules) any of the directors, chief executive and substantial shareholders (within the meaning of the GEM Listing Rules) of our Company, its subsidiary or any of their respective associates
“IRO”	the Inland Revenue Ordinance (Chapter 122 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“ISO”	an acronym for a series of quality management and quality assurance standards published by International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“Knight Frank”	Knight Frank Petty Limited, a qualified property valuation company registered in Hong Kong
“Latest Practicable Date”	13 March 2018, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to the printing of this prospectus
“Listing”	the listing of the Shares on GEM
“Listing Date”	the date on which dealings in our Shares first commence on GEM, which is expected to be on or about Monday, 16 April 2018
“Listing Division”	the Listing Division of the Stock Exchange
“Mr. Chan Ka Min”	Mr. Chan Ka Min (陳家棉), the father of Mr. Chan Kwong Yuen and Mr. Chan Shu Yuen
“Mr. Chan Kun Yuen”	Mr. Chan Kun Yuen (陳根源), an executive Director, one of our Controlling Shareholders, the older brother of Mr. Chan Tat Yuen, and a cousin of Mr. Chan Kwong Yuen and Mr. Chan Shu Yuen

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## DEFINITIONS

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“Mr. Chan Kwong Yuen”	Mr. Chan Kwong Yuen (陳廣源), an executive Director, one of our Controlling Shareholders, the older son of Mr. Chan Ka Min and the older brother of Mr. Chan Shu Yuen, and a cousin of Mr. Chan Kun Yuen and Mr. Chan Tat Yuen
“Mr. Chan Shu Yuen”	Mr. Chan Shu Yuen (陳樹源), an executive Director, one of our Controlling Shareholders, the younger son of Mr. Chan Ka Min and the younger brother of Mr. Chan Kwong Yuen, and a cousin of Mr. Chan Kun Yuen and Mr. Chan Tat Yuen
“Mr. Chan Tat Yuen”	Mr. Chan Tat Yuen (陳達源), one of our Controlling Shareholders, a director of Ying Kee, the younger brother of Mr. Chan Kun Yuen, and a cousin of Mr. Chan Kwong Yuen and Mr. Chan Shu Yuen
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.54 per Share and expected to be not less than HK\$0.48 per Share, at which the Offer Shares are to be offered under the Share Offer, to be determined in the manner as set out in the section headed “Structure and conditions of the Share Offer” of this prospectus
“Offer Shares”	the Public Offer Shares and the Placing Shares
“Placing”	the conditional placing of 81,000,000 new Shares by the Placing Underwriters to institutional, professional and other investors, details of which are described in the section headed “Structure and conditions of the Share Offer” of this prospectus
“Placing Shares”	the 81,000,000 new Shares initially offered for subscription at the Offer Price under the Placing, subject to re-allocation, as described under the section headed “Structure and conditions of the Share Offer” of this prospectus
“Placing Underwriters”	the underwriters of the Placing, who are expected to enter into the Placing Underwriting Agreement



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## DEFINITIONS

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“Placing Underwriting Agreement”	the conditional underwriting agreement relating to the Placing and expected to be entered into by, among others, our Company, our Controlling Shareholders, the executive Directors, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the Placing Underwriters, as further described in the section headed “Underwriting – Underwriting arrangements and expenses – Placing” in this prospectus
“POS”	point of sale
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before the commencement date of the Companies Ordinance
“Price Determination Agreement”	the agreement to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date to determine and record the Offer Price
“Price Determination Date”	the date, expected to be on or around Thursday, 29 March 2018, or such other date as may be agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), on which the Offer Price is determined
“Profit Ocean”	Profit Ocean Enterprises Limited, a limited liability company incorporated in the BVI on 2 August 2017, owned by Coastal Lion, Sky King, Tri-Luck and Wealth City in equal shares
“Public Offer”	the offer by our Company of the Public Offer Shares for subscription to the public in Hong Kong at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) as described in the section headed “Structure and conditions of the Share Offer” in this prospectus and on and subject to the terms and conditions stated herein and in the Application Forms relating thereto

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## DEFINITIONS

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“Public Offer Shares”	the 9,000,000 new Shares initially offered by our Company for subscription at the Offer Price pursuant to the Public Offer (as described in the section headed “Structure and conditions of the Share Offer” in this prospectus)
“Public Offer Underwriters”	the underwriters of the Public Offer named in the section headed “Underwriting – Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the conditional underwriting agreement dated 22 March 2018 relating to the Public Offer entered into, among others, our Company, our Controlling Shareholders, the executive Directors, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the Public Offer Underwriters, as further described in section headed “Underwriting” in this prospectus
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Reorganisation”	the corporate reorganisations undergone by our Group in preparation for the Listing described in the section headed “History, reorganisation and group structure – Reorganisation” in this prospectus
“Repurchase Mandate”	the general unconditional mandate relating to the repurchase of the Shares granted to our Directors, further details of which are set out in the section headed “Statutory and general information – 3. Share Repurchase Mandate” in Appendix IV to this prospectus
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital of our Company
“Share Offer”	the Public Offer and the Placing

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## DEFINITIONS

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“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 14 March 2018, the principal terms of which are summarised in the paragraph headed “Statutory and general information – 8. Share option scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of the Shares
“Sky King”	Sky King Global Limited (天景環球有限公司), a limited liability company incorporated in the BVI on 23 June 2017, wholly owned by Mr. Chan Shu Yuen
“Sole Bookrunner” or “Sole Global Coordinator” or “Sole Lead Manager” or “Sole Sponsor”	KGI Capital Asia Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined in the SFO
“sq.ft.”	square feet
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning given to it in the GEM Listing Rules
“substantial shareholder(s)”	has the meaning given to it in the GEM Listing Rules and, in the context of our Company, refers to the entities disclosed in the section headed “Substantial shareholders” in this prospectus or, where the context so requires, any one of them
“Takeovers Code”	the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“TDO”	the Trade Descriptions Ordinance (Chapter 362 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017

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## DEFINITIONS

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“Tri-Luck”	Tri-Luck Investments Limited, a limited liability company incorporated in the BVI on 2 August 2017, wholly owned by Mr. Chan Tat Yuen
“U.S. dollars” or “US\$” or “USD”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“United States” or “U.S.”	the United States of America, its territories and possessions, and all areas subject to its jurisdiction
“Wealth City”	Wealth City Global Limited, a limited liability company incorporated in the BVI on 2 August 2017, wholly owned by Mr. Chan Kun Yuen
“ <b>WHITE</b> Application Form(s)”	the application form(s) to be completed in accordance with the instructions in the section headed “How to apply for Public Offer Shares – 3. Applying for Public Offer Shares” in this prospectus
“ <b>YELLOW</b> Application Form(s)”	the application form(s) to be completed in accordance with the instructions in the section headed “How to apply for Public Offer Shares – 3. Applying for Public Offer Shares” in this prospectus
“Ying Kee”	Ying Kee Tea Company Limited (英記茶莊有限公司) (formerly known as International Sunnyside Tradings Limited until it changed its name on 22 May 1990), a limited liability company incorporated in Hong Kong on 13 December 1983, a directly wholly-owned subsidiary of our Company after the Reorganisation

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## DEFINITIONS

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“Ying Kee (TM)” Ying Kee Tea House (Trademarks) Limited (英記茶莊(商標)有限公司), a limited liability company incorporated in Hong Kong on 21 September 2010, owned by Mr. Chan Kun Yuen, Mr. Chan Kwong Yuen, Mr. Chan Shu Yuen and Mr. Chan Tat Yuen in equal shares (*i.e.*, 25% each)

% per cent

*Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus is as at the Latest Practicable Date.*

*Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown in totals in certain tables may not be the arithmetic aggregation of the figures preceding them.*

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## FORWARD-LOOKING STATEMENTS

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### **FORWARD-LOOKING STATEMENTS CONTAINED IN THIS PROSPECTUS ARE SUBJECT TO RISKS AND UNCERTAINTIES**

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this prospectus. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, but are not limited to, relating to:

- our operation and business prospects;
- future developments, trends and competition in the industry and markets in which we operate;
- our strategy and implementation plans, objectives and our ability to successfully implement them;
- our dividend distribution policy;
- the prospective financial information regarding our business;
- our future financial condition and results of operations;
- the amount, and nature of, and potential for future development of our business;
- general political and economic conditions, including the performance of global financial markets;
- macroeconomic measures taken by the Hong Kong Government to manage economic growth;
- changes in general political and economic conditions in Hong Kong and the PRC that may be detrimental to the industry in which we operate;
- competition for our business activities and the actions and development of our competitors;
- changes to our development plans and use of capital expenditures;
- realisation of the benefits of our future plans and strategies;

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## FORWARD-LOOKING STATEMENTS

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- changes to regulatory and operating conditions in the markets in which we operate, including changes in our ability to access the capital markets and changes in the level of interest rates; and
- other factors beyond our control.

All statements other than statements of historical facts included in this prospectus, without limitation, including statements regarding our future financial position, strategy, plans and objectives of management for future operations where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “project”, “seek”, “should”, “will”, “would” or similar expressions or the negative of these words or other similar expressions or statements, are forward-looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements.

We believe that the sources of information and assumptions contained in such forward-looking statements are appropriate sources for such statements and have taken reasonable care in extracting and reproducing such information and assumptions. We have no reason to believe that information and assumptions contained in such forward-looking statements are fake or misleading or that any fact has been omitted that would render such forward-looking statements fake or misleading in any material respect.

The information and assumptions contained in the forward-looking statements have not been independently verified by us, our Directors, our Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, and any other party involved in the Share Offer or their respective directors, officers, employees, advisers or agents and no representation is given as to the accuracy or completeness of such information or assumptions on which the forward-looking statements are made. Additional factors that could cause our actual performance or achievements to differ materially include, but are not limited to, those disclosed under the section headed “Risk factors” and elsewhere in this prospectus.

Furthermore, these forward-looking statements are based on current plans and estimates which merely reflect our current view with respect to future events and apply only as of the date they were made but are not a guarantee of future performance. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events, or otherwise. Because of these risks, uncertainties or assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

In this prospectus, statements of or references to our intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future development.

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## RISK FACTORS

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*You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Share Offer. You should pay particular attention to the fact that the legal and regulatory environment of which may differ in some respects from that which prevails in other countries. The business, financial condition or results of operations of our Group could be materially and adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties, and you may lose all or part of your investment.*

### **RISKS RELATING TO OUR BUSINESS**

**We have been, and may continue to be, substantially dependent on revenue from the sale of our tea leaves, and tea related products. A decline in the sales or profitability of tea leaves and/or tea related products could materially and adversely affect our business, financial condition and results of operations.**

Sales of tea leaves, tea wares and tea gift sets accounted for substantial portion of our total revenue for the Track Record Period. In particular, our sales of tea leaves accounted for 94.3%, 94.8%, and 93.8% of our revenue for the financial year ended 31 March 2016, the financial year ended 31 March 2017, and the six months ended 30 September 2017, respectively. For more details, please see the section headed “Financial information – Principal income statement components – Revenue – (a) Analysis by product type” in this prospectus. We expect to continue to derive a majority of our total revenue from the sale of tea leaves and tea related products for the foreseeable future. Our business will therefore remain highly sensitive to the demand for, and the profitability of, tea leaves and tea related products. Any event or circumstance that adversely affects the sales or profitability of tea leaves and tea related products, such as (i) a decline in demand for our tea products as a result of a change of consumer tastes and preferences, consumer income, consumer perceptions of and confidence in our tea product quality; (ii) decrease in the spending powers of consumers in the Chinese tea market as a result of economic downturn and political and social instability; (iii) regulatory restrictions on the sale of tea leaves and tea related products or related advertising activities; and (iv) pricing pressure, may materially and adversely affect our overall business, financial condition and results of operations.

**Our marketing and promotion activities may not successfully maintain and enhance our brand recognition.**

We believe that our brand image plays an important role in influencing consumers’ decisions in purchasing our products. Maintaining and enhancing our brand recognition and reputation depends primarily on the perceived quality of our products as well as the success of our marketing and promotion activities. In recent years, we have advertised across a variety of different media to ensure depth of coverage, including on television, in newspapers, and through our company website; and undertaken other brand promotion efforts, such as engaging promoters for our booths in exhibitions and shopping malls and conducting tea appreciation courses, to increase our brand recognition and enhance our brand image.



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## RISK FACTORS

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However, our marketing and promotion efforts may be unsuccessful; we may be unable to purchase and effectively manage our media resources; and our brand image may be harmed by negative publicity relating to us or our products. If we fail to successfully market or promote our brand, or if our brand is damaged, demand for our current and future products may be materially and adversely affected, our market share may be damaged, and our business may suffer. Significant increases in marketing expenses could also negatively impact our profitability.

**The expansion of our retail network may not be as successful as we expect.**

We plan to expand the geographic coverage of our retail network in Hong Kong. Please refer to the section headed “Future plans and use of proceeds – Business objectives and strategies – Open new retail points in Hong Kong” in this prospectus for details.

We may be unable to secure tenancy agreements or license agreements for suitable sites on reasonable terms, have difficulty recruiting qualified and service-minded employees, and/or may suffer delays in completion of renovation works. In addition, expanding our retail network may not be immediately profitable, or may initially generate lower profit and require some time to breakeven. Furthermore, we have no guarantee that our financial, operational and managerial resources will be sufficient to support our expansion, or that our new retail locations will be as successful as our existing ones.

In addition, we may fail to anticipate and address competitive conditions in our expanded retail network that are different from those in our existing retail network. Accordingly, we may not be able to achieve our expansion goals or effectively integrate new retail locations into our existing retail network. If we encounter difficulties in expanding our retail network, our future plans and growth prospects may be impacted, which could materially and adversely impact our business, financial condition and results of operations.

**The expansion of our retail network could result in a significant increase in our operating expenses. Meanwhile, our expansion plan, profitability and operations may be adversely affected if we are not able to generate sufficient revenue from business.**

We expect to incur additional operating expenses in connection with the expansion of our retail network. As described in the section headed “Future plans and use of proceeds – Business objectives and strategies – Open new retail points in Hong Kong” in this prospectus, we anticipate that our opening of new retail points, being Shop 8, Shop 11, Shop 12, Shop 13 and Shop 14, in Hong Kong will incur additional operating expenses including rental deposits and expenses, staff costs, and renovation expenses of approximately HK\$11.3 million. Please refer to “Open new retail points in Hong Kong” under “Business objectives and strategies” of the “Future plans and use of proceeds” section of this prospectus for details. If we are unable to generate sufficient revenue from our business, or if our financing needs are larger than expected, we may have to raise funds from debt or equity financing means, or make certain modifications to our current intended use of proceeds. If so, our expansion plan, profitability and operations may be adversely affected.

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## RISK FACTORS

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**We cannot guarantee positive operating cash flow in the future.**

We recorded negative operating cash flows of approximately HK\$5.4 million for the six months ended 30 September 2017 mainly because of our payment of listing expenses. For more details, see the section headed “Financial information – Liquidity, financial and capital resources – Cash flow – Operating activities” in this prospectus. We cannot guarantee that we will be able to record positive operating cash flow in the future as we continue to grow our business. If we continue to record negative operating cash flow in the future, our working capital may be constrained, and our overall business, financial condition and results of operations may be materially and adversely affected.

**Our tenancy agreements and license agreements have concentration of lease expiry dates. We may not be able to renew all or some of the existing tenancy agreements or license agreements for our premises including retail shops and concession counters.**

We operated seven retail shops and three concession counters as of the Latest Practicable Date. We rent or license all premises on which our head office, warehouse and showroom, car parking spaces, retail shops and concession counters are located. As such, we have significant exposure to the rental in Hong Kong. For the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, our rent/license fees amounted to approximately HK\$11.8 million, HK\$8.6 million and HK\$4.0 million, respectively, which represented approximately 54.0%, 47.1% and 43.6% of our total administrative expenses excluding the listing expenses, respectively. As rent/license fees represent a significant portion of our total administrative expenses, our profitability may be adversely affected by any substantial increase in the rent/license fees of our premises.

It is therefore important for us to maintain our existing tenancy agreements and license agreements and renew such agreements on acceptable terms upon their expiry. In the event that any of our tenancy agreements or license agreements are terminated for any reason prior to their expiration or that we are unable to renew the tenancy agreements or license agreements upon their expiry on acceptable terms, we will have to relocate the relevant premises from the existing location(s) to alternative premises. Relocation of any part of our head office, warehouse and/or retail network may disrupt our business and may require large expenditures, and there is no guarantee that in such a case, we will be able to find suitable premises on commercially reasonable terms in a timely manner, or at all.

The terms of our tenancy agreements and license agreements generally range from one to three years. The tenancy agreements and license agreements for most of our retail shops and concession counters will expire shortly after the Listing. Those for Shops 3, 4 and 10 will expire in April and November 2018, and those for Shops 1, 2, 5 and 6 will expire in March 2019, respectively. Upon expiration of the tenancy agreement or license agreement for any of our head office, warehouse and showroom, car parking spaces, retail shops and concession counters, we will need to renegotiate the terms and conditions on which the tenancy agreement or license agreement may be renewed. We cannot assure you that we will be able to renew the tenancy agreements or license agreements with favourable or otherwise acceptable terms and

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## RISK FACTORS

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conditions, in particular those regarding the rent or license fees. If we are not, we may need to seek alternative sites to relocate the relevant head office, warehouse and showroom, car parking spaces, retail shops, and/or concession counters in question. Based on our Directors' current estimation, under such circumstances, we may incur costs of shop renovation (including fixed assets and decoration) of less than HK\$1.0 million and revenue loss of less than HK\$0.7 million for each shop relocation (on the assumption that approximately two months would be required for securing a lease, completing decorations and opening a new shop in the same district). Such alternative sites may not be at comparable locations, or may not be rented or licensed on comparable terms.

**The surroundings of the current and future sites of our retail shops and concession counters could become unattractive.**

We cannot assure you that the current and future sites of our retail shops and concession counters will remain, or will be, attractive. Adverse changes to the surroundings of our current retail shops and concession counters or the areas in which they are located, such as the closure of a public transportation route, the increased presence of our competitors or the development of heavy construction works, our business at the relevant retail shops and concession counters may be suffered. In addition, any temporary suspension of operations, or closures, of any of our current retail shops and concession counters due to renovation may incur substantial losses that other retail shops and concession counters may not be able to recoup. As at the Latest Practicable Date, two of our current retail shops are located in shopping malls and all three of our concession counters are located in supermarket/department stores, there is no guarantee that the mix and placement of tenants of these premises will remain favourable to us. A loss of anchor tenants or change of the mix of tenants in such premises may result in decreased pedestrian traffic and a loss of customers for our business.

If a significant number of the current and future sites of our retail shops and concession counters become, or are, unattractive, we may be forced to close down our operation on the relevant sites or to relocate to alternative sites, thereby disrupting our operations and adversely impacting our business, financial condition and results of operations.

**Failure of our POS system could disrupt our operations and adversely affect our business.**

We rely on our POS system to monitor the daily operations of our retail shops and concession counters and to collect accurate sales and inventory data which will assist us to estimate market demand and requirement on replenishing stock in order to prevent loss of sales opportunities or over stock. We rely on third-party information service provider to maintain and upgrade our systems. Any damage or failure of our POS system could disrupt our normal business and operations, result in loss of important information about sales to customers and changes in inventory levels, cause slowdowns in our operational and management efficiency, and adversely affect our business, financial condition and results of operations.

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## RISK FACTORS

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**We do not usually enter into long-term arrangements with our suppliers and customers. If we are unable to continue our business relationships with them, our business, financial condition and results of operations may be adversely affected.**

In general, we do not enter into long-term arrangements with our suppliers. For the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, purchases from our five largest suppliers accounted for approximately 64.0%, 70.9% and 73.6% of our total purchases, respectively. Our suppliers may reduce or cease supplying tea leaves and tea wares to us at any time in the future. We cannot assure you that our current suppliers will always be able to meet our demand, as well as our selection criteria and quality requirements.

If we fail to maintain business relationships with our suppliers, or if any of our suppliers fail to supply to us in a timely manner, we may be forced to seek other suitable suppliers. We cannot guarantee that we will be able to locate other suppliers on comparable terms in a timely manner or at all. Any increased costs from our suppliers may need to be passed on to our customers, and the lack of availability of any of our products may cause us to lose customers, result in diminished market share, and materially and adversely impact our business, financial condition and results of operations.

In addition, with the exception of certain agreements disclosed under the section headed “Business – Customers – Customer contracts” in this prospectus, we have not entered into any agreement with the majority of our customers, who may cease purchasing products from us at any time. Our revenue from our five largest customers for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017 amounted to approximately HK\$1.5 million, HK\$1.7 million and HK\$1.0 million, respectively, representing approximately 3.6%, 3.9% and 6.4% of our total revenues, respectively. We have no assurance that the customers with whom we have entered into agreements will not decide to terminate the relevant agreements unexpectedly at any time or before their expiration, or that we will be able to renew these agreements on terms that are acceptable to us.

**The blends of our tea leaves products are not patented, and misuse of our blends by our employees may damage our competitive position.**

Certain of our tea leave products are processed using our blends. We have not made any applications for patents for our blends because we believe that such disclosure may provide our competitors with information that would enable them to imitate our processing methods. Our code of conduct policy stipulated that Directors and staff in charge of or having access to any company assets, including funds, property, information and intellectual property, should use them solely for the purpose of conducting business of our Group. Unauthorised use, such as misuse for personal interest is strictly prohibited. However, there is no assurance that our employees will not wilfully or inadvertently disclose our blends to our competitors. If this occurs, our blends may be used by our competitors or other third parties to produce, process and/or improve upon competing products. This may damage our competitive position, cause us to lose market share, and result in material adverse impact to our business, financial condition and results of operations.

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## RISK FACTORS

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**Failure to protect our intellectual property rights could undermine our competitive position, and litigation to protect our intellectual property rights may be costly and ineffective.**

We consider our trademarks and other intellectual property important to our business. We cannot guarantee that from time to time, our intellectual properties have never been used or infringed by third parties. Preventing intellectual property infringement is difficult, expensive and time-consuming. Continued unauthorised use of our intellectual properties by unrelated third parties may damage our reputation and brand image. The measures we take to protect our trademarks and other intellectual property rights may not be sufficient to prevent such unauthorised use. If we are unable to adequately protect our trademarks and other intellectual property rights, we may lose these rights, our brand image may be harmed, and our competitive position and business may suffer.

**Our success and business operations are largely dependent on our Directors and senior management.**

Our future success depends heavily on the continued services of our Directors, including Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen and Mr. Chan Shu Yuen, and senior management, including Mr. So Stephen Hon Cheung and Ms. Man Choi Ho. For details of the role of each of our Directors and senior management, please refer to the section headed “Directors, senior management and employees” in this prospectus. If one or more of our Directors or senior management are unable or unwilling to continue in their present positions, we may not be able to replace them promptly, or at all, which may severely disrupt our business, and adversely affect our results of operations and future prospects.

**Labour shortages or increases in staff cost may increase our operating costs and affect our profitability.**

We depend on our ability to retain, motivate and recruit a sufficient number of warehouse (including packaging and processing) staff and retail staff, all of whom are necessary for our daily operations. However, in the future, the tea industry in Hong Kong may suffer from shortages of labour as many skilled workers in the industry are approaching retirement age, and young people are more keen to enjoy tea leaves as a consumer rather than to join the tea industry as a worker. As a result, workers with deep knowledge of the tea industry and the tea leaves processing may be in short supply in the future. We might be unable to retain, motivate and recruit suitable individuals which could materially and adversely affect our operations and performance.

Competition for qualified employees could also place upward pressure on our staff costs. As at the Latest Practicable Date, we employed a total of 50 full-time employees. Our employees include staff in our head office, warehouse, retail shops and concession counters. Our staff costs, including salaries, allowance and other benefits, pension costs-defined contribution plans and reversal of provision for long service payment, amounted to approximately HK\$9.1 million, HK\$9.3 million and HK\$4.4 million, representing

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## RISK FACTORS

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approximately 21.2%, 20.9% and 27.6% of our total revenue for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. In order to retain and attract skilled individuals, we may have to pay higher wages than anticipated. Furthermore, we are required to comply with statutory minimum wage requirements, the rate of which was HK\$34.5 per hour as at the Latest Practicable Date. In future, these statutory minimum wage requirements may be further revised upwards. In light of the shortage of skilled and qualified labour in the tea industry, our anticipated expansion, and potential future increases in statutory minimum wage requirements, our staff costs may increase. If we are unable to pass these increased costs onto our customers, our business, financial condition and results of operations could be materially and adversely affected.

**Any disruption to the supply of, any increase in the prices of, or any quality or safety problems relating to, our raw material tea leaves could adversely affect our revenue and profitability.**

Our business requires a key raw material, tea leaves, and other materials including packaging materials.

We may experience shortages in the supply of tea leaves or other materials from our existing suppliers in the future due to various unforeseen events including bad harvests, which could materially and adversely affect our processing and results of operations. If any of our suppliers is unwilling or unable to provide us with quality raw material tea leaves in required quantities and at acceptable prices, we may be unable to find alternative sources at commercially acceptable prices, on satisfactory terms, in a timely manner, or at all.

We also cannot assure you that our suppliers will not intentionally or unintentionally contaminate our raw material tea leaves supplies, or provide us with substandard raw material tea leaves supplies that adversely impact the quality of our products. We may not be aware of any harmful substances contained in our raw material tea leaves that may cause undesirable side effects to our consumers. If we experience any quality or safety problems with our raw material tea leaves, our product quality may be adversely affected, our products may have to be recalled from the market and/or we may be subject to product liability claims. Any claims we may wish to bring against our suppliers may require significant time and financial resources, be unsuccessful, and adversely affect our reputation, competitive position and business.

We may not be able to offset increases in the prices of raw material tea leaves and/or other materials such as packaging materials by raising the prices of our products. Moreover, we may lose our competitive advantage if the prices of our products increase significantly. If the prices of raw material tea leaves and/or other materials such as packaging materials increase in the future and we cannot pass on such increases to our customers, we may not be able to maintain our current profit margins, and our business, financial condition and results of operations may be materially and adversely affected.

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## RISK FACTORS

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**Delivery delays or poor handling by transport operators may reduce our sales and profitability and damage our reputation.**

We rely on Independent Third Party service providers for the delivery of our products from our warehouse to our retail shops and concession counters, and from us to our customers who required deliveries. Inadvertent or deliberate poor handling by transport operators could also result in damage and/or contamination to our products, which may cause us to lose revenue, damage our reputation, and adversely impact our business, results of operations, and financial condition.

**We may be unable to detect, deter and prevent all instances of fraud or other misconduct committed by our employees, customers or other third parties.**

We usually receive and handle large amounts of cash in our daily operations. We may be unable to prevent, detect or deter all instances of fraud, theft and other misconduct involving employees, customers and other third parties. Any misconduct committed against our interests, which may include past acts that have gone undetected or future acts, could subject us to financial losses, harm our reputation and may have a material adverse effect on our business and results of operations.

**We may require additional funding to finance our operations, which may not be available on terms acceptable to us or at all.**

We believe that our Group will have sufficient working capital as disclosed under “Financial information – Working capital” of this prospectus. However, we may require additional cash resources to finance our continued growth or other future developments. We will be required to seek additional funding or to delay planned expenditures in the event that our funding requirements exceed our financial resources. We cannot provide any assurance that we will be able to obtain additional funds on terms that are acceptable to us, or at all. In addition, our ability to raise funds in the future is subject to various uncertainties, including our future financial condition, results of operations, general market conditions for capital raising, and other economic, political, and other conditions.

In addition, if we raise additional funds by incurring debt obligations, we may be subject to various covenants under relevant debt instruments that may restrict our ability to pay dividends or obtain additional funding. If we do not comply with any such covenants, or fail to service such debt obligations, we could be in default of such debt obligations, and our liquidity and financial condition would be adversely affected.

**Material fluctuations in foreign exchange rates may adversely affect our business and performance.**

We procure our tea leaves from various tea leaves suppliers mainly in Hong Kong, and our Directors confirmed that the PRC is the major origin of such tea leaves. Since the currency for payments are mostly in Hong Kong dollars, we did not have any hedging arrangements for

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## RISK FACTORS

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tea leaves purchases during the Track Record Period. We sourced tea wares from various suppliers in Hong Kong and China such as Guangzhou. The currency of payments in the purchases are mostly in RMB. Our Group recorded net exchange loss of approximately HK\$0.2 million, HK\$37,000 and Nil for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively.

Exchange rates are subject to international political and economic conditions as well as changes in national and international monetary and economic policies. We cannot guarantee that in future, there will not be appreciation in the value of RMB or if applicable, other foreign currencies, which will increase our suppliers' purchasing costs; and that, if our suppliers pass on such increases in costs to us, our costs will be increased, thereby adversely affecting our business, financial condition and results of operations.

**Any unexpected or undesirable side effects to consumers caused by our products could result in costly product recalls or product liability claims, which in turn could lead to severe reputational damage, monetary losses or lawsuits.**

We are subject to product liability claims or product recalls if the use or consumption of our products is alleged to have resulted in side effects or injury. We cannot assure you that we will not be subject to significant product liability claims or recalls in the future.

We provide quality assurance to our customers, and provide a 30-day refund/exchange policy for our tea leaves. If our products cause any serious side effect or injury, or if our products are perceived to cause such side effect or injury, our products may have to be recalled from the market and/or we may be subject to product liability claims. A product recall or product liability claim could result in substantial and unexpected expenditures, which would reduce our operating profit and cash flow, and may require significant management attention. Furthermore, a product recall or product liability claim may hurt our reputation and demand for our products, and may also lead to increased scrutiny of our operations by regulatory agencies. Any product liability claim, even if unfounded, may be expensive for us to defend and will divert management's attention as well as other resources away from our business operations.

**Our uses of "1881" may expose us to risks regarding our brand image and reputation.**

We believe that our history can be traced back to 1881, and 1881 is the year which Ying Kee Tea House was established in Guangzhou, the PRC. Although according to a PRC government source in public domain that Ying King Tea House was established during the 8th year of the reign of Guangxu Emperor of the Qing dynasty (1882), there is no proof that this is the year 1881. "1881" was featured (the "**Representation**") on our website and packaging; in our advertisements and promotional materials; in our retail points and showroom; and in certain of our registered trademarks. Our Hong Kong Legal Counsel is of the view that the manner of usage of the Representation constitutes an "application of trade description to goods" under the TDO. In the definition of "false trade description" under Section 2 of TDO, there is a requirement that the trade description be false or misleading to a "material degree". If it was held by the court the truth is that Ying Kee was established in 1882 instead of 1881, or should there be any challenge by a third party or unfavourable publicity against our said history, our brand image, reputation, and business may be adversely affected.



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## RISK FACTORS

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**Any failure or perceived failure to deal with customer complaints or adverse publicity involving our products or services could materially and adversely impact our business and results of operations.**

Occasionally, we receive complaints filed by our customers relating to the quality of our products or to the customer service quality of our retail staff.

Significant numbers of complaints or claims against us, even if meritless or unsuccessful, could force us to divert management and other resources from other business concerns, which may adversely affect our business and operations.

**Our insurance coverage may be inadequate, potential losses borne by us, and any future substantial increases in premiums, could adversely affect our business, financial condition and results of operations.**

As of the Latest Practicable Date, we have obtained insurance policies that we believe are customary for businesses of our size and type and in line with the standard commercial practice in Hong Kong. However, our insurance may not be adequate to cover our potential liabilities, particularly our risks of loss regarding our most expensive items, Pu-erh cakes, which accumulate in value with ageing. There may also be types of losses we may incur that cannot be insured against or that we believe are not commercially reasonable to insure, such as loss of reputation. Further, insurance may not be generally available in the future, and, if available, the premiums may increase or no longer remain commercially justifiable. If we are held liable for uninsured losses, or for amounts or claims for insured losses exceeding that limits of our insurance coverage, our business, financial condition, and results of operations could be materially and adversely affected.

**Our processing facilities are located at one single location, and any event affecting these facilities may severely disrupt our business.**

Our processing facilities are situated at a single location in Hong Kong. We do not have backup facilities or a formal business continuity plan. In the event of any circumstance that damages these facilities, or that limits our ability to operate these facilities, we may incur significant expenses to repair or replace them, and our ability to process and supply products in accordance with our normal capabilities would be disrupted, thereby impacting our overall business, results of operations and financial condition.

**Our historical financial and operating results may not be indicative of future performance, and we may not be able to achieve and sustain the historical level of revenue and profitability.**

Our historical results may not be indicative of our future performance. Our financial and operating results may not meet the expectations of public market analysts or investors, which could cause the future price of our Shares to decline. Our revenues, expenses and operating results may vary from period to period in response to a variety of factors beyond our control,

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## RISK FACTORS

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including general economic conditions, regulations pertaining to tea leaf vendors in Hong Kong and our ability to control costs. You should not rely on our historical results to predict the future performance of our Shares.

### **RISKS RELATING TO OUR INDUSTRY**

**Changes in consumer preferences and demand for tea leave products or tea wares in Hong Kong could materially and adversely affect our business, financial condition and results of operations.**

Our continued success depends, in large part, upon the popularity of and demand for our tea leaves, tea wares and tea gift sets. However, consumer preferences and demand in Hong Kong may shift away from such products for various reasons, including but not limited to:

- a general decrease in consumer preference for tea products as compared to other types of products that may be viewed by consumers as substitutes for, or alternatives to such products, including coffee and coffee-related products;
- increased consumer preference for the convenience of tea bags, for ready-to-drink tea, and for other types of tea, such as western tea;
- a change in consumers' perception that Chinese tea leaves may be effective in achieving certain anticipated health benefits; and
- negative publicity regarding tea leaves, tea wares or other tea products supplied by other tea retailers or in general.

Due to the relatively small consumer base of the Chinese tea leaves market in Hong Kong, shifts in consumer preferences and demand away from Chinese tea leaves or tea wares could materially and adversely affect our business prospects, financial condition and results of operations.

**Because we generated substantially all of our revenue in Hong Kong during the Track Record Period and expect to continue to derive a substantial portion of our revenue from Hong Kong, we are susceptible to developments in Hong Kong.**

During the Track Record Period, we generated substantially all of our revenue from our Hong Kong operations. We anticipate that our business in Hong Kong will continue to be our core business following the completion of the Share Offer. If Hong Kong experiences any adverse economic conditions due to events beyond our control, such as a local economic downturn, natural disasters, contagious disease outbreaks or terrorist attacks, or if the local authorities adopt regulations or policies that place additional restrictions or burdens on us or on our industry in general, our overall business and results of operations may be materially and adversely affected. In addition, we may have difficulties in relocating our business to other geographic markets. Therefore, if there is any deterioration in the economic, political and regulatory environment in Hong Kong, our overall business, financial condition and results of operations may be materially and adversely affected.

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## RISK FACTORS

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**We face intense competition, and if we fail to compete effectively, we may lose market share and our results of operations may be adversely affected.**

As mentioned in the Euromonitor Report, the overall market for packaged branded Chinese tea, tea ware and gift sets is rather competitive and fragmented due to relatively low barriers of entry, with many small independent retailers operating alongside more established retailers who have been around for decades. However, soaring operating costs and a challenging retail environment has seen the market undergo a period of consolidations as smaller, less profitable retailers either exit the market or are absorbed by larger, more resilient retailers.

Our competitiveness depends on a number of factors, such as market awareness of our brand, the effectiveness of our marketing activities, the quality of our products, and the breadth and depth of our retail sales network. Some of our existing and potential competitors may have greater financial and other resources than we do. Such competitors may also have greater brand recognition, more established retail sales networks, or more extensive knowledge of our target consumers and target markets. As such, our competitors may be able to devote greater resources to the development, promotion and sale of their products or respond more quickly to evolving industry standards, changes in customer preference and in market conditions than we do. It is also possible that there will be consolidation or alliances among our competitors and that our market share may be adversely affected as a result. In addition, in order to increase sales, some competitors may engage in activities, whether legal or illegal, designed to undermine our brands or to influence consumer confidence in our products.

If we are unable to maintain our competitive position or otherwise respond effectively to competitive pressure, we may lose market share. We may be subject to pricing pressures that adversely affect our revenue and profitability. Our overall business, financial condition and results of operations may be materially and adversely affected.

**Any failure to maintain an effective quality control system could have a material and adverse effect on our overall business, financial condition and results of operations.**

Product quality is essential to the success of our business. The quality of our products is dependent on the effectiveness of our quality control system, which in turn depends on a number of factors, including the design of the quality control system and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any failure of our quality control system could result in defective or substandard products, which in turn may damage our reputation, result in delays in the delivery of our products and the need to replace defective or substandard products, materially and adversely impacting our overall business, financial condition and operating results.

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## RISK FACTORS

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**Unfavourable publicity or consumer perception of our products, or of similar products sold by other companies, could have a material adverse effect on our business.**

We are highly dependent upon consumer perception regarding the quality and safety of our products which are tea leaves, tea wares and tea gift sets in general. Consumer perceptions can be significantly influenced by factors beyond our control, such as scientific research or findings, national media attention and internet articles and commentary, some of which may be negative. Research reports, findings or publicity that are perceived as negative or that question the quality or safety of our or similar products could have a material adverse effect on the effectiveness of our marketing campaigns, the demand for our products and our business and results of operations. Unfavourable publicity, even if unfounded, may adversely impact our business, damage our brand, lead to greater scrutiny of our products by the regulatory authorities, and possibly regulatory actions restricting our ability to promote or sell our products.

**Our products and brand names may be subject to counterfeiting or imitation, which could adversely impact our reputation and lead to loss of consumer confidence, reduced sales and increased administrative costs.**

As our brand is widely recognised in Hong Kong, we face the risk of counterfeiting and imitation of our products as well as imitation of our trademarks. We may not be able to detect or address the problem effectively.

Some counterfeiters may sell inferior quality tea leaves, tea wares or tea gift sets using our Ying Kee Tea House brand, while others may sell tea leaves, tea wares or tea gift sets with packaging or other attributes that are very similar to ours, possibly at a lower price, potentially causing confusion for our customers.

If counterfeit products illegally sold under our brand result in adverse side effects to end-users, we may be associated with negative publicity resulting from such incidents. In addition, customers may buy counterfeit products that are in direct competition with our authentic products, which could have an adverse impact on our revenue, business and results of operations. Any counterfeiting or imitation of our products could negatively affect our brand name, lower consumer confidence in us and, as a consequence, adversely affect our results of operations. Any legal proceedings, including investigations by government authorities, to prosecute counterfeiting or imitation of our products may be expensive and will divert our management's attention as well as other resources away from our business.

**Seasonal impact, marketing and promotion activities and general economic environment could affect our revenue and profitability.**

The sales of our products are subject to seasonality. We generally record more sales of our tea products as a percentage of our total revenue around the Chinese New Year and during our annual sale. Accordingly, our results of operations for a particular year may be significantly impacted by our results of operations during certain periods of the year. Factors that could cause our results of operations to fluctuate include, amongst others, the effectiveness of our major promotional campaigns and the general economic environment.

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## RISK FACTORS

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**Changes in the laws and regulations applicable to our operations may adversely affect our business.**

Various aspects of our operations are subject to Hong Kong food safety as well as consumer protection laws and regulations. For details, please refer to the section “Regulatory overview” in this prospectus. We cannot assure you that we are able to fully comply with future laws and regulations. Any failure to comply with relevant laws and regulations may have a material adverse effect on our overall business and results of operations.

We cannot assure you that the Hong Kong Government will not change the existing laws or regulations, or adopt additional or more stringent laws or regulations applicable to us and our business operations. We may fail to comply with such laws and regulations if they become more stringent or wider in scope in the future. Even if we can comply with such laws and regulations in the future, our costs of operations may increase. We cannot predict the nature of any such future laws and regulations, or the impact on our business operations if and when such future laws and regulations are promulgated. Such future laws and regulations may require the amendment of methods and procedures for sourcing raw materials, processing and transportation, including without limitation, more onerous food safety, labelling and packaging requirements. The costs of compliance with future legal or regulatory requirements and obtaining and maintaining regulatory approvals may be significant, and could force us to curtail our operations or otherwise have a material adverse effect on our business, financial condition and results of operations. Failure to comply with any current and future laws and regulations could subject us to civil remedies or administrative penalties, including fines, injunctions, product recalls or seizure, as well as potential criminal sanctions, which could materially adversely affect our overall business, financial condition and results of operations.

**Litigation or legal proceedings could expose us to liability, divert our management’s attention and negatively impact our reputation.**

We may be involved in litigation or legal proceedings during the ordinary course of business operations related to, amongst others, product or other types of liability, labour disputes or contract disputes that could have a material and adverse effect on our financial condition. These actions could also expose us to adverse publicity, which might damage our brand name and lower customer preference for our products. If we become involved in any litigation or other legal proceedings in the future, the outcome of these types of proceedings could be uncertain and could result in settlements or outcomes that adversely affect our financial condition. In addition, any litigation or legal proceedings could incur substantial legal costs and divert our management’s attention away from our business.

**Acts of god, acts of war, epidemics (real or perceived), and other disasters may affect our business.**

Our business is subject to the general and social conditions in Hong Kong. Natural disasters, epidemics, acts of god and other disasters that are beyond our control may materially and adversely affect the economy, infrastructure and livelihood of the people of Hong Kong. Our overall business, financial condition and results of operations may be materially and adversely affected if these events occur.

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## RISK FACTORS

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Outbreaks of disease or occurrences of epidemics are beyond our control. Such outbreaks or occurrences, whether real or perceived, may materially and adversely affect people's livelihoods, living and consumption patterns and the general economy, thereby affecting our business, financial condition and operating results.

Acts of war and terrorist attacks may cause damage or disruption to us, our employees, suppliers, and customers, the occurrence of any of which may materially and adversely affect our overall business, financial condition, results of operations, or Share price. Potential war or terrorist attacks may also cause uncertainties and cause our business to suffer in ways that we are unable to currently predict.

### **RISKS RELATING TO THE SHARE OFFER AND THIS PROSPECTUS**

**There has been no prior public market for our Shares and their liquidity and market price may be volatile.**

Prior to the Share Offer, there has been no public market for our Shares. An active or liquid market for our Shares may not develop or be sustained as a result of the Share Offer. The initial Offer Price for our Shares to the public will be the result of negotiations between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters), and may differ significantly from the market price of the Shares following the Share Offer. Listing on the Stock Exchange does not guarantee that a trading market for the Shares will develop, or if a market does develop, that it will be sustained following the Share Offer, or that the market price of the Shares will not decline following the Share Offer.

In addition, the trading price and trading volume of the Shares may be subject to significant volatility as a result of a variety of factors, many of which are beyond our control, including but not limited to:

- actual and anticipated variations in our operating results;
- changes in securities analysts' financial estimates;
- announcements by us or our competitors of significant acquisitions, disposals, strategic alliances or joint ventures;
- regulatory or legal developments affecting us, our customers or our competitors;
- investors' perception of us and of the investment environment in Asia, including Hong Kong;
- developments in the tea leaves and tea wares markets;
- changes in pricing made by us or our competitors;
- the depth and liquidity of the market for our Shares;

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## RISK FACTORS

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- additions to, or departures of, our executive officers and other members of our senior management;
- release or expiry of lock-up or other transfer restrictions on our Shares;
- sales or anticipated sales of additional Shares; and
- the general economy and other factors.

Moreover, in recent years, stock markets in general have experienced significant price and volume fluctuations, some of which have been unrelated or disproportionate to the operating performance of the listed companies. These broad market fluctuations may adversely affect the market price of Shares.

**Current volatility in the global financial markets could cause significant fluctuations in the price of our Shares.**

Financial markets around the world have been experiencing heightened volatility and turmoil since late 2007. Upon Listing, the price and trading volume of our Shares will likely be subject to similar market fluctuations which may be unrelated to our operating performance or prospects. Factors that may significantly impact the volatility of our Share price include, among other things:

- developments in our business sector or in the financial sector generally, including the effect of direct governmental action in the financial markets;
- the operating and securities price performance of companies that investors consider to be comparable to us; and
- changes in global financial and credit markets and global economies and general market conditions, such as interest or foreign exchange rates as well as stock and commodity valuations and volatility.

As a result of these market fluctuations, the price of our Shares may decline significantly, and you may lose a significant value on your investments.

**Your interest in us may be diluted in the future.**

We may need to raise additional funds in the future to finance business expansion, whether related to existing operations or new acquisitions. If additional funds are raised through the issuance of our new equity or equity-linked securities other than on a pro rata basis to existing Shareholders, then (i) the percentage ownership of our existing Shareholders, including you, may be reduced, and/or (ii) such newly issued securities may have rights, preferences or privileges superior to those of the Shares of the existing Shareholders, including you.

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## RISK FACTORS

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**Purchase of Offer Shares may incur an immediate and substantial dilution in net tangible book value per Share as a result of the Share Offer.**

The Offer Price of the Offer Shares is substantially higher than the net tangible book value per Share. Therefore, purchasers of the Offer Shares in the Share Offer may experience an immediate and substantial dilution in net tangible book value per Share as a result of the Share Offer.

**Certain statistics and forecasts in this prospectus were derived from third party sources and have not been independently verified.**

This prospectus includes certain statistics and facts that have been extracted from official government sources and publications or other sources and we cannot guarantee neither the quality nor the reliability of such source material. They have not been prepared or independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Underwriters or any of its or their respective affiliates or advisers, and therefore we take no representation as to the accuracy of such facts and statistics. In addition, the section headed “Industry overview” in this prospectus contains certain forecast data which were based on certain assumptions which, by their nature, are subjective and uncertain. We cannot guarantee the accuracy or adequacy of such assumptions and accordingly, the forecast data. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place, on such facts, statistics and forecasts in this prospectus.

**Forward-looking statements contained in this prospectus are subject to risks and uncertainties.**

This prospectus contains certain statements that are “forward-looking” and uses forward-looking terminology such as “anticipate,” “believe,” “expect,” “estimate,” “plan,” “consider,” “would,” “may,” “ought to,” “should” or “will.” Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Purchasers of our Shares are cautioned that reliance on any forward-looking statement involves risk and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The risks and uncertainties in this regard include, but are not limited to those identified in this section, many of which are not within our control. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us that our plans and objectives will be achieved and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise.



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## RISK FACTORS

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**You are cautioned not to place any reliance on any information in press articles or other publications or media regarding us or the Share Offer.**

There has been, prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Share Offer, press, media, and/or research analyst coverage regarding us, our business, the industry in which we operate and the Share Offer. You should rely solely upon the information contained in this prospectus in making your investment decisions regarding our Shares and we do not accept any responsibility for the accuracy or completeness of the information contained in such press articles, other media and/or research analyst reports nor the fairness nor appropriateness of any forecasts, views or opinions expressed by the press, other media and/or research analyst regarding our Shares, the Share Offer, our business or the industry in which we operate. Prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for purposes of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief:

- the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive; and
- there are no other matters the omission of which would make any statement herein or this prospectus misleading.

### **INFORMATION ON THE SHARE OFFER**

The Public Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Share Offer or to make any representation not contained in this prospectus or the relevant Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of their respective directors, agents, employees or advisors or any other parties involved in the Share Offer.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Offer Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and conditions of the Share Offer” in this prospectus, and the procedures for applying for the Public Offer Shares are set out in the section headed “How to apply for Public Offer Shares” in this prospectus and on the relevant Applications Forms.

### **UNDERWRITING**

This prospectus is published solely in connection with the Share Offer.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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The Listing is sponsored by the Sole Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement, and is subject to the agreement on the Offer Price between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date. A Placing Underwriting Agreement relating to the Placing is expected to be entered into on or around Thursday, 29 March 2018, subject to the Offer Price being agreed. The Share Offer is managed by the Sole Global Coordinator, the Sole Bookrunner and Sole Lead Manager.

If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company by the Price Determination Date, the Share Offer will not proceed and will lapse.

Further details of the Underwriters and the underwriting arrangement are set out in the section headed “Underwriting” in this prospectus.

### **OFFER PRICE**

The Offer Shares are being offered at the Offer Price, which is expected to be fixed by the Price Determination Agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, which is currently expected to be on or about, Thursday, 29 March 2018. If, for whatever reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to agree on the Offer Price by the Price Determination Date, the Share Offer will not become unconditional and will lapse. For full information relating to the determination of the Offer Price, please refer to the section headed “Structure and conditions of the Share Offer” in this prospectus.

### **RESTRICTIONS ON SALE OF THE OFFER SHARES**

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms. This prospectus and/or the Application Forms may not be used for the purpose of, and does not constitute, an offer or invitation in relation to the Share Offer in any jurisdiction or, in any circumstance in which such an offer or invitation is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation. Persons who possess this prospectus and/or the Application Forms are deemed to have confirmed with our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the Underwriters that such restrictions have been observed.

Prospective applicants for the Offer Shares should consult their financial advisers and take legal advice, as appropriate to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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Each person subscribing for or purchasing of the Offer Shares will be required to, or is deemed by his/her/its subscription or purchase of the Offer Shares, to confirm that he/she/it is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he/she/it is not subscribing for, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

### **APPLICATION FOR LISTING ON GEM**

The Sole Sponsor has applied on behalf of our Company to the Listing Division for the listing of, and permission to deal in, the Shares in issue and which are to be issued or may be issued pursuant to the Share Offer, the Bonus Issue and as otherwise described herein on GEM (including any Shares which may be issued pursuant of any option which may be granted under Share Option Scheme up to 10% of the total number of Shares in issue immediately following completion of the Bonus Issue and the Share Offer.)

No part of the shares or the loan capital of our Company is listed, traded or dealt in on any other stock exchange and save as disclosed herein, no such listing or permission to deal is being or proposed to be sought.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and the permission to deal in, the Offer Shares on GEM is refused before the expiration of three weeks from the date of the closing of the Share Offer or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Listing Division.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at all times of the Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of at least 25% of the issued share capital of our Company in the hands of the public. Accordingly, a total of 90,000,000 Offer Shares, which currently represents 25% of the enlarged issued share capital of our Company immediately following the completion of the Bonus Issue and the Share Offer (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of options may be granted under the Share Option Scheme) will be made available under the Share Offer.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

If investors are unsure about the taxation implications of the subscription for, purchase, holding or disposal of, dealings in, or exercise of any rights in relation to the Offer Shares, they should consult an expert. It is emphasised that none of our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of their respective directors, officers, employees, agents, representatives or any other person or party involved in the Share Offer accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to the Offer Shares.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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### **HONG KONG REGISTER OF MEMBERS AND STAMP DUTY**

All Offer Shares issued by our Company pursuant to the Share Offer will be registered on our register of members to be maintained in Hong Kong by our Hong Kong Share Registrar. Only securities registered on our register of members in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

Dealings in our Shares registered on our Hong Kong share register will be subject to Hong Kong stamp duty.

Unless our Company determines otherwise, dividends payable in Hong Kong dollars in respect of the Shares will be paid at the Shareholder's risk to the registered address of each Shareholder or, in the case of joint holders, the first-named holder.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the approval of the listing of, and permission to deal in, the Shares on GEM and our Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional advisers.

### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on or about Monday, 16 April 2018. Shares will be traded in board lots of 5,000 Shares each and are freely transferable. The stock code for the Shares will be 8241.

No temporary documents or evidence of title will be issued.

### **CURRENCY TRANSLATION**

In this prospectus, unless otherwise specified, amounts denominated in Renminbi and US\$ have been translated, for illustration purposes only, into Hong Kong dollars and vice versa at an exchange rates of HK\$1.17 = RMB1.00 and HK\$7.78 = US\$1.00.

Such conversions shall not be construed as representations that amounts in Renminbi, US\$ or HK\$, were or could be converted at such rates or any other exchange rates on such date or any other date.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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### **ROUNDING**

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, total of rows or columns of number in tables may not be equal to the apparent total of individual items. Where information is presented in thousands or millions of units, amounts may be rounded up or down.

### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Names of any laws and regulations, governmental authority, natural persons or other entities which have been translated into English and included in this prospectus and for which no official English translation exists are unofficial translations for reference only.

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Mr. Chan Kwong Yuen (陳廣源)	Flat D2, 31/F, Block D Beverly Hill 6 Broadwood Road Hong Kong	Chinese
Mr. Chan Kun Yuen (陳根源)	Flat A1, 29/F, Block A Beverly Hill 6 Broadwood Road Hong Kong	Chinese
Mr. Chan Shu Yuen (陳樹源)	Flat A, 38/F, Block 1 Sky Horizon 35 Cloud View Road Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Mr. Siu Chi Ming (邵梓銘)	Flat F, 18/F, Block 5 City Point 48 Wing Shun Street Tsuen Wan New Territories Hong Kong	Chinese
Mr. Lee Wai Ho (李偉豪)	Flat C, 41/F, Tower 2 18 Hoi Ting Road Central Park Mongkok, Kowloon	Chinese
Mr. Wong Chee Chung (王子聰)	Flat 5, 12/F, BLKG (FT-18) Kornhill Quarry Bay Hong Kong	Chinese

For further information regarding our Directors, please refer to the section headed “Directors, senior management and employees” in this prospectus.

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### PARTIES INVOLVED IN THE SHARE OFFER

**Sole Sponsor, Sole Global**

**Coordinator, Sole Bookrunner and  
Sole Lead Manager**

**KGI Capital Asia Limited**

*a licensed corporation under the SFO to  
engage in type 1 (dealing in securities), type 4  
(advising on securities) and type 6 (advising  
on corporate finance) regulated activities as  
defined in the SFO*

41/F Central Plaza, 18 Harbour Road  
Wanchai  
Hong Kong

**Co-Managers to the Share Offer**

**Ever-Long Securities Company Limited**

18/F Dah Sing Life Building  
99-105 Des Voeux Road Central  
Hong Kong

**Global Mastermind Securities Limited**

25/F, Nam Wo Hong Building  
148 Wing Lok Street  
Sheung Wan  
Hong Kong

**Legal advisers to our Company**

*as to Hong Kong law:*

**Nixon Peabody CWL**

*Solicitors, Hong Kong*

5th Floor, Standard Chartered Bank Building  
4-4A Des Voeux Road Central  
Hong Kong

*as to Hong Kong law in respect of tenancy  
and license of the existing premises held by  
our Group:*

**Raymond T.M. Lau & Co.**

Rooms 1704 and 1705  
17/F Far East Consortium Building  
121 Des Voeux Road Central  
Hong Kong

*as to Hong Kong law in respect of the use of  
certain representation by our Group:*

**Li, Janice Chee Kwan (李梓瑤)**

15/F New World Tower 2  
18 Queens Road Central  
Hong Kong  
*(Barrister-at-law)*



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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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*as to PRC law in respect of settlement of certain purchases of our Group:*

**Jia Yuan Law Offices**

F408, Ocean Plaza, 158 Fuxing Men Nei Street  
Xicheng District, Beijing 100031  
PRC

*as to Japan law in respect of taxation and intellectual property:*

**Nagashima Ohno & Tsunematsu**

JP Tower, 2-7-2 Marunouchi  
Chiyoda-Ku, Tokyo 100-7036  
Japan

**Legal advisers to the Sole Sponsor and the Underwriters**

*as to Hong Kong law:*

**Kwok Yih & Chan**

*Solicitors, Hong Kong*  
Suites 2103-05, 21/F, 9 Queen's Road Central  
Hong Kong

**Auditor and Reporting Accountants**

**Grant Thornton Hong Kong Limited**

*Certified Public Accountant*  
12/F, 28 Hennessy Road  
Wanchai  
Hong Kong

**Property Valuer**

**Knight Frank Petty Limited**

4/F Shui On Centre, 6-8 Harbour Road  
Wanchai  
Hong Kong

**Receiving Bank**

**Standard Chartered Bank (Hong Kong) Limited**

15/F, Standard Chartered Tower  
388 Kwun Tong Road  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office in Hong Kong</b>	5/F, Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong
<b>Principal place of business in Hong Kong</b>	8/F., Wah Shing Centre 5 Fung Yip Street Siu Sai Wan Hong Kong
<b>Company's website</b>	<a href="http://www.yingkeetea.com">www.yingkeetea.com</a> <i>(Note: the information contained on this website does not form part of this prospectus)</i>
<b>Company secretary</b>	So Hon Cheung, Stephen (蘇漢章) <i>HKICPA</i>
<b>Authorised representatives</b>	Chan Kun Yuen (陳根源) Flat A1, 29/F, Block A Beverly Hill 6 Broadwood Road Hong Kong  So Hon Cheung, Stephen (蘇漢章) Flat B, 1/F., Sunny Villa 69 Blue Pool Road Happy Valley Hong Kong
<b>Compliance officer</b>	Chan Kun Yuen (陳根源) Flat A1, 29/F, Block A Beverly Hill 6 Broadwood Road Hong Kong
<b>Audit committee</b>	Siu Chi Ming ( <i>Chairman</i> ) Lee Wai Ho Wong Chee Chung
<b>Remuneration committee</b>	Wong Chee Chung ( <i>Chairman</i> ) Siu Chi Ming Lee Wai Ho Chan Kwong Yuen Chan Kun Yuen

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## CORPORATE INFORMATION

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**Nomination committee**

Lee Wai Ho (*Chairman*)  
Siu Chi Ming  
Wong Chee Chung  
Chan Kwong Yuen  
Chan Kun Yuen

**Compliance adviser**

**KGI Capital Asia Limited**  
41/F Central Plaza, 18 Harbour Road  
Wanchai  
Hong Kong

**Hong Kong share registrar and transfer  
office**

**Tricor Investor Services Limited**  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

**Principal bankers**

**OCBC Wing Hang Bank Limited**  
161 Queen's Road Central  
Hong Kong

**China Construction Bank (Asia)**  
3/F CCB Tower  
3 Connaught Road Central  
Hong Kong

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## **WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES**

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In preparation for the Share Offer, our Company has sought the following waiver from compliance with the relevant provisions of the GEM Listing Rules.

### **CONTINUING CONNECTED TRANSACTIONS**

We have entered into, and we expect to continue, certain transactions which will constitute non-exempt continuing connected transactions of our Company under the GEM Listing Rules upon Listing. We have applied to the Stock Exchange and the Stock Exchange has granted us a waiver pursuant to Rule 20.103 of the GEM Listing Rules from strict compliance with the announcement, circular and shareholders' approval requirements set out in Chapter 20 of the GEM Listing Rules in respect of such non-exempt continuing connected transactions.

Further details of such non-exempt continuing connected transactions and the waiver are set out in the section headed "Connected Transactions" in this prospectus.

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## INDUSTRY OVERVIEW

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*This section contains certain information which is derived from a commissioned report, the Euromonitor Report, which was prepared by Euromonitor, an Independent Third Party. This information was prepared primarily as a market research tool and reflects estimates of market conditions based on publicly available sources and trade opinion surveys. References to Euromonitor should not be considered as the opinion of Euromonitor as to the value of any security or the advisability of investing in our Company. Our Directors believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information derived from the Euromonitor Report and set out in this section has not been independently verified by our Group, the Sole Sponsor, the Sole Global Coordinator, the Underwriters or any other party involved in the Share Offer, no representation is given as to the accuracy of this information by our Group, the Sole Sponsor, the Underwriters or any other party involved in the Share Offer, and this information should not be relied upon in making, or refraining from making, any investment decision. Please refer to the section headed “Risk factors – Certain statistics and forecasts in this prospectus were derived from third party sources and have not been independently verified.” in this prospectus for details.*

### INTRODUCTION

We commissioned Euromonitor, an Independent Third Party, to prepare a report on packaged branded Chinese tea, tea ware and gift sets retailing in Hong Kong and Southeast Asia at a fee of USD69,800. Established in 1972, Euromonitor is the world leader in strategy research for both consumer and industrial markets and a leading provider of global market intelligence. Comprehensive international coverage and leading edge innovation make its products an essential resource for companies large and small, national and global, and its products and services are held in high regard by the international business community. Euromonitor has offices around the world, analysts in 80 countries, and 5,000 active clients including 90% of the Fortune 500 companies.

In compiling the Euromonitor Report, Euromonitor used the following methodologies to collect multiple sources, validate the data and information collected, and cross-check each respondent’s information and views against those of others:

- Secondary research, which involved reviewing published sources including Census and Statistics Department, Hong Kong, industry reports, company reports such as annual reports and audited financial statements where available, independent research reports, and data based on Euromonitor’s syndicated Passport database.
- Primary research which involved interviews with a sample of established industry participants and industry experts for latest data and insights on future trends and to verify and cross check the consistency of data and research estimates.
- Projected data obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related drivers.

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## INDUSTRY OVERVIEW

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- Review and cross-checks of all sources and independent analysis to build all final estimates including the size, shape, drivers and future trends of the packaged branded Chinese tea, tea ware and tea gift set retailing market in Hong Kong and the Chinese tea market in Malaysia, Thailand, Singapore and Indonesia and prepare the final report.

The following assumptions were used in the report:

- The economy in Hong Kong and Southeast Asia is expected to maintain steady growth over 2017-2021;
- The social, economic, and political environment in Hong Kong and Southeast Asia is expected to remain stable over 2017-2021; and
- There will be no external shock, such as financial crisis or raw material shortage that affects the packaged branded Chinese tea, tea ware and tea gift set retailing market in Hong Kong and Southeast Asia during 2017-2021.

The research conducted by Euromonitor may be affected by the accuracy of these assumptions and the choices of the parameters stated above.

Our Directors confirmed that apart from opening of new retail points in Hong Kong as disclosed under the section headed “Future plans and use of proceeds – Business objectives and strategies” in this prospectus, our Group currently has no concrete plan or intention to expand our business to Southeast Asia or other countries. Our Directors confirmed that, after making reasonable enquiries, there is no adverse change in the market information since the date of the Euromonitor Report which may qualify, contradict or have an impact on the information in this section.

### OVERVIEW OF THE HONG KONG ECONOMY

#### GDP

From 2008 to 2016, the GDP of Hong Kong grew by a CAGR of 5%. The GDP per capita increased at roughly the same pace at a CAGR of 4%. While Hong Kong’s economic growth declined slightly in 2016, resilience in domestic demand, supported by strong employment and favourable labour income conditions, helped sustain positive GDP growth over the year.

#### Annual disposable income

Annual disposable income in Hong Kong grew steadily throughout 2008-2016, increasing by a CAGR of 5%. Annual disposable income per capita increased at roughly the same rate, by a CAGR of 4% from 2008 to 2016.

#### Wages and labour earnings

Overall, average monthly wages and labour earnings have increased from HK\$13,437 in 2012 to reach HK\$15,451 in 2016, bolstered by high employment levels and an environment favouring employees.

## INDUSTRY OVERVIEW

### Retail sales

Retail sales of consumer goods rose at a CAGR of 6% from 2008 to 2016, but declined at a CAGR of 1% from 2012 to 2016. This drop was largely due to a sharp decline in the number of tourists from China, who account for a significant portion of retail spending in Hong Kong, and their spending power, as well as a sustained weakening of the RMB against the Hong Kong dollar. A slowing Hong Kong economy also saw local residents reining in discretionary spending, leading to smaller-than-expected growth in domestic expenditure on retail sales. However, the value of retail sales increased by 2.2% to HK\$446.1 billion from 2016 to 2017. This is a higher growth rate than that of the increase in consumer price index from 2016 to 2017, showing that there is a partial recovery in retail sales activities in 2017 after removing the effects of inflation. The following table sets out certain macro-economic indicators in Hong Kong between 2008 and 2017:

#### Macro-economic indicators in Hong Kong (2008-2017)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	CAGR (%)
Total GDP, HK\$('000,000,000)	1,707.5	1,659.2	1,776.3	1,934.4	2,037.1	2,138.3	2,260.0	2,398.4	2,491.0	<i>-Note</i>	5%
GDP growth rate, (%)	3.4%	-2.8%	7.1%	8.9%	5.3%	5.0%	5.7%	6.1%	3.9%	<i>-Note</i>	n/a
GDP per capita, (HK\$)	245.4	238.0	252.9	273.5	284.9	297.9	312.6	328.9	339.5	<i>-Note</i>	4%
Population, ('000,000)	7.0	7.0	7.1	7.1	7.2	7.2	7.3	7.3	7.4	<i>-Note</i>	1%
Disposable income, HK\$('000,000)	1,789,582	1,692,621	1,796,348	1,967,465	2,046,178	2,157,948	2,286,826	2,420,689	2,553,476	<i>-Note</i>	5%
Disposable income per capita, (HK\$)	256,979.9	241,927.4	254,725.3	276,737.5	285,340.7	299,262.0	315,298.2	331,161.2	346,238.7	<i>-Note</i>	4%
Monthly consumer price index	79.5	80.0	81.8	86.1	89.6	93.5	97.7	100.6	103.0	104.5	3%
Total retail sales of consumer goods, HK\$('000,000)	<u>273,126</u>	<u>274,742</u>	<u>324,966</u>	<u>405,732</u>	<u>445,498</u>	<u>494,451</u>	<u>493,236</u>	<u>475,156</u>	<u>436,623</u>	<u>446,124</u>	<u>6%</u>

*Source:* Census and Statistics Department, Hong Kong

*Note:* Such data points are not available

## THE PACKAGED BRANDED CHINESE TEA MARKET IN HONG KONG

### Market overview of the packaged branded Chinese tea market in Hong Kong

Branded Chinese tea is readily available in Hong Kong in both packaged (either prepackaged or packaged at the point of sale and sold in shapes including round or flat cakes) and unpackaged (usually loose leaf) form. However, the packaged format tends to be preferred by customers for its convenience. Packaged branded Chinese tea is mainly distributed through specialist Chinese tea retailers, which sell Chinese tea leaves either in pre-packaged format or sold loose by weight before portioning and packaging into small/medium consumer packs for single use. Most Hong Kong specialist Chinese tea retailers have been carrying on their tea leaves retailing business in Hong Kong for decades. The customer base for packaged branded Chinese tea in Hong Kong mainly comprises domestic consumers and also includes tourists, primarily from China but also from other countries.

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### The packaged branded Chinese tea market in Hong Kong by types of tea

#### *The market during 2012-2016*

Overall, during 2012-2016, the packaged branded Chinese tea market in Hong Kong is relatively mature and has experienced slow but steady growth, with retail sales growing by a CAGR of 1.7%. This has been largely driven by the rising health consciousness among Hong Kong's consumers and consumers' preference for the convenience of Chinese tea in packaged form.

#### *The major sub-categories of packaged branded Chinese tea during 2012-2016*

Pu-erh tea is the major sub-category of the packaged branded Chinese tea leaves market in Hong Kong, representing approximately 45% of the market in 2016. Retail sales of packaged branded pu-erh tea increased by a CAGR of 4.8% from 2012 to 2016, the biggest growth rate of all tea types identified. Sales of pu-erh tea were followed by oolong tea, jasmine, and other teas. The following table sets out the packaged branded Chinese tea sales in Hong Kong by type of tea over 2012-2016:

#### **Packaged branded Chinese tea sales in Hong Kong by type of tea (2012-2016)**

<b>HK\$ ('000,000)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>CAGR 2012-2016</b>
Retail sales of packaged branded						
Chinese tea	278.6	281.4	287.0	292.8	298.6	1.7%
Pu-erh tea	111.4	115.4	120.5	125.9	134.4	4.8%
Oolong tea	83.6	84.4	83.2	84.9	86.6	0.9%
Jasmine tea	61.3	61.9	63.1	64.4	62.7	0.6%
Other teas	22.3	19.7	20.1	17.6	14.9	-9.5%

*Source:* Euromonitor estimates via desk research and trade interviews with established packaged Chinese tea distributors and retailers as well as the relevant trade associations in Hong Kong.

*Note:* "Other teas" means the aggregation of black tea, green tea, white tea, and all other hot tea including fragrant teas and flower teas.

#### *The market during 2017-2021*

Over the next five years, retail value sales of packaged branded Chinese tea are expected to accelerate to a CAGR of 2.7% over 2017-2021. This arises from expectations that the growing health consciousness of Hong Kong's consumers will further intensify, attracting more consumers to packaged branded Chinese tea as a convenient, affordable and healthy hot beverage. Free-spending, affluent tourists from an improved Chinese economy are expected to help revive retail sales of high-end premium Chinese tea for Hong Kong retailers.



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### *The major sub-categories of packaged branded Chinese tea during 2017-2021*

The market for pu-erh tea is relatively mature and saturated. As such, the CAGR of pu-erh tea is expected to slow down to 3.9% over 2017-2021, while oolong and jasmine teas will experience greater growth in comparison to rates witnessed during 2012-2016. The following table sets out the forecast packaged branded Chinese tea sales in Hong Kong by type of tea over 2017-2021:

#### **Packaged branded Chinese tea sales in Hong Kong by type of tea (2017-2021)**

HK\$ ('000,000)	2017	2018	2019	2020	2021	CAGR 2017-2021
Retail sales of packaged branded						
Chinese tea	306.1	313.7	321.6	331.2	341.2	2.7%
Pu-erh tea	137.7	144.3	147.9	155.7	160.3	3.9%
Oolong tea	88.8	91.0	93.3	96.1	98.9	2.7%
Jasmine tea	64.3	62.7	67.5	66.2	68.2	1.5%
Other teas	15.3	15.7	12.9	13.2	13.6	-2.8%

*Source:* Euromonitor estimates via desk research and trade interviews with established packaged Chinese tea distributors and retailers as well as the relevant trade associations in Hong Kong.

*Note:* “Other teas” means the aggregation of black tea, green tea, white tea, and all other hot tea including fragrant teas and flower teas.

### **The packaged branded Chinese tea market in Hong Kong by sales channel**

#### *The market by sales channel over 2012-2016 and 2017-2021*

Specialist Chinese tea retailers are the predominant distribution channels for packaged branded Chinese tea, with a vast majority of 97.1% in 2016 being sold in such retail shops. Only a small fraction is sold through hypermarkets and supermarkets. This is expected to continue over 2017-2021. Customers who buy directly from specialist Chinese tea retailers for personal consumption are the largest target group for packaged branded Chinese tea retailers, as they tend to favour packaged branded Chinese tea for quality and convenience. There are also customers that buy tea leaves in bulk to be used as corporate gifts. During a bullish economic period, the demand for such corporate gifts rise as companies set aside higher budgets for this purpose.

#### **Retail price**

As of August 2017, the current average retail price of packaged branded Chinese tea in Hong Kong was around HK\$2.42 per gram. The overall retail price of packaged branded Chinese tea was stable over 2012-2016, with minor fluctuations arising mainly from shifts in the valuation of the RMB. Most Chinese tea leaves sold in Hong Kong are imported from China, where abundant supply and hence competition ensures stability of price. However, some certain rare and collectible vintage tea leaves, including some pu-erh tea leaves, have become scarce and coveted, and their valuation has risen over the years, due to their decades-long ageing process in controlled environments.

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### Suppliers

In Hong Kong, most retailers of branded Chinese tea source their Chinese tea leaves from suppliers and tea farms in major exporting countries such as China. These imported Chinese tea leaves are then packaged locally in Hong Kong for retail sales. As the profit margin is small for importers, some importers charge the retailer a sales commission to compensate or sustain their business. It is common among traditional importers who have been in the market for a long time.

### THE BRANDED TEA WARE MARKET IN HONG KONG

#### Market overview of the branded Chinese tea ware market in Hong Kong

Branded Chinese tea ware includes traditional Chinese equipment and tools used for tea consumption/preparation, such as teapots, brewing trays, tea spoons, tea cups, and tea strainers. Branded Chinese tea ware sold in Hong Kong are mainly made from porcelain or violet sand earthenware. Such branded Chinese tea ware are mostly imported from China. Branded Chinese tea ware is purchased for preparation and consumption of Chinese tea; by tourists as souvenirs or gifts; and by locals as gifts for business acquaintances of friends and family.

Overall, retail value sales of branded Chinese tea ware in Hong Kong have stagnated over 2012-2016. However, over 2017-2021, retail value sales of branded Chinese tea ware are expected to start growing again, albeit at a slow CAGR of 1%, due to the rising popularity of Chinese tea consumption among local and foreign consumers.

#### The branded Chinese tea ware market in Hong Kong by sales channel

##### *The market by sales channel over 2012-2016 and 2017-2021*

As observed during 2012-2016 and forecast for 2017-2021, branded Chinese tea wares are almost entirely sold through specialist Chinese tea retailers. Such specialist Chinese tea retailers accounted for a vast majority of 95% of retail value sales in 2016, with other retailers such as department stores and independent small grocers accounting for the remaining 5%.

##### *Retail price*

The retail price of branded Chinese tea ware has been stable over 2012-2016. Currency fluctuations are the main factor affecting the retail prices of branded Chinese tea ware. As of August 2017, the current average price of the tea ware was at around HKD\$340 per set.

### THE BRANDED CHINESE TEA GIFT SETS RETAIL MARKET IN HONG KONG

#### Market overview of the branded Chinese tea gift sets market in Hong Kong

Chinese tea gift sets are hampers that include tea leaves and sometimes tea ware. Overall, the branded Chinese tea gift sets market in Hong Kong is very niche and subdued with most branded Chinese tea gift sets sold as corporate or event gifts as well as to foreign tourists as souvenirs.

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Retail value sales of branded Chinese tea gift sets have grown at the same pace as that for packaged branded Chinese tea, rising at a CAGR of 2.0% over 2012-2016. However, sales are expected to accelerate at a greater CAGR of 3.0% over 2017-2021 as driven by the factors mentioned in the sub-section headed “Key drivers for the Chinese tea market in Hong Kong” in this section below will also benefit retail sales of branded Chinese tea gift sets.

### **The branded Chinese tea gift sets market in Hong Kong by sales channel**

#### *The market by sales channel over 2012-2016 and 2017-2021*

As observed during 2012-2016 and forecast for 2017-2021, branded Chinese tea gift sets are only sold through specialist Chinese tea retailers alongside packaged branded Chinese tea.

#### *Retail price*

The retail price of branded Chinese tea gift sets has been relatively stable over 2012-2016. Currency fluctuations are the main factor affecting the retail prices of branded Chinese tea gift sets, the majority of which are imported from overseas, especially from China. As of August 2017, the average price of a Chinese tea gift set is at HKD\$350 per set.

## COMPETITIVE LANDSCAPE

### **The overall Chinese tea market in Hong Kong**

The overall market for packaged branded Chinese tea, tea ware and gift sets in Hong Kong is competitive and fragmented due to relatively low barriers of entry, with many small independent retailers operating alongside more established retailers who have been around for decades. However, soaring operating costs and a challenging retail environment has seen the market undergo a period of consolidations as smaller, less profitable retailers either exit the market or are absorbed by larger, more resilient retailers.

### **Barriers of entry to the Chinese tea market in Hong Kong**

The main barriers of entry are the market knowledge and experience required for retailers to consistently select the best quality tea leaves from suppliers for sale and in ensuring the quality of their products is consistently high. The depth and reach of their supply network also matters in terms of retailers’ ability to source for top quality and/or unique Chinese tea leaves from premium tea farms. Finally, tea leaves need to be stored in a clean and uncontaminated environment, which requires more floor space for storage and may pose a barrier of entry to smaller, resource-constrained retailers.

The difficulties faced in building sufficient brand recognition and goodwill in the market is another barrier of entry for new retailers, as it takes significant time, resources and network for retailers to build strong supply relationships with high-quality suppliers, which in turn is necessary for the retailer to build and market their brand within a highly competitive market. In the niche market of packaged branded Chinese tea, brand recognition and goodwill among consumers is critical in driving retail sales in the long-term, especially to recurring customers.

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### Our market position in the overall specialist Chinese tea retailers market in Hong Kong

Based on sales data provided by our Company and the market sizes calculated by Euromonitor, Ying Kee had 12.6% share (as calculated with reference to (i) our Group's revenue on calendar year basis for the year 2016: i.e., three times the monthly average of Group's revenue for the year ended 31 March 2016 and nine times the monthly average of our Group's revenue for the year ended 31 March 2017; and (ii) the estimation of Euromonitor on total market size of specialist Chinese tea retailers in Hong Kong for the year 2016) of the specialist Chinese tea retailers market in terms of our revenue in 2016. Euromonitor conducted desk search to obtain import/export figures of tea leaves and derived the total market size of tea leaves by taking into consideration its in-house estimation on (i) mark-ups imposed by importer/distributors and (ii) percentage of packaged branded Chinese tea to the total tea leaves market. Euromonitor then cross checked the reasonableness of derived total market size of tea leaves with its database such as size of the hot drinks market and through trade interviews, it cross checked the reasonableness of estimated mark-ups imposed by importer/distributors; and made necessary adjustments. Our Company is the most established specialist Chinese tea retailer among our competitors, having been established in business over multiple generations, having more and larger retail outlets, and enjoying the status of being a more well-known household name with regards to Chinese tea. We are well known for the high quality of our Chinese teas, which are purchased from well-known and verified suppliers. The following table sets out the established specialist Chinese tea retailers in Hong Kong in 2016:

#### Established specialist Chinese tea retailers in Hong Kong, Outlets, 2016

Ranked by Retail Value Sales	Number of retail outlets (2016)
1 Ying Kee	9
2 Company A	2
3 Company B	4
4 Company C	6
5 Company D	3

*Source:* Euromonitor estimates via desk research and trade interviews with established packaged Chinese tea distributors and retailers as well as the relevant trade associations in Hong Kong. This is because audited data if available is usually not market specific and includes other products/services.

*Note:* All retailers listed are private companies with their main business as the retailing of packaged branded Chinese tea, teaware and gift set and their main place of operations in Hong Kong. Euromonitor advised that as these retailers are private companies, no actual sales figures or information on their market share in Chinese tea retail industry can be obtained. Euromonitor estimated the ranking of market players only based on retail sales value as ranked by the interviewees.

### Key drivers for the Chinese tea market in Hong Kong

- *Rising health consciousness driving overall sales.* Hong Kong consumers have increasingly adopted Chinese tea for its health benefits, with a preference for packaged branded Chinese tea over unpackaged branded loose-leaf Chinese tea due to the former's convenience.
- *Tea brewing ritual attracts consumers seeking calm and serenity.* Brewing and consuming Chinese tea has long been regarded as calming and soothing, attracting consumers seeking respite from stress and a high-pressure environment.

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## INDUSTRY OVERVIEW

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- *Chinese tea products seen as unique and attractive gifts.* There is healthy demand from local consumers and foreign tourists purchasing Chinese tea products as gifts or vacation souvenirs.
- *Strong reputation of Hong Kong's quality control and strict food safety controls.* Tourist perception of Hong Kong's food safety regulations and enforcement as strict and efficient boosts sales of premium, high-quality packaged branded Chinese tea.

### **Opportunities and threats for the Chinese tea market in Hong Kong**

#### *Opportunities*

- With the rising health awareness among Hong Kong consumers, specialist Chinese tea retailers have an opportunity to grow their consumer base by promoting Chinese tea as a detoxifying beverage. Tea appreciation classes aimed to educate customers on the positive effects of Chinese tea may further help them embrace Chinese tea as a daily habit.
- Specialist Chinese tea retailers may benefit from Hong Kong consumers' busy lifestyles. Chinese tea can be prepared quickly for convenience, or slowly as a form of appreciation. When consumers are busy, they may find that Chinese tea preparation is easy and fits into their schedule. When they have time to relax, they may find brewing and consuming Chinese tea to be calming and soothing.
- Specialist Chinese tea retailers may capitalise on consumer confidence in Hong Kong's product quality control and food safety regulations by focussing on marketing the quality assurance and peace of mind they are offering customers, especially among tourists who are less knowledgeable in discerning the quality of Chinese tea leaves and rely on the retailers to educate them.
- As health awareness continues to rise globally, Chinese tea will become more attractive as gifts, and specialist Chinese tea retailers can capitalise on this by positioning Chinese tea products as premium and valued gifts or souvenirs. By investing in more premium packaging designed for gifts or souvenirs, specialist Chinese tea retailers stand to create a better image for their products.

#### *Threats*

- Packaged branded Chinese tea faces competition from ready-to-drink tea and other types of packaged teas and Western teas. Preference for these teas by Hong Kong consumers may restrict demand for packaged branded Chinese tea.
- Packaged branded Chinese tea is a niche market with a relatively small consumer base. In addition to facing strong competition from other beverages, there are no strong growth factors which could significantly expand its consumer base in the near future. As such, the packaged branded Chinese tea market will be sensitive to any decrease of its consumer base.

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- Recent years have seen a trend of loose tea leaves being modernised and repacked as tea bags for easy brewing. Young consumers who value convenience may opt for tea leaves in this format, instead of seeking out higher-quality packaged branded Chinese tea.
- Branded Chinese tea wares are not purchased on a frequent and recurring basis as they can be repeatedly re-used, while branded Chinese tea gift sets have limited appeal beyond consumers who are specially searching for such tea ware for gifting purposes. As such, retail sales of both may be curtailed going forward.
- In future, the Hong Kong tea industry may suffer from labour shortage, as many skilled workers in the industry are approaching retirement age and young people are more keen to enjoy tea leaves as consumers rather than to join the tea industry as workers. As a result, workers with deep knowledge of the tea industry and the tea leaves processing process may be in short supply in the future.

### HISTORICAL IMPORT PRICE TRENDS OF TEA LEAVES IN HONG KONG

We use a raw material, tea leaves, in our business. According to the Census and Statistics Department, Hong Kong, the average import price of tea leaves in Hong Kong was relatively stable over 2012-2017, growing by a CAGR of 5.4% to reach HK\$54.14 per kg in 2017.

The following table sets out the average import price of tea leaves in Hong Kong over 2012-2017:

#### Average import price of tea leaves by SITC 5-digit item (2012-2017)

SITC Code and Commodity in HK\$ per kg	2012	2013	2014	2015	2016	2017	CAGR 2012- 2017
0741: Tea	41.61	43.19	44.97	43.72	48.32	<b>54.14</b>	5.4%
07411: Green Tea (Not Fermented) In Packings Not Exceeding 3 kg	71.79	56.85	68.52	71.89	71.30	<b>82.91</b>	2.9%
07412: Other Green Tea (Not Fermented)	46.63	40.16	51.30	56.58	63.14	<b>70.31</b>	8.6%
07413: Black Tea (Fermented) And Partly Fermented Tea, In Packings Not Exceeding 3 kg	73.11	96.53	92.84	80.14	78.30	<b>74.25</b>	0.3%
07414: Other Black Tea (Fermented) And Other Partly Fermented Tea	28.59	27.43	30.19	27.62	30.92	<b>38.17</b>	5.9%

Source: Census and Statistics Department, Hong Kong

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## REGULATORY OVERVIEW

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This section sets out a summary of certain aspects of the laws, rules, regulations, government policies and requirements, which are relevant to our Group's business and operations.

### HONG KONG LAWS AND REGULATIONS

During the Track Record Period, our Group conducted its business and operations primarily in Hong Kong through our office and shops opened by our subsidiary Ying Kee Tea Company Limited. As such, we are subject to the relevant laws and regulations in Hong Kong.

Except for the application of a business registration certificate under the Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong), we are not required to obtain any industry-specific licence, permit, authorisation or qualification for our Group's operations in Hong Kong.

#### Laws and regulations relating to food safety

##### *(1) Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong)*

The legal framework for food safety control in Hong Kong is set out in Part V of the Public Health and Municipal Services Ordinance and the relevant sub-legislations thereunder. The Public Health and Municipal Services Ordinance requires the manufacturers and sellers of food to ensure that their products are fit for human consumption and comply with the requirements in respect of food safety, food standards and labelling.

As our business involves the processing and sale of premium tea, we are subject to the regulation of the Public Health and Municipal Services Ordinance.

Section 50 of the Public Health and Municipal Services Ordinance prohibits the manufacturing, advertising and sale in Hong Kong of food that is injurious to health. Anyone who fails to comply with this section commits an offence which carries a maximum penalty of HK\$10,000 and three months' imprisonment. Section 52 of the Public Health and Municipal Services Ordinance provides that, subject to the defences in section 53 of the ordinance, if a seller sells to the prejudice of a purchaser any food which is not of the nature, substance or quality of the food demanded by the purchaser, the seller shall be guilty of an offence which carries a maximum penalty of HK\$10,000 and three months' imprisonment.

According to section 54 of the Public Health and Municipal Services Ordinance, any person who sells or offers for sale any food intended for, but unfit for, human consumption shall be guilty of an offence. The maximum penalty for contravention of section 54 is a fine of HK\$50,000 and six months' imprisonment.

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Section 61 of the Public Health and Municipal Services Ordinance provides that it shall be an offence for any person who gives with any food sold by him or displays with any food exposed for sale by him any label which falsely describes the food or is calculated to mislead as to its nature, substance or quality. Further, it shall also be an offence if any person publishes or is a party to the publication of an advertisement falsely describing any food or is likely to mislead as to the nature, substance or quality of any food.

The Food and Environmental Hygiene Department is responsible for the enforcement of the relevant laws and regulations. It may take samples of all kinds of food products at their points of entry to Hong Kong and may prohibit or restrict importation of a food product. It also has the power to examine any food which is intended for human consumption, and seize and remove such food or its packaging if it appears that such food is unfit for human consumption.

### ***(2) Food Business Regulation (Chapter 132X of the Laws of Hong Kong)***

Section 31(1) of the Food Business Regulation provides that no person shall carry on or cause, permit or suffered to be carried on any food factory business except with a food factory licence.

The Food and Environmental Hygiene Department may grant a provisional food factory licence to a new applicant who has fulfilled the basic requirements in accordance with the Food Business Regulation pending fulfilment of all outstanding requirements for the issue of a full food factory licence.

A provisional food factory licence is valid for a period of six months or a lesser period and a full food factory licence is valid generally for a period of one year, both subject to payment of the prescribed licence fees and continuous compliance with the requirements under the relevant legislation and regulations. A provisional food factory licence is renewable on one occasion and a full food factory licence is renewable annually.

A licensee who is granted a licence under the Food Business Regulation is required by Section 34B of the Food Business Regulation to exhibit and keep exhibited such licence at a conspicuous place near the entrance of the premises to which such licence relates.

Section 35 of the Food Business Regulation provides that any person who is in contravention of sections 30(1), 31(1) and 34B of the Food Business Regulation shall be guilty of an offence. The maximum penalty for contravention of sections 30(1) and 31(1) of the Food Business Regulation is a fine of HK\$50,000 (together with a daily fine of HK\$900 where it is a continuing offence) and imprisonment for six months, whereas the maximum penalty for contravention of sections 34B of the Food Business Regulation is a fine of HK\$10,000 (together with a daily fine of HK\$300 where it is a continuing offence) and imprisonment for three months.



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## REGULATORY OVERVIEW

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### ***(3) Food and Drugs (Composition and Labelling) Regulations (Chapter 132W of the Laws of Hong Kong)***

Food and Drugs (Composition and Labelling) Regulations, which are under the Public Health and Municipal Services Ordinance, regulate the advertising and labelling of food.

Regulation 3 of the Food and Drugs (Composition and Labelling) Regulations provides that the manufacturing of foods shall be up to the standards as specified under Schedule 1. Any person who advertises for sale, sells or manufactures for sale any food which does not conform to the relevant requirements as to composition prescribed in Schedule 1 to the Food and Drugs (Composition and Labelling) Regulations commits an offence and is liable to a fine of HK\$50,000 and to imprisonment for six months.

Regulation 4A of the Food and Drugs (Composition and Labelling) Regulations requires that prepackaged food (except for those listed in Schedule 4) be marked and labelled in the manner prescribed in Schedule 3. Schedule 3 to the Food and Drugs (Composition and Labelling) Regulations provides that all prepackaged food must legibly state on their packaging the following information:

- (i) the food name or designation;
- (ii) the list of ingredients;
- (iii) the durability period;
- (iv) statement of special conditions for storage or instruction for use;
- (v) name and address of manufacturer or packer; and
- (vi) count, weight or volume.

Regulation 4B of the Food and Drugs (Composition and Labelling) Regulations further requires that prepackaged food be marked or labelled with its energy value and nutrient content in the manner prescribed in Part 1 of Schedule 5, and nutrition claims, if any, made on the label of the product or in any advertisement for the product should comply with Part 2 of Schedule 5.

Contravention of regulations 4A and 4B of the Food and Drugs (Composition and Labelling) Regulations may result in a conviction carrying a maximum penalty of HK\$50,000 and six months imprisonment.

### ***(4) Food Safety Ordinance (Chapter 612 of the Laws of Hong Kong)***

The purposes of the Food Safety Ordinance are, among other things, to establish a registration scheme for food importers and food distributors; to require the keeping of records by persons who acquire, capture, import or supply food; and to enable food import controls to be imposed.

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## REGULATORY OVERVIEW

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Food importers and food distributors (persons who, in the course of business, supply food in Hong Kong by wholesale) must register with the Food and Environmental Hygiene Department. Sections 4 and 5 of the Food Safety Ordinance provide that contravention of such registration requirement is an offence, with a maximum penalty of up to HK\$50,000 and six months' imprisonment, provided however, that holders of a food factory licence under the Food Business Regulation shall be exempted from such registration requirement.

In considering an application for registration, the Food and Environmental Hygiene Department would take into account factors laid out in the Food Safety Ordinance, such as the applicant's history of any past contravention in the period of 12 months immediately before the application. Moreover, pursuant to the Food Safety Ordinance, the Food and Environmental Hygiene Department may revoke a registration if the registered person has repeatedly contravened the Food Safety Ordinance or if the registered person has (in the case of a natural person) died or (in the case of a corporate person) been wound up.

Further, the Food Safety Ordinance imposes the following record-keeping obligations on food importers, food distributors and all other persons who acquire food in the course of business to enhance traceability of food in Hong Kong:

- (i) A person who, in the course of business, acquires food in Hong Kong must record the relevant information about the acquisition of the food, including (a) the date when the food was acquired; (b) the name and contact details of the seller; (c) the total quantity of the food; and (d) a description of the food, within 72 hours after the time the food was acquired.
- (ii) A person who, in the course of business, imports food acquired outside Hong Kong must record the relevant information about the acquisition of the food, including (a) the date when the food was acquired; (b) the name and contact details of the seller; (c) the place from where the food was imported; (d) the total quantity of the food; and (e) a description of the food, at or before the time the food is imported.
- (iii) A person who, in the course of business, supplies food in Hong Kong by wholesale must record the relevant information about the supply of the food, including (a) the date the food was supplied; (b) the name and contact details of the buyer; (c) the total quantity of the food; and (d) a description of the food, within 72 hours after the time the supply took place.
- (iv) All records must be kept for three months after the acquisition or supply in respect of food with a shelf-life of three months or less and 24 months after the acquisition or supply in respect of food with a shelf-life of greater than three months.

Pursuant to the Food Safety Ordinance, the Food and Environmental Hygiene Department has the power to inspect, use and make public disclosure of the records required to be kept under the Food Safety Ordinance. Moreover, as stipulated by the Food Safety Ordinance, the Food and Environmental Hygiene Department also has power to make "food safety orders"

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## REGULATORY OVERVIEW

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against any person including (among other things) orders prohibiting the import or supply of any food for a specified period or directing a recall, destruction or disposal of any food, if the Food and Environmental Hygiene Department has reasonable grounds to believe that the making of such orders is necessary to prevent or reduce a possibility of danger to public health or to mitigate any adverse consequence of a danger to public health.

Any person who fails to comply with the abovementioned record-keeping requirements without any reasonable excuse commits an offence and is liable to a maximum fine of HK\$10,000 and imprisonment of up to three months.

### **Laws and regulations relating to the sale of goods**

#### ***(1) Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong) (the “TDO”)***

The Trade Descriptions Ordinance regulates advertising and promotional practices in Hong Kong. Its aim is to prohibit false trade description, false, misleading or incomplete information, false marks and misstatements in respect of goods and services provided in the course of trade. The definition of trade description under Trade Descriptions Ordinance covers a broad range of matters including but not limited to the following aspects of goods: quantity, method of manufacture, composition, fitness for purpose, availability, compliance with a standard, approval by any person, a person by whom the goods have been acquired, and the goods being of the same kind as goods supplied to a person, etc.

Under section 7 of the Trade Descriptions Ordinance, any person who in the course of any trade or business applies a false trade description to any goods or supplies or offers to supply any goods to which a false trade description is applied commits an offence. Under section 7A of the Trade Descriptions Ordinance, a trader who applies a false trade description to a service supplied or offered to be supplied to a consumer, or supplies or offers to supply to a consumer a service to which a false trade description is applied commits an offence. Section 12 of the Trade Descriptions Ordinance further prohibits any person from importing or exporting any goods to which a false description or false trade mark is applied.

Sections 13E, 13F, 13G, 13H and 13I of the Trade Descriptions Ordinance provide that a trader commits an offence if the trader engages, in relation to a consumer, in a commercial practice that is a misleading omission or is aggressive, or that constitutes bait advertising, a bait and switch or wrongly accepting payment for a product.

Anyone who commits an offence under sections 7, 7A, 12, 13E, 13F, 13G, 13H or 13I of the Trade Descriptions Ordinance shall be liable, on conviction on indictment, to a fine of HK\$500,000 and imprisonment of up to 5 years, and on summary conviction, to a fine of HK\$100,000 and imprisonment of up to 2 years. However, sections 30L and 30M of the Trade Descriptions Ordinance permit enforcement agencies to accept a written undertaking from those who engaged in unfair practices not to continue or repeat the unfair trade practices in exchange for the enforcement agencies' agreement not to commence or continue an investigation into the matter.

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## REGULATORY OVERVIEW

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### *(2) Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong)*

Civil liability in relation to product liability claims arises under the law of contract and/or the law of negligence. The Sale of Goods Ordinance is the main piece of Hong Kong legislation governing contracts for the sale of goods.

Section 15 of Sale of Goods Ordinance provides that where there is a contract for the sale of goods by description, there is an implied condition that the goods shall correspond with the description.

Section 16 of Sale of Goods Ordinance provides that where a seller sells goods in the course of a business, there is an implied condition that the goods supplied under the contract are of merchantable quality, except that there is no such condition (i) as regards defects specifically drawn to the buyer's attention before the contract is made; (ii) if the buyer examines the goods before the contract is made, as regards defects which that examination ought to reveal; or (iii) if the contract is a contract for sale by sample, as regards defects which would have been apparent on a reasonable examination of the sample.

Section 14 of Sale of Goods Ordinance provides certain implied undertakings on the seller for every contract of sale, unless there appears from the contract or is to be inferred from the circumstances of the contract an intention that the seller should transfer only such title as he or a third person may have. These undertakings includes that: (i) the seller has a right to sell the goods, and in the case of an agreement to sell, he will have a right to sell the goods at the time when the property is to pass; and (ii) the goods are free, and will remain free until the time when the property is to pass, from any charge or encumbrance not disclosed or known to the buyer before the contract is made and that the buyer will enjoy quiet possession of the goods except so far as it may be disturbed by the owner or other person entitled to the benefit of any charge or encumbrance so disclosed or known.

Apart from the contractual aspect of liability, distributors and retailers in Hong Kong may also owe a duty of care to consumers and be liable for damage resulting from defects developed in the goods caused by their negligent acts or for any fraudulent misrepresentation made in the distributing and selling of the goods. Liability may arise if a distributor or retailer disregards the instructions of the manufacturers or suppliers in handling the relevant goods or fails to pass on to the buyers instructions for use and warnings received from such manufacturers or suppliers. If a distributor or retailer knows or reasonably believes that the goods may be defective or dangerous, it may have to cease to supply such goods and take basic precautions such as warning the buyers and informing the relevant manufacturers or suppliers.

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## REGULATORY OVERVIEW

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### ***(3) Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong) and Unconscionable Contracts Ordinance (Chapter 458 of the Laws of Hong Kong)***

The Control of Exemption Clauses Ordinance aims to limit the extent to which civil liability for breach of contract, or for negligence or other breach of duty, can be avoided by means of contract terms and otherwise. Our contracts with our customers for the sale and purchase of tea and tea-related products are subject to the provisions of the Control of Exemption Clauses Ordinance.

Under section 7 of Control of Exemption Clauses Ordinance, a person cannot by reference to any contract term or to a notice given to persons generally or to particular persons exclude or restrict his liability for death or personal injury resulting from negligence. Further, in the case of other loss or damage, a person cannot so exclude or restrict his liability for negligence except in so far as the term or notice satisfies the requirement of reasonableness.

Under section 8 of Control of Exemption Clauses Ordinance, as between contracting parties where one of them deals as consumer or on the other's written standard terms of business, as against that party, the other cannot by reference to any contract term (i) when himself in breach of contract, exclude or restrict any liability of his in respect of the breach; (ii) claim to be entitled to render a contractual performance substantially different from that which was reasonably expected of him; or (iii) claim to be entitled in respect of the whole or any part of his contractual obligation, to render no performance at all, except in so far as the contract term satisfies the requirement of reasonableness.

Under section 9 of Control of Exemption Clauses Ordinance, a person dealing as consumer cannot by reference to any contract term be made to indemnify another person (whether a party to the contract or not) in respect of liability that may be incurred by the other for negligence or breach of contract, except in so far as the contract term satisfies the requirement of reasonableness.

Under section 11 of Control of Exemption Clauses Ordinance, as against a person dealing as consumer, liability for breach of the obligations arising from section 15, 16 or 17 of Control of Exemption Clauses Ordinance (seller's implied undertakings as to conformity of goods with description or sample, or as to their quality or fitness for a particular purpose) cannot be excluded or restricted by reference to any contract term, and as against a person dealing otherwise than as consumer, the liability arising from section 15, 16 or 17 of Control of Exemption Clauses Ordinance can be excluded or restricted by reference to a contract term, but only in so far as the term satisfies the requirement of reasonableness.

Sections 7, 8 and 9 of the Control of Exemption Clauses Ordinance do not apply to any contract so far as it relates to the creation or transfer of a right or interest in any patent, trade mark, copyright, registered design, technical or commercial information or other intellectual property, or relates to the termination of any such right or interest.

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## REGULATORY OVERVIEW

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In relation to a contract term, the requirement of reasonableness for the purposes of the Control of Exemption Clauses Ordinance is satisfied only if the court or arbitrator determines that the term was a fair and reasonable one to be included having regard to the circumstances which were, or ought reasonably to have been, known to or in the contemplation of the parties when the contract was made.

The Unconscionable Contracts Ordinance further empowers the court to refuse to enforce any consumer contracts, enforce the remainder of a contract without the unconscionable part, or limit the application of, revise or alter any part which is found to be unconscionable.

#### ***(4) Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong Kong)***

The Consumer Goods Safety Ordinance imposes certain obligations on manufacturers, importers and suppliers of general consumer goods. It stipulates that a person shall not supply, manufacture or import into Hong Kong consumer goods unless the consumer goods comply with the general safety requirement or the applicable approved standard for the particular consumer goods. The general safety requirement is an objective test which requires the consumer goods supplied to be reasonably safe having regard to all of the circumstances, including the manner in which the goods are presented and promoted, the instructions or warnings given, reasonable safety standards published by a standards institute, and the existence of any reasonable means to make the goods safer taking into account the cost, likelihood and extent of any improvement. Criminal sanctions are imposed for violations unless a due diligence defence can be successfully established. For safety reasons, the Commissioner of Customs and Excise has the power under the Consumer Goods Safety Ordinance to serve on a person a recall notice requiring the immediate withdrawal and retrieval of consumer goods which he reasonably believes to be unsafe or do not comply with approved safety standards, and that there is a significant risk that the consumer goods will cause a serious injury.

#### ***(5) Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong)***

The Personal Data (Privacy) Ordinance aims to protect the privacy of individuals in relation to personal data, which is defined in section 2 of the Personal Data (Privacy) Ordinance as any data (i) relating directly or indirectly to a living individual (data subject); (ii) from which it is practicable for the identity of the individual to be directly or indirectly ascertained; and (iii) in a form in which access to or processing of the data is practicable. The Personal Data (Privacy) Ordinance regulates the conducts of a data user, *i.e.*, any person who, either alone or jointly or in common with other persons, controls the collection, holding, processing or use of personal data.

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## REGULATORY OVERVIEW

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Visitors of our Ying Kee Tea online store may choose to register as our members. As such, in carrying out our Group's business operations, we need to comply with the Personal Data (Privacy) Ordinance and its six data protection principles, as follows:

- Principle 1* – Purpose and manner of collection. This provides for the lawful and fair collection of personal data and sets out the information a data user must give to a data subject when collecting personal data from that subject.
- Principle 2* – Accuracy and duration of retention. This provides that personal data should be accurate, up-to-date and kept no longer than necessary.
- Principle 3* – Use of personal data. This provides that unless the data subject gives consent otherwise personal data should be used for the purposes for which they were collected or a directly related purpose.
- Principle 4* – Security of personal data. This requires appropriate security measures to be applied to personal data (including data in a form in which access to or processing of the data is not practicable).
- Principle 5* – Information to be generally available. This provides for openness by data users about the kinds of personal data they hold and the main purposes for which personal data are used.
- Principle 6* – Access to personal data. This provides for data subjects to have rights of access to and correction of their personal data. In the course of our business, our Group has in its possession private and confidential personal data.

As our Group falls within the definition of “data user” as defined under the Personal Data (Privacy) Ordinance, we are subject to the principles set out in the Personal Data (Privacy) Ordinance regarding the collection, use, retention, accuracy and security of and access to personal data. In this regard, our Group has established policies to ensure our compliance with the Personal Data (Privacy) Ordinance.

### ***(6) Competition Ordinance (Chapter 619 of the Laws of Hong Kong)***

The Competition Ordinance aims to (i) prohibit conduct that prevents, restricts or distorts competition in Hong Kong; (ii) prohibits mergers that substantially lessen competition in Hong Kong; and (iii) provides for incidental and connected matters. There are three competition rules under Competition Ordinance, namely, the First Conduct Rule, the Second Conduct Rule and the Merger Rule.

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## REGULATORY OVERVIEW

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The First Conduct Rule prohibits anti-competitive agreements if the object or effect of the agreement, concerted practice or decision is to prevent, restrict or distort competition in Hong Kong. The Second Conduct Rule prohibits abuse of market power if the object or effect of the conduct is to prevent, restrict or distort competition in Hong Kong. The Merger Rule prohibits anti-competitive mergers and acquisitions that have or are likely to have the effect of substantially lessening competition in Hong Kong. The Merger Rule currently only applies to mergers involving carrier license holders within the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong).

Penalties for infringement that may be imposed by the Competition Tribunal includes pecuniary penalty (up to 10% of the turnover of the companies involved for up to 3 years in which the contravention occurs), financial penalty, disqualification order against a director and prohibition order, etc. “Serious anti-competition conduct” means any conduct that consists of any of the following or any combination of the following: (i) fixing, maintaining, increasing, or controlling the price for the supply of goods or services; (ii) allocating sales, territories, customers or markets for the production or supply of goods and services; (iii) fixing, maintaining, controlling, preventing, limiting or eliminating the production or supply of goods or services, and (iv) bid-rigging practices.

If the Competition Commission has reasonable cause to believe that (i) a contravention of the First Conduct Rule has occurred; and (ii) the contravention does not involve serious anti-competition conduct, the Competition Commission must first issue a warning notice to the undertaking before commencing proceedings in the Competition Tribunal. Where a contravention of the First Conduct Rule has occurred and the contravention involves serious anti-competitive conduct, or a contravention of the Second Conduct Rule has occurred, the Competition Commission may, instead of bringing proceedings in the Competition Tribunal in the first instance, issue an infringement notice to the person against whom it proposes to bring proceedings, offering not to bring those proceedings on the condition that the person makes a commitment to comply with the requirement of the infringement notice.

### **Laws and regulation relating to advertising and promotional practices**

In Hong Kong, there is no single piece of legislation that deals with advertising and promotional practices. Instead, a number of different ordinances and regulations contain provisions relating to the advertising and promotion of products and service, the breach of which may result in criminal liability.

Some of the legislations that may be applicable to our Group’s marketing activities include the Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong), the Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong) and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) which have already been discussed above.



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## REGULATORY OVERVIEW

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### **Laws and regulation relating to online retail business**

Since 2012, our Group has operated an online retail store in Hong Kong which offers a wide-range of our tea products. The sale of goods in Hong Kong is regulated by the Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong). Various other legislations that may be applicable to our online retail store include the Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong), the Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong) and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) which have already been discussed above.

### **Laws and regulations relating to employer/employee rights and obligations**

#### ***(1) Employment Ordinance (Chapter 57 of the Laws of Hong Kong)***

The Employment Ordinance is the main piece of Hong Kong legislation governing conditions of employment in Hong Kong. It provides for the payment of wages, the restrictions on wages deductions, the granting of statutory holidays, and the termination of employment contract, among other things. In addition to these basic protections, employees who are employed under a continuous contract are further entitled to benefits such as rest days, paid annual leave, sickness allowance, severance and long service payment.

#### ***(2) Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong)***

The Mandatory Provident Fund Schemes Ordinance provides for the establishment of non-governmental mandatory provident funds schemes (the “**MPF Schemes**”) for members of the workforce for the purpose of accruing financial benefits on retirement, among other things.

Unless otherwise exempted, employers are required to enrol their employees who are at least 18 but under 65 years of age and employed for not less than 60 days in a MPF Scheme. Employers and employees are each required to make regular mandatory contributions of 5% of the employees’ relevant income to the MPF Scheme, subject to the minimum and maximum relevant income levels, which are currently HK\$7,100 per month and HK\$30,000 per month respectively, provided, however, that employees with a monthly relevant income less than HK\$7,100 are exempt and only the employers are required to make contributions to the MPF Scheme.

An employer’s failure to enrol his/her/its employees in an MPF Scheme can lead to a fine of up to HK\$350,000 and imprisonment of up to 3 years, while an employer failing to comply with the contribution requirement without reasonable excuse is liable to a fine of up to HK\$450,000 and imprisonment of up to 4 years.

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## REGULATORY OVERVIEW

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### **(3) *Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong)***

The Minimum Wage Ordinance stipulates that an employee is entitled to be paid wages no less than the statutory minimum wage rate during the wage period. Currently, the statutory minimum hourly wage rate is HK\$34.5. Any employment contract that purports to extinguish or reduce any right, benefit, or protection conferred on the employee by the Minimum Wage Ordinance is void. Failure to comply with the statutory minimum wage rate requirement constitutes an offence under the Employment Ordinance.

The Minimum Wage Ordinance applies to all employees being engaged under a contract of employment under the Employment Ordinance, except those employed as domestic workers in, or in connection with, a household and who dwell in that household free of charge, student interns, and work experience students during a period of exempt student employment.

### **(4) *Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)***

The Occupational Safety and Health Ordinance aims to enhance safety and health protection to employees in workplaces, both industrial and non-industrial, by imposing a statutory duty on the employers to ensure the workplaces are reasonably safe.

The Occupational Safety and Health Ordinance provides that every employer must, so far as reasonably practicable, ensure the safety and health at work of his/her/its employees. Examples of safety measures include: (i) providing and maintaining reasonably safe plant and work systems; (ii) making arrangements in connection with the safe use, handling, storage or transport of articles or substances; (iii) providing all necessary safety related information, instruction, training and supervision; (iv) providing and maintaining safe access to and egress from the workplaces; and (v) providing and maintaining a safe and healthy work environment.

Failure to comply with the above statutory duty constitutes an offence and the employer is liable on conviction to a fine of HK\$200,000. An employer who fails to do so intentionally, knowingly, or recklessly is liable to a fine of HK\$200,000 and imprisonment of up to six months upon conviction. In addition, the Commissioner of Labour may issue an improvement notice requiring the employer to remedy the contravention within a specified period or to refrain from continuing or repeating the contravention, and/or a suspension notice if there is any condition on the premises which may create an imminent risk of death or serious bodily injury. Contravention of such notices without reasonable excuse constitutes an offence and is punishable by a fine of HK\$200,000 and HK\$500,000, respectively, and imprisonment of up to 12 months.

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## REGULATORY OVERVIEW

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### *(5) Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)*

The Employees' Compensation Ordinance establishes a no-fault, non-contributory employee compensation system for work injuries and lays down the rights and obligations of employees and employers respectively in respect of accidents arising out of and in the course of employment, or in respect of prescribed occupational diseases suffered by the employees. It applies equally to full-time and part-time employees who are employed under service contracts or apprenticeship. Employees who are injured while working outside Hong Kong are also covered if they are employed in Hong Kong by an employer carrying on business in Hong Kong.

If an employee sustains an injury or dies as a result of an accident arising out of and in the course of his employment, his/her employer is generally liable to pay compensation under the Employees' Compensation Ordinance. An accident is deemed to arise out of and in the course of an employment even if the employee was acting in contravention of any statutory or other regulation applicable to his/her employment, or of any orders given by or on behalf of his/her employer, or that he/she was acting without instructions from his/her employer, if such act was done by the employee for the purposes of and in connection with his/her employer's trade or business. Notwithstanding the no-fault compensation system, the court will disallow award if the employee deliberately aggravated the injury or the injury is attributable to the serious and wilful misconduct of that employee.

The Employees' Compensation Ordinance requires that all employers take out insurance to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries sustained by their employees in the course of their employments for an amount not less than the applicable prescribed amount. Currently, the applicable amount is HK\$100 million per event where the number of employees in relation to whom the policy is in force does not exceed 200, and the applicable amount is HK\$200 million per event where the number of employees in relation to whom the policy is in force exceeds 200. Failure to comply with the compulsory insurance requirement constitutes an offence and is punishable by a fine of HK\$100,000 and imprisonment of up to two years.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### OVERVIEW

Our tea business can be dated back to the time when Ying Kee Tea House was established by the Chan's family in Guangzhou, the PRC during the reign of Guangxu Emperor of the Qing dynasty; and has more than 130 years' history. In 1950, Mr. Chan Sing Hoi along with his family moved from Guangzhou to Hong Kong. Mr. Chan Sing Hoi carried on the family business under the name of Ying Kee Tea Company (英記茶莊), as an unincorporated business, in Hong Kong since June 1950. Ying Kee Tea Company was then joined and operated by his offsprings Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Tat Yuen, who are our Controlling Shareholders, until it was officially closed in March 2005. International Sunnyside Tradings Limited (the predecessor of Ying Kee) was incorporated in 1983, with Mr. Chan Ka Ming and Mr. Chan Boon Yuen (who are the son and grandson of Mr. Chan Sing Hoi respectively) being the shareholders, to carry out general trading business. Beginning around 1990, International Sunnyside Tradings Limited changed its business focus and started Chinese tea leaves retailing business under the Ying Kee Tea House brand and renamed the company as Ying Kee. The Chinese tea leaves sold by Ying Kee were sourced by Ying Kee Tea Company. To better reflect the inheritance of the Ying Kee Tea House brand by Ying Kee, Mr. Chan Sing Hoi and his other offsprings including Mr. Chan Ka Min, Mr. Chan Ka Shue, Mr. Chan Shu Yuen, Mr. Chan Kai Yuen, Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen and Mr. Chan Tat Yuen joined Ying Kee as shareholders in October 1992. From around 1990 to March 2005, Ying Kee was running in parallel with Ying Kee Tea Company, each operating and doing business under the same Ying Kee Tea House brand but managing different retail shops and staff. In March 2005, as part of the management's corporate strategy to streamline the Chinese tea business under the same Ying Kee Tea House brand and to eliminate the management's inherent unlimited personal liability risk exposure in their capacity as partners in Ying Kee Tea Company, Ying Kee Tea Company was officially closed, and the business has since been conducted through Ying Kee, the limited company. Mr. Chan Sing Hoi has remained as a shareholder of Ying Kee until his decease in December 1997 and shares in his estate were then transferred to other then existing shareholders of Ying Kee in August 2004. Please refer to the paragraph headed "History and corporate development – Ying Kee" in this section below for details.

During the Track Record Period, we operated our business through Ying Kee. On 14 September 2017, our Company was incorporated under the laws of Hong Kong. On the same date, our Company acquired all issued shares of Ying Kee from Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen, Mr. Chan Tat Yuen, Mr. Chan Shu Yuen and Mr. Chan Ka Min. Since then, our Company has become the holding company of Ying Kee.

We commenced the Reorganisation in June 2017 in preparation for the Listing. Please refer to the paragraph headed "Reorganisation" in this section for further details relating to our Reorganisation. In light of our Group's foundation and main business are in Hong Kong, our Directors are of the view that a listing on the Stock Exchange would be most favourable for the development of our business as it will create greater publicity and will potentially attract more international investors as well as a broader range of potential sources of capital, thus broadening our Group's investor base.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### BUSINESS MILESTONES

Set out below is a chronology of the key achievements and business milestones of our Group:

<b>Year</b>	<b>Major development and achievement</b>
1983	International Sunnyside Tradings Limited, which is the current Ying Kee Tea Company Limited, was incorporated in Hong Kong
1990	International Sunnyside Tradings Limited was renamed as Ying Kee Tea Company Limited (英記茶莊有限公司)
2004	We entered into license agreement with a supermarket in Times Square for the operation of a concession counter to sell our tea products
2009	We obtained ISO 9001:2008 from UKAS Management Systems
2010	We became as a full member of Federation of Hong Kong Industries
2011	We became a corporate member of Hong Kong Brand Development Council
2013	We became a permanent associate member of The Chinese Manufacturers' Association of Hong Kong
2014	We opened our Ying Kee Tea House retail shop in Luk Yeung Galleria in Tsuen Wan
2017	Our Company was incorporated as the listing vehicle
As of the Latest Practicable Date	A total of 10 Ying Kee Tea House retail shops and concession counters were opened in Hong Kong

### HISTORY AND CORPORATE DEVELOPMENT

The following summarises the corporate development of the companies comprising our Group immediately prior to the commencement of the Reorganisation.

#### **Ying Kee**

Ying Kee was incorporated in Hong Kong with limited liability on 13 December 1983. It was formerly known as International Sunnyside Tradings Limited until it changed its name to its current name Ying Kee Tea Company Limited (英記茶莊有限公司) on 22 May 1990. Ying Kee is principally engaged in the retail of tea products.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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On the date of its incorporation, Ying Kee allotted and issued one ordinary share of nominal value of HK\$100 each, credited as fully paid, to each of Mr. Chan Ka Ming (陳家銘) and Mr. Chan Boon Yuen (陳本源). On 19 October 1992, Ying Kee allotted and issued an additional 999 ordinary shares of nominal value of HK\$100 each to each of Mr. Chan Ka Ming (陳家銘) and Mr. Chan Boon Yuen (陳本源), and allotted and issued 1,000 ordinary shares of nominal value of HK\$100 each to each of Mr. Chan Ka Min (陳家棉), Mr. Chan Ka Shue (陳家樞), Mr. Chan Sing Hoi, Mr. Chan Shu Yuen, Mr. Chan Kai Yuen (陳啓源), Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen and Mr. Chan Tat Yuen, all credited as fully paid, and as a result, the total number of shareholders of Ying Kee increased from two to 10.

A series of share transfers took place thereafter, leaving Ying Kee 25% owned by each of Chan Tat Yuen and Chan Kun Yuen, 24.5% by each of Chan Shu Yuen and Chan Kwong Yuen and 1% by Chan Ka Min, since 18 June 2010. The considerations paid for the share transfers were fully satisfied in cash by the respective transferee using funds from personal savings on the relevant date of transfer.

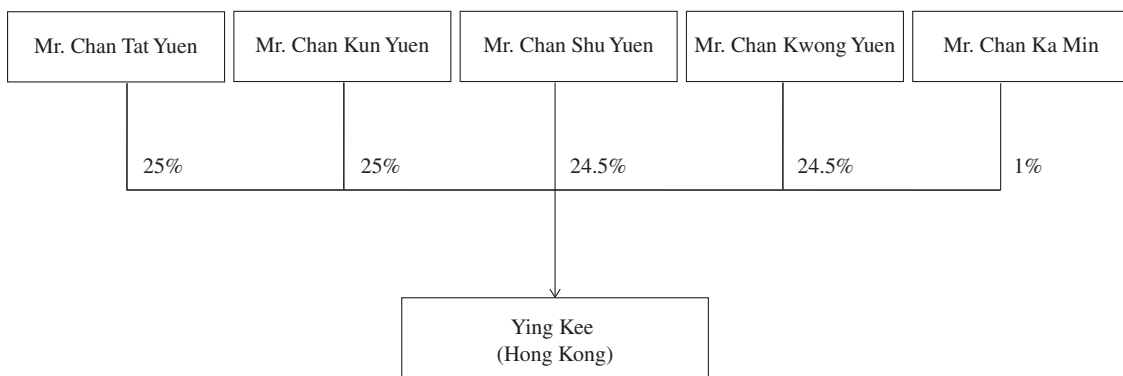
### Agreement of Trademarks Assignment

With a view to streamline its corporate organisation, Ying Kee entered into an agreement of trademarks assignment with Ying Kee (TM) dated 10 August 2017, pursuant to which Ying Kee (TM) assigned to Ying Kee absolutely with full title guarantee all its right, title and interest in and to the Ying Kee-related trademarks registered in the name of Ying Kee (TM) for a consideration of HK\$1.

For details of the assigned trademarks, please refer to the section headed “Statutory and General Information – 5. Further information about our business – B. Trademarks” in Appendix IV to this prospectus.

### REORGANISATION

The following chart sets out the corporate structure of our Group immediately prior to the Reorganisation:



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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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In preparation for the Listing, the companies comprising our Group underwent the Reorganisation, which involved the following steps:

### **Incorporation of Tri-Luck**

Tri-Luck was incorporated in the BVI with limited liability on 2 August 2017. On 18 August 2017, Tri-Luck allotted and issued 100 ordinary shares of nominal value of US\$1.00 each, credited as fully paid, to Mr. Chan Tat Yuen at a nominal subscription price of US\$100 (representing US\$1.00 per share).

Upon completion of the allotment and issue of shares described above, Mr. Chan Tat Yuen became the sole legal and beneficial owner of Tri-Luck.

### **Incorporation of Wealth City**

Wealth City was incorporated in the BVI with limited liability on 2 August 2017. On 18 August 2017, Wealth City allotted and issued 100 ordinary shares of nominal value of US\$1.00 each, credited as fully paid, to Mr. Chan Kun Yuen at a nominal subscription price of US\$100 (representing US\$1.00 per share).

Upon completion of the allotment and issue of shares described above, Mr. Chan Kun Yuen became the sole legal and beneficial owner of Wealth City.

### **Incorporation of Sky King**

Sky King was incorporated in the BVI with limited liability on 23 June 2017. On 18 August 2017, Sky King allotted and issued 100 ordinary shares of nominal value of US\$1.00 each, credited as fully paid, to Mr. Chan Shu Yuen at a nominal subscription price of US\$100 (representing US\$1.00 per share).

Upon completion of the allotment and issue of shares described above, Mr. Chan Shu Yuen became the sole legal and beneficial owner of Sky King.

### **Incorporation of Coastal Lion**

Coastal Lion was incorporated in the BVI with limited liability on 26 July 2017. On 18 August 2017, Coastal Lion allotted and issued 100 ordinary shares of no nominal value, credited as fully paid, to Mr. Chan Kwong Yuen at a nominal subscription price of US\$100 (representing US\$1.00 per share).

Upon completion of the allotment and issue of shares described above, Mr. Chan Kwong Yuen became the sole legal and beneficial owner of Coastal Lion.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### **Incorporation of Profit Ocean**

Profit Ocean was incorporated in the BVI with limited liability on 2 August 2017. On 18 August 2017, Profit Ocean allotted and issued 250 ordinary shares of nominal value of US\$1.00 each, credited as fully paid, to each of Tri-Luck, Wealth City, Sky King and Coastal Lion in each case at a nominal subscription price of US\$250 (representing US\$1.00 per share).

Upon completion of the allotment and issue of shares as described above, Profit Ocean became directly owned by Tri-Luck, Wealth City, Sky King and Coastal Lion in equal shares (*i.e.*, 25% each).

### **Incorporation of our Company and Acquisition of Ying Kee**

Our Company was incorporated in Hong Kong with limited liability on 14 September 2017 as an investment holding company. On the date of its incorporation, our Company allotted and issued 10,000 Shares, credited as fully paid, to Profit Ocean at a nominal subscription price of HK\$10,000 (representing HK\$1.00 per Share).

On 10 October 2017:

- (i) our Company purchased and Mr. Chan Tat Yuen sold his 2,500 shares of Ying Kee (representing 25% of Ying Kee's total issued share capital) for a consideration of HK\$2,500 in cash;
- (ii) our Company purchased and Mr. Chan Kun Yuen sold his 2,500 shares of Ying Kee (representing 25% of Ying Kee's total issued share capital) for a consideration of HK\$2,500 in cash;
- (iii) our Company purchased and Mr. Chan Shu Yuen sold his 2,450 shares of Ying Kee (representing 24.5% of Ying Kee's total issued share capital) for a consideration of HK\$2,450 in cash;
- (iv) our Company purchased and Mr. Chan Kwong Yuen sold his 2,450 shares of Ying Kee (representing 24.5% of Ying Kee's total issued share capital) for a consideration of HK\$2,450 in cash; and
- (v) our Company purchased and Mr. Chan Ka Min sold his 100 shares of Ying Kee (representing 1% of Ying Kee's total issued share capital) for a consideration of HK\$100 in cash.



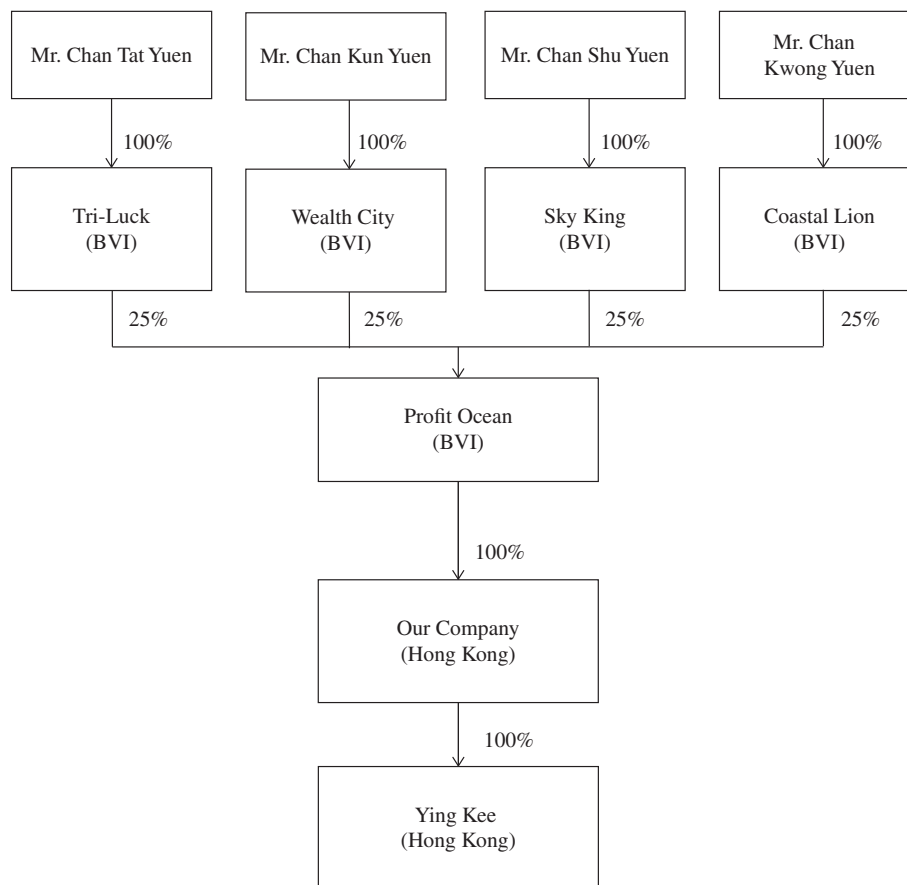
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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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Upon completion of the share purchases as described above, Profit Ocean became the direct sole shareholder of the entire issued share capital of our Company, and Ying Kee also became a direct wholly-owned subsidiary of our Company. Each of Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen has since held a 25% beneficial interest in our Company and Ying Kee, and Mr. Chan Ka Min has since ceased to have any interest in Ying Kee. Mr. Chan Ka Min confirmed that his 100 shares of Ying Kee was sold to our Company for a nominal consideration and that he has voluntarily stepped down from the management of Ying Kee after the Reorganisation.

The following chart sets out the corporate structure of our Group immediately after the completion of the Reorganisation:



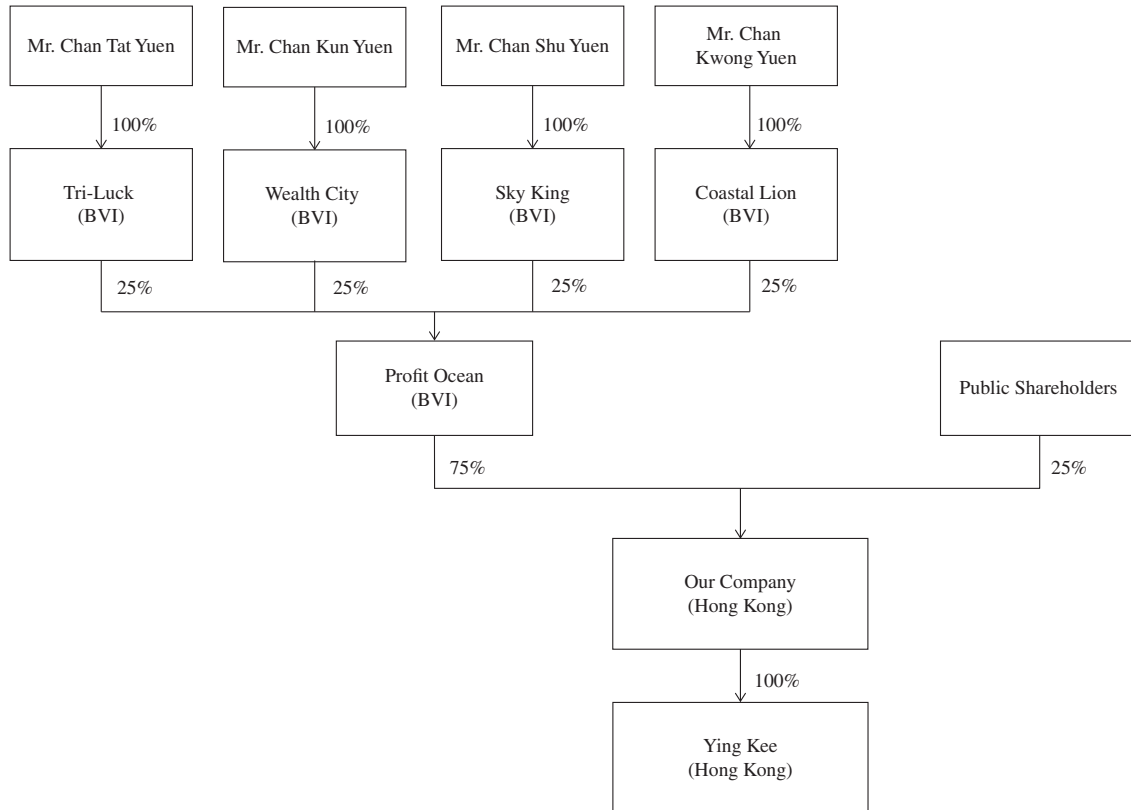
Conditional upon the Share Offer having become unconditional, our Company will complete the Bonus Issue, i.e., allotting and issuing 269,990,000 Shares, credited as fully paid, to Profit Ocean, and will immediately thereafter complete the Share Offer, i.e., allotting and issuing 90,000,000 new Shares to public shareholders, representing 25% of the enlarged share capital of our Company upon Listing (without taking into account any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme).

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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The following chart sets out the corporate structure of our Group immediately after the completion of the Bonus Issue and the Share Offer (but without taking into account of any Shares which may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme):



### OVERVIEW

We are a Chinese tea leaves retailer in Hong Kong. During the Track Record Period, we derived our revenue mainly from the sale of Chinese tea leaves and to lesser extent, from the sale of tea wares and tea gift sets in Hong Kong. As at the Latest Practicable Date, we operate 10 retail shops and concession counters for selling our tea products in Hong Kong. During the Track Record Period, we generated revenue mainly from selling our tea products to our retail customers through retail shops, showroom and concession counters, online sales on our own website, sales through platforms provided by our business partners, and exhibition and/or other booth sales and direct sales to our commercial customers. Details of our sales channels, please refer to the sub-section headed “Sales and marketing – Sales channels” of this section.

The Hong Kong Tourism Board certified our compliance with the assessment criteria of the Quality Tourism Services Scheme (QTSS) and has authorised our certification mark “Ying Kee Tea House” to use upon “Retail Shops” category. Our Ying Kee Tea House brand was granted the license from the Chinese Manufacturers’ Association of Hong Kong and the Hong Kong Brand Development Council for the right to use Hong Kong Top Brand Mark (Top Mark) on tea and floral tea registered product categories since 2012 and on tea cake registered product category since 2016. In 2013, we have been recognised as a “Quality Shop” by the Hong Kong Tourism Board for 10 consecutive years.

We believe that the success of our Ying Kee Tea House brand is a key reason for our success and the popularity of our products amongst our customers. Our tea business can be dated back to the time when Ying Kee Tea House was established in Guangzhou, the PRC, during the reign of Guangxu Emperor of the Qing dynasty; and has more than 130 years’ history. Mr. Chan Sing Hoi carried on the family business and was a shareholder of Ying Kee. Please refer to paragraphs headed “Overview” of the “History, reorganisation and group structure” of this prospectus for details. Our Controlling Shareholders, Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen, and Mr. Chan Tat Yuen are the offsprings of Mr. Chan Sing Hoi. Given the long family history of our Controlling Shareholders in the Chinese tea leaves business in China and Hong Kong, we have accumulated extensive experience and deep knowledge of Chinese tea culture, and the deep heritage in which our present-day business and products are rooted.

We strive to develop and maintain the strength of our Ying Kee Tea House brand by organising tea appreciation courses, setting up booths in exhibitions/events and advertising our products through public media. We draw on the deep knowledge and experience of our Directors, senior management and processing staff and develop tea blends that are unique to us and well-suited to our customers’ tastes and preferences. We intend to pursue new opportunities to expand our retail network, to provide consistent quality service to our customers, and to firmly uphold our image and identity as a Hong Kong-based family enterprise. We believe that these values help us to maintain a broad customer base that includes both tea experts and members of the general public, increase our Ying Kee Tea House brand exposure, and promote Chinese tea culture and products to a broad audience.

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## BUSINESS

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We procure our tea leaves from various tea leaves suppliers mainly in Hong Kong; and our Directors confirmed that the PRC is the major origin of such tea leaves. Some of our tea products are processed by us in our processing facilities located at Siu Sai Wan, Hong Kong, before they are available for sale in market, especially for the tea products which were blended by us with specific blend. We offer to sell over 70 products of Chinese tea leaves which are broadly categorised into eight types including:

- Pu-erh tea: including Pu-erh, old Pu-erh tea cakes
- Old Luk On tea
- White tea: including Peony
- Black tea: including Lychee black tea and Keemun black tea
- Oolong tea: including Teh Kuan Yin, Oolong and Daffodil
- Green tea: including screw shaped green tea and Loong Cheng
- Fragrant tea: including Jasmine and Orchid Luk On
- Miscellaneous: including health medley and blossom globeamaranth

During the Track Record Period, our best-selling tea leaves were Pu-erh tea, Oolong tea and fragrant tea. Sales of Pu-erh tea represented approximately 41.5%, 46.2% and 40.0% of our total revenue for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively.

We target both retail and commercial customers. According to the Euromonitor Report, consumers that buy directly from specialist Chinese tea retailers in Hong Kong for personal consumption are the largest target group for packaged branded Chinese tea retailers as they tend to favour packaged branded Chinese tea for both quality and convenience. There are also some commercial customers from various industries that buy tea leaves in bulk to be used as corporate gifts for their customers. Our retail shops, showroom and concession counters generated most of our sales, accounting for approximately 91.2%, 92.9% and 91.8% of our total revenue, for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. As at the Latest Practicable Date, we operate five retail shops at street level, two retail shops in shopping malls and three concession counters in supermarket/department stores under our Ying Kee Tea House brand.

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In terms of product type, we derive our revenue mostly from the sale of tea leaves for the Track Record Period. The following table sets out a breakdown of revenue by product category for the years/periods indicated:

	Year ended 31 March				Six months ended 30 September			
	2016		2017		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Tea leaves	40,321	94.3	42,230	94.8	13,922	93.1	15,042	93.8
Tea wares	2,264	5.3	2,078	4.7	953	6.4	857	5.4
Tea gift sets	187	0.4	225	0.5	71	0.5	119	0.7
Others ( <i>Note</i> )	9	0.0	7	0.0	0	–	21	0.1
<b>Total</b>	<b>42,781</b>	<b>100.0</b>	<b>44,540</b>	<b>100.0</b>	<b>14,946</b>	<b>100.0</b>	<b>16,039</b>	<b>100.0</b>

*Note:* As confirmed by our Directors, others include service fees for providing tea appreciation courses to customers, providing shop space to media for video taking and wrapping services for tea products.

### COMPETITIVE STRENGTHS

Our Directors believe that our historical success and future prospects are underpinned by a combination of competitive strengths including:

#### **We have a stable, experienced and dedicated management team with extensive industry experience**

Our management has strong and extensive experience in Hong Kong's tea industry and is dedicated to the procurement, processing and marketing of our tea products. Our three executive Directors, Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen and Mr. Chan Shu Yuen, have been working for our Group for over 16 years. Mr. Chan Kwong Yuen is responsible for overseeing the finance and investment aspects of our Group, and formulating our Group's strategy and evaluating and negotiating leasing terms and conditions with landlords; Mr. Chan Kun Yuen is responsible for our Group's business development, marketing and corporate strategy formulation and execution. Mr. Chan Shu Yuen's responsibilities include finding, selecting and negotiating with potential suppliers and also building and maintaining relationships with them, overseeing the technical aspects of processing, monitoring quality control of final products in the warehouse, and resolving electrical and mechanical problems in processing. Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen, together with Mr. Chan Tat Yuen are the offsprings of Mr. Chan Sing Hoi. Mr. Chan Sing Hoi carried on the family tea business, which can be dated back to the time when Ying Kee Tea House was established in Guangzhou, the PRC. Please refer to the section headed "Directors, senior management and employees" for further information on our Directors and senior management team.

We believe we will be able to continue to capitalise on our management team's industry expertise, professional management skills and strong capabilities, and successfully formulate and implement our development strategies in the tea industry.

**We have an established position in the Chinese tea market in Hong Kong**

We engaged in the sale and marketing of a comprehensive range of Chinese tea leaves, tea wares and tea gift sets in Hong Kong. Our tea business can be dated back to the time when Ying Kee Tea House was established in Guangzhou, the PRC, during the reign of Guangxu Emperor of the Qing dynasty, and we believe it is on or about the year of 1881; and has more than 130 years' history. For this reason, "1881" was featured on our website and packaging; in our advertisements and promotional materials; in our retail points and showroom; and in certain of our registered trademarks. Although according to a PRC government source in public domain that Ying King Tea House was established during the 8th year of the reign of Guangxu Emperor of the Qing dynasty (1882), there is no proof that this is the year 1881. Our Hong Kong Legal Counsel is of the view that the manner of usage of "1881" constitutes an "application of trade description to goods" under the TDO. For details of our uses of "1881", please refer to the section headed "Risk factors – Our uses of "1881" may expose us to risks regarding our brand image and reputation" of this prospectus. Based on our long-established history in the tea business, our Directors believe that our Ying Kee Tea House brand has become a famous and well recognised tea product name in Hong Kong. We joined Hong Kong and Kowloon Tea Trade Merchants Association as a member. Our Ying Kee Tea House brand was granted the license from the Chinese Manufacturers' Association of Hong Kong and the Hong Kong Brand Development Council for the right to use Hong Kong Top Brand Mark (Top Mark) on tea and floral tea registered product categories since 2012 and on tea cake registered product category since 2016. In 2013, we have been recognised as a "Quality Shop" by the Hong Kong Tourism Board for 10 consecutive years. Please refer to the sub-section headed "Key recognitions and memberships" in this section for further information on our awards and recognitions achieved. According to the Euromonitor Report, based on sales data provided by us and the market size calculated by Euromonitor, we had 12.6% share of the specialist Chinese tea retailers market in Hong Kong in terms of our revenue in 2016.

As an established specialist Chinese tea retailer in Hong Kong, our Directors believe that we are in a strong position to capture the market growth in the branded Chinese tea leaves market in Hong Kong. We also believe that our well-recognised Ying Kee Tea House brand would give us a competitive advantage in maintaining our position in the Chinese tea industry and expanding our business to a new era.

**We are able to ensure provision of quality tea products**

Over the years, we developed a system to control the quality of our tea products. Beginning with the selection of tea leaves, our experienced management team, in particular, Mr. Chan Shu Yuen and staff under the warehouse department are able to identify the quality of tea leaves sourced from the suppliers in order to ensure the standard of the raw material supplies. We have our own tea processing facilities located in the warehouse at Siu Sai Wan, Hong Kong, and the tea leaves sourced from the suppliers are stored, processed (if needed) and packed in the same premises. The premises in Siu Sai Wan, Hong Kong, also house our head office and showroom. Our Siu Sai Wan premises together with our retail shops in Wanchai and Tsim Sha Tsui have obtained ISO 9001:2008 for design, manufacturing, packaging and retail

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## BUSINESS

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of Chinese tea leaves and retail of tea wares since June 2009. According to the ISO procedure guidelines, our processing staff will inspect raw material supplies and our tea products constantly to ensure that can meet our required quality. Also, the associated inspection reports can be provided by our suppliers upon our request. The finished tea products will be delivered to our retail shops and concession counters for selling to retail customers in Hong Kong Island, Kowloon and the New Territories.

We believe that since the selection of tea leaves, tea leaves' processing when required, tea product package and sale of tea products are carried out by our own staff and closely monitored by our senior management, we are able to maintain the provision of quality tea products to our customers.

### **Our provision of different types of tea products allows us to serve customers with different requirements**

Our Chinese tea leaves are broadly categorised into eight types including Pu-erh tea, old Luk On tea, green tea, black tea, Oolong tea, white tea, fragrant tea and miscellaneous (such as health medley and blossom globeamaranth). As at the Latest Practicable Date, we offer over 70 products of Chinese tea leaves, which are classified under each abovementioned type depending on their origins and qualities, to customers. Some of our Chinese tea leaves available for sale are selected tea leaves blended with exclusive blends to make new types of tea products unique to us, such as our Luk On tea.

We also sell tea wares sourced from China as well as our Chinese tea leaves and tea wares packed as gift sets.

We believe that our broad Chinese tea leave product portfolio allows us to target customers with different spending habits and cater for diverse customer tastes, which distinguishes us from our competitors that do not match our broad tea products offering.

### **Our established business relationships with suppliers and commercial customers**

We have a long established relationship with our major tea leave suppliers in Hong Kong, most of which we had worked with for more than seven years. The supply market for Chinese tea leaves is relatively unique and traditional, most of these tea leave suppliers had been carrying on tea leaves supply business in Hong Kong for decades. Our Directors believe that because of our long established business relationship with them, the size of our purchase orders of tea leaves and our reputation in the tea industry, we are able to maintain a good relationship with these tea leaves suppliers.

We have also maintained long established business relationships with certain of our commercial customers, such as hotels and banks, for more than six years. Please refer to the sub-section headed "Sales and marketing – Customers" in this section for further details. We believe that our consistent provision of quality tea products is the key to maintain customer relationship.

## BUSINESS

### OUR BUSINESS MODEL AND PRODUCTS

#### Overview

We derive our revenue principally from the sales of Chinese tea leaves, tea wares and tea gift sets. All our tea leaves are marketed and sold under our Ying Kee Tea House brand name, but the tea wares were sold under manufacturers' names as shown on the respective packages. Our retail shops, showroom and concession counters generated most of our sales, accounting for approximately 91.2%, 92.9% and 91.8% of our total revenue, for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively.

#### Gross profits and gross margins by tea products

The following table sets out a breakdown of gross profits and gross margins by product category for the years/periods indicated:

	Year ended 31 March				Six months ended 30 September			
	2016		2017		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Tea leaves	32,280	80.1	34,030	80.6	11,035	79.3	11,926	79.3
Tea wares	1,570	69.3	1,394	67.1	648	68.0	595	69.4
Tea gift sets	151	80.7	118	52.4	46	64.8	71	59.7
Others ( <i>Note</i> )	9	100.0	7	100.0	0	100.0	21	100.0
<b>Overall</b>	<b>34,010</b>	<b>79.5</b>	<b>35,549</b>	<b>79.8</b>	<b>11,729</b>	<b>78.5</b>	<b>12,613</b>	<b>78.6</b>

*Note:* As confirmed by our Directors, others include service fees for providing tea appreciation courses to customers, providing shop space to media for video taking and wrapping services for tea products.

The relatively high gross margin from sale of tea gift sets for the financial year ended 31 March 2016 was mainly due to the sales of tea gift sets for the special celebration of anniversary of our business.

As at the Latest Practicable Date, we operate five retail shops at street level, two retail shops in shopping malls and three concession counters in supermarket/department stores under our Ying Kee Tea House brand.

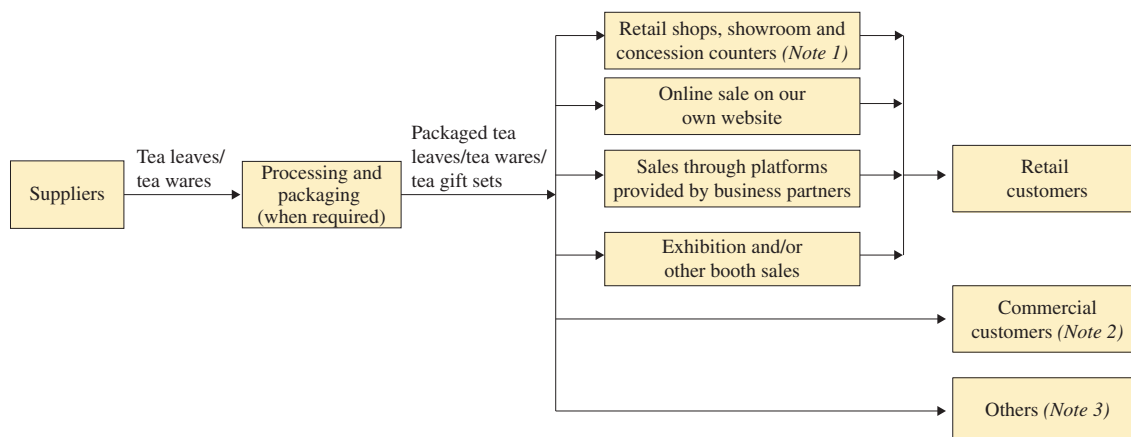
For the three concession counters at supermarket/department stores, we pay license fee, other fees and charges. The license fees payable for the concession counters are generally either a fixed monthly fee or a percentage with reference to our monthly sales generated from the respective counters, whichever is higher. Please refer to Shop 3, Shop 4 and Shop 10 in the table under "Our retail network" in this section below for details.

During the Track Record Period, over 90% of our revenue was generated from the sale of tea products to retail customers through different sales channels and the remaining revenue was generated from our commercial customers, which include among others, supermarkets, department stores, banks and hotels. Please refer to table under "Sales and Marketing – Sales channels" in this section for breakdown of the sale of our products under each of our sales channels.



## BUSINESS

The diagram below illustrates our business model. For further details, please refer to sub-section headed “Sales and marketing – Sales Channels” in this section:



*Notes:*

1. Retail shops, showroom and concession counters exclude commercial customers under Note 2 and others under Note 3 below. During the Track Record Period, some customers may also purchase our tea products at our showroom in Siu Sai Wan. Such sales amounted to approximately HK\$0.1 million, HK\$0.2 million and HK\$52,000 for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. Our Hong Kong Conveyancing Legal Advisers opined that according to the Government Lease, the building in which our premises in Siu Sai Wan can be used for industrial purpose i.e. factory or godown (i.e. warehouse purpose or both). We made enquiry through the Hong Kong Conveyancing Legal Advisers to the Lands Department of Hong Kong and understand from their officer that selling of products at our showroom in the Siu Sai Wan premises would amount to retail activity which would be likely in breach of the Government Lease if electronic cash machine register(s) and Octopus card machine terminal(s) were installed at the showroom and acceptance of instant payments by customers took place at the showroom.  
  
We confirmed that the cash register(s) and Octopus card terminal(s) at the showroom have been removed and our Group ceased to accept instant payments by customers at the Siu Sai Wan premises. We also confirmed that to the best of our Company and our Directors' knowledge, information and belief, there was no complaint from the public to the Lands Department of Hong Kong regarding the retail activities inside the said premises which was caught in the act by the Lands Department of Hong Kong.
2. Commercial customers mean the customers, whether individual or corporate, who placed orders to our Group and our head office in Siu Sai Wan has issued invoices to such customers.
3. Others include sales to our staff (including our Directors) and Golden Ocean and/or Chan Sing Hoi Enterprises, which are entities held by our Controlling Shareholders.

### Products

Our products are classified into the following three main categories:

- Chinese tea leaves;
- Tea wares; and
- Tea gift sets.

We mainly derive our revenue from our Chinese tea leaves which accounted for approximately 94.3%, 94.8% and 93.8% of our revenue, for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively.

## BUSINESS

### *Chinese Tea Leaves*

We offer to sell over 70 products of Chinese tea leaves. Retail prices of our tea leaves under each of the eight types, i.e. Pu-erh tea, old Luk On tea, white tea, black tea, Oolong tea, green tea, fragrant tea and miscellaneous (including health medley and blossom globeamaranth) are determined by us after having considered the product type, the weight per bag/tin, the quality, the purchase cost and the market price of the tea leave products and also the price of tea leave products offered by our competitors. Our tea leaves could be categorised by their degree of fermentation, which include the post fermented Pu-erh tea and old Luk On tea, fully fermented black tea, partially fermented Oolong tea including Oolong tea, Teh Kuan Yin and Daffodil, slightly fermented white tea and non-fermented green tea. We also offer other types of tea including various fragrant and floral teas. We do not source tea leaves directly from the tea plantations, but instead we purchase from suppliers mainly in Hong Kong, and the PRC is the major origin of such tea leaves. According to the Euromonitor Report, the supply market for Chinese tea leaves is relatively unique and traditional, and most of these tea leave suppliers had been carrying on tea leaves supply business in Hong Kong for decades. In view of our long established business relationship with them and our reputation in the tea industry, our Directors believe that we are secured with constant supply of quality tea leaves at a relatively stable price, which is more cost effective for us than devoting more of our resources into the sourcing and procurement of tea leaves from different tea growing regions in China. Besides, we believe that we could receive first-hand information from our suppliers about the yield and quality of tea leaves in China.

The following table sets out the revenue categorised by types of tea leaves during the Track Record Period:

	Year ended 31 March				Six months ended 30 September	
	2016		2017		2017	
	<i>HK\$'000</i>	<i>approximately</i> %	<i>HK\$'000</i>	<i>approximately</i> %	<i>HK\$'000</i>	<i>approximately</i> %
Pu-erh tea	17,766	44.1	20,556	48.7	6,420	42.7
Old Luk On tea	91	0.2	73	0.2	28	0.2
Black tea	426	1.1	433	1.0	182	1.2
Oolong tea	9,235	22.9	8,953	21.2	3,380	22.5
White tea	1,334	3.3	1,298	3.1	475	3.1
Green tea	3,376	8.4	3,180	7.5	1,324	8.8
Fragrant tea	5,148	12.7	5,308	12.6	2,009	13.4
Miscellaneous	2,945	7.3	2,429	5.7	1,224	8.1
<b>Total</b>	<b>40,321</b>	<b>100.0</b>	<b>42,230</b>	<b>100.0</b>	<b>15,042</b>	<b>100.0</b>

### Pu-erh tea

Pu-erh tea is a post-fermented tea that is produced from tea leaves typically grown in Yunnan province in China. Generally, the longer Pu-erh tea is preserved, the better is its taste and the higher is its value. Several other factors influence the value as well, including the age of the trees, the grade of leaves used, how the tea leaves were stored. Depending on the grades and years of ageing, prices of our Pu-erh tea cakes offered for sale by our Group generally ranging from approximately HK\$260 per piece to HK\$85,000 per piece. The price of certain Pu-erh tea in 150 gram ranges from approximately HK\$160 to HK\$1,820; certain Pu-erh tea in 37.5 gram ranges from approximately HK\$40 to HK\$450; certain Pu-erh tea in 600 gram ranges from approximately HK\$100 to HK\$280 and a type of Pu-erh tea in 75 gram is HK\$4,200. According to the Euromonitor Report, Pu-erh tea is the most popular variety of Chinese tea in Hong Kong, accounting for more than one-third of retail sales of packaged branded Chinese tea in Hong Kong in 2016.

Sales of Pu-erh tea represented approximately 41.5%, 46.2% and 40.0% of our total revenue for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. As at the Latest Practicable Date, we offer over 15 Pu-erh tea leave products to sell in market.



### Old Luk On tea

Old Luk On tea is a post-fermented tea, which is a product made under our specific blend. Our Directors advised that the characteristic of old Luk On tea is sweet and mellow. The price of our old Luk On tea ranges from approximately HK\$95 to HK\$180 per 600 gram.



### Black tea

Black tea, may also be called red tea, is a fermented tea. The tea leaves have undergone a series biochemical changes during the fermentation process, which give the drinking tea a colour of red. The price of our black tea ranges from approximately HK\$30 to HK\$60 per 150 gram.



### Oolong tea

Oolong tea is a fermented tea which generally includes Oolong, Teh Kuan Yin and Daffodil. Oolong tea is famous of its fragrant and sweet aftertaste character. The price of our Oolong tea ranges from approximately HK\$30 to HK\$280 per 150 gram; and some ranges from approximately HK\$130 to HK\$420 per 75 gram.



Oolong tea



Teh Kuan Yin



Daffodil

White tea

White tea is a slightly fermented tea, including Peony. White tea has the light drinking tea colour with fresh and mellow flavour. The price of our white tea ranges from approximately HK\$8 to HK\$40 per 37.5 gram except a type of white tea is HK\$240 per 75 gram.



Green tea

Green tea is a non-fermented tea, including Loong Cheng tea and screw shaped green tea. Loong Cheng tea has long lasting fragrant and mellow taste. The price of our green tea ranges from approximately HK\$40 to HK\$370 per 150 gram; and some ranges from approximately HK\$400 to HK\$620 per 75 gram.



Loong Cheng tea

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## BUSINESS

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Screw shaped green tea

### Fragrant tea

The price of our fragrant tea ranges from approximately HK\$30 to HK\$260 per 150 gram; and some ranges from approximately HK\$100 to HK\$210 per 600 gram except a type of fragrant tea ranges from approximately HK\$120 to HK\$140 per 75 gram.

Our fragrant teas basically include Jasmine teas and self-made Orchid Luk On. Jasmine teas comprise tea leaves which are scented with aroma from jasmine blossoms. Our Orchid Luk On is our tea leaf product mixed with about six types of tea leaves and processed in our warehouse according to our specific blend. Our Directors advised that the characteristic of Orchid Luk On is refreshing, fragrant, sweet-tasting and mellow.



Jasmine tea



Luk On tea

### Miscellaneous

We also sell flower teas, which include blossom globeamaranth and health medley. The price of our flower teas varies depending on the weight, the type or if applicable, number of pieces in a box.



Blossom globeamaranth



Health medley

***Tea wares***

We offer a variety of tea wares to sell in our retail shops and concession counters along with our tea leaves during the Track Record Period, which include the following:

- *Teapot*



- *Tea tray*



– *Tea cup*



– *Tea tin*



Our Directors confirmed that tea ware suppliers are chosen after considering factors such as quality, distinctiveness and trendiness of design of the tea wares available by them.

During the Track Record Period, we sourced tea wares from various independent suppliers in Hong Kong and China such as Guangzhou. Tea wares were sold under manufacturers' names as shown on the respective packages when we sourced them from China. Depends on the quality, sources and composition of the tea wares, the prices of tea wares had been in the range from around HK\$10 to around HK\$3,000 per unit. The revenue from the sale of tea wares amounted to approximately HK\$2.3 million, HK\$2.1 million and HK\$0.9 million, representing approximately 5.3%, 4.7% and 5.4% of our total revenue for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively.

***Tea gift Sets***

We also offer a variety of tea gift sets, which are often packaged in boxes containing bags or tin cans with bundled tea leaves and tea wares and sold under our brand name. Our Directors believe that selling of tea gift sets would help us to attract gift buyers to broaden our customer base, and at the same time help to promote our brand name. As at the Latest Practicable Date, our tea gift sets are selling between price range from about HK\$130 to HK\$200 per unit. The revenue from the sale of tea gift sets amounted to approximately HK\$0.2 million, HK\$0.2 million and HK\$0.1 million, representing approximately 0.4%, 0.5% and 0.7% of our total revenue for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively.





*Bundled tea leave and tea ware gift set*

### Price fluctuations

Our Directors confirmed that there was no material fluctuation in the selling prices of our tea products during the Track Record Period.

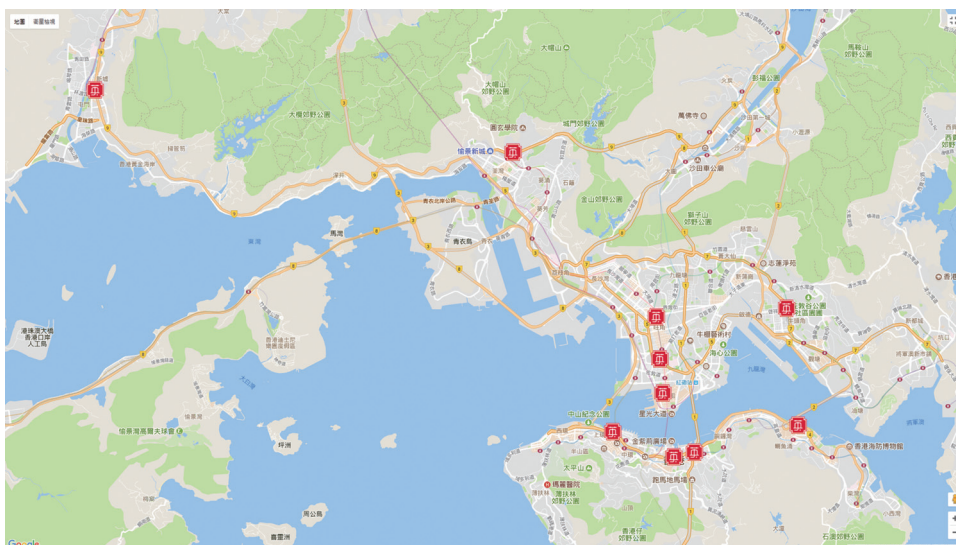
### Seasonality and product life cycle

The sales of our products are subject to seasonality. We generally record higher sales of our tea products as a percentage of our total revenue around Chinese New Year and our annual sale from the end of October to early November each year. Our tea leave products were not subject to any product life cycle during the Track Record Period.

### OUR RETAIL NETWORK

As at the Latest Practicable Date, we have established a retail network spread out across Hong Kong Island, Kowloon and the New Territories, with five retail shops at street level, two retail shops in shopping malls, and three concession counters in supermarket/department stores under our Ying Kee Tea House brand.

The map below shows the approximate location of our retail shops and concession counters as at the Latest Practicable Date:



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### Our retail network

The following table sets out the details of our retail shops and concession counters as at the Latest Practicable Date:

Name of shop	Location	Type of shop	Current term of the tenancy agreement/ license agreement	Rental/ License fee	Approximate rental expenses incurred during the Track Record Period		
					Year ended 31 March 2016 <i>HK\$'000</i>	Year ended 31 March 2017 <i>HK\$'000</i>	Six months ended 30 September 2017 <i>HK\$'000</i>
<b>Hong Kong Island</b>							
Central Shop <i>(Note 2)</i> ("Shop 1")	Shop B, Ground Floor, Siu Ying Commercial Building, No. 151-155 Queen's Road Central, Hong Kong	Retail shop at street level	Two years commencing on 1 April 2017 and expiring on 31 March 2019	Monthly rent, and tenant is responsible for payment of government rates and management fee	1,680	972	486
Wanchai Shop <i>(Note 2)</i> ("Shop 2")	Ground Floor, Mei Wah Building, No. 170 Johnston Road, Wan Chai, Hong Kong	Retail shop at street level	Two years commencing on 1 April 2017 and expiring on 31 March 2019	Monthly rent, and tenant is responsible for payment of government rates and management fee	1,800	1,116	558
Times Square Shop ("Shop 3")	Basement One at Times Square, 1 Matheson Street, Causeway Bay, Hong Kong	Concession counter (an area of approximately 42 sq.ft. allocated by a supermarket at the location)	One year commencing on 1 May 2017 and expiring on 30 April 2018 <i>(Note 1)</i>	Monthly license fee which is a specified percentage of the monthly gross sales receipts, and licensee is responsible for payment of government rates and management fee	507	497	189
Taikoo Shop ("Shop 4")	B1, Cityplaza 2, 23 Taikoo Shing Road, Taikoo Shing, Quarry Bay, Hong Kong	Concession counter (an area of 192.4 sq.ft. allocated by a department store at the location)	One year commencing on 1 December 2017 and expiring on 30 November 2018	Monthly license fee which is a specified percentage of the monthly sales proceeds, subject to a minimum license fee, and licensee is responsible for payment of utilities expenses and administration fee	614	634	246

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Name of shop	Location	Type of shop	Current term of the tenancy agreement/ license agreement	Rental/ License fee	Approximate rental expenses incurred during the Track Record Period		
					Year ended	Year ended	Six months ended
					31 March 2016 <i>HK\$'000</i>	31 March 2017 <i>HK\$'000</i>	30 September 2017 <i>HK\$'000</i>
<b>Kowloon</b>							
Tsimshatsui Shop (Note 2) ("Shop 5")	Shop M1, Ground floor, Hanyee Building, Nos. 19-21 Hankow Road, Kowloon, Hong Kong	Retail shop at street level	Two years commencing on 1 April 2017 and expiring on 31 March 2019	Monthly rent, and tenant is responsible for payment of government rates and management fee	1,440	828	414
Mongkok Shop (Note 2) ("Shop 6")	Unit D, Ground Floor, Silver Commercial Building, No. 719 Nathan Road, Kowloon, Hong Kong	Retail shop at street level	Two years commencing on 1 April 2017 and expiring on 31 March 2019	Monthly rent, and tenant is responsible for payment of government rates and management fee	1,740	900	450
Yaumatei Shop ("Shop 7")	Ground Floor, No. 192 Shanghai Street, Kowloon, Hong Kong	Retail shop at street level	Three years commencing on 16 April 2017 and expiring on 15 April 2020	Monthly rent, and tenant is responsible for payment of government rent and rates, all outgoings, including management fee and utilities expenses	456	456	210
Kowloon Bay Shop ("Shop 8")	Shop Unit 431, Telford Plaza, Kowloon Bay, Hong Kong	Retail shop in shopping mall	Three years commencing on 15 September 2017 and expiring on 14 September 2020	Monthly rental fee (basic and turnover rent calculated with reference to monthly gross sales) and tenant is responsible for payment of government rates, management expenses, air conditioning charge, promotion fee and other charges	Nil	Nil	Nil

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Name of shop	Location	Type of shop	Current term of the tenancy agreement/ license agreement	Rental/ License fee	Approximate rental expenses incurred during the Track Record Period		
					Year ended 31 March 2016 HK\$'000	Year ended 31 March 2017 HK\$'000	Six months ended 30 September 2017 HK\$'000
<b>New Territories</b>							
Tsuen Wan Shop ("Shop 9")	Shop Units S28-29, Second Floor, Luk Yeung Galleria, Luk Yeung Sun Chuen, Nos. 22-66 Wai Tsuen Road, Tsuen Wan, New Territories, Hong Kong	Retail shop in shopping mall	Three years commencing 1 October 2017 and expiring on 30 September 2020	An aggregate of monthly basic rent and turnover rent and tenant is responsible for payment of management fee, air conditioning charge, and promotion fee	489	514	222
Tuen Mun Shop ("Shop 10")	Shop No. UG010, Upper Ground Floor, and/or any designated area in the premises at Commercial Accommodation, Tuen Mun Town Plaza, Tuen Mun, New Territories, Hong Kong	Concession counter (an area of 265 sq.ft. allocated by a department store at the location)	One year commencing 2 April 2017 and expiring on 1 April 2018 (Note 1)	Monthly basic license fee or a specified percentage of the monthly gross receipts, whichever is higher, and licensee is responsible for payment of government rates, all outgoings, including management fee, monthly promotional levy and a sum of monthly total marketing solutions of HK\$3,000	686	737	335
<b>Total:</b>					9,412	6,654	3,110

*Notes:*

- (1) As at the Latest Practicable Date, we intended to renew all the existing tenancy agreements or license agreements upon expiry. Our Directors confirmed that up to the Latest Practicable Date, we are in negotiation with the respective licensors regarding the renewal of the relevant licences for Shop 3 and Shop 10.
- (2) Shops 1 and 2 were leased from Chan Sing Hoi Enterprises, while Shops 5 and 6 were leased from Golden Ocean, both of them are entities held by our Controlling Shareholders, please refer to the section headed "Connected Transactions" of this prospectus for more details.

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The following table sets out the details of our retail shops and concession counters we operated and closed during the Track Record Period and up to the Latest Practicable Date:

	Year ended 31 March 2016	Year ended 31 March 2017	Six months ended 30 September 2017	From 1 October 2017 to the Latest Practicable Date
<b>Number of retail shops and concession counters</b>				
Number at the start of the year/period	10	9	9	9
Number added during the year/period ( <i>Note 1</i> )	0	0	0	1
Number decreased during the year/period ( <i>Note 2</i> )	1	0	0	0
<b>Total number at the end of the year/period</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>10</b>

*Notes:*

- On 17 October 2017, we have commenced business of Shop 8, i.e. our shop in Telford Plaza.
- Our Group licensed a retail shop in Domain, Yau Tong, from an Independent Third Party in 2012. The term of the license expired on 30 November 2015 and we received notice from the landlord regarding the termination of the license on this date.

### *Same store growth rate*

The table below sets out our revenue and same store growth rate of our retail points for the years/periods indicated:

	Year ended 31 March		Growth rate %	Six months ended 30 September		Growth rate %
	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>		2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	
				(unaudited)		
Shop 1	8,038	9,191	14.3	3,329	2,676	-19.6
Shop 2	6,277	7,472	19.0	2,257	2,415	7.0
Shop 3	2,306	2,259	-2.0	921	859	-6.7
Shop 4	2,227	2,286	2.6	792	857	8.2
Shop 5	4,999	5,153	3.1	1,790	2,406	34.4
Shop 6	6,441	7,121	10.6	2,208	2,612	18.3
Shop 7	3,298	3,386	2.7	1,171	1,226	4.7
Shop 8	0	0	N/A	0	0	N/A
Shop 9	2,146	2,296	7.0	768	838	9.1
Shop 10	1,949	2,024	3.8	619	782	26.3

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*Notes:*

- (1) Our Directors advised that (i) the relatively large same store growth rates for Shop 1, Shop 2 and Shop 6 for the year ended 31 March 2017 as compared with the revenue for year ended 31 March 2016 was mainly due to the increased sales of limited edition reserved extra old Pu-erh tea leaves and/or tea cakes in these shops; (ii) the relatively large same store growth rates for Shop 5 and Shop 6 for the six months ended 30 September 2017 as compared with the revenue for the corresponding period of 2016 was mainly due to the increased sales of limited edition reserved extra old Pu-erh tea leaves and/or tea cakes in these shops; and (iii) the decrease in same store growth rate for Shop 1 for the six months ended 30 September 2017 as compared with the revenue for the corresponding period of 2016 was mainly due to the decreased sales of limited edition reserved extra old Pu-erh tea leaves and/or tea cakes in this shop.
- (2) Our Directors advised that the reason for (i) the negative same store growth of Shop 3 for the year ended 31 March 2017 is that it did not carry limited edition reserved extra old Pu-erh tea leaves/tea cakes during the year whereas sales of such tea products amounted to approximately HK\$140,000 for the year ended 31 March 2016; and (ii) the negative same store growth of Shop 3 for the six months ended 30 September 2017 as compared to the corresponding period of 2016 is that sales of certain products including Taiwan high mountain Oolong, reserved extra old Pu-erh cake and extra old Pu-erh cake decreased. Our Directors are not aware of the underlying reasons for the decrease of sales in such certain products in Shop 3. As Shop 3, Shop 4 and Shop 10 are concession counters at supermarket/department store(s) and Shop 9 is located in a shopping mall, they generated lower revenue as compared with other shops of our Group, which are at street level.

***Potential impact from opening of new retail points on our Group's future operational and financial performance***

As disclosed in the section headed “Future plans and use of proceeds – Business objectives and strategies – Open new retail points in Hong Kong” in this prospectus, we plan to open a new concession counter in a department store in Kwun Tong (“**Shop 11**”) and a new retail shop in Causeway Bay (“**Shop 12**”) in the first half of the financial year ending 31 March 2019, and two more other retail shops (“**Shop 13**” and “**Shop 14**”) in Shatin and Yuen Long in the first half of the financial year ending 31 March 2020, and the second half of the financial year ending 31 March 2020, respectively. The locations of new retail shops are subject to change and to be finally determined by our Directors based on future changes in the market demand in the said locations and our Group’s overall business development strategy.

Our Directors currently expected that the opening of four more retail points in Hong Kong will increase overall revenue of our Group. However, profitability of both our existing and new retail points may be affected by other factors such as overall market conditions which may cause decline in customers spending power, our ability to secure desired sites for operating our retail points, etc. For details, please refer to the relevant risk factors disclosed under the “Risk factors” section of this prospectus. We have also disclosed under “The expansion of our retail network may not be as successful as we expect” of the “Risk factors” section that expanding our retail network may not be immediately profitable, or may initially generated lower profit and required some time to breakeven.

In addition, the opening of new retail points will incur additional costs for fixed assets and decoration, which will increase the overall depreciation expenses of our Group.

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### *Historical and expected breakeven and investment payback period of the existing and new retail shops and concession counters, respectively*

Except Shop 8, Shop 9 and Shop 10, all our existing retail shops and concession counters were opened long time ago, before year 2011. Our Directors confirmed that as at the Latest Practicable Date, except Shop 8, each of our existing retail shops and concession counters has achieved breakeven and investment payback. It is expected that our Shop 8 opened in October 2017 will have breakeven period and investment payback period of approximately 2.3 years and 1.3 years, respectively. Our Shop 9 opened in October 2014 has breakeven period and investment payback period of approximately 2.0 year and 1.4 year, respectively. Our Shop 10 opened in April 2012 has breakeven period and investment payback period of approximately 0.4 years and 0.4 years, respectively. Our Directors advised that Shop 10 has much shorter breakeven period and investment payback period is because it is a concession counter and the initial investment cost was only decoration costs whereas retail shops in shopping malls or street level will also involve other fixed assets costs such as air-conditioning, fire service installation, CCTV, etc.

The investment payback calculation focuses on the pertinent cash flows of the period of time required to cover the amount of investment required for opening a retail shop/concession counter. The breakeven point is the period of time it takes from commencement of business for the accumulated net profit to be equal to the investment cost for opening a retail shop/concession counter. However, such historical breakeven period and investment payback period are not indicative of our future performance as our Group's revenue, expenses and operating results may vary from period to period in response to a variety of factors beyond our control. For illustration purpose, our Directors, based on their best estimation on the investment cost, cashflow and profitability of the four new retail points, advised that the breakeven and investment payback period for Shop 11 would be around approximately 0.5 year and 0.5 year respectively and for Shop 12 would be around approximately 0.7 year and 0.7 year respectively. Both the breakeven and investment payback period would be around 1.4 years for Shop 13 and Shop 14, respectively.

Our Directors planned to open a new concession counter, Shop 11, in a department store in the first half of the financial year ending 31 March 2019. As we currently expected that decoration costs will be the only initial investment cost for concession counter, Shop 11 is expected to have much shorter breakeven period.

Shop 8 and Shop 9 are retail shops located at shopping malls and Shop 10 is a concession counter located at a department store. Unlike Shop 8, Shop 9 and Shop 10 discussed above, our Directors currently planned to open Shop 12 in Causeway Bay in the first half of the financial year ending 31 March 2019 at street level. As compared to revenue generated by existing retail shops located at shopping malls or concession counters located at department stores or supermarket, in general, our existing shops at street level are located in prime districts of Hong Kong and achieved higher revenue during each of the two financial years ended 31 March 2017. Our Directors are of the view that street level retail shops in prime districts normally have better pedestrian flow and have the advantage to attract the awareness of potential

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## BUSINESS

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customers due to convenience of locations; meanwhile our Group also operates retail shops in shopping malls and concession counters to maintain presence in other districts of Hong Kong to extend its market coverage in the Chinese tea products retail business.

Our Directors advised that the much shorter breakeven period for Shop 12 as compared to Shop 8 and Shop 9 is an estimation after having considered, among others, (i) the historical business performance of our existing retail shops at street level and (ii) no significant difference in investment costs and in overall expenses for operating retail shops at shopping malls and retail shops at street level although there could be some variation in rental expenses, reinstatement costs, etc.

Breakeven periods for Shop 13 and Shop 14 (which are planned to open in the first half of the financial year ending 31 March 2020, and the second half of the financial year ending 31 March 2020, respectively) were estimated with reference to the historical business performance of our existing retail shops at street level as well as our retail shops at shopping mall and concession counters. This is because locations for Shop 13 and Shop 14 have not yet been determined.

### **Trend of the rental expenses for retail shops in Hong Kong**

According to Knight Frank, the property valuer, the retail market maintained a steep growth from the second quarter of 2009 to the third quarter of 2015 on the back of bolstering retail sales. Retail rent in overall Hong Kong recorded a 70% growth while retail sales volume climbed by 62%. Growth of retail rental decelerated in 2014 amid softened retail sales. The annual growth of retail rents moderated to 5% in 2014, reflecting the softened retail demand from luxury retailers for prime street shop locations. Despite the continual slowdown in retail sales, retail rent in overall Hong Kong remained firm and saw an approximately 5% growth in the first three quarters of 2015 before seeing about a 4% drop between then and the second quarter of 2016. However, retail rents appear to be bottoming out after third quarter of 2016. Retail rents edged up about 3% since then as of the third quarter of 2017.

According to the in-house Prime Retail Rental Index of Knight Frank which tracks retail properties in prime districts namely Tsim Sha Tsui, Mongkok, Central and Wan Chai Districts, rental growth started to slow down since 2013. Rents saw a 15% year-on-year decline in 2015, and slumped a further 19% in 2016. This is because rents in prime retail areas are highly visitor-oriented hot spot destinations and were more sensitive to the weakened visitor and retail market.

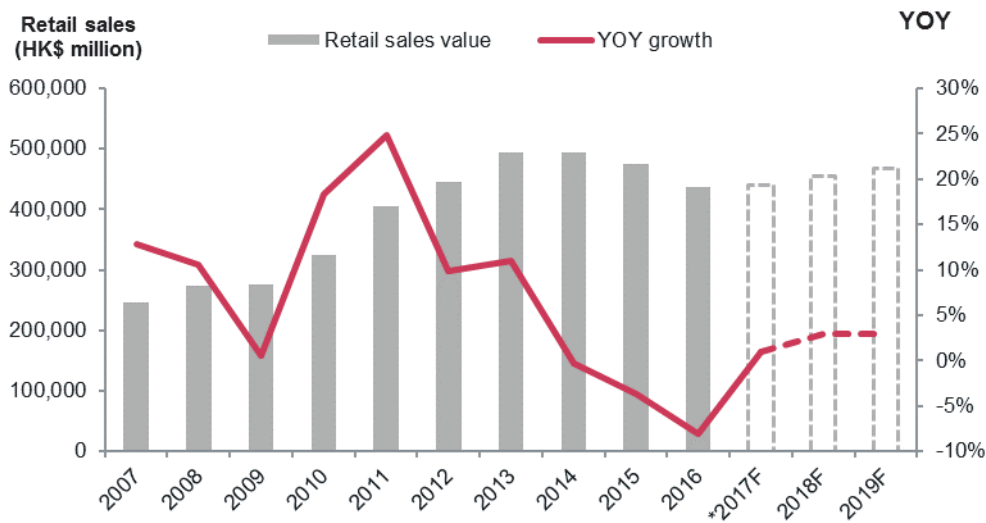
The retail market in Hong Kong appears to be shrugging off the negative sentiment over the past three years, with both retail sales, overall retail property price and rents stabilising in the first quarter of 2017. Given a continue recovery in visitor arrivals, prime retail property market is expected to be less challenging in the short term, which in turn will limit the respective rental and price decline. Meanwhile, mid-end positioned retail premises and street shops are expected to be resilient as domestic spending remains steady on the back of stable employment market, which will support mid-end retail as well as necessities spending.



**Outlook of retail market in Hong Kong**

According to Knight Frank, the retail market saw signs of bottoming in the first quarter of 2017. The quarter saw Mainland Chinese visitor arrivals resuming positive growth of about 4%, while the retail sales fell a mere 1% in the same quarter. Knight Frank expected the market to bottom out in 2017, witnessing a 1% growth in the year.

The chart below illustrates the historical and forecasted retail sales in Hong Kong in the report of Knight Frank:



Source: Census and Statistics Department

As advised by Knight Frank, near-full employment, wealth effect from the stock market and an improving tourism industry continued to underpin the development of retail sales. The outlook for the local job market is expected to remain stable on the back of a steady economic growth from 2018 to 2022, averaging about 3.2% per annum. A respectable real GDP growth of about 2.6% a year on average is expected from 2017 to 2019. Knight Frank is of the view that stable domestic labour market and favourable financial market conditions should continue to support household spending.

### **Tenancy and license arrangements**

As at the Latest Practicable Date, all our current tenancy agreements and license agreements for our retail shops and concession counters were entered into with Independent Third Parties, with the exception of Shops 1, 2, 5 and 6, which are leased from our connected persons. Please refer to the section headed “Connected transactions” in this prospectus for further details.

We lease or license all the properties on which our Siu Sai Wan premises, retail shops and concession counters operate, parking spaces and booths for short term from time to time. Such rental and license expenses relating constitute a significant part of our overall expenses and amounted to approximately HK\$11.8 million, HK\$8.6 million and HK\$4.0 million for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively, which represented approximately 54.0%, 47.1% and 43.6% of our total administrative expenses, excluding the listing expenses, respectively.

### **Site selection strategy for our retail shops and concession counters**

We consider identifying suitable locations for our retail shops and concession counters to be crucial to our success and to maximising our revenue. When selecting the locations of our retail shops and concession counters, we generally consider the following criteria:

- the accessibility of the site to our target customers, shoppers, and pedestrians
- the spending power of the surrounding area
- proximity to our competitors
- proximity to public transportation systems, shopping malls, and other commercial developments
- the degree of recognition of our brand in the surrounding area
- leasing terms, including but not limited to rental costs, term, and readiness for occupancy
- store size and condition, including the extent of renovation needed and the amount of initial costs (such as renovation costs) necessary; the sufficiency of display and storage space for our inventory; and the amount of sales staff required
- geographic coverage of the site compared to our existing sites, so as to avoid reduction of customer traffic at our existing retail shops and concession counters
- easiness of recruiting shop staff in the locale

### **Store renovation and design**

Our retail shops are designed to evoke the long history and rich heritage of our Ying Kee Tea House brand, and to offer each customer a comfortable and friendly in-store shopping experience. Certain of our shops contain weigh-to-order facilities and tea-tasting areas. To maintain consistency in our brand image and to increase brand recognition, our retail shops and concession counters have similar shop and shopfront signboard designs and store layouts.

### **Network management and operation**

#### *Management level*

We have a shop manager in each of our retail shops and concession counters who is responsible for each shop's daily operation and management. Our personnel at the head office in Siu Sai Wan may view the activity in our retail shops through CCTV systems.

#### *Store level*

We have developed internal guidelines for our in-store sales staff to follow with regards to various aspects of our retail operations, including but not limited to sales techniques, etiquette whilst in-store and when interacting with customers, identification and differentiation of banknotes and credit cards, familiarisation with product information, and handling customer complaints. Upon receiving a customer complaint regarding a product, our in-store sales staff will immediately review the complaint and fill in a customer complaint record. Our marketing department will review the complaint and, if necessary, carry out appropriate analysis. If necessary, it will involve other departments in doing so.

## **PROCESSING**

### **Processing team**

As at the Latest Practicable Date, our warehouse department contained three supervisors under which there are a processing team of two staff and a packaging team of two staff. They are mainly responsible for checking products, sorting tea leaves, blending, packaging and arranging storage and deliveries.

We are of the view that production capacity is not an appropriate indicator as the processing of tea leaves is on an as required basis. Different combination of processing machinery/equipment and sometimes only manpower will be involved for processing tea leaves before putting for sale in the market. For certain types of tea leaves such as green tea, processing by machinery or manpower is even not required before putting for sale in the market.

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## BUSINESS

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### Processing machinery/equipment

Our executive Director, Mr. Chan Shu Yuen is in support of inspections, repair and maintenance on our machinery/equipment.


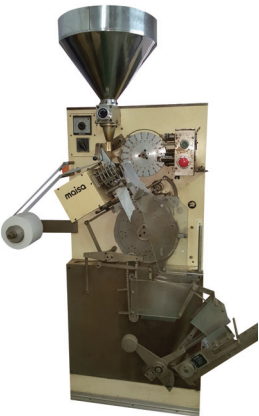

The following table sets forth certain details of the major machinery/equipment used in our processing process as at the Latest Practicable Date:

Name of machinery/equipment	Number of machinery/equipment	Functions <i>(Note 1)</i>	Years in operation	Estimated net book value as at Latest Practicable Date
 Auto scale with two ends (自動二頭秤)	one	to measure the weight of tea leaves	seven	Less than HK\$9,100
 Triangle tea bag packing machine (三角包裝機)	one	to pack the tea leaves into pyramid package	four	Less than HK\$25,000

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Name of machinery/equipment	Number of machinery/equipment	Functions <i>(Note 1)</i>	Years in operation	Estimated net book value as at Latest Practicable Date
 Baking oven (焗爐)	two	to dry tea leaves or to bake tea leaves	over 30 years <i>(Note 2)</i>	Fully depreciated
 Tea bag packing machine (茶包機)	one	to pack tea leaves to tea bags for sale	over 30 years <i>(Note 2)</i>	Less than HK\$1,600
 Tea leaf crashing machine (碎茶機)	one	to crash down tea leaves into smaller pieces	over 30 years <i>(Note 2)</i>	Fully depreciated

*Notes:*

- To the best of our Directors' knowledge, information and belief, the actual life span of a machinery/equipment is largely affected by a number of factors such as maintenance practices, the loading of the machinery/equipment, preventive maintenance activities, supplies of the spare and consumable parts as well as the availability of maintenance service in case of major failures found.

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2. To the best of our Directors' knowledge, information and belief, the years in operation of baking oven, tea bag packaging machine and tea leave crashing machine have been more than 30 years and they have been depreciated to carry net book value of around Nil, HK\$1,749 and Nil, respectively as at 30 September 2017 in accordance with depreciation by the reducing balance method at 20% per annum as disclosed in the section headed "Financial Information – Key accounting policies".

Our major machinery and equipment are not leased from third parties. For details of our operating lease commitments, please refer to note 20.1 of Appendix I to this prospectus.

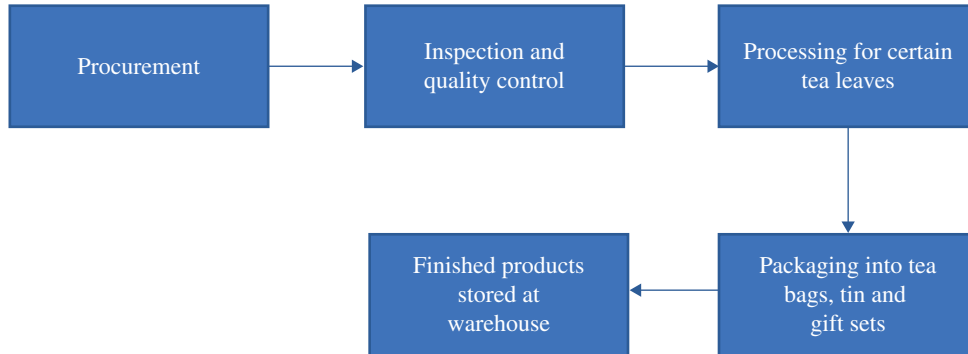
Our Directors confirmed that the age of our plant and machinery (including those fully depreciated) ranges from approximately four years to over 30 years. Our Directors are of the view that our aged machinery/equipment would not affect our processing efficiency and costs to a material extent given that we expect our major machinery/equipment to have a longer actual life span as compared to the estimated useful life and we have maintained proper maintenance practices. Our capital expenditure incurred for purchase of machinery/equipment amounted to approximately HK0.2 million, HK\$45,000 and HK\$68,000 for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively which our Directors consider to have no material impact to the financials of our Group.

Our Directors confirmed that our major machinery/equipment have not been replaced since they started to be used in processing our tea products. We have maintained proper maintenance practices. Therefore there is no replacement cycle of our major machinery/equipment and no capital expenditure is expected to be incurred in replacing them up to the financial year ending 31 March 2019. Our Directors also advised that if our major machinery/equipment are replaced, the expected capital expenditure would not be material. We may not replace an equipment or machinery merely because it is fully or nearly depreciated as depreciation is an accounting concept in connection with the allocation of the cost of an asset and we may keep using such machinery/equipment as long as it is in satisfactory working order. Accordingly, we consider that there would not be any material impact on the potential additional depreciation charges of our machinery/equipment. During the Track Record Period, we did not experience any material mechanical failures of any of our machinery/equipment, which had affected our processing of tea leaves.

## **Procurement, Processing and Packaging**

### *Tea leaves*

The diagram below illustrates the general steps of workflow from procurement to packaging:



We procure our tea leaves from various tea leaves suppliers mainly in Hong Kong; and our Directors confirmed that the PRC is the major origin of such tea leaves. The amount, types, level of grades and categories of tea leaves to be sourced will be decided by our Directors based on seasons, stocks of goods and market demands at time beings. Procurement lead time (from placement of orders to delivery of tea leaves) is generally within 10 days.

The tea leaves we ordered will be delivered by the suppliers to our warehouse located in Siu Sai Wan, Hong Kong. We inspect the tea leaves upon receipt on a sample basis including the inspection of package conditions and the compliance of order specifications (such as product number and quantity) before acceptance. In accordance with our policy, if the tea leaves fail our incoming quality control tests, the warehouse department will separately label and keep the defective tea leaves and inform the processing team. Our Directors confirmed that there was no history of return of tea leaves during the Track Record Period.

Some of our tea products are processed by us in our processing facilities in Hong Kong before they are available for sale in market, especially for the tea products which were blended by us with specific blend.

Our tea leave processing normally includes following steps:

- Blending (混堆) – mixing of different types of sourced raw material tea leaves in proportion in accordance with our specific blend
- Crashing (碎茶) – for some tea leave products (e.g. health medley), raw material tea leaves are further crashed into smaller pieces in tea leave crashing machine after blending

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- Screening (出頭) – Screen out the thick tea head and repeat the screening process twice
- Sifting (出末) – raw material tea leaves are sifted in an exclusive sieve to separate or remove the powder or ashes of tea leaves
- Baking (烘焙) – tea leaves are evenly laid on the surface of a metallic plate and then put into the oven to bake. The baking time and temperature will be deviated depending on the types of tea leaves and is strictly controlled by our staff in accordance with his experience

Not every processing step above is applied in processing our tea leave products. The table below sets out the processing steps involved in processing our certain key tea leave products:

<b>Type of tea</b>	<b>Processing steps involved</b>
Oolong tea	Special types of Teh Kuan Yin and Oolong tea require both blending and sifting; where other types of Teh Kuan Yin and Oolong tea do not need any processing or just require sifting. Daffodil do not need any processing.
Pu-eh tea	All the Pu-erh cakes and bricks do not need any processing. Other types of Pu-erh tea need sifting.
Fragrant tea	Orchid Luk On is our exclusive tea leave product, which is processed according to our specific blend. Before the above processing steps of making Orchid Luk On, we have to prepare and pre-process about six types of tea leaves as its raw materials (certain of such raw material tea leaves had been sifted and/or baked before they could be used as materials to make Orchid Luk On). After these raw material tea leaves are ready, they will further be blended in accordance with our specific blend, then sifted and baked.  All Jasmine teas do not need any processing.
White tea	Certain white teas only need blending.
Black tea	Lychee black tea needs baking and then blending. Other black teas do not need processing.
Old Luk On tea	Involve screening, sifting and then blending.



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<b>Type of tea</b>	<b>Processing steps involved</b>
Green tea	No processing is required.
Flower tea	Health medley needs blending and crashing. Other flower teas do not need any processing.

Our Directors identified tea leaves that required processing and estimated that the percentage of revenue generated from those tea leaves that required processing to total revenue was approximately 37.8%, 36.3% and 35.1% for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. Our Directors advised that labour cost is the major cost component in processing tea leaves; and labours in our warehouse mainly involved in processing tea leaves while they also handle other warehousing works. For illustration purpose only, assuming all labour costs are related to processing of tea leaves, our gross profit margin (as calculated with reference to the revenue, cost of inventories and labour costs of tea leaves that required processing) for tea leaves that required processing would be approximately 75.7%, 75.4% and 74.1% for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively.

### *Tea wares*

During the Track Record Period, we sourced tea wares from various independent suppliers in Hong Kong and China such as Guangzhou.

The tea wares suppliers deliver the tea wares directly to our warehouse. We will count the tea wares upon receipt to check if the quantity is consistent with that shown on the invoice and any defects on the tea wares. If the tea wares have defects, we will keep them in a separate area and may request the relevant suppliers for exchange.

The tea wares are packaged in our warehouse. Tea wares were sold under manufacturers' names as shown on the respective packages when we sourced them from China.

### *Gift sets*

Our gift sets are packaged in our warehouse in Siu Sai Wan, Hong Kong, which are often packaged in boxes containing bags or tin cans with bundled tea leaves and tea wares and sold under our brand name.

### **Product procurement**

We believe that product procurement is crucial to our sustained success and will continue to be an important factor in our future success and growth.

Our Directors oversee the procurement of tea leaves, tea wares and packing materials for our Group as and when necessary.

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### *Ordering process*

Our POS system connects our head office and all our retail shops and concession counters. Sales of tea products in the retail shops and concession counters are transmitted to our head office at the same time and correspondingly update the record of quantity of products in inventory. In such way, our head office closely monitors the status of the stocks in the retail shops and concession counters. The staff in our retail shops and concession counters will make requests to our head office from time to time for the replenishment of tea products to ensure sufficient stock in stores to meet demands from customers. The head office in general can deliver the requested tea products to the retail shops or concession counters within seven days depending whether or not the required amount of tea products are readily available in our warehouse.

### **SUPPLIERS**

#### **Tea leaves**

During the Track Record Period, our tea leave suppliers sourced the tea leaves from tea plantations in different provinces of China, such as Fujian and Zhejiang. Our tea leave suppliers would provide us with inspection reports of the tea leaves upon our request. Based on our long established business relationships with the suppliers, the size of our purchase orders and our reputation in tea industry, we believe that we have a strong bargaining power with our suppliers in ordering tea leaves. Our major tea leaves suppliers during the Track Record Period generally had over seven years of business relationship with us. These tea leaves suppliers are located in Hong Kong.

We generally do not enter into any long term purchase contracts for the supply of tea leaves with tea leave suppliers and we order tea leaves on as needed basis to allow flexibility.

Our Directors confirm that we did not experience any material delay, shortage or interruption or substantial difficulties in securing the supply of tea leaves and we did not have any material dispute with any of our major tea leaves suppliers during the Track Record Period.

#### *Delivery, credit terms and pricing*

The tea leave suppliers in general are responsible for the delivery of tea leaves to us.

Since our tea leave suppliers are mainly located in Hong Kong, the currency of payments for our purchases are mostly in Hong Kong dollars. Purchases are generally made without prescribed credit terms. However, it is our practice that payments are generally made by cheques within 10 days after receipt of suppliers' invoices in order to negotiate for better pricing from tea leave suppliers.

To the best of our Directors' knowledge, information and belief, prices of tea leaves vary based on the prevailing market prices, which can be affected by the harvest of tea leaves and market supply. We verbally seek price quotes from different tea leave suppliers to compare

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their price before placing orders so as to secure a favourable pricing rate. In addition, according to the Euromonitor Report, since the profit margin for importers is small, some importers charge retailers a sales commission to compensate or sustain their business, which is a common practice among traditional importers who have been in the market for a long time. Accordingly, some of our tea leave suppliers charge us a sales commission of about 0.25% of total purchase price for each purchase order.

Since the currency for payments to our tea leave suppliers are mostly in Hong Kong dollars, we did not have any hedging arrangements for tea leaves purchases during the Track Record Period.

Our Directors confirmed that there was no material fluctuation of raw material tea leaves purchase prices during the Track Record Period. As illustrated in the Euromonitor Report, according to the Census and Statistics Department, Hong Kong, the average import price of tea leaves in Hong Kong was relatively stable over 2012-2016, growing by a CAGR of 3.8% to reach HK\$48.32 per kg in 2016. Should there be any fluctuations, we would adjust the price of tea leave products and pass the costs of such adjustments to customers.

### **Tea wares**

During the Track Record Period, we sourced tea wares from various independent suppliers in Hong Kong and China such as Guangzhou.

We generally do not enter into any long term purchase contracts for the supply of tea wares with tea ware suppliers and we order tea wares on as needed basis to allow flexibility.

Our Directors confirm that we did not experience any material delay, shortage or interruption or substantial difficulties in securing the supply of tea wares and we did not have any material dispute with any of our major tea ware suppliers during the Track Record Period.

### ***Delivery, credit terms and pricing***

We are generally not responsible for delivery of tea wares, tea wares purchased will be delivered to our warehouse in Siu Sai Wan. Purchases from tea ware suppliers are generally made without prescribed credit terms.

The currency of payments for our purchases of tea wares is mostly in RMB. During the Track Record Period, we generally settled payments to tea ware suppliers in Hong Kong by cheques and payments to tea ware suppliers in China through a money exchange company in Hong Kong.

Our Directors confirmed that prices of tea wares vary based on the prevailing market prices which can be affected by the general economic conditions, market demand and supply.

We did not have any hedging arrangements for tea wares purchases during the Track Record Period.

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### Our five largest suppliers

We source tea leaves and packaging materials (such as tea canisters) from our suppliers mainly located in Hong Kong and tea wares from our suppliers in Hong Kong and China such as Guangzhou.

During the Track Record Period, our five largest suppliers are mainly our tea leaves suppliers. All of our five largest suppliers for the Track Record Period are Independent Third Parties. Our purchases from our five largest suppliers for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017 amounted to approximately HK\$5.7 million, HK\$5.5 million and HK\$3.0 million, respectively, representing approximately 64.0%, 70.9% and 73.6% of our total purchases, respectively. Our purchases from the largest supplier for each of the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017 amounted to approximately HK\$1.6 million, HK\$1.9 million and HK\$1.0 million, respectively, representing approximately 18.3%, 24.4% and 24.2% of our total purchases, respectively.

The following table sets out the details of our five largest suppliers during the Track Record Period:

#### For the financial year ended 31 March 2016

	Approximate purchase amount and percentage of our total purchases	
	<i>HK'000</i>	<i>%</i>
Supplier A	1,646	18.3
Supplier B	1,309	14.6
Supplier C	1,121	12.5
Supplier D	1,083	12.1
Supplier E	581	6.5
<b>Total</b>	<b>5,740</b>	<b>64.0</b>

#### For the financial year ended 31 March 2017

	Approximate purchase amount and percentage of our total purchases	
	<i>HK'000</i>	<i>%</i>
Supplier A	1,896	24.4
Supplier B	1,525	19.7
Supplier C	928	12.0
Supplier E	728	9.4
Supplier F	422	5.4
<b>Total</b>	<b>5,499</b>	<b>70.9</b>

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For the six months ended 30 September 2017

	<b>Approximate purchase amount and percentage of our total purchases</b>	
	<i>HK'000</i>	<i>%</i>
Supplier A	971	24.2
Supplier B	954	23.8
Supplier E	430	10.7
Supplier C	408	10.2
Supplier G	190	4.7
<b>Total</b>	<b>2,953</b>	<b>73.6</b>

Name of supplier	Year of business relationship with our Group	Background information	Location	Goods supplied	Typical payment method (Note)
Supplier A	Over seven years	Supplier A is a limited liability company established in 1990. It is principally engaged in the wholesale of tea imported from China to Hong Kong	Hong Kong	Chinese tea leave	cash on delivery, paid by cheque
Supplier B	Over seven years	Supplier B is a limited liability company established in 1991. It principally engages in processing of tea	Hong Kong	Chinese tea leave	cash on delivery, paid by cheque
Supplier C	Over seven years	Supplier C is a limited liability company established in 1982. It principally engages in wholesale of tea leaves	Hong Kong	Chinese tea leave	cash on delivery, paid by cheque
Supplier D	Over seven years	Supplier D is a limited liability company established in 2005. It is listed on the Beijing-based National Equities Exchange and Quotations and its business scope covers a variety of business including arts creation service, wholesale of goods	Guangzhou, PRC	Chinese tea leave and tea wares	cash on delivery, paid through money exchange

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Name of supplier	Year of business relationship with our Group	Background information	Location	Goods supplied	Typical payment method (Note)
Supplier E	Over seven years	Supplier E is a sole proprietorship established in 1989. It principally engages in wholesale of tea leaves	Hong Kong	Chinese tea leave	cash on delivery, paid by cheque
Supplier F	Over seven years	Supplier F is a limited liability company established in 1984. It principally engages in wholesale of tea leaves	Hong Kong	Chinese tea leave	cash on delivery, paid by cheque
Supplier G	Over seven years	Supplier G is a limited liability company established in 1970. It principally engages in wholesale of tea products	Hong Kong	Chinese tea leave	cash on delivery, paid by cheque

*Note:* Purchases are generally made without prescribed credit terms. Credit term is assumed as cash on delivery if no credit term is shown on invoices/receipt.

None of our Directors, their respective close associates or any of our Shareholders (whom to the knowledge of our Directors owns more than 5% of the total number of issued shares of our Company) had any interest in any of our five largest suppliers for the Track Record Period.

To the best of our Directors' knowledge, information and belief, none of our five largest suppliers during the Track Record Period was also a customer of our Group for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017.

Our sensitivity analysis which illustrates the impact of fluctuations in cost of inventories or labour cost under cost of sales on our net profit for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017 is set out below:

### **Sensitivity analysis on cost of inventories**

Any significant fluctuation in the price of our tea leaves may have a significant adverse impact on our cost of sales and our profitability.

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For illustrative purposes only, the below table illustrates the sensitivity on our profit resulting from hypothetical fluctuations in cost of inventories for the years/period indicated:

<b>Hypothetical fluctuations</b> <i>(Note 1)</i>	<b>+/-15%</b> <i>HK\$'000</i>	<b>+/-10%</b> <i>HK\$'000</i>	<b>+/-5%</b> <i>HK\$'000</i>
<b>Change in cost of inventories</b>			
For the year ended 31 March 2016	+/-1,151	+/-767	+/-384
For the year ended 31 March 2017	+/-1,128	+/-752	+/-376
For the six months ended 30 September 2017	+/-418	+/-279	+/-139
<b>Change in profit/(loss) for the year/period</b> <i>(Note 2)</i>			
For the year ended 31 March 2016	-/+961	-/+640	-/+320
For the year ended 31 March 2017	-/+941	-/+628	-/+314
For the six months ended 30 September 2017	+/-349	+/-233	+/-116

*Notes:*

- We assume that hypothetical fluctuations on cost of inventories are in the range of 5% to 15% having consider the fluctuations of the historical import price of tea leaves ranged from approximately 3% to 11% per annum between 2012 and 2016 as demonstrated by the table under "Historical import price trends of tea leaves in Hong Kong" in the "Industry Overview" section of this prospectus.
- Save for the hypothetical fluctuations in cost of inventories, we assume that all the other factors remain unchanged.

### Sensitivity analysis on labour costs

For illustrative purposes only, the below table illustrates the sensitivity on our profit resulting from hypothetical fluctuations in labour costs under cost of sales for the years/period indicated:

<b>Hypothetical fluctuations</b> <i>(Note 1)</i>	<b>+/-15%</b> <i>HK\$'000</i>	<b>+/-10%</b> <i>HK\$'000</i>	<b>+/-5%</b> <i>HK\$'000</i>
<b>Change in labour costs</b>			
For the year ended 31 March 2016	+/-171	+/-114	+/-57
For the year ended 31 March 2017	+/-173	+/-115	+/-58
For the six months ended 30 September 2017	+/-78	+/-52	+/-26
<b>Change in profit/(loss) for the year/period</b> <i>(Note 2)</i>			
For the year ended 31 March 2016	-/+143	-/+95	-/+48
For the year ended 31 March 2017	-/+145	-/+96	-/+48
For the six months ended 30 September 2017	+/-65	+/-43	+/-22

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*Notes:*

1. We assume that hypothetical fluctuations on labour costs under cost of sales are in the range of 5% to 15% having consider historical average monthly wages and labour earnings in Hong Kong increased by approximately 15% from HK\$13,437 in 2012 to HK\$15,451 in 2016 as mentioned in the “Industry Overview” section of this prospectus.
2. Save for the hypothetical fluctuations in labour costs under cost of sales, we assume that all the other factors remain unchanged.

### INVENTORY CONTROL

We have an inventory control policy in place to monitor our inventory levels and to minimise obsolete inventory. We perform the following inventory management procedures to keep track of incoming and outgoing inventories and to monitor our inventory levels:

- our POS system enables us to monitor the sales and inventories at our retail stores and concession counters in Hong Kong on a real-time basis;
- monthly stock takes at our retail shops, concession counters and warehouse in the Siu Sai Wan premises.

For the financial year ended 31 March 2016 and the financial year ended 31 March 2017 and the six months ended 30 September 2017, our inventory turnover days (calculated based on average inventories divided by cost of sales times number of days) were approximately 266, 285 and 403 days, respectively.

Tea leaves inventory accounted for approximately 51.7%, 47.9% and 44.1% of our total inventory as at 31 March 2016, 31 March 2017 and 30 September 2017, respectively. Of approximately HK\$3.7 million, HK\$3.3 million and HK\$3.6 million tea leaves inventory, approximately 45.6%, 20.7% and 28.4% were tea leaves inventory aged less than one year; while approximately 50.2%, 51.3% and 46.2% were tea leaves inventory aged over two years.

Canned/packed tea products for sale accounted for approximately 31.2%, 32.8% and 37.6% of our total inventory as at 31 March 2016, 31 March 2017 and 30 September 2017, respectively. Of approximately HK\$2.2 million, HK\$2.3 million and HK\$3.0 million canned/packed tea products for sale inventory, approximately 83.0%, 85.2% and 89.9% were canned/packed tea products for sale inventory aged less than one year; while approximately 15.6%, 11.1% and 2.1% were canned/packed tea products for sale inventory aged over two years.

Tea leaves aged over two years in our inventories are mainly Pu-erh tea leaves; and most of the canned/packed tea products for sale over two years in our inventories are also Pu-erh tea leaves. As mentioned in the Euromonitor Report, generally, the longer Pu-erh tea is preserved, the better is its taste and the higher is its value.



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Our executive Directors advised, based on their knowledge and experience in the Chinese tea business, that all eight types of tea leaves mentioned under the paragraph headed “Products” of “Our business model and products” above in this section can be kept under room temperature, except that certain flower tea, osmanthus, chrysanthemum bud and rosebud under miscellaneous are required to be stored in refrigerator. Pu-erh tea and old Luk On tea require certain ventilation whilst other types of Chinese tea such as black tea, oolong tea, white tea, green tea, fragrant tea are required to be seal up or properly packed. Our Directors are of the view that if tea leaves are well preserved, (i) Pu-erh tea can be kept for over 50 years, (ii) old Luk On tea, oolong tea and white tea can be kept for less than two years, (iii) black tea, green tea and fragrant tea can be kept for less than one year, and (iv) miscellaneous can be kept for around half year to two years.

### SALES AND MARKETING

#### Sales Channels

For a breakdown of our revenue by product type, please refer to the sub-section headed “Our business model and products” in this section. During the Track Record Period, we sold our Chinese tea leaves, tea wares and tea gift set products to (A) our retail customers through (1) retail shops, showroom and concession counters, (2) online sales on our own website, (3) sales through platforms provided by our business partners, and (4) exhibition and/or other booth sales; (B) our commercial customers and (C) others.

The table below sets out the breakdown of the sale of our products under each of our sales channels for the years/period indicated:

	Year ended 31 March 2016		Year ended 31 March 2017		Six months ended 30 September 2017	
	Revenue HK\$ (’000)	% of total revenue	Revenue HK\$ (’000)	% of total revenue	Revenue HK\$ (’000)	% of total revenue
<b>Retail customers</b>						
Retail shops, showroom and concession counters (Note 1)	39,005	91.2	41,362	92.9	14,718	91.8
Online sales on our own website	172	0.4	159	0.4	64	0.4
Sales through platforms provided by business partners	386	0.9	389	0.9	122	0.7
Exhibition and/or other booth sales	1,128	2.6	920	2.0	380	2.4
<b>Commercial customers</b>						
(Note 2)	2,000	4.7	1,422	3.2	735	4.6
<b>Others</b> (Note 3)	90	0.2	288	0.6	20	0.1
<b>Total</b>	<b>42,781</b>	<b>100.0</b>	<b>44,540</b>	<b>100.0</b>	<b>16,039</b>	<b>100.0</b>

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*Notes:*

1. Retail shops, showroom and concession counters exclude commercial customers under Note 2 and others under Note 3 below. During the Track Record Period, some customers may also purchase our tea products at our showroom in Siu Sai Wan. Such sales amounted to approximately HK\$0.1 million, HK\$0.2 million and HK\$52,000 for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. Our Hong Kong Conveyancing Legal Advisers opined that according to the Government Lease, the building in which our premises in Siu Sai Wan can be used for industrial purpose i.e. factory or godown (i.e. warehouse purpose or both). We made enquiry through the Hong Kong Conveyancing Legal Advisers to the Lands Department of Hong Kong and understand from their officer that selling of products at our showroom in the Siu Sai Wan premises would amount to retail activity which would be likely in breach of the Government Lease if electronic cash machine register(s) and Octopus card machine terminal(s) were installed at the showroom and acceptance of instant payments by customers took place at the showroom.

We confirmed that the cash register(s) and Octopus card terminal(s) at the showroom have been removed and our Group ceased to accept instant payments by customers at the Siu Sai Wan premises. We also confirmed that to the best of our Company and our Directors' knowledge, information and belief, there was no complaint from the public to the Lands Department of Hong Kong regarding the retail activities inside the said premises which was caught in the act by the Lands Department of Hong Kong.

2. Commercial customers mean the customers, whether individual or corporate, who placed orders to our Group and our head office in Siu Sai Wan has issued invoices to such customers.
3. Others include sales to our staff (including our Directors) and Golden Ocean and/or Chan Sing Hoi Enterprises, which are entities held by our Controlling Shareholders.

### ***Retail customers***

#### Retail shops, showroom and concession counters

Our retail shops, showroom and concession counters generated most of our sales, accounting for approximately 91.2%, 92.9% and 91.8% of the total revenue, for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. As at the Latest Practicable Date, we have five retail shops at street level, two retail shops in shopping malls and three concession counters in supermarket/department stores under our Ying Kee Tea House brand in Hong Kong.

We directly manage the day-to-day operations of our retail shops. Our account department is responsible for checking of each individual sales invoice to (a) bank credit card payment slip (for credit card payment), and (b) cash deposit slip (for customer cash payment which the store representative are required to bank in on the day following the transaction day) and (c) daily stock records of each shop. We have an up-to-date POS system which enables us to monitor the sales and inventory at our retail shops and concession counters in Hong Kong on a real-time basis.

Our concession counters are Shop 3, Shop 4 and Shop 10 as defined in the table with relevant details under the sub-section headed "Our retail network" in this section. Management fees for concession counters in aggregate amounted to approximately HK\$90,000, HK\$93,000 and HK\$43,000 and promotion levies in aggregate amounted to approximately HK\$48,000, HK\$48,000 and HK\$24,000, for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. It is our

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strategy to directly manage our self-operated concession counters in order to increase our brand awareness and reinforce our brand image. Offering our tea products through self-operated concession counters in supermarket/department stores has enabled us to increase the exposure of our brands as well as benefit from the volume of customer traffic, reputation and marketing campaigns of the supermarket/department stores where our counters are located. We believe that our established relationships with supermarket/department stores have enhanced our brand promotion.

We have entered into license agreements with each of the three supermarket/department stores for counter space with respect to our concession counters. Specific terms of the respective license agreements vary from each other, but contain the following provisions:

- *Term:* The term is typically one year and may be renewed subject to agreement between the parties.
- *License:* Each supermarket or department store typically allocates a specified area of the supermarket or department store for us to sell our products.
- *Termination:* Typically, if we commit a breach of the respective agreement with the supermarket or department store, the supermarket or department store is entitled to terminate the agreement immediately.
- *License fees:* The payment terms vary in the agreement with each supermarket or department store:

Shop 3: We have to pay a license fee calculated by reference to 22% of the monthly gross sales receipts in respect of sale of the tea products by our concession counter.

Shop 4: We have to pay a license fee calculated by reference to 26.2% of the monthly proceeds of sales of our concession counters, subject to a minimum license fee of HK\$40,645.

Shop 10: We have to pay a basic fee of HK\$55,728 per month or 21% of monthly gross receipts by our concession counter, whichever is higher.

- *Other fees:* We are required to pay the supermarket or department store other fees, which typically include management fees, promotional levies, utilities, government rates.
- *Employees:* We typically are required to place employees in the supermarket or department store to run our concession counters.

Sales proceeds from our concession counters Shop 3 and Shop 4 are collected by the respective supermarket/department store. For Shop 10, we collect our sales proceeds directly. Pursuant to our concession arrangement for Shop 3 and Shop 4, the supermarket/department store collect the sales proceeds for the products sold and they shall return us such sum after deduction of license fees and various expenses such as management fees and government rates, on a monthly basis.

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For the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, the amount of concession fees we paid to supermarket/department stores was approximately HK\$1.8 million, HK\$1.9 million and HK\$0.8 million respectively. During the Track Record Period and up to the Latest Practicable Date, there was no change and no movement of concession counters and no license agreement in relation to concession counters was terminated due to a dispute between our Group and the supermarket/department stores.

Online sales on our own website

We have launched our online store on website [www.yingkeetea.com](http://www.yingkeetea.com) to allow our customers to purchase our tea products from our online store. For the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, the sales from our online store represented approximately 0.4%, 0.4% and 0.4% of our total revenue, respectively.

Sales through platforms provided by our business partners

*Setting up booth through Corporate Customer P*

During the Track Record Period and up to the Latest Practicable Date, we set up our sale booth(s) in the location(s) of Corporate Customer P, a supermarket operator in Hong Kong on or around Chinese New Year. Corporate Customer P is an Independent Third Party and is not one of our five largest customers during the Track Record Period. Corporate Customer P provides a platform through which we promote and sell our tea products in their supermarket(s) on or around Chinese New Year. We manage our sale booth(s) directly through our sales promoters stationed at the sale booth(s) and are responsible for promoting our tea products. Sales proceeds from sales at the sale booth(s) are collected at the cash register of Corporate Customer P, which will settle the sales proceeds to us after deducting commissions payable to Corporate Customer P and other expenses three times a month. For further details of the trade agreement entered into between Corporate Customer P and us, please refer to the sub-section headed “Customers – Customer contracts – Trade agreement with Corporate Customer P” in this section.

For the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, our revenue generated by booth sales at the supermarket(s) operated by Corporate Customer P accounted for approximately 0.6%, 0.5% and Nil of our total revenue, respectively.

*Internet shopping platform through a business partner*

We have also entered into an agreement dated 23 June 2014 (as supplemented by a supplemental agreement on 1 March 2017) with a business partner, a limited company incorporated in Hong Kong. The business partner, an Independent Third Party, operates an internet shopping platform through which it intends to facilitate the sale, purchase and promotion of different goods and services. The business partner provides an internet shopping platform for us to enter into a contract with a buyer through the internet shopping platform

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regarding our tea products. Our Directors are of the view that this internet shopping platform is a cost-effective and efficient sales channel as the expenses for maintaining such online shopping platform is minimal, unlike operating our retail shops and concession counters in which rental expense is incurred. Leveraging on the extensive coverage of internet, this internet shopping platform is an efficient sales channel that sales of our tea products can be made anytime, anywhere and by anyone via the internet shopping platform which enables our tea products to reach a large customer base.

For the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, our revenue generated by sales through this internet shopping platform accounted for approximately 0.3%, 0.4% and 0.8% of our total revenue, respectively.

Key salient terms and features of the agreement with the business partner are set out below:

Contract term ( <i>Note 1</i> ):	Two years from 23 June 2014, automatically renewed for periods of two years thereafter unless we or the business partner give the other party three months' written notice before the expiry of the term.
Products:	Not specified in the agreement but we generally make available Chinese tea leaves for sale on the internet shopping platform.
Placing of order:	Upon receipt of a customer order, the business partner will endeavour to pass on the order information to us in its prescribed form. We shall make available the packed products for the business partner to collect on the same day during normal business days.
Minimum purchase:	The agreement does not stipulate any minimum purchase amount or purchase commitment.
Stock levels ( <i>Note 2</i> ):	We shall maintain a dedicated level of stocks or quota to fulfil the customer orders, and provide the business partner with a daily updated report; and grant the end-customer an unconditional store cash credit of an agreed percentage of the selling price of the ordered products capped at an agreed amount per item where we are unable to fulfil the customer order due to certain circumstances. In such case, we shall pay the business partner the cost of delivery at the rate of an agreed amount per order for each subsequent delivery to fulfil the customer order.

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Price:	Our tea products for sale on the internet shopping platform shall be at the same discount or promotional offer as we offer in-store or other on-line shopping platforms, subject to the requirements and acceptance of the business partner.
Price adjustment:	The agreement does not stipulate any price adjustment provision.
Commission:	We shall pay the business partner a commission calculated as a certain percentage of the selling price of the ordered products after deduction of store credit used and store offered discounts.
Payment terms:	We shall pay the business partner the amount of net revenue (after deduction of store credit used, store offered discount and commission) three times a month together with a transaction report to us showing the fulfilled orders to which the commission relates and the amount of the commission and the amount of net revenue payable to us. The amount of net revenue payable to us shall deem to be final and conclusive if no written notice of dispute is given by us within 14 days from the date of receipt of the transaction report, except for those amounts refunded/refundable to the ultimate customers as requested subsequently by ultimate customers after the product return period. In the event that the amount in dispute raised by us is accepted by the business partner, the said amount will be adjusted in the next transaction report.
Delivery:	The business partner shall handle product delivery within Hong Kong except for certain areas at its own costs and expenses.
Risk	Ownership of our products remains with us and are at our risk until picked up by the business partner and receipt by the end-customers, save and except the business partner will be responsible for the lost and non-inherent breaking of the products and compensate to us, in any case, no more than the net revenue of the product after the deduction of any store offered discount and the commission.

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Product return ( <i>Note 3</i> ):	Where the end-customers are dissatisfied with the products, we shall at the instruction of the business partner, either replace the products or credit the end-customers for the price of the products.
Intellectual property ( <i>Note 4</i> ):	We grant the business partner and its subsidiaries a non-exclusive and royalty-free license during the term of the agreement to use the intellectual property in relation to our products.
Termination:	The business partner may terminate the agreement by giving three months' notice during the term or subsequent term of the agreement. The business partner may also terminate the agreement without notice at any time if we (a) are in breach of the agreement; (b) are in non-performance or in neglect of our duties under the agreement; (c) are engaged in activities, whether by commission or omission, which amount to dishonest conduct; (d) go into liquidation (or the equivalent situations); or (e) change who it is owned by or controlled. On expiry or termination, we shall pay the business partner the commission on all fulfilled orders up to the date of termination within 14 days of termination.

*Notes:*

1. Our Directors confirmed that as at the Latest Practicable Date, none of the parties had provided to the other party the written notice as described above.
2. Our Directors confirmed that the business partner has not requested us to maintain any level of stocks.
3. Our Directors confirmed that during the Track Record Period, there has been return of small amount of products from the end-customers amounted to approximately Nil, HK\$1,200 and Nil for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017.
4. Our Directors confirmed that no intellectual property has been granted by our Group to the business partner or its subsidiaries during the Track Record Period and up to the Latest Practicable Date.

Our Hong Kong Legal Advisers confirm that the above agreement with the business partner is legally binding under Hong Kong law. Our Directors confirm that there has not been any material breach of the terms of the above agreement by the parties during the Track Record Period and up to the Latest Practicable Date. Our Directors confirmed that we had no material dispute with the business partner during the Track Record Period and up to the Latest Practicable Date.

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### Exhibition and/or other booth sales

We set up booths from time to time in exhibitions and certain shopping malls to sell our products. For example, we operated booths in The Hong Kong Brands & Products Expo and Hong Kong Trade Development Council Food Expo. Occasionally, we have also been invited by shopping malls, e.g. Maritime Square and Telford Plaza to set up booths in such shopping malls to sell our tea products. For the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, our revenue generated by exhibition and/or other booth sales accounted for approximately 2.6%, 2.0% and 2.4% of our total revenue, respectively.

For the booth sales at the locations of Corporate Customer P, please refer to the sub-section headed “Sales and marketing – Sales channels – Retail customers – Sales through platforms provided by our business partners – Setting up booth through Corporate Customer P” in this section.

### *Commercial customers*

Commercial customers include customers, whether individual or corporate, who placed orders to us and our head office in Siu Sai Wan has issued invoices to such customers. Our sales to commercial customers accounted for approximately 4.7%, 3.2% and 4.6% of the total revenue, for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. In particular, for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, we sold our tea products to over 40, 35, and 30 corporate customers, respectively, comprising, among others, supermarkets, department stores, banks and hotels. Details of our customer contracts, please refer to the sub-section headed “Customers – Customer contracts” in this section below.

Depending on the volume of the transactions, the locations of the customers and our relationship with the customers, we may arrange for delivery of our tea products to certain customers upon request.

### *Others*

Our staff purchased tea products from our Group directly. Staff purchases are limited to once a month. Percentage of discount granted to the staff and limit of the amount for each of their purchase are determined after having considered the staff grading. During the Track Record Period, our Directors also made purchases from our Group. As at the Latest Practicable Date, our internal policy was that purchases by each of our Directors and the senior management shall be limited to HK\$100,000 per year. Any discount for our Directors shall be the same as normal customers. We confirmed that purchases by our Directors going forward will be conducted on normal commercial terms. Please also refer to the section headed “Connected transactions – Exempt continuing connected transactions” of this prospectus for details. Staff purchases (including Directors’ purchases) and purchases from Golden Ocean and/or Chan Sing Hoi Enterprises, which are entities held by our Controlling Shareholders amounted to approximately HK\$90,000, HK\$0.3 million and HK\$20,000 for the financial year ended 31 March 2016 and the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively.



### **Pricing policy and credit terms**

We adopt a uniform retail pricing policy which is implemented by our retail shops, concession counters, as well as our online shop on our company website. A standard price list is provided to our retail network and will be reviewed and adjusted from time to time. Prices are determined by our Directors mainly with reference to the economic condition, prices of competitors, labour and overhead cost and material purchase costs, which are related to tea product types, level of tea leave grades and market demand.

We would offer better pricing and/or offer discounts to certain corporate customers having considered various factors such as whether the sales is binding by sales contracts, the length of business relationship and/or the volume of their purchases. We also offer discounts to the public during our annual sale and other promotion activities.

We also offer rebates to Corporate Customer Q, who is not one of our five largest customers during the Track Record Period and is an Independent Third Party. Please refer to sub-section headed “Customers – General agreement – supply of goods with Corporate Customer Q” in this section for further details. Such customer is entitled to (i) a monthly rebate calculated based on an agreed percentage of purchase amount, and (ii) an annual incentive rebate calculated based on increase in purchase amount compared with the previous year. For the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, we recorded rebates paid to Corporate Customer Q of approximately HK\$11,900, HK\$10,600 and HK\$8,500, respectively.

In addition, we have entered into (1) a promotional agreement and (2) a supply agreement, both effective from 1 March 2018 with Corporate Customer S, a tour agent in Hong Kong. For the promotional agreement, it is effective for six months during which we agree to provide discount offers to customers with vouchers/coupons distributed by Corporate Customer S. We offer rebate to Corporate Customer S at an agreed percentage of the actual spending amount of such customers. As at the Latest Practicable Date, we recorded no rebate paid to Corporate Customer S. For details of our supply agreement with Corporate Customer S, please refer to sub-section headed “Customers – Supply agreement with Corporate Customer S” in this section for further details.

For sales of our products to customers at our retail shops, showroom and concession counters during the Track Record Period, in general, payment for products are settled immediately by means of cash or credit card when the products are sold. We have entered into agreements with certain of our corporate customers, for details of the payment terms of the respective agreements with those corporate customers, please refer to the sub-section headed “Customers” in this section below. For our corporate customers, we generally allowed credit terms ranging from 0 to 75 days. We normally do not grant credit terms to new customers. Payments from major corporate customers are settled by bank transfer or cheques.

For our new corporate customers, we usually require them to pay us on delivery. For other corporate customers, we usually allow certain credit terms. Generally, if the corporate customer has good reputation, we would grant 30 days of credit period. For granting more than 30 days of credit period, we would assess the background of the corporate customer, such as hotel rating, Michelin star rating, sales network, size of the customer and other related information.

### **Sales and marketing**

Currently, our Director, Mr. Chan Kun Yuen and the sales and marketing manager are responsible for the sales and marketing function of our Group. Mr. Chan Kun Yuen oversees business development, marketing and corporate strategy formulation and execution of our Group.

Our sales and marketing manager is responsible for, among others, implementing and executing marketing campaigns, coordinating the selling of our products on company website and on internet shopping platform of our business partner, planning and supporting promotion of our products in exhibitions/events, and handling customer enquiries and feedback.

In order to enhance public awareness to our brand and to attract new customers, during the Track Record Period, we organised tea appreciation courses, set up booths in exhibitions/events and advertised our products through various means such as promotion leaflets and interviews with media.

### ***Annual sales***

During the Track Record Period, our retail shops, concession counters and showroom run annual sale from the end of October to early November each year, with a discount of 20% off our products. Prior to and during the annual sale, we also place advertisements in public media including newspapers as well as employ promoters in our retail shops and concession counters to further promote our products and attract customers. We believe our annual sale have raised more attention to our brand and we have seen increase in sales during our annual sale.

### ***Exhibitions and booths***

We set up booths from time to time in exhibitions, such as The Hong Kong Brands & Products Expo, and certain shopping malls, such as Maritime Square, to sell our products. During such events, in addition to our own staff, we would also employ promoters to promote our tea products. We believe this has helped our brand to gain more recognition from the public. Please refer to the sub-section headed “Sales and marketing – Sales channels – Retail customers – Exhibition and/or other booth sales” in this section for details.

### ***Advertisements***

From time to time, we place advertisements in public media including newspapers and televisions showcasing the range of our tea products to the public. In particular, during and prior to festive seasons such as Chinese New Year and our annual sale, we would increase our exposure in the public by placing advertisements. In addition, we have also been interviewed by paper media which may help to promote our brand. We believe such exposure has allowed members of the public to get acquainted with our brand and contributed to our sales of goods.

### ***Social media***

We have also joined social media to establish our desired social media culture to deliver our brand and message across, promote our products and events more effectively, interact with our customers and build relationships with the community.

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### Logistics

Design of certain of our packaging materials, transportation and delivery including products from our warehouse to our retail shops and concession counters and to our customers upon request are outsourced to Independent Third Party service providers except those customers who would arrange to pick up the products from our office/warehouse in Siu Sai Wan, Hong Kong.

During the Track Record Period, we did not experience any material disruption in the delivery of our products.

### LICENSE AGREEMENT

In December 2008, we entered into an agreement (the “**License Agreement**”) with a Japanese company (the “**Licensee**”), which is engaged in sourcing food and beverages from all over the world, and developing and producing its products for the Japanese market. The Licensee is an Independent Third Party. Pursuant to the License Agreement, we have granted to the Licensee, amongst others, (1) the exclusive right to use certain of our trademarks registered in Japan (the “**Trademarks**”) to import, distribute and sell in Japan all products and their related products manufactured by us under the Trademarks (the “**Products**”); (2) the exclusive right to distribute and sell the Products using the signboard “EIKI CHASO” (the “**Signboard**”) (which is the Japanese transliteration of Ying Kee tea house); (3) the right to use the Trademarks and the Signboard on any products manufactured by the Licensee upon obtaining prior consent from us. In return, the Licensee shall pay us a certain percentage of royalty which is determined based on the selling prices of the products manufactured by the Licensee, as the royalty of using the Trademarks, subject to a minimum royalty amount of HK\$120,000 (including withholding tax) each year after the third year of the License Agreement.

In September 2017, we have entered into a new trademark license agreement with the Licensee terminating the License Agreement. Pursuant to the new trademark license agreement, we grant to the Licensee the exclusive use of certain trademarks in Japan in association with importing, producing and selling goods and offering services related to tea, desserts, drinks and tea related products. The Licensee will only use the trademarks in accordance with our policies, specifications, directions and standards as may reasonably be stipulated by us from time to time in writing. If the Licensee develops any new goods or services bearing any of our trademarks with the intention of making them available for sale in Japan, it shall obtain our prior written approval. In return, the Licensee shall pay us an annual royalty of certain percentage of the Licensee’s gross revenue generated from sale of goods and services for the preceding contractual year.

For the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, our royalty fees from the Licensee were approximately HK\$114,000, HK\$114,000 and Nil, respectively. During the Track Record Period and up to the Latest Practicable Date, we did not generate any revenue by selling our products to the Licensee. To the best of our Directors’ knowledge, information and belief after having made reasonable enquiry, the Licensee manufactured and sold in Japan certain products with packages bears at least one of our trademarks, which include various tea and pudding products.

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### CUSTOMERS

Due to the nature of our business, our customers are mainly retail customers, in particular through our retail shops, showroom and concession counters, from the general public, accounting for approximately 91.2%, 92.9% and 91.8% of the total revenue, for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. We did not rely on any single customer during the Track Record Period. Our largest customer and five largest customers accounted for less than 10% and 30% of our revenue for the Track Record Period. As at the Latest Practicable Date, we had entered into long-term agreements with three corporate customers, Corporate Customer M, Corporate Customer P and Corporate Customer Q as mentioned below. We also run an online shop where we sell our tea products to the public. Our staff (including our Directors) also purchased at our showroom and some of our customers placed orders to our head office during the Track Record Period.

#### Our five largest customers

During the Track Record Period, our five largest customers consist of individual and corporate customers. All of our five largest customers during the Track Record Period are Independent Third Parties. Our revenue generated from our five largest customers for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and six months ended 30 September 2017 amounted to approximately HK\$1.5 million, HK\$1.7 million and HK\$1.0 million, respectively, representing approximately 3.6%, 3.9% and 6.4% of our total revenue, respectively. Our revenue from the largest customer for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and six months ended 30 September 2017 amounted to approximately HK\$0.4 million, HK\$0.4 million and HK\$0.5 million, respectively, representing approximately 0.9%, 0.9% and 3.0% of our total revenues, respectively.

The following table sets out the details of our five largest customers during the Track Record Period:

#### *For the financial year ended 31 March 2016*

	Approximate revenue and percentage of our total revenue	
	HK\$'000	%
Individual Customer A	395	0.9
Corporate Customer B	317	0.8
Individual Customer C	286	0.7
Corporate Customer D	266	0.6
Individual Customer E	260	0.6
<b>Total</b>	<b>1,524</b>	<b>3.6</b>

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*For the financial year ended 31 March 2017*

	<b>Approximate revenue and percentage of our total revenue</b>	
	<i>HK\$'000</i>	%
Individual Customer F	420	0.9
Individual Customer G	368	0.8
Individual Customer H	336	0.8
Individual Customer I	302	0.7
Individual Customer J	294	0.7
<b>Total</b>	<b>1,720</b>	<b>3.9</b>

*For the six months ended 30 September 2017*

	<b>Approximate revenue and percentage of our total revenue</b>	
	<i>HK\$'000</i>	%
Individual Customer K	476	3.0
Individual Customer L	204	1.3
Corporate Customer M	168	1.0
Individual Customer N	93	0.6
Individual Customer O	86	0.5
<b>Total</b>	<b>1,027</b>	<b>6.4</b>

Name of customer	Year of commencement of business with our Group	Background information	Location	Goods purchased	Typical payment method
Individual Customer A	N/A	N/A	Hong Kong	Chinese tea leaves	Credit card
Corporate Customer B	It was a one-off transaction	Corporate Customer B is a limited liability company incorporated in Hong Kong in 1973 whose parent company is listed on the Stock Exchange. It is engaged in investment.	Hong Kong	Chinese tea leaves	30 days credit period and/or 50% deposit and balance before shipment, paid by cheque
Individual Customer C	N/A	N/A	Hong Kong	Chinese tea leaves	Credit card

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Name of customer	Year of commencement of business with our Group	Background information	Location	Goods purchased	Typical payment method
Corporate Customer D	Over seven years	Corporate Customer D is a limited liability company incorporated in Hong Kong in 1953 whose parent company is listed on the Singapore Exchange Limited. It is engaged in banking and investment services.	Hong Kong	Chinese tea leaves	30 days credit period or 100% payment before shipment, paid by cheque
Individual Customer E	N/A	N/A	Hong Kong	Chinese tea leaves	Credit Card
Individual Customer F	N/A	N/A	Hong Kong	Chinese tea leaves	Cash
Individual Customer G	N/A	N/A	Hong Kong	Chinese tea leaves	Cash
Individual Customer H	N/A	N/A	Hong Kong	Chinese tea leaves	Credit card
Individual Customer I	N/A	N/A	Hong Kong	Chinese tea leaves	Credit card
Individual Customer J	N/A	N/A	Hong Kong	Chinese tea leaves	Credit card
Individual Customer K	N/A	N/A	Hong Kong	Chinese tea leaves	Cash
Individual Customer L	N/A	N/A	Hong Kong	Chinese tea leaves	Cash
Corporate Customer M	Over seven years	Corporate customer M is a limited liability company incorporated in Hong Kong in 1989 whose parent company is listed on the Stock Exchange. It is engaged in personal, commercial and corporate banking financial services across Asia.	Hong Kong	Chinese tea leaves	45 days credit period paid by bank transfer
Individual Customer N	N/A	N/A	Hong Kong	Chinese tea leaves	Credit card
Individual Customer O	N/A	N/A	Hong Kong	Chinese tea leaves	Credit card

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None of our Directors, their respective close associates or any of our Shareholders (whom to the knowledge of our Directors owns more than 5% of the total number of issued shares of our Company) had any interest in any of our five largest customers for the Track Record Period.

However, during the Track Record Period, some of our customers are connected persons of our Company. For details, please refer to the section headed “Connected transactions”, the section headed “Financial Information – Related party transactions” and note 20 of Appendix I to this prospectus.

To the best of our Directors’ knowledge, information and belief, none of our five largest customers during the Track Record Period was also a supplier of our Group for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017.

### **Selection criteria**

For our retail customers, we do not have specific selection criteria as we require immediate cash or credit card payment from most customers. As to our corporate customers, we generally do not specifically seek them out for cooperation. However, over the years, due to the reputation of our brand, they have approached us for the supply of tea products. Depending on the reputation of the corporate customers, our relationships with them, and their operation model, we would enter into different sales agreement with certain corporate customers or offer different payment or delivery terms to them.

### **Customer contracts**

As at the Latest Practicable Date, we have entered into a master agreement with Corporate Customer M. For customers who are not one of our five largest customers during the Track Record Period, we have entered into a trade agreement with Corporate Customer P, a general agreement – supply of goods with Corporate Customer Q and two short term supply agreements with Corporate Customer R and Corporate Customer S, respectively. We have also entered into a six-month promotional agreement with Corporate Customer S. Please refer to the sub-section headed “Sales and Marketing – Pricing policy and credit terms” in this section for details. Each of them is an Independent Third Party. For the other corporate customers which have not entered into agreements with us, they generally place orders with us as and when needed.

#### ***Master agreement with Corporate Customer M***

We have entered into a master agreement for supply of promotional products in Hong Kong and Macau effective from 1 January 2015 with Corporate Customer M, pursuant to which products are to be supplied on a pre-purchase basis and/or consignment basis. Under the master agreement, under both pre-purchase basis and consignment basis, we may supply products for redemption by customers of Corporate Customer M in Hong Kong or Macau who are eligible to its promotion programme. Such products would be redeemed either at designated redemption centres of Corporate Customer M, or at our retail shops or concession counters, by presentation of Corporate Customer M redemption letters. Following an order by Corporate Customer M for our supply of products for redemption, under the pre-purchase basis, we would invoice

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Corporate Customer M for the order after a prescribed period; whereas, under the consignment basis, we would invoice Corporate Customer M by presenting it with the Corporate Customer M redemption letters received by our retail shops and concession counters at the end of each month. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we only supplied our Chinese tea leave products to Corporate Customer M on a consignment basis for redemption at our retail shops and concession counters.

Key salient terms and features of the master agreement with Corporate Customer M are as follows:

Contract term:	Effective from 1 January 2015 until 31 December 2017, the customer has the option to extend the term for up to two years on the same terms and conditions of the agreement upon giving written notice to us prior to the expiry of the agreement. The agreement has subsequently been extended to 31 December 2019, and prior to such expiry, the customer has the option to further extend the term for up to two years.
Basis of supply:	The customer may purchase products from us on a pre-purchase and/or consignment basis.
Placing of order:	We enter into a sub-agreement with the customer pursuant to the master agreement. Each sub-agreement pertains to a promotion programme of the customer.
Minimum purchase:	The master agreement does not stipulate any minimum purchase amount or purchase commitment.
Price:	The unit price of our products supplied is set out in each sub-agreement to the agreement entered into between us and the customer. In case the market selling prices and/or cost of materials for production of any products are reduced during the relevant programme period, we agree to offer the products at a unit price lower than those stated in the sub-agreement to reflect the change.
Payment terms:	<p>For products supplied on a pre-purchase basis, payment will be settled within 45 days of the customer's receipt of our invoice.</p> <p>For products supplied on a consignment basis, payment will be settled within 45 days of the customer's receipt of our monthly invoice. At the end of every month, we shall issue an invoice based on the number of the products redeemed by customers of the customer. Where the product is redeemed via the customer's designated redemption centres, the customer shall inform us the quantity of the product redeemed.</p>



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Delivery:	<p>Where it was conducted on a pre-purchase basis, where the redemption service is provided by us, any ordered products that have not been collected by the customer or its end customers during the specified period shall be delivered free of charge by us to the customer.</p> <p>Where it was conducted on a consignment basis, if the products are collected via a designated redemption centre of the customer, we shall deliver and replenish the products as per specific quantity and delivery schedule as instructed by the customer.</p> <p>We shall deliver all products in accordance with the terms of the master agreement and the sub-agreement. We may be required to provide free redemption services at our premises for customers of the customer to collect the products. We are liable to compensate for any delay of delivery against the required lead time set out in each sub-agreement in accordance with stipulated price deduction rates.</p>
Passing of risk and title:	<p>Where the products are supplied on a pre-purchase basis, the risk in the products shall pass to the customer upon delivery at the designated place for delivery. Where the redemption services are provided by us, risk in the products shall pass to the customer's customers upon collection of the products. The property in the products shall pass to the customer or its customers on the earlier of: (a) the price for those products having been paid in full by the customer; or (b) the products being delivered to the customer or its customers in accordance with the purchase order.</p> <p>Where the products are supplied on a consignment basis, the risk and property in the products shall pass to: (a) the customers of the customer upon the redemption of the products during the programme period or (b) the customer upon the acceptance by the customer of products unredeemed by its customers at the end of the programme period.</p>
Return of unredeemed products ( <i>Note 1</i> ):	<p>Where a product is supplied on consignment basis, the customer shall have the absolute right to return all unredeemed products to us at our cost before or upon expiration of the agreement.</p>

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Stock levels:	We shall keep a minimum initial stock level as set out in the sub-agreement prior to a date as mutually agreed. We shall at all times throughout the relevant promotion programme maintain no less than a minimum ongoing stock quantity set out in each sub-agreement entered into between us and the customer.
Replacement:	We collect such defective products from the customer for replacement at our sole cost and expense within three working days or a reasonable timeframe agreed by the customer. We replace defective products with new ones, or, failing which, refund the full price paid for the rejected products.
Customer services:	We are solely and entirely responsible for customer services, including setting up and maintaining, at our own cost, a manned customer service hotline.
Intellectual property ( <i>Note 2</i> ):	<p>We assign to the customer all intellectual property rights in the products and all other intellectual property rights created in the performance of the agreement for the full term of such rights throughout the world, to the intent that all such intellectual property rights shall belong absolutely to the customer.</p> <p>All intellectual property rights provided by the customer remain vested with it. The customer has the right to use our logos, brand names, and print and reprint the promotional materials of the products for any promotional materials for the master agreement and any other promotional programmes within or beyond the agreement period without further approval or reference from us or any other party.</p>
Safety and Compliance:	From time to time upon the customer's request, we provide documentation and perform safety test at our own cost relating to manufacturing and safety standards and approvals applicable to the products.
Termination ( <i>Note 3</i> ):	The customer may terminate the agreement at any time for any reason with one month's written notice. The customer may terminate a sub-agreement at any time by giving 30 days' written notice to us.

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*Notes:*

1. Our Directors confirmed that return of unredeemed products has never occurred during the Track Record Period and up to the Latest Practicable Date.
2. Our Directors confirmed that no intellectual property has been granted by our Group to Corporate Customer M during the Track Record Period and up to the Latest Practicable Date.
3. Our Directors confirmed that as at the Latest Practicable Date, Corporate Customer M had not provided to our Company the written notice described above.
4. Our Directors confirmed that there is no material delay of recognition of revenue.

### ***Trade agreement with Corporate Customer P***

We entered into a trade agreement with Corporate Customer P, a supermarket operator in Hong Kong, on 6 July 2015. Our business relationship with Corporate Customer P are on two basis, “own purchase” and/or “consignment”. Our Directors confirmed that (i) own purchase basis means Corporate Customer P shall purchase our products for its own sales activities and display the ordered products on its shelf for sale and (ii) consignment basis means we bring our products to sell in the booths in the location(s) of Corporate Customer P, where a commission calculated based on an agreed percentage of gross sales proceeds would be charged by Corporate Customer P. “Consignment” basis normally takes place on or around Chinese New Year. Revenue generated from own purchase basis is accounted as direct sales to corporate customers; and revenue generated from consignment basis is accounted as sales through platforms provided by our business partners, to retail customers.

Key salient terms and features of the trade agreement with Corporate Customer P are set out below:

Contract term:	No fixed term.
Products:	Not specified in the contract but we generally supply the customer with Chinese tea leaves.
Minimum purchase:	The agreement does not stipulate any minimum purchase amount or purchase commitment.
Price:	The price of our products is specified on the customer’s purchase order.
Price adjustment:	The agreement does not stipulate any price adjustment provision.
Payment:	The agreement does not stipulate the payment terms.

For own purchase basis, payment terms are set out in the invoice. The customer is generally required to pay us within 30 days from the invoice date.

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For consignment basis, a commission calculated based on an agreed percentage of gross sales proceeds would be charged by the customer. The customer would deliver a daily sales summary and a monthly sales summary during the consignment period to us. We will send an invoice to the customer after each consignment period charging the gross sales proceeds less commission amount and the customer is required to pay us within 30 days of invoice date.

Returns (*Note 1*):

Applicable to own purchase basis only: any time after 14 days from the customer's notice, it may dispose returned but uncollected goods at its discretion and require that we pay a handling fee of a certain agreed percentage on the cost of the returned goods.

Product liability insurance:

We shall at our own costs take out adequate product liability insurance in respect of any goods supplied to or sold at the location(s) of Corporate Customer P including the goods sold to the customer's customers.

Intellectual property:

We are legitimate licensee or owner of the intellectual properties relating to the merchandise supplied or displayed. The products we supply do not and will not constitute infringement or passing-off of any copyrights, patents, trade marks, or other intellectual property rights. The customer may post and display any information regarding our merchandise, including their images or trade marks, on its website or to print such information on brochures or other promotional materials.

Termination:

The agreement may be terminated by the customer by giving not less than seven days' prior written notice to us.  
(*Note 2*)

In the event that any monies due and owing by us to the customer are in arrears for seven days or more or we shall go into bankruptcy or liquidation whether compulsory or voluntary, or that we shall have an administrator appointed or if a receiver, administrative receiver or manager shall be appointed over any part of our assets or undertaking, the customer shall be entitled to terminate the agreement forthwith.

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If either party violates the agreement and fails to remedy within the period of 30 days, the non-defaulting party shall have the right to terminate the agreement. The defaulting party shall compensate the non-defaulting party for the losses and damages suffered.

For own purchase basis, following termination of the agreement, we shall, at the customer's request, accept the total stock of merchandise rated at the last invoiced price.  
(Note 3)

*Notes:*

1. Our Directors confirmed that there has not been any product return during the Track Record Period and up to the Latest Practicable Date.
2. Our Directors confirmed that as at the Latest Practicable Date, Corporate Customer P had not provided to our Company the written notice described above.
3. We understand that upon termination of the agreement, any left-over stock will be returned to us at the value of the last invoiced price. It is either refunded in cash or deducted in our last statement.

### ***General agreement – supply of goods with Corporate Customer Q***

We have entered into a general agreement for supply of goods with Corporate Customer Q, a department store operator in Hong Kong, in September 2009 for a one year term. Thereafter, it shall continue to run for a successive period of one year indefinitely until terminated by either party by giving the other party not less than three months notice in writing in advance. In addition, the general agreement allows our customer to terminate for cause, triggered by events including, among others, our breach of contract, winding up or bankruptcy. Our Directors confirmed that up to the Latest Practicable Date, no notice to terminate the agreement has been served by either party.

Under the agreement, the parties may choose to agree in supplying our goods on a returnable basis or consignment basis. For returnable basis, the customer shall have the absolute discretion to return at any time to us the goods. For consignment basis, the customer shall only pay us after it has sold the goods. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we only supplied our Chinese tea leave products to Corporate Customer Q on a returnable basis. As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, there has been no return of goods from Corporate Customer Q in this respect.

Pursuant to the agreement, the customer may place order with us by a separate order each time, which shall specify the type or nature of the goods, specification, quality, quantity, unit price, the method of sale, etc. The agreement however does not stipulate any minimum purchase amount or purchase commitment. We shall issue the customer an invoice for payment of the goods. Payment shall be settled on 75 days after month closing date. The customer shall be afforded not less than 14 days to examine the goods after actual delivery and give notice in

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writing to us if the customer shall reject the goods which are found unsatisfactory or defective or not to be conforming to the orders or the general agreement. As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, there has been no return of goods from Corporate Customer Q in this respect.

According to the agreement, we may enter into annual trading terms with Corporate Customer Q from time to time to agree on payment terms, terms governing the calculation of discounts, rebates, commission, etc. According to the annual trading terms covering the period from January 2018 up to December 2018, among others, the customer is entitled to (i) a monthly rebate calculated based on an agreed percentage of purchase amount, and (ii) an annual incentive rebate calculated based on increase in purchase amount compared with the previous year. If the new annual trading terms are signed after the effective period of the preceding annual trading terms, the new annual trading terms shall apply retrospectively to the orders accepted or deemed to have been accepted by us after the expiration of the preceding annual trading terms.

Our Hong Kong Legal Advisers confirm that the above agreements with Corporate Customer M, Corporate Customer P and Corporate Customer Q are legally binding under Hong Kong law. Our Directors confirm that there has not been any material breach of the terms of the above agreements by the parties to the respective agreements during the Track Record Period and up to the Latest Practicable Date. Our Directors confirm that we had no material dispute with Corporate Customer M, Corporate Customer P and Corporate Customer Q during the Track Record Period and up to the Latest Practicable Date.

### ***Supply agreement with Corporate Customer R***

We have entered into a short term supply agreement with effect from 1 October 2015 with Corporate Customer R, a hotel operator in Hong Kong, for a period of two years up to 30 September 2017, which has been extended to 31 December 2017, and thereafter, 31 December 2018. The agreement is for the supply of Chinese tea leaves. Corporate Customer R shall pay us on a monthly basis and within 30 calendar days after Corporate Customer R receives our invoice. Both parties may terminate the agreement by giving not less than 30 days' notice in advance to each other. Our Directors confirmed that up to the Latest Practicable Date, no notice to terminate the agreement has been served by either party.

### ***Supply agreement with Corporate Customer S***

We have entered into a short term supply agreement with effect from 1 March 2018 with Corporate Customer S, a travel agent in Hong Kong, for a period of one year up to 28 February 2019. The agreement is for the supply of Chinese tea leaves. Corporate Customer S shall pay us on a monthly basis for the Chinese tea leaves ordered and within 30 calendar days after Corporate Customer S receives our invoice. Both parties may terminate the agreement by giving not less than 30 days' notice in advance to each other.

**CASH MANAGEMENT AND SETTLEMENT**

We require our retail customers to pay for merchandise at the time of purchase and we do not grant any credit terms to our retail customers. Our retail customers generally settle their bills by cash or credit cards.

**Credit cards**

We accept credit cards from most major credit card issuers for settlements of bills. We normally receive remittances from the relevant credit card issuers, net of service charges, within a few days after the credit card transaction is approved. Service charge imposed by the credit card issuers is generally 1.7% as at the Latest Practicable Date. To ensure that no stolen credit cards are used in the payment, we train our staff to take precautionary measures, such as ensuring that the signature of the signing party matches with the signature at the back of the credit card. During the Track Record Period, we had not experienced any material fraudulent use by customers of stolen credit cards.

**Cash**

We handle cash on a daily basis. To prevent misappropriation and illegal uses of cash, we have adopted the following cash management and settlement procedures at retail shops and concession counters:

- all receipt from cash sales will be deposited in the bank not later than the next working day;
- we have installed a POS system for each of our retail shops and concession counters to record the invoicing. We provide training to our staff through our internal guidelines which illustrates in detail procedures with respect to identification of authenticity of money notes; and
- bank statements are to be received and reviewed by our Group. When reconciling the bank accounts, there should be a comparison of dates and amounts of daily deposits as shown on the bank statements with the cash receipts journal.

Our Directors confirm that we did not experience any cash misappropriation or embezzlement by its employees, customers or other relevant third parties that had a material adverse impact on our business and results of operations during the Track Record Period and up to the Latest Practicable Date.

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### CREDIT MANAGEMENT

During the Track Record Period, we have established the following policies and procedures to monitor collection of trade receivables from our corporate customers:

We send payment reminder to our customers for payments overdue and/or payments overdue exceeded 90 days. Our accounts department is responsible for follow-up work on overdue balances and arranges to cease selling of our products to the relevant customers. For payments overdue over 120 days, we may determine the provision for impairment of trade receivables and will cease selling our products to relevant customers unless the outstanding payments have been fully settled; and if so, no credit terms would be granted. It is our policy that staff in our accounts department will prepare analysis on account receivables and account payables, which will be approved by our chief financial officer quarterly.

Bad debt expenses of approximately HK\$2,000 were incurred for the financial year ended 31 March 2016. The policy for impairment of trade receivables of our Group is based on the evaluation of collectability and the ageing analysis of the receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. No bad debt expenses were incurred for the financial year ended 31 March 2017 and the six months ended 30 September 2017.

### QUALITY CONTROL

We have a quality control system to monitor and control each stage of our operation process, from raw material procurement to processing and delivery, to ensure the product quality and consistency. According to the ISO procedure guidelines, our processing staff will inspect raw materials supplies and our tea products constantly to ensure that can meet our required quality. The associated inspection reports can be provided upon our request in the warehouse. Our processing line is generally led by our executive Director, Mr. Chan Shu Yuen. For the experience of Mr. Chan Shu Yuen, please see the section headed "Directors, senior management and employees – Directors – Executive Directors" in this prospectus.

#### **Quality control on incoming tea leaves and tea wares**

For our tea leaves, we take samples of tea leaves delivered by our tea leave suppliers for testing in order to ensure that the tea leaves we sourced from suppliers meet our quality requirement. These tests are firstly conducted by Mr. Chan Shu Yuen or the processing staff by examining the colour, shape, taste and smell of the tea leaves. They are able to identify the quality of the tea leaves with their sensory and their experience in tea industry. We also take samples of the tea leaves received from our suppliers to conduct laboratory tests on the levels of agricultural chemical contents and metal concentration present in the external independent laboratories on a random basis. Our Directors confirmed that there were no irregularities revealed from the laboratory tests on the tea leaves during the Track Record Period and up to the Latest Practicable Date.



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For tea wares, we inspect the finished tea wares delivered by the manufacturers to ensure that there is no defective products and the quality is up to the standard required by us.

### **Quality control on processing and final tea products**

We conduct sample tests during processing and on our final products. Following the sample tests, we will fill in the relevant quality testing forms.

### **PRODUCT RETURNS AND WARRANTY**

Our customers can approach and contact our retail shops, concession counters or sales and marketing department if they are not satisfied with the quality of our products or make complaints on our products. They may also contact us by telephone or email address on their concerns. Our staff will discuss with the customers to understand their complaints and test the quality of the products by, for example, inspecting the tea leaves and making tea from the returned tea leaves. According to our general policy, exchange of products within 30 days is allowed if returned with original package; where tea wares are normally non-refundable and non-exchangeable.

We do not have any warranty for products to our retail customers, which our Directors believe is the norm in our industry. However, for some of our corporate customers, we have provided warranty for our products, e.g. for Corporate Customer M, we shall collect the defective products from our customers for replacement upon notification. Our Directors confirm that we did not receive any material complaint from our customers and did not encounter any material incident of product return during the Track Record Period and up to the Latest Practicable Date.

### **INFORMATION TECHNOLOGY**

To assist our Directors and senior management to fully understand and analyse our performance, we have installed POS system at all of our retail shops and concession counters that capture extensive consumer spending data, including time and date of purchase, products purchased, and types of payment. The information collected through the POS system and membership database are accessible and can be analysed by our Directors and senior management to allow them to make adjustments to, among other things, products offered and pricing.

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### KEY RECOGNITIONS AND MEMBERSHIPS

Set forth below is a summary of our key awards/recognitions:

<b>Award/recognition</b>	<b>Awarding body</b>	<b>Year of award or recognition</b>
Brands Original From Hong Kong 2008	Capital Entrepreneur	2008
ISO 9001:2008	UKAS Management Systems	2009 (valid until June 2018)
Outstanding Corporate Strategy Award	East Week	2009
Caring Company	The Hong Kong Council of Social Service	2010 – 2017
Hong Kong Quality Food Award 2013	Group Buyer	2013
Quality Shop for 10 Consecutive Years	Hong Kong Tourism Board	2013
Your Choice @ Focus: Hong Kong White Collar's Most Favourite Brand Award 2016 – Tea House	Focus Media Hong Kong	2016
Hong Kong Top Brand Mark (Top Mark)	The Chinese Manufacturers' Association of Hong Kong and the Hong Kong Brand Development Council	2012-2017 (valid until August 2018)
Certification Mark upon "Retail shops" category of Quality Tourism Services Scheme	Hong Kong Tourism Board	2014 (valid until September 2018)

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Our Company also holds the following memberships relevant to our businesses:

<b>Membership</b>	<b>Organisation</b>
Member	Hong Kong and Kowloon Tea Trade Merchants Association
Life Member	The Chinese General Chamber of Commerce
Full Member	Federation of Hong Kong Industries
Corporate Member	Hong Kong Brand Development Council
Permanent Associate Member	The Chinese Manufacturers' Association of Hong Kong

### COMPETITION

According to the Euromonitor Report, based on sales data provided by us and the market size calculated by Euromonitor, we had 12.6% share of the specialist Chinese tea retailers market in Hong Kong in terms of our revenue in 2016. The overall market for packaged branded Chinese tea, tea ware and tea gift sets in Hong Kong is competitive and fragmented due to relatively low barriers of entry, with many small independent retailers operating alongside more established retailers who have been around for decades. However, soaring operating costs and a challenging retail environment has seen the market undergo a period of consolidations as smaller, less profitable retailers either exit the market or are absorbed by larger, more resilient retailers.

According to the Euromonitor Report, the main barriers of entry are the market knowledge and experience required for retailers to consistently select the best quality tea leaves from suppliers for sale and in ensuring the quality of their products is consistently high. The depth and reach of their supply network also matters in terms of retailers' ability to source for top quality and/or unique Chinese tea leaves from premium tea farms. For further details of the entry barriers into the market for packaged branded Chinese tea, tea ware and gift sets in Hong Kong, please refer to "Industry Overview – Competitive Landscape – Barriers of entry to the Chinese tea market in Hong Kong" in this prospectus. We believe that (i) our well-established position in the Chinese tea market in Hong Kong, (ii) our ability to ensure provision of quality tea products, and (iii) our established business relationships with suppliers and commercial customers, have enabled and will continue to enable us to compete effectively.

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### INSURANCE

We maintain a number of insurance policies, which include (1) employees' compensation insurance; (2) medical insurance for some of our senior staff members; (3) shop comprehensive insurance for all our retail shops and concession counters; (4) public liability insurance and property all risks insurance for our Siu Sai Wan premises; (5) public liability insurance for our outdoor advertising display outside Shop 5; and (6) product liability insurance. However, there is a risk that we do not have sufficient or any insurance coverage for loss, damage and liability that may arise in our business operations. Please refer to the section headed "Risk factors – Risks relating to our business" in this prospectus for further details.

As at the Latest Practicable Date, our Group was not aware of any actual or threatened product liability claim against our Group.

Our Directors consider that coverage of insurance policies taken out by our Group is adequate for our Group's operation and is in line with industry practice. As at the Latest Practicable Date, our Group had not made, or been the subject of, any material insurance claim.

### RESEARCH AND DEVELOPMENT

During the Track Record Period and up to the Latest Practicable Date, we have not engaged in any research and development activity.

### ENVIRONMENTAL MATTERS

Given the nature of our business, processing of our tea products produces no waste water, solid wastes or noise; and does not cause any material damage to the environment.

Due to the nature of our business, our Group did not incur directly any cost of compliance with applicable environmental protection rules and regulations during the Track Record Period. Our Directors do not expect our Group to incur directly significant costs for compliance with applicable environmental protection rules and regulations in the future. As at the Latest Practicable Date, our Group was not involved in any material non-compliance of any applicable laws and regulations on environmental protection.

We also have in place a system of recording and handling accidents. Please refer to "Business – Employees – Health and work safety" in this prospectus for details.

### INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we had the following intellectual property registrations, applications or transfers, which are material to our business: (i) three registered trademarks and four pending trademark applications in Hong Kong; (ii) seven registered trademarks in Japan and five pending trademark applications in Japan; (iii) seven registered trademarks in other jurisdictions and 18 trademarks registered in other jurisdictions in the process of being transferred from Ying Kee (TM) to Ying Yee; and (iv) three registered domain names, which are material to our business. Details of such registrations and applications are set out in the section headed “Statutory and general information – 5. Further information about our business – B. Intellectual property” in Appendix IV to this prospectus.

In August 2017, with a view to streamline its corporate organisation, Ying Kee entered into an agreement of trademarks assignment with Ying Kee (TM), pursuant to which Ying Kee (TM) assigned to Ying Kee all Ying Kee-related trademarks. For details, please refer to the section headed “History, reorganisation and group structure – History and corporate development – Agreement of trademarks assignment” of this prospectus.

In August 2017, the Licensee has entered into an agreement of trademarks assignment with us pursuant to which the Licensee has agreed to assign certain trademarks of our brand to us. In September 2017, we have also entered into a new trademark license agreement with the Licensee granting them use of some of our trademarks. For details, please refer to our sub-section headed “License agreement” under this section.

As at the Latest Practicable Date, we were not sued for infringement of intellectual property rights by any third party, and we were not aware of any threatened material proceedings or claims relating to intellectual property rights against us. In addition, despite our best efforts, we cannot be certain that third parties will not infringe or misappropriate our intellectual property rights or that we will not be sued for intellectual property infringement.

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### EMPLOYEES

#### Number of staff

As at the Latest Practicable Date, we had a total of 50 full-time employees (excluding our Directors). The following table below sets forth a breakdown of our full-time staff by functions as at the Latest Practicable Date:

	<b>Number of Employees</b>
Sales and marketing	1
Administrative	4
Secretary to the Board	1
Accounts	3
Warehouse including packaging and processing	7
Retail	34
	<hr/>
<b>Total</b>	<b>50</b>
	<hr/> <hr/>

#### Training and recruitment policies

We provide training to our staff to enhance their knowledge, skill level and quality. In particular, our sales staff is given training on our tea products and sales skills upon joining our Group. Our senior management also gives training to our retail staff in relation to customer service skills. We also have internal training manuals in place for the perusal of our employees, regarding product information, sales techniques, handling of complaints, identification of bills, etc.

With regard to our recruitment policy, we believe that we offer competitive salaries and benefits and can attract the best available employees. We also believe that our remuneration which includes sales-based commission is attractive to prospective jobseekers.

#### Labour unions and any labour disputes

We have no workers' union. Our Directors confirm that we did not experience any significant difficulty in recruiting employees nor have we had any significant staff compensation or labour disputes during the Track Record Period. We consider we have maintained satisfactory relations with our employees.

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### **Staff remuneration and benefits**

We will review the performance of our staff periodically and consider the results of such review for staff annual salary review and promotion. In addition to their basic salary and allowance, we seek to motivate our staff by (1) commission based on total company-wide sales of products and (2) bonus based on internally set target sales.

In Hong Kong, we have participated in the mandatory provident fund prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). All requisite contributions had been paid by us in accordance with the aforesaid law as at the Latest Practicable Date.

### **Health and work safety**

We believe that the health and safety of our staff are crucial to our Group. Internal policies have been implemented including procedures and guidelines in relation to health and work safety. In addition, our employees are covered by the employees' compensation insurance.

Our Group strives to provide employees with a safe and healthy environment. For our warehouse staff, we have a safety manual in place which informs them about the health and work safety measures to be adopted, e.g. regarding movement of heavy goods, fire escape routes and anti-theft measures. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date: (1) there were no material accidents, health injuries or any non-compliance incidents with the relevant laws and regulations; and (2) there was no claim for personal or property damages or compensation paid to employees. Staff should report to their supervisors or the human resources under our administrative department immediately for any accidents. Emergency treatment should be carried out when someone injured.

### **PROPERTIES**

During the Track Record Period and up to the Latest Practicable Date, we had not owned any property. As at the Latest Practicable Date, we entered into seven tenancy agreements and three licencing agreements as disclosed in the table under "Business – Our retail network" above, as well as the premises in Siu Sai Wan and the parking spaces as disclosed in table below in Hong Kong. The car parking spaces were licensed from an Independent Third Party. The premises in Siu Sai Wan was leased from our connected person. Please refer to the section headed "Connected transactions" in this prospectus for further details.

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We consider the leasing and licencing arrangement advantageous to our overall business plan as it helps us reduce our initial capital outlay and allows us to concentrate our capital resources on selling tea products. For the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, our rentals, rates and building management fees accounted for approximately 55.0%, 48.4% and 48.4% of our total administrative expenses, respectively if excluding the listing expenses.

Our Directors and senior management are responsible for negotiating with the landlords/licensors in relation to the renewal of the existing tenancy or license agreements before their respective expiry dates. When renewing the existing tenancy or license agreements, we consider various factors, including the accessibility of the site to our target customers, shoppers and pedestrians; spending power of the surrounding area; proximity to our competitors. For details of the tenancy agreements or license agreements of our retail shops and concession counters in supermarket/department stores, please refer to the sub-section headed “Our retail network” in this section. As at the Latest Practicable Date, we intended to renew all the existing tenancy agreements or license agreements upon expiry. Our Directors confirm that they did not receive any indication from the landlords/licensors that any of the tenancy agreements or license agreements may not be renewed upon expiry as at the Latest Practicable Date.

The table below sets out a summary of other property leased/licensed by us in addition to those disclosed under the sub-section headed “Our retail network” in this section as at the Latest Practicable Date:

<b>Address as shown on the tenancy/license agreement</b>	<b>Our use of property</b>	<b>Term</b>	<b>Rental/license type</b>
8/F, Wah Shing Centre, No. 5 Fung Yip Street, Siu Sai Wan, Hong Kong	Head office, warehouse and showroom	Two years commencing on 1 April 2017 and expiring on 31 March 2019	Monthly rent, including government rates and management fee
Car Parking Spaces No. 5 and 6 of Asia One Tower, 8 Fung Yip Street, Hong Kong	Car parking space	Three years commencing on 1 November 2015 and expiring on 31 October 2018	Monthly license fee, including government rates and management fee



## BUSINESS

### COMPLIANCE

#### Legal compliance

During the Track Record Period and as at the Latest Practicable Date, there were non-compliance incidents in relation to the requirements of the IRO happened to our Group, which our Directors considered to be immaterial, except the following:

Relevant section	Particulars of the non-compliance	Reason(s) for the non-compliance	Remedial action	Rectification	Possible legal consequence and potential maximum penalty
Section 80(2) of the IRO <i>(Note)</i>	Ying Kee did not disallow “loss of disposal of fixed assets” amounting to HK\$240,376 and HK\$521,166 in its profits tax returns and computations for the years of assessment of 2013/14 and 2014/15, respectively. Also, the sale proceeds of the disposal in 2013/14 (HK\$120,000) were not deducted from the depreciation allowance calculation and this led to the over-claim of depreciation allowance in the years of assessment of 2013/14 and 2014/15.	The errors in the tax returns were due to the misunderstanding of the tax law by the accounting personnel of Ying Kee.	On 14 November 2016, Ying Kee voluntarily notified the Inland Revenue Department of the errors in the tax returns and submitted revised profits tax computations for 2013/14 and 2014/15 accordingly. As a result, the Inland Revenue Department issued additional profits tax assessments for 2013/14 and 2014/15, demanding additional profits tax liability of HK\$48,209 and HK\$3,376 for the years of assessment of 2013/14 and 2014/15, respectively.  Our Company has also appointed Mr. So Hon Cheung Stephen as our chief financial officer who is responsible for financial reporting, accounting, corporate governance, statutory filings and legal compliance matters of our Group.	Not applicable.  Ying Kee settled the additional profits tax liability of HK\$48,209 and HK\$3,376 in December 2016	Under section 80(2) of the IRO, the maximum penalty for any person who without reasonable excuse makes an incorrect return by omitting or understating anything will be HK\$10,000 plus treble the amount of the tax undercharged for each offence. As an alternative to prosecution, under section 82A of the IRO, an additional tax of an amount not exceeding treble the amount of tax that has been undercharged as a result of the omission can be imposed.  Furthermore, under section 60(1) of the IRO, if a person is under-assessed for any year of assessment, the Inland Revenue Department is empowered to issue profits tax assessments within 6 years after the relevant year of assessment. In the event that the under-assessment for any year of assessment is due to fraud or willful evasion, the time limit is extended to 10 years after the expiration of the year of assessment.

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*Note:* Our Hong Kong tax advisers opined that even if such penalty is imposed by the Inland Revenue Department in future, based on its experience, the Inland Revenue Department has seldom seek to impose the maximum penalty unless the case is very serious. Our Directors confirmed that up to the Latest Practicable Date, Ying Kee has not heard that the Inland Revenue Department has sought to impose any penalty or any intention to prosecute or penalize Ying Kee in this regard.

As confirmed by our Directors, as of the Latest Practicable Date, save as disclosed above, our Group has complied in all material respects with the applicable laws and regulations in Hong Kong during the Track Record Period and up to the Latest Practicable Date and did not receive any notices for any fines or penalties for any non-compliance that is material and systemic.

### LEGAL PROCEEDINGS

Our Group was involved in three civil claims, which had been settled or withdrawn. We were involved in one employee compensation claim and one personal injury claim filed by the same saleslady of our Mongkok shop in March 2013 and July 2014, respectively, in which she was found fallen from the staircase in our Mongkok shop in the course of employment causing injuries to her lower back and right knee, the case was finally settled by paying her in the sum of approximately HK\$458,000. We were also involved in a labour dispute filed by an employee of our Group in September 2007 which has been subsequently withdrawn in October 2007.

Save as disclosed above, as at the Latest Practicable Date, neither we nor any of our Directors were engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, or any of our Directors, that would have a material adverse effect on our results of operations or financial condition.

### RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

We have engaged an independent internal control consultant (the “**Internal Control Consultant**”) to perform a review between 5 June 2017 and 16 June 2017 on our internal control system including the areas of financial, operation, compliance and risk management. Based on the Internal Control Consultant’s review and recommendations, we have modified and adopted certain new internal control procedures to refine our internal control system. After the modification and adoption of the new internal control procedures have been taken place, the Internal Control Consultant has performed a follow-up review between 9 August 2017 and 18 August 2017. As our business continues to expand, we will modify and enhance our internal control systems to respond to our changing business needs as appropriate to ensure our business operations are in compliance with the applicable laws, rules and regulations in Hong Kong. In this regard, our Directors will monitor and review our internal control system from time to time and report the review results to our Audit Committee accordingly.



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- we have appointed Mr. So Hon Cheung Stephen as our company secretary. Mr. So will act as the principal channel of communication between our Company and other members of our Group in relation to our legal, regulatory and financial reporting compliance matters. Upon receipt of queries or reports on legal, regulatory and financial reporting compliance matters, our company secretary will look into the matter and, if considered appropriate, seek advice, guidance and recommendations from professional advisers and report to relevant members of our Group and/or our Board. Details of Mr. So’s qualifications and experience are set out in “Directors, senior management and employees”;
- we have appointed Mr. Chan Kun Yuen, as compliance officer, the role of the compliance officer includes the following:
  - (i) to advise, with the assistance of our company secretary, on the implementation of procedures to ensure that our Group complies with the GEM Listing Rules and other relevant laws and regulations applicable to our Group;
  - (ii) to carry out the day-to-day implementation and monitoring of our internal control system with the assistance of our company secretary; and
  - (iii) to respond promptly and efficiently to all enquiries directed at him by the Stock Exchange;
- we have appointed KGI Capital Asia Limited as our compliance adviser to advise our Group on compliance matters upon Listing in accordance with Rule 6A.19 of the GEM Listing Rules; and
- we have established an audit committee with written terms of reference in accordance with Appendix 15 to the GEM Listing Rules to review the internal control system and procedures for compliance with the requirements of the GEM Listing Rules, the Companies Ordinance and other applicable laws, rules and regulations.

We recognise the need for risk management in our strategic and operational planning, day-to-day management and decision making process to identify the material risks associated with our business operations. The key procedures that we have established and implemented are summarised as follows:

- our Board shall (i) review and approve the risk management policy, framework and programme on an ongoing basis, including the design, implementation, monitoring, maintenance and changes; (ii) evaluate and provide direction to our Group on the nature and extent of the risks that shall be taken in achieving its strategic objectives; and (iii) ensure review of the effectiveness of the risk management and internal control systems is conducted at least annually;

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## BUSINESS

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- the risk management task force shall be established to assist our Board and the Audit Committee in overseeing the risk management system, ensuring that the risk management culture is fostered and system is implemented effectively in the daily operations and to arbitrate risk management policies that have conflicts between functional divisions; and
- the Audit Committee shall discuss the risk management framework and programme with the risk management task force and senior management to ensure that operation management has fulfilled their duties in establishing and maintaining an effective risk management programme.

### LICENSES, PERMITS AND APPROVALS

As mentioned in the section headed “Regulatory Overview” of this prospectus, except for the application of a business registration certificate under the Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong), we are not required to obtain any industry-specific license, permit, authorisation or qualification for our operations in Hong Kong. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we have obtained all relevant licenses, permits and approvals as required under the Hong Kong laws to carry on our business operation in Hong Kong.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Immediately upon completion of the Bonus Issue and the Share Offer (without taking into account of any Shares which may be issued pursuant to the exercise the options which may be granted under the Share Option Scheme), Profit Ocean is expected to hold 75% of our Company's enlarged issued share capital and is therefore a Controlling Shareholder for purposes of the GEM Listing Rules.

Profit Ocean is a company incorporated under the laws of the BVI on 2 August 2017 and is held in equal shares (*i.e.*, 25% each) by Tri-Luck, Wealth City, Sky King and Coastal Lion, which are respectively owned by Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen. Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen, who are from the same Chan's family, confirmed that they have been acting in concert during the Track Record Period. On 13 October 2017, in preparation for the Listing, Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen executed an acting in concert deed ("**Acting in Concert Deed**"), under which they confirmed the existence of an arrangement between them to act in concert (as such term is defined in the Takeovers Code) with respect to matters relating to Ying Kee and our Company since 19 October 1992 and 14 September 2017 respectively, as well as their intention to continue to act in concert upon the Listing to consolidate their control and management over our Group. In light of the above, Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen, Mr. Chan Kwong Yuen, Tri-Luck, Wealth City, Sky King, Coastal Lion and Profit Ocean are considered to be parties acting in concert with respect to the control of our Company for purposes of the Takeovers Code. Accordingly, notwithstanding that none of Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen, Mr. Chan Kwong Yuen, Tri-Luck, Wealth City, Sky King, Coastal Lion will individually hold 30% or more of the issued share capital of our Company immediately following the Listing, they are regarded as a group of controlling shareholders of our Company (within the meaning defined in the GEM Listing Rules) and are considered to be our Controlling Shareholders (whether jointly or individually) for purposes of the GEM Listing Rules under their acting in concert arrangement during the Track Record Period and after the Listing.

### NO EXCLUDED BUSINESSES

Each of our Controlling Shareholders, substantial shareholders, our Directors and their respective close associates have confirmed that none of them has any direct or indirect interest in any businesses or companies that are engaged in any business activities that compete or may compete with our Group's business activities and which require disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Save as disclosed below and in the section headed “Connected Transactions” of this prospectus, our Directors do not expect any significant transactions to materialise between our Group and our Controlling Shareholders upon, or shortly after, the Listing. Having considered the following, our Directors are satisfied that our Group is capable of carrying on our business independently from our Controlling Shareholders and their respective close associates after the Listing.

#### **Financial independence**

Our Group has an independent financial system, we have made and will continue to make financial decisions based on our own business needs free from the interference from our Controlling Shareholders and their respective close associates after the Listing.

Our Directors confirm that there were no outstanding loans or borrowing from our Controlling Shareholders and their respective associates as at the Latest Practicable Date. All loans and advances due to our Controlling Shareholders which are non-trade in nature had been/will be fully settled prior to the Listing. Our Directors confirm that our Group will not rely on our Controlling Shareholders for financing after the Listing.

Our Directors are confident that our Group is able to obtain financing from external sources if necessary without relying on our Controlling Shareholders after the Listing, and thus are financially independent from them.

#### **Operational independence**

Although our Group has been renting and will upon the Listing continue to rent certain premises from Chan Sing Hoi Enterprises and Golden Ocean, associates of our Controlling Shareholders, our Directors are of the view that such premises can easily be replaced by other comparable premises with comparable rentals on the basis that our Directors had made reasonable enquiries, reviewed certain advertisements posted by the property agents and noted that there were shops and premises with size, location and monthly rent similar to that of Shop 1, Shop 2, Shop 5, Shop 6 and Siu Sai Wan premises available for lease in the market from time to time. The rentals payable to Chan Sing Hoi Enterprises and Golden Ocean under each of the tenancy agreements were at current market level and the other commercial terms of the letting such as the tenures and outgoings payment arrangements were on normal commercial terms under the prevailing market condition and are considered as fair and reasonable as advised by our property valuer, Knight Frank. Please refer to the section headed “Connected Transactions” in this prospectus for (i) further details of the tenancy agreements entered into between our Group and Chan Sing Hoi Enterprises and Golden Ocean and (ii) qualitative and quantitative information on how the historical rental expenses charged by Chan Sing Hoi Enterprises and Golden Ocean during each of the two years ended 31 March 2016 and 31 March 2017 compared to the prevailing market rentals for comparable premises nearby.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Further, our Group does not rely on our Controlling Shareholders for access to our Group's customers and suppliers, who are third parties independent from and not connected with our Controlling Shareholders and their close associates. We have our own sales and marketing department, and have our own marketing and customer relationship operations which are operated independently from our Controlling Shareholders.

Lastly, our Group does not share operation team, facilities and equipment with our Controlling Shareholders and their associates. Our Group has an independent management team to handle its day-to-day operations. We are also in possession of all relevant licenses necessary to carry on and operate our business and have sufficient resources to operate independently from our Controlling Shareholders and their close associates. We are also not reliant on trademarks or franchised/licensed brands owned by our Controlling Shareholders or their respective close associates.

For reasons set out above, our Directors consider that our Group can operate independently from our Controlling Shareholders and their respective close associates after the Listing.

### **Management independence**

Our Board and senior management make our Company's management and operational decisions. Our Board consists of six Directors, of which three are executive Directors, namely Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen, and three are independent non-executive Directors, namely, Mr. Siu Chi Ming, Mr. Lee Wai Ho and Mr. Wong Chee Chung, whereas our senior management consists of our chief financial officer, namely Mr. So Stephen Hon Cheung, and our human resources and administration manager, namely Ms. Man Choi Ho. Please refer to the section headed "Directors, senior management and employees" of this prospectus for the backgrounds of our Directors and senior management.

Our management and operational decisions are made by our executive Directors and senior management, most of whom have served our Group for a long time and have substantial experience in our industry. Despite the fact that our three executive Directors are also our Controlling Shareholders, each of our Directors is aware of his fiduciary duties as a Director whose duties require that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interests, among other things. Further, we believe that each of our independent non-executive Directors will exercise his independent judgement and evaluation with respect to decisions of our Company and will act in the best interest of our Company, taking into account his extensive business experience and financial acumen. Any future connected transactions between our Company and our Controlling Shareholders or companies controlled by them will be subject to the rules and regulations under the GEM Listing Rules including, where appropriate, the reporting, annual review, announcement and independent Shareholders' approval requirements.

On the basis of the foregoing, our Directors are of the view that our Group is independent from the Controlling Shareholders in terms of management and business operations.



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### DEED OF NON-COMPETITION

Each of our Controlling Shareholders has confirmed that none of them nor any of its/his close associates is engaged in, involved in or interested in any business (other than being a Director or Shareholder of our Group) which, directly or indirectly, competes or may compete with our business. To protect our Group from any potential competition, our Controlling Shareholders have given an irrevocable non-compete undertaking in favour of our Company (for itself and on behalf of its subsidiary) pursuant to which each of our Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken to us on a joint and several basis that at any time during the Relevant Period (as defined below), each of our Controlling Shareholders shall, and shall procure that their respective close associates (other than members of our Group):

- (i) not, directly or indirectly, be interested or involved or engaged in or acquire or hold any right or interest, on its/his own account or with each other or in conjunction with or on behalf of any person, firm, company or organisation (in each case whether as a director or shareholder (other than being a director or a shareholder of our Group), partner, agent or otherwise and whether for profit, reward or otherwise) in any business which is or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business currently carried out as referred to in this prospectus and from time to time engaged by our Group (including but not limited to in the retail of tea products in Hong Kong (the “**Restricted Activity**”));
- (ii) not, directly or indirectly, solicit or seek to entice away from our Group any existing employee of our Group for employment by it/him or its/his close associates (excluding members of our Group);
- (iii) not, without the prior written consent from our Company, make use of any information pertaining to the business of our Group which may have come to its/his knowledge in its/his capacity as our Controlling Shareholder for any purpose of engaging, investing or participating in any Restricted Activity; and
- (iv) not invest or participate in any Restricted Activity or any relevant project or business opportunity, unless pursuant to the exception set out below.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Each of our Controlling Shareholders has unconditionally and irrevocably undertaken, jointly and severally, to us that in the event that it/he or its/his close associate(s) (other than any member of our Group) (the “**Offeror**”) is given or offered or has identified any business investment or commercial opportunity which directly or indirectly competes, or may lead to competition with the Restricted Activity (the “**New Opportunity**”), it/he will and will procure its/his close associate(s) (other than members of our Group) to refer the New Opportunity to us as soon as practicable in the following manner:

- (i) each of our Controlling Shareholders is required to, and shall procure its/his close associates (other than members of our Group) to, refer, or to procure the referral of, the New Opportunity to us, and shall give written notice to us of any New Opportunity containing all information reasonably necessary for us to consider whether (a) such New Opportunity would constitute competition with the Restricted Activity; and (b) it is in the interest of our Group to pursue such New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs (the “**Offer Notice**”); and
- (ii) the Offeror will be entitled to pursue the New Opportunity only if (a) the Offeror has received a notice from us declining the New Opportunity; or (b) the Offeror has not received such notice from us within 30 business days from our receipt of the Offer Notice (the “**Permitted Exception**”).

If there is a material change in the terms and conditions of the New Opportunity pursued by the Offeror, the Offeror will refer the New Opportunity as so revised to us in the manner as set out above.

Each of our Controlling Shareholders further covenants and undertakes jointly and severally that during the Relevant Period, each of them shall not, and shall procure that none of its or his associates shall, directly or indirectly, without the prior written consent of our Company:

- (a) serve as senior management, consultant, chief executive or director of or otherwise operate or enter into any negotiation, agreement or arrangement with any person (other than member of our Group) to operate any Restricted Activities; and/or
- (b) either personally or by an agent directly or indirectly either on his own account or for any other person, firm or company, or in association with or in the employment of any other person, firm or company, solicit or interfere with or endeavour to entice away from, any member of our Group, any person, firm or company who, during the Relevant Period, has been or was a customer or supplier of or in the habit of dealing with any member of our Group; and/or
- (c) solicit or entice away or endeavour to solicit or entice away from any member of our Group any director or manager or chief executive or senior management employed or otherwise engaged by such company during the Relevant Period, whether or not such persons would commit any breach of his contract of employment by reasons of his leaving the service of any such company.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Upon receipt of the Offer Notice, we will form an independent board committee (the “**Independent Board Committee**”) which comprises our independent non-executive Directors without the attendance by any Director with beneficial or conflicting interest in such New Opportunity and seek opinions and decisions from the Independent Board Committee in the manner as to whether (a) such New Opportunity would constitute competition with the Restricted Activity; and (b) it is in the interest of our Company and our Shareholders as a whole to pursue the New Opportunity.

Where the Offeror has acquired any business, investment or interest in any entity relating to the Restricted Activity pursuant to the Permitted Exception and intend to sell such business, investment or interest, the relevant Offeror shall provide us with pre-emptive right (the “**Pre-emptive Right**”) to acquire any such Restricted Activity. Where the Independent Board Committee decides to waive the Pre-emptive Right by way of written notice, the relevant Offeror to sell such business, investment or interest in the Restricted Activity to other third parties on such terms which are no more favourable than those made available to our Group. In deciding whether to exercise the Pre-emptive Right, our Directors will consider various factors including the purchase price and their values and benefits, as well as the benefit that they will bring to our Group.

For the above purpose, the “**Relevant Period**” means the period commencing from the Listing Date and shall expire on the earlier of:

- (i) the date on which our Controlling Shareholders and their close associates, individually or taken as a whole, cease to be our Controlling Shareholders for the purpose of the GEM Listing Rules; and
- (ii) the date on which our Shares cease to be listed on the Stock Exchange or (if applicable) other stock exchange(s).

The Deed of Non-Competition is conditional on (i) the Listing Division of the Stock Exchange granting the listing of, and permission to deal in, all our Shares in issue and to be issued under the Bonus Issue, the Share Offer and the Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant as a result of the waiver of any condition(s) by the Underwriters) in all respects and that the Underwriting Agreements not being terminated in accordance with their terms or otherwise.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### CORPORATE GOVERNANCE MEASURES TO AVOID CONFLICT OF INTEREST

Our Directors recognise the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of our Shareholders. In particular, the following corporate governance measures in relation to managing the potential conflict of interest arising from potential competing business between our Controlling Shareholders and our Group will be taken:

- (i) our independent non-executive Directors will review, on an annual basis, the compliance with the Deed of Non-Competition by our Controlling Shareholders;
- (ii) our Company will disclose the decisions on matters reviewed by our independent non-executive Directors relating to the compliance with and enforcement of the Deed of Non-Competition in the annual report;
- (iii) our Controlling Shareholders will (if necessary) make an annual declaration on compliance with their undertakings under the Deed of Non-Competition in the annual report of our Company;
- (iv) the Independent Board Committee comprising all independent non-executive Directors will be responsible for deciding and given the authority to decide: (i) in the New Opportunity; and (ii) in the exercise of the Pre-emptive Right. In addition, the Independent Board Committee may, at the costs of our Company and from time to time, engage independent financial adviser and other external professional advisers as they may consider necessary to advise them on the issues which relate to the above matters;
- (v) in the event that there is conflict of interest in the operations of our Group and our Controlling Shareholders, any Director, who is considered to be interested in a particular matter or the subject matter, shall disclose his interests to the Board. Pursuant to the Articles of Association, should a Director have any material interests in the matter (other than certain matters permitted under Note 5 of Appendix 3 to the GEM Listing Rules), he shall not vote on the resolutions of the Board approving the same and shall not be counted in the quorum of the relevant Board meeting;
- (vi) our Directors will ensure that any material conflict or potential conflict involving our Controlling Shareholders will be reported to the independent non-executive Directors as soon as practicable when such conflict or potential conflict is known to our Controlling Shareholders involved and a board meeting will be held to review and evaluate the implications and risk exposure of such event and will monitor any material irregular business activities;

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (vii) any transaction (if any) between (or proposed to be made between) us and our connected persons will be required to comply with Chapter 20 of the GEM Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent Shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the grant of waiver(s) from strict compliance with relevant requirements under the GEM Listing Rules; and
  
- (viii) our Company has appointed KGI Capital Asia Limited as our compliance adviser, which will provide advice and guidance to our Group in respect of compliance with the applicable laws and the GEM Listing Rules including various requirements relating to directors' duties and internal control measures.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

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## CONNECTED TRANSACTIONS

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### OVERVIEW

As at the Latest Practicable Date, Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen are our Controlling Shareholders, and Chan Sing Hoi Enterprises and Golden Ocean are entities controlled by the four Mr. Chans. In addition, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen are executive Directors while Mr. Chan Tat Yuen is a director of Ying Kee, a wholly-owned subsidiary of our Company. Accordingly, Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen, as well as Chan Sing Hoi Enterprises and Golden Ocean are connected persons of our Company according to Rule 20.07 of the GEM Listing Rules. Upon Listing, our transactions with such connected persons will constitute continuing connected transactions for our Group under Chapter 20 of the GEM Listing Rules.

### EXEMPT CONTINUING CONNECTED TRANSACTIONS

Upon Listing, the following transactions will constitute exempt continuing connected transactions of our Group under Chapter 20 of the GEM Listing Rules.

#### **Purchase of Ying Kee's tea products by our Directors, Chan Sing Hoi Enterprises and Golden Ocean**

During the Track Record Period, our Directors, Chan Sing Hoi Enterprises and Golden Ocean had been purchasing tea products from Ying Kee at a certain discount.

The purchase made by each of our Directors, Chan Sing Hoi Enterprises and Golden Ocean, who are our connected persons, was and will be for his/its own private use or consumption and from 25 January 2018, such purchase has been and will be made on terms which are no more favourable to the connected persons than those available to Independent Third Parties. On the basis of the foregoing and as such sales by the Group are on normal commercial terms and in the ordinary and usual course of its business, these transactions are exempt from the announcement, reporting, annual review and independent shareholders' approval requirements under Rules 20.95 of the GEM Listing Rules.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Upon Listing, the following transactions will constitute non-exempt continuing connected transactions of our Group under Chapter 20 of the GEM Listing Rules.

## CONNECTED TRANSACTIONS

### Tenancy Agreements with Chan Sing Hoi Enterprises

#### *Principal terms*

During the Track Record Period, Ying Kee has entered into two tenancy agreements with Chan Sing Hoi Enterprises, pursuant to which Chan Sing Hoi Enterprises agreed to lease, and Ying Kee agreed to rent, certain premises respectively owned by Chan Sing Hoi Enterprises. The terms of these agreements and the approximate rental expenses incurred during the Track Record Period are listed below:

Tenancy Agreement	Term	Landlord	Tenant	Leased Areas	Rental charges per annum (HK\$)	Government rates and management charges included (Yes/No)	Approximate rental expenses incurred for			
							Year ended 31 March 2016 (Note)	Year ended 31 March 2017 (Note)	Six months ended 30 September 2017 (Note)	
Shop 1	Shop B on Ground Floor, Siu Ying Commercial Building, Nos. 151-155 Queen's Road Central, Hong Kong	1 April 2017 – 31 March 2019	Chan Sing Hoi Enterprises	Ying Kee	409 sq.ft. (38 sq.m)	972,000	No	1,680	972	486
Shop 2	G/F., Mei Wah Building, No. 170 Johnston Road, Wanchai, Hong Kong	1 April 2017 – 31 March 2019	Chan Sing Hoi Enterprises	Ying Kee	555 sq.ft. (51.56 sq.m)	1,116,000	No	1,800	1,116	558

*Note:* The amount is inclusive of government rates and management charges.

#### *Pricing policy*

Our property valuer, Knight Frank advised that the rentals are at current market level and the other commercial terms of the letting such as the tenures and outgoings payment arrangements are on normal commercial terms under the prevailing market condition and are considered as fair and reasonable.

#### *Historical amounts*

During the Track Record Period, our Group had entered into similar tenancy agreements for the same premises with Chan Sing Hoi Enterprises.

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## CONNECTED TRANSACTIONS

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The aggregate amounts paid to Chan Sing Hoi Enterprises by our Group for the two years ended 31 March 2016 and 2017 were HK\$3,480,000 and HK\$2,088,000, respectively.

The following table sets out the monthly rentals paid to Chan Sing Hoi Enterprises by our Group for each of Shop 1 and Shop 2 for the two years ended 31 March 2016 and 2017:

	<b>Shop 1</b>	<b>Shop 2</b>	<b>Aggregate rental amount per annum</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Year ended 31 March 2016	140,000	150,000	3,480,000
Year ended 31 March 2017	81,000	93,000	2,088,000

The significant decrease in rental expenses for Shop 1 and Shop 2 from the year ended March 2016 to the year ended 31 March 2017 reflected the large decline of rental in prime districts of Hong Kong during the relevant period. For details, please refer to the section headed “Business – Our retail network – Trend of the rental expenses for retail shops in Hong Kong” of this prospectus.

The following table sets out the opinion of Knight Frank, the property valuer, on the valuation of monthly rentals for each of Shop 1 and Shop 2 as at 1 April 2015 and 1 April 2016, being the commencement dates of the term of relevant tenancy agreements from 1 April 2015 to 31 March 2016 and from 1 April 2016 to 31 March 2017, respectively:

	<b>Shop 1</b>	<b>Shop 2</b>
	<i>HK\$</i>	<i>HK\$</i>
1 April 2015	123,000	139,000
1 April 2016	82,000	92,000

For assessing the market rents of the relevant properties, Knight Frank primarily adopted direct comparison approach by making reference to rental transaction evidences as available in the market and made appropriate adjustments to reflect the differences in the characteristic between the relevant properties and the leasing comparable properties such as the time, location, size, etc.

Knight Frank had undertaken a rental valuation and considered the overall retail rental market changes in the past three years; and was of the opinion that the monthly rental of Shop 1 for the year ended 31 March 2016 would be approximately HK\$135,400 if excluding government rates and management charges, which was higher than the market level as at 1 April 2015 by approximately 10%. Apart from such exception, Knight Frank advised that the rents of Shop 1 and Shop 2 as at 1 April 2015 and 1 April 2016 were at the then market level and other commercial terms of the tenancies such as the tenures and outgoings payment arrangements were on normal commercial terms under the then market condition and were considered as fair and reasonable as at 1 April 2015 and 1 April 2016.



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## CONNECTED TRANSACTIONS

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Our Directors advised that they had made reasonable enquiries to certain property agents for market reference before entering into the respective tenancy agreements for Shop 1 and Shop 2. They confirmed that rentals of Shop 1 and Shop 2 were determined with reference to the then rent per square feet for nearby completed rental transactions advised by the property agents. No professional advice from Knight Frank or other independent property valuer on the rental valuation of Shop 1 and Shop 2 was obtained by our Group until the preparation of the Listing in 2017. Assessment on market rentals through obtaining information from property agents by our Group may explain the variation of the monthly rental of Shop 1 for the year ended 31 March 2016 from the then market level advised by Knight Frank.

The Sole Sponsor conducted independent searches on the website of a property agent in Hong Kong for completed retail rental transactions of street level shops in the same vicinity of Shop 1 and Shop 2 in March or April 2015, 2016 and 2017. Based on the search results, the Sole Sponsor noted that the historical rental expenses charged by Chan Sing Hoi Enterprises fell within the range of the then rent per square feet for nearby completed rental transactions. However, having considered Knight Frank's advice (which had taken into account the overall retail rental market changes in the past three years), the Sole Sponsor is of the view that except the rental of Shop 1 for the year ended 31 March 2016, our Group's historical rental expenses paid to Chan Sing Hoi Enterprises for the two years ended 31 March 2016 and 2017 are fair and reasonable.

### *Annual caps on future transaction amounts*

In accordance with Rule 20.51 of the GEM Listing Rules, our Group has set the annual caps on the rentals payable to Chan Sing Hoi Enterprises for each of the two years ending 31 March 2018 and 2019 as follows:

		<b>Year ending 31 March</b>	
		<b>2018</b>	<b>2019</b>
<b>Tenancy agreements</b>		<b>(HK\$)</b>	<b>(HK\$)</b>
Shop 1	Shop B on Ground Floor, Siu Ying Commercial Building, Nos. 151-155 Queen's Road Central, Hong Kong	972,000	972,000
Shop 2	G/F., Mei Wah Building, No. 170 Johnston Road, Wanchai, Hong Kong	<u>1,116,000</u>	<u>1,116,000</u>
<b>Total</b>		<u><u>2,088,000</u></u>	<u><u>2,088,000</u></u>

### *Basis of caps*

Our Directors confirm that the annual caps in respect of each of the abovementioned tenancy agreements are determined on normal commercial terms or better and with reference to the annual rentals payable under the current tenancy agreements for the premises. The leased properties under the tenancy agreements with Chan Sing Hoi Enterprises are retail shops currently operated by our Group for its business of selling tea products.

## CONNECTED TRANSACTIONS

### *GEM Listing Rules requirements*

Under the GEM Listing Rules, continuing connected transactions require compliance with various requirements set out in Chapter 20 of the GEM Listing Rules including without limitation the annual review, annual reporting, announcement, circular and shareholders' approval requirements unless certain exemptions apply.

### **Tenancy Agreements with Golden Ocean**

#### *Principal terms*

During the Track Record Period, Ying Kee has entered into three tenancy agreements with Golden Ocean, pursuant to which Golden Ocean agreed to lease, and Ying Kee agreed to rent, certain premises respectively owned by Golden Ocean. The terms of these agreements and the approximate rental expenses incurred during the Track Record Period are listed below:

Shop	Tenancy Agreement	Term	Landlord	Tenant	Leased Areas	Rental charges per annum (HK\$)	Government rates and management included (Yes/No)	Approximate rental expenses incurred		
								Year ended 31 March 2016 (HK\$'000) (Note)	Year ended 31 March 2017 (HK\$'000) (Note)	Six months ended 30 September 2017 (HK\$'000)
Shop 5	Shop M1 on G/F., Hanyee Building, Nos. 19-21 Hankow Road, Tsim Sha Tsui, Kowloon, Hong Kong	1 April 2017 – 31 March 2019	Golden Ocean	Ying Kee	369 sq.ft. (34.29 sq.m)	828,000	No	1,440	828	414
Shop 6	Shop D on G/F., Silver Commercial Building, No. 719 Nathan Road, Mong Kok, Kowloon, Hong Kong	1 April 2017 – 31 March 2019	Golden Ocean	Ying Kee	519 sq.ft. (48.2 sq.m)	900,000	No	1,740	900	450
Siu Sai Wan Premises	8/F., Wah Shing Centre, No. 5 Fung Yip Street, Siu Sai Wan, Hong Kong	1 April 2017 – 31 March 2019	Golden Ocean	Ying Kee	10,562 sq.ft. (981.2 sq.m)	1,296,000	No	1,440	1,296	648

*Note:* The amount is inclusive of government rates and management charges.

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## CONNECTED TRANSACTIONS

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### *Pricing policy*

Our property valuer, Knight Frank advised that the rents are at current market level and the other commercial terms of the letting such as the tenures and outgoings payment arrangements are on normal commercial terms under the prevailing market condition and are considered as fair and reasonable.

### *Historical amounts*

During the Track Record Period, our Group had entered into similar tenancy agreements for the same premises with Golden Ocean.

The aggregate amounts paid to Golden Ocean by our Group for the two years ended 31 March 2016 and 2017 were HK\$4,620,000 and HK\$3,024,000, respectively.

The following table sets out the monthly rentals paid to Golden Ocean by our Group for each of Shop 5, Shop 6 and the head office of our Group in Siu Sai Wan for the two years ended 31 March 2016 and 2017:

	<b>Shop 5</b>	<b>Shop 6</b>	<b>Siu Sai Wan</b>	<b>Aggregate</b>
	<i>HK\$</i>	<i>HK\$</i>	<b>premises</b>	<b>rental amount</b>
			<i>HK\$</i>	<b>per annum</b>
				<i>HK\$</i>
Year ended 31 March 2016	120,000	145,000	120,000	4,620,000
Year ended 31 March 2017	69,000	75,000	108,000	3,024,000

The significant decrease in rental expenses for Shop 5 and Shop 6 from the year ended March 2016 to the year ended 31 March 2017 reflected the large decline of rental in prime districts of Hong Kong during the relevant period. For details, please refer to the section headed “Business – Our retail network – Trend of the rental expenses for retail shops in Hong Kong” of this prospectus.

The following table sets out the opinion of Knight Frank, the property valuer, on the valuation of monthly rentals for each of Shop 5, Shop 6 and the head office of our Group in Siu Sai Wan as at 1 April 2015 and 1 April 2016, being the commencement dates of the term of relevant tenancy agreements from 1 April 2015 to 31 March 2016 and from 1 April 2016 to 31 March 2017, respectively:

	<b>Shop 5</b>	<b>Shop 6</b>	<b>Siu Sai Wan</b>
	<i>HK\$</i>	<i>HK\$</i>	<b>premises</b>
			<i>HK\$</i>
1 April 2015	111,000	135,000	106,000
1 April 2016	68,000	75,000	100,000

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## CONNECTED TRANSACTIONS

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For assessing the market rents of the relevant properties, Knight Frank had primarily adopted direct comparison approach by making reference to rental transaction evidences as available in the market and made appropriate adjustments to reflect the differences in the characteristic between the relevant properties and the leasing comparable properties such as the time, location, size, etc.

Knight Frank had undertaken a rental valuation and considered the overall retail rental market changes in the past three years; and was of the opinion that the monthly rental of Shop 6 for the year ended 31 March 2017 would be approximately HK\$64,990 if excluding government rates and management charges, which was lower than the market level as at 1 April 2016 by approximately 13%. Apart from such exception, Knight Frank advised that the rents of Shop 5, Shop 6 and Siu Sai Wan Premises as at 1 April 2015 and 1 April 2016 were at the then market level and other commercial terms of the tenancies such as the tenures and outgoings payment arrangements were on normal commercial terms under the then market condition and were considered as fair and reasonable as at 1 April 2015 and 1 April 2016.

Our Directors advised that they had made reasonable enquiries to certain property agents for market reference before entering into the respective tenancy agreements for Shop 5, Shop 6 and Siu Sai Wan premises. They confirmed that rentals of Shop 5, Shop 6 and Siu Sai Wan premises were determined with reference to the then rent per square feet for nearby completed rental transactions advised by the property agents. No professional advice from Knight Frank or other independent property valuer on the rental valuation of Shop 5, Shop 6 and Siu Sai Wan premises was obtained by our Group until the preparation of the Listing in 2017. Assessment on market rentals through obtaining information from property agents by our Group may explain the variation of the monthly rental of Shop 6 for the year ended 31 March 2017 from the then market level advised by Knight Frank.

The Sole Sponsor conducted independent searches on the website of a property agent in Hong Kong for completed retail rental transactions of street level shops/industrial buildings in the same vicinity of Shop 5, Shop 6 and Siu Sai Wan Premises in March or April 2015, 2016 and 2017. Based on the search results, the Sole Sponsor noted that the historical rental expenses charged by Golden Ocean fall within the range of the then rent per square feet for nearby completed rental transactions. However, having considered Knight Frank's advice (which had taken into account the overall retail rental market changes in the past three years), the Sole Sponsor is of the view that except the rental of Shop 6 for the year ended 31 March 2017, our Group's historical rental expenses paid to Golden Ocean for the two years ended 31 March 2016 and 2017 are fair and reasonable.

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## CONNECTED TRANSACTIONS

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### *Annual caps on future transaction amounts*

In accordance with Rule 20.51 of the GEM Listing Rules, our Group has set the annual caps on the rentals payable to Golden Ocean for each of the two years ending 31 March 2018 and 2019 as follows:

	Tenancy agreements	Year ending 31 March	
		2018 (HK\$)	2019 (HK\$)
Shop 5	Shop M1 on G/F., Hanyee Building, Nos. 19-21 Hankow Road, Tsim Sha Tsui, Kowloon, Hong Kong	828,000	828,000
Shop 6	Shop D on G/F., Silver Commercial Building, No. 719 Nathan Road, Mong Kok, Kowloon, Hong Kong	900,000	900,000
Siu Sai Wan premises	8/F., Wah Shing Centre, No. 5 Fung Yip Street, Siu Sai Wan, Hong Kong	<u>1,296,000</u>	<u>1,296,000</u>
	<b>Total</b>	<u><u>3,024,000</u></u>	<u><u>3,024,000</u></u>

### *Basis of caps*

Our Directors confirm that the annual caps in respect of each of the abovementioned tenancy agreements are determined on normal commercial terms or better and with reference to the annual rentals payable under the current tenancy agreements for the premises. The leased properties under the tenancy agreements with Golden Ocean are retail shops, office, showroom and warehouse currently operated by our Group for its business.

### *GEM Listing Rules requirements*

Under the GEM Listing Rules, continuing connected transactions require compliance with various requirements set out in Chapter 20 of the GEM Listing Rules including without limitation the annual review, annual reporting, announcement, circular and shareholders' approval requirements unless certain exemptions apply.

### **Aggregation of Transactions**

Given that Chan Sing Hoi Enterprises and Golden Ocean are under common control and the nature of the continuing connected transactions with those entities is the same, these transactions should be aggregated for purposes of Chapter 20 of the GEM Listing Rules.

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## CONNECTED TRANSACTIONS

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Taking these transactions together, the annual caps on the rentals payable by our Group to Chan Sing Hoi Enterprises and Golden Ocean for each of the two years ending 31 March 2018 and 2019 are as follows:

	Tenancy agreements	Year ending 31 March	
		2018 (HK\$)	2019 (HK\$)
Shop 1	Shop B on Ground Floor, Siu Ying Commercial Building, Nos. 151-155 Queen's Road Central, Hong Kong	972,000	972,000
Shop 2	G/F., Mei Wah Building, No. 170 Johnston Road, Wanchai, Hong Kong	1,116,000	1,116,000
Shop 5	Shop M1 on G/F., Hanyee Building, Nos. 19-21 Hankow Road, Tsim Sha Tsui, Kowloon, Hong Kong	828,000	828,000
Shop 6	Shop D on G/F., Silver Commercial Building, No. 719 Nathan Road, Mong Kok, Kowloon, Hong Kong	900,000	900,000
Siu Sai Wan premises	8/F., Wah Shing Centre, No. 5 Fung Yip Street, Siu Sai Wan, Hong Kong	1,296,000	1,296,000
	<b>Total</b>	<u>5,112,000</u>	<u>5,112,000</u>

### DIRECTORS' VIEW

Our Directors, including the independent non-executive Directors, are of the view that the continuing connected transactions as described in this section, which our Group has and will be entered into in its ordinary and usual course of business, are on normal commercial terms or better, and are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and that the proposed annual cap on these transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

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## CONNECTED TRANSACTIONS

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### SOLE SPONSOR'S VIEW

Based on the above, the Sole Sponsor is of the view that the continuing connected transactions as described in this section have been and will be entered into in the ordinary and usual course of business of our Group and are on normal commercial terms or better and are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

### APPLICATION FOR WAIVER

Since we expect the non-exempt continuing transactions described in this section above to continue on a recurring basis after the Listing, and the non-exempt continuing transactions have been entered into prior to the Listing Date which have been fully disclosed in this prospectus, we have applied to the Stock Exchange and the Stock Exchange has granted us a waiver pursuant to Rule 20.103 of the GEM Listing Rules from strict compliance with the announcement, circular and shareholders' approval requirements in respect of the non-exempt continuing connected transactions.

We will, of course, comply at all times with other applicable provisions of the GEM Listing Rules in respect of these non-exempt connected transactions.

In the event of any future amendments to the GEM Listing Rules imposing more stringent requirements than those present as of the date of this prospectus, on the continuing connected transactions that this section describes, we will take immediate steps to ensure compliance with such new requirements.

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## SUBSTANTIAL SHAREHOLDERS

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As of the date of this prospectus, Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen, Mr. Chan Tat Yuen and Mr. Chan Shu Yuen, through Profit Ocean, together own a total of 10,000 Shares, representing the entire issued share capital of our Company.

So far as is known to our Directors, immediately following the completion of the Bonus Issue and the Share Offer (without taking into account of any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), the following persons will have an interest and/or a short position in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or would be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

Name of Shareholder	Nature of interest and capacity	Number of Shares held or interested	Approximate percentage of the total issued Shares
Profit Ocean	Beneficial owner	270,000,000	75%
Tri-Luck <sup>(Note 1)</sup>	Interest in a controlled corporation	270,000,000	75%
Wealth City <sup>(Note 1)</sup>	Interest in a controlled corporation	270,000,000	75%
Sky King <sup>(Note 1)</sup>	Interest in a controlled corporation	270,000,000	75%
Coastal Lion <sup>(Note 1)</sup>	Interest in a controlled corporation	270,000,000	75%
Mr. Chan Tat Yuen <sup>(Note 1)</sup>	Interest in a controlled corporation	270,000,000	75%
Ms. Chu Min <sup>(Note 2)</sup>	Interest of spouse	270,000,000	75%
Mr. Chan Kun Yuen <sup>(Note 1)</sup>	Interest in a controlled corporation	270,000,000	75%
Ms. Chan King Chi <sup>(Note 3)</sup>	Interest of spouse	270,000,000	75%



## SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Nature of interest and capacity	Number of Shares held or interested	Approximate percentage of the total issued Shares
Mr. Chan Shu Yuen <sup>(Note 1)</sup>	Interest in a controlled corporation	270,000,000	75%
Ms. Po Miu Kuen Tammy <sup>(Note 4)</sup>	Interest of spouse	270,000,000	75%
Mr. Chan Kwong Yuen <sup>(Note 1)</sup>	Interest in a controlled corporation	270,000,000	75%
Ms. Ng Wai Lam Lana Zoe <sup>(Note 5)</sup>	Interest of spouse	270,000,000	75%

*Notes:*

1. The total issued share capital of Profit Ocean is owned by Tri-Luck, Wealth City, Sky King and Coastal Lion in equal shares, *i.e.*, 25%. Tri-Luck, Wealth City, Sky King and Coastal Lion are wholly owned by Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen, respectively. Pursuant to the acting in concert arrangement between the parties, each of Tri-Luck, Wealth City, Sky King, Coastal Lion, Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen is deemed to be interested in all the Shares held by Profit Ocean for purposes of the SFO.
2. Ms. Chu Min is the spouse of Mr. Chan Tat Yuen. For purposes of the SFO, Ms. Chu Min is deemed to be interested in the Shares held by Mr. Chan Tat Yuen.
3. Ms. Chan King Chi is the spouse of Mr. Chan Kun Yuen. For purposes of the SFO, Ms. Chan King Chi is deemed to be interested in the Shares held by Mr. Chan Kun Yuen.
4. Ms. Po Miu Kuen Tammy is the spouse of Mr. Chan Shu Yuen. For purposes of the SFO, Ms. Po Miu Kuen Tammy is deemed to be interested in the Shares held by Mr. Chan Shu Yuen.
5. Ms. Ng Wai Lam Lana Zoe is the spouse of Mr. Chan Kwong Yuen. For purposes of the SFO, Ms. Ng Wai Lam Lana Zoe is deemed to be interested in the Shares held by Mr. Chan Kwong Yuen.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following completion of the Bonus Issue and the Share Offer (without taking into account any Shares which may be issued upon the exercise of the options which may be granted under Share Option Scheme), have an interest or a short position in any Shares or underlying Shares, which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group and are therefore regarded as substantial Shareholders under the GEM Listing Rules.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### DIRECTORS

Our Board consists of six Directors, of which three are executive Directors and three are independent non-executive Directors. Our Board is responsible and has general power for the management and conduct of our business, while our senior management is responsible for the day-to-day management of our business. The following table sets out certain information regarding our Directors:

Name	Age	Date of joining our Group	Existing position in our Company	Date of appointment as Director	Roles and responsibilities	Relationships among Directors and senior management
Mr. Chan Kwong Yuen (陳廣源)	60	January 1993	Executive Director and chairman of the Board	14 September 2017	Oversees finance and investment aspects of our Group, and formulates our Group's strategy and evaluating and negotiating leasing terms and conditions with landlords	Mr. Chan Kwong Yuen is the older brother of Mr. Chan Shu Yuen and also a cousin of Mr. Chan Kun Yuen and Mr. Chan Tat Yuen
Mr. Chan Kun Yuen (陳根源)	58	October 2000	Executive Director and chief executive officer	14 September 2017	Oversees business development, marketing and corporate strategy formulation and execution	Mr. Chan Kun Yuen is the older brother of Mr. Chan Tat Yuen and also a cousin of Mr. Chan Kwong Yuen and Mr. Chan Shu Yuen
Mr. Chan Shu Yuen (陳樹源)	57	September 1990	Executive Director	14 September 2017	Responsible for finding, selecting and negotiating with potential suppliers and also building and maintaining relationships with them, oversees the technical aspects of processing, monitors quality control of final products in the warehouse, and resolves electrical and mechanical problems in processing	Mr. Chan Shu Yuen is the younger brother of Mr. Chan Kwong Yuen and also a cousin of Mr. Chan Kun Yuen and Mr. Chan Tat Yuen
Mr. Siu Chi Ming (邵梓銘)	37	14 March 2018	Independent non-executive Director	14 March 2018	Responsible for providing independent advice to our Board	Not applicable

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Name	Age	Date of joining our Group	Existing position in our Company	Date of appointment as Director	Roles and responsibilities	Relationships among Directors and senior management
Mr. Lee Wai Ho (李偉豪)	41	14 March 2018	Independent non-executive Director	14 March 2018	Provides independent advice to our Board	Not applicable
Mr. Wong Chee Chung (王子聰)	41	14 March 2018	Independent non-executive Director	14 March 2018	Provides independent advice to our Board	Not applicable

### Executive Directors

**Mr. Chan Kwong Yuen (陳廣源)**, 60, became an executive Director in October 2017. Mr. Chan Kwong Yuen is also the chairman of our Board and one of our Controlling Shareholders. He is responsible for overseeing the finance and investment aspects of our Group, and formulating our Group's strategy and evaluating and negotiation leasing terms and conditions with landlords.

Mr. Chan Kwong Yuen has over 24 years of experience in the tea retail industry in Hong Kong. He first joined Ying Kee in January 1993 as financial manager, responsible for overseeing the finance and investment aspects, and became a director of Ying Kee since September 2010. Prior to that, Mr. Chan Kwong Yuen served as the General Manager of the Enamelware Division of Universal Steels Limited in Nigeria from January 1983 to December 1992. Mr. Chan Kwong Yuen received a Bachelor of Commerce, with Honours, from the University of British Columbia, Canada, in May 1999.

Mr. Chan Kwong Yuen was a director of Ying Kee Tea International Holdings Limited which was incorporated in Hong Kong on 22 June 2009. Ying Kee Tea International Holdings Limited was dissolved by deregistration on 7 June 2013 pursuant to section 291AA of the Predecessor Companies Ordinance. Mr. Chan Kwong Yuen confirmed that Ying Kee Tea International Holdings Limited had never carried out any business activities and the company was solvent and inactive at the time of deregistration and that its dissolution had not resulted in any liability or obligation imposed against him.

Mr. Chan Kwong Yuen has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

**Mr. Chan Kun Yuen (陳根源)**, 58, became an executive Director in October 2017. He is also the chief executive officer of our Group and one of the Controlling Shareholders. He is responsible for overseeing the business development, marketing and our Group's corporate strategy formulation and execution.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Chan Kun Yuen has over 16 years of experience in the tea retail industry in Hong Kong. He formally joined Ying Kee in October 2000 as general manager working full-time, responsible for business development, marketing and corporate strategy formulation and execution, and became a director of Ying Kee since September 2010. Prior to that, Mr. Chan Kun Yuen served as a clerk with the Shipping Department of The East Asiatic Company Limited from September 1981 to June 1982. He also served as a clerk in the Export Department of Gibb, Livingston & Co. in June 1982 and was transferred to Gilman & Co., Ltd. in January 1983 and served until August 1986. From September 1986 to September 2000, Mr. Chan Kun Yuen was working part-time for Ying Kee as a marketing associate, responsible for formulating marketing proposals and strategies for Ying Kee. Mr. Chan Kun Yuen completed a one-year business course in office studies at Rosaryhill School in July 1981 after graduating from Hong Kong Chan Wai Chow Memorial College in November 1980.

Mr. Chan Kun Yuen was a director of Wealth & Rich Limited, Full King International Trading Co Limited, Link Profit Inc. Limited and Ying Kee Tea International Holdings Limited which were incorporated in Hong Kong on 14 May 1996, 10 August 1998, 27 May 2008 and 22 June 2009, respectively. Wealth & Rich Limited was dissolved by means of striking off on 21 December 2001 pursuant to section 291 of the Predecessor Companies Ordinance, whereas Full King International Trading Co Limited, Link Profit Inc. Limited and Ying Kee Tea International Holdings Limited were dissolved by deregistration on 16 May 2008, 27 January 2012 and 7 June 2013 respectively pursuant to section 291AA of the Predecessor Companies Ordinance. Mr. Chan Kun Yuen confirmed that none of the companies had carried out any business activities and they were all solvent and inactive at the time of deregistration and that their dissolution had not resulted in any liability or obligation imposed against him.

Mr. Chan Kun Yuen has not held any directorship in any public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

**Mr. Chan Shu Yuen (陳樹源)**, 57, became an executive Director in October 2017. He is also one of the Controlling Shareholders, and his responsibilities include finding, selecting and negotiating with potential suppliers and also building and maintaining relationships with them, overseeing the technical aspects of processing, monitoring quality control of final products in the warehouse, and resolving electrical and mechanical problems in processing.

Mr. Chan Shu Yuen formally joined Ying Kee in September 1990 as a full-time marketing manager, responsible for building and managing business relationship with business partners and overseeing the technical aspects of the business. He then became a director of Ying Kee since September 2010. From August 1979 to August 1990, Mr. Chan Shu Yuen was working part-time for Ying Kee as a purchaser, responsible for exploring new suppliers, purchasing and maintaining relationship with the suppliers. Mr. Chan Shu Yuen attended a one year course in electrical craft at the Morrison Hill Technical Institute of the Hong Kong Education Department in July 1979 and received a certificate for a three-year part-time evening craft course for motor vehicle mechanics from Lee Wai Lee Technical Institute awarded by Vocational Training Council in June 1988.

Mr. Chan Shu Yuen has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### Independent non-executive Directors

**Mr. Siu Chi Ming** (邵梓銘), 37, joined our Board as an independent non-executive Director in March 2018. He is primarily responsible for providing independent advices to our Board.

Mr. Siu has over 10 years of experience in the accounting and company secretarial sectors. Mr. Siu Chi Ming is currently serving as an executive director and company secretary of Jiu Rong Holdings Limited (SEHK: 2358), a company principally engaged in the manufacturing and sales of digital television and provision of application of solutions; construction, application and management of new energy vehicles and related products, charging facilities and intelligent management systems, since his appointments in February 2012 and June 2014, respectively. Prior to that, Mr. Siu was employed by INCU Corporate Finance Limited, a corporation licensed by the SFC to conduct Type 6 (advising on corporate finance) regulated activities under the SFO, from April 2007 to June 2014 and his last position was senior manager and he was the accounting and executive officer of Prime Investments Holdings Limited (currently known as China Financial International Investments Limited, SEHK: 721), a company principally engaged in the investment of listed and unlisted companies established and/or doing business in Hong Kong and the PRC, from August 2005 to April 2007.

Taking into account his directorship with Jiu Rong Holdings Limited (SEHK: 2358), Mr. Siu has served on the board of directors of two other listed companies, as set out more particularly below:

Period	Name of company	Market	Stock code/ ticker symbol	Current principal business activities	Position(s) held
From February 2012 (June 2014 for the company secretary role) to present	Jiu Rong Holdings Limited	Stock Exchange	2358	Manufacturing and sales of digital television and provision of application of solutions; construction, application and management of new energy vehicles and related products, charging facilities and intelligent management systems	Executive director and company secretary
From March 2016 to present	China Water Affairs Group Limited	Stock Exchange	855	Provision of water supply and sewage treatment operation and construction services; development of properties for sale and investment; manufacture and sale of concrete products, other infrastructure construction and business activities	Independent non-executive director

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Siu was a director of Crown Grace Limited which was incorporated in Hong Kong on 20 October 2006. Crown Grace Limited was dissolved by deregistration on 21 September 2012 pursuant to section 291AA of the Predecessor Companies Ordinance. Mr. Siu Chi Ming confirmed that Crown Grace Limited's principal activity was investment holding prior to its deregistration and the company was solvent at the time of deregistration and that its dissolution had not resulted in any liability or obligation imposed against him.

Mr. Siu received a Bachelor of Business Administration from the Hong Kong Baptist University in December 2003. He has been a fellow of the Association of Chartered Certified Accountants. He became an associate of The Hong Kong Institute of Chartered Secretaries and an associate of The Institute of Chartered Secretaries and Administrators since October 2009 and October 2009, respectively. He was also admitted to Graduateship of The Institute of Chartered Secretaries and Administrators in August 2009.

Except as disclosed above, Mr. Siu has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

**Mr. Lee Wai Ho (李偉豪)**, 41, joined our Board as an independent non-executive Director in March 2018. He is primarily responsible for providing independent advices to our Board.

Mr. Lee has been serving as a director of Capital Partners CPA Limited since 2004. Prior to that, Mr. Lee worked as an accountant and the company secretary of Superdata Software Holdings Limited (SEHK: 8263, a company principally engaged in the development and sale of integrated business management software and off-the-shelf packaged software for small-to-medium enterprises, which shares were withdrawn upon completion of compulsory acquisition in the year 2006), from October 2003 to January 2006.

Mr. Lee Wai Ho was a director of Zenovate Advisory Limited which was incorporated in Hong Kong on 19 November 2014. Zenovate Advisory Limited was dissolved by deregistration on 20 May 2016 pursuant to section 750 of the Companies Ordinance. Mr. Lee Wai Ho confirmed that Zenovate Advisory Limited had never carried out any business activities and the company was solvent and inactive at the time of deregistration and that its dissolution had not resulted in any liability or obligation imposed against him.

Mr. Lee received a Bachelor of Business Administration from The Chinese University of Hong Kong in December 1998. Mr. Lee is a practising certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Mr. Lee has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. Wong Chee Chung** (王子聰), 41, joined our Board as an independent non-executive Director in March 2018. He is primarily responsible for providing independent advice to our Board.

Mr. Wong has been working in PricewaterhouseCoopers (now known as PwC) in its Hong Kong office for about nine years and in its London office for about two years. He is currently serving as an executive director at Agenda Corp Limited which engaged in the business of providing company secretarial services and Double U Limited which engaged in the business of providing corporate services such as accounting and other related services, and as an audit director at a CPA firm called Willy Wong & Co.

Mr. Wong Chee Chung was a director of EQ Corporate Management (HK) Limited which was incorporated in Hong Kong on 23 June 2011. EQ Corporate Management (HK) Limited was dissolved by deregistration on 22 August 2014 pursuant to section 750 of the Companies Ordinance. Mr. Wong Chee Chung confirmed that EQ Corporate Management (HK) Limited was engaged in corporate management services prior to its deregistration and the company was solvent at the time of deregistration and that its dissolution had not resulted in any liability or obligation imposed against him.

Mr. Wong received a Bachelor of Business Administration in Accounting and Finance from the University of Hong Kong in December 1998 and a Master of Science in Financial Analysis from the Hong Kong University of Science and Technology in June 2015. Mr. Wong has been a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, since July 2014 and October 2009, respectively.

Mr. Wong has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

Save as disclosed above, and to the best of knowledge, information, and belief of our Directors after having made all reasonable enquiries, there is no other information in respect of our Directors that is disclosable pursuant to Rule 17.50(2)(a) to (v) of the GEM Listing Rules and there is no other matter that needs to be brought to the attention of our Shareholders. Save as disclosed in the section headed “Statutory and general information – 6. Further information about our Directors and substantial shareholders” in Appendix IV to this prospectus, each of our Directors does not have any interests in the Shares within the meaning of Part XV of the SFO.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### SENIOR MANAGEMENT

The following table sets forth certain information regarding our senior management:

Name	Age	Date of joining our Group	Existing position in our Company	Date of appointment as senior management	Roles and responsibilities	Relationships among Directors and senior management
So Stephen Hon Cheung (蘇漢章)	62	15 June 2017	Chief financial officer and company secretary	13 October 2017	Responsible for financial reporting, accounting, corporate governance, statutory filings and legal compliance matters of our Group	Not applicable
Man Choi Ho (文才好)	55	1 June 1994	Human resources and administration manager	13 October 2017	Responsible for human resources management and administration of our Group	Not applicable

**Mr. So Stephen Hon Cheung (蘇漢章)**, 62, joined our Group as company secretary of Ying Kee in June 2017 and was appointed as the chief financial officer of our Company in October 2017. He is primarily responsible for financial reporting, accounting, corporate governance, statutory filings and legal compliance matters of our Group.

Mr. So has over 12 years' experience in the manufacturing, wholesale and trading in the commercial sector. Mr. So has served on the board of directors of eight listed companies, as set out more particularly below:

Period	Name of company	Market	Stock code/ ticker symbol	Current principal business activities	Position(s) held
From March 2000 to December 2014	Skyworth Digital Holdings Limited	Stock Exchange	751	Manufacture and sales of consumer electronic products and upstream accessories, property development and property holding	Independent non-executive director
From September 2002 to present	PINE Technology Holdings Limited	Stock Exchange	1079	Manufacture and sales of high-quality computer components and consumer electronic products	Independent non-executive director
From 2010 to 2016	Genius World Investments Limited	TSX Venture Exchange	GNW.H	Provider of game software application on website	Independent non-executive director



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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Period	Name of company	Market	Stock code/ ticker symbol	Current principal business activities	Position(s) held
From April 2011 to February 2017	Milan Station Holdings Limited	Stock Exchange	1150	Retailing of handbags, fashion accessories, embellishments and spa and wellness products	Independent non-executive director
From May 2015 to present	Pinestone Capital Limited	Stock Exchange	804 (formerly 8097, before transferring to the Main Board of the Stock Exchange on 8 June 2017)	Provision of bespoke financial services to individual and corporate clients	Independent non-executive director
From August 2017 to present	Teamway International Group Holdings Limited (formerly known as Jin Bao Bao Holdings Limited)	Stock Exchange	1239	Design, manufacture and sales of packaging products and structural components; provision for corporate secretarial and consultancy services; and property investment	Independent non-executive director
From September 2017 to present	YangtzeKiang Garment Limited	Stock Exchange	294	Manufacture and sale of garments and textiles, provision of processing services and rental of properties	Independent non-executive director
From September 2017 to present	YGM Trading Limited	Stock Exchange	375	Garment manufacturing, wholesaling and retailing, trademark ownership and licensing, property investment and provision of security printing, general business printing and trading of printing products	Independent non-executive director

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. So received a degree of Bachelor of Commerce from the University of British Columbia, Canada in November 1979. He is a certified management accountant registered with the Society of Management Accountants of British Columbia and a practising certified public accountant registered with the Hong Kong Institute of Certified Public Accountants since October 1991 and January 2008, respectively. He is also an associate member of the Institute of Chartered Accountants of British Columbia Canada and a fellow of the Hong Kong Society of Accountants.

Except as disclosed above, Mr. So has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

**Ms. Man Choi Ho (文才好)**, 55, joined our Group in June 1994. She was an administration clerk of Ying Kee until April 2005 when she was promoted to the position of administration manager. Ms. Man was appointed as the human resources and administration manager of our Company in October 2017.

Ms. Man has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

### COMPANY SECRETARY

**Mr. So Stephen Hon Cheung (蘇漢章)**, 62, our chief financial officer, was also appointed as the company secretary of our Company in October 2017. Please refer to the sub-section headed “Senior management” above in this section for further information about Mr. So.

### COMPLIANCE OFFICER

Mr. Chan Kun Yuen was appointed as our compliance officer of our Company (Rule 5.19 of the GEM Listing Rules) in October 2017. Please refer to the sub-section headed “Executive Directors” above in this section for further information about Mr. Chan Kun Yuen.

### BOARD COMMITTEES

#### Audit Committee

We have established an Audit Committee pursuant to a resolution of our Directors passed on 14 March 2018 in compliance with Rule 5.28 of the GEM Listing Rules and with written terms of reference in compliance with the Corporate Governance Code and the Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of our Audit Committee include (i) making recommendations to the Board on the appointment and removal of external auditors; (ii) reviewing and supervising the financial statements and material advice in respect of financial reporting; (iii) overseeing internal control procedures and corporate governance of our Company; (iv) supervising internal control systems of our Group; and (v) monitoring continuing connected transactions (if any).

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Our Audit Committee currently consists of all three independent non-executive Directors, namely Mr. Siu Chi Ming, Mr. Lee Wai Ho and Mr. Wong Chee Chung. It is currently chaired by Mr. Siu Chi Ming.

### **Remuneration Committee**

We have established a Remuneration Committee pursuant to a resolution of our Directors passed on 14 March 2018 in compliance with Rule 5.34 of the GEM Listing Rules and with written terms of reference in compliance with the Code on Corporate Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the Remuneration Committee include (i) reviewing and making recommendations to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; (ii) reviewing other remuneration-related matters, including benefits-in-kind and other compensation payable to our Directors and senior management; and (iii) reviewing performance based remunerations and establishing a formal and transparent procedure for developing policy in relation to remuneration.

Our Remuneration Committee currently consists of two executive Directors, Mr. Chan Kwong Yuen and Mr. Chan Kun Yuen, and all three independent non-executive Directors, namely Mr. Siu Chi Ming, Mr. Lee Wai Ho and Mr. Wong Chee Chung. It is currently chaired by Mr. Wong Chee Chung.

### **Nomination Committee**

We have established a Nomination Committee pursuant to a resolution of our Directors passed on 14 March 2018 with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the Nomination Committee are to (i) review the structure, size, composition and diversity of the Board on a regular basis; (ii) identify individuals suitably qualified to become Board members; (iii) assess the independence of independent non-executive Directors; (iv) make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors; and (v) make recommendations to our Board regarding the candidates to fill vacancies on our Board.

Our Nomination Committee currently consists of two executive Directors, Mr. Chan Kwong Yuen and Mr. Chan Kun Yuen, and all three independent non-executive Directors, namely Mr. Siu Chi Ming, Mr. Lee Wai Ho and Mr. Wong Chee Chung and is currently chaired by Mr. Lee Wai Ho.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### COMPLIANCE ADVISER

We have appointed KGI Capital Asia Limited as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will provide advice to us when consulted by us in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) if a transaction, which might be a notifiable or connected transaction is contemplated, including share issues and share repurchases;
- (c) if we propose to use the net proceeds of the Share Offer in a manner different from that detailed in this prospectus or when our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- (d) if the Stock Exchange makes an inquiry to us regarding unusual movements in the price or trading volume of the Shares pursuant to Rule 17.11 of the GEM Listing Rules.

The term of this appointment shall commence on the Listing Date and is expected to end on the date on which we comply with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date, subject to termination.

### REMUNERATION AND COMPENSATION OF OUR DIRECTORS AND SENIOR MANAGEMENT

Our Group regularly reviews and determines the remuneration and compensation packages of our Directors and senior management.

During each of the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, no remuneration or benefits in kind were paid by our Group to our Directors.

Our staff costs, including salaries, allowance and other benefits, pension costs-defined contribution plans and reversal of provision for long service payment, amounted to approximately HK\$9.1 million, HK\$9.3 million and HK\$4.4 million for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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The emoluments (including salaries, allowances and other benefits, bonuses and retirement scheme contributions) paid of our five highest paid individuals for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017 were approximately HK\$1.7 million, HK\$1.8 million and HK\$0.9 million, respectively.

During the Track Record Period, no emoluments were paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as compensation for loss of office. No directors or five highest paid individuals have waived or agreed to waive any emoluments during the Track Record Period.

Save as disclosed above, no other payments have been made or are payable in respect of the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017 by any of member of our Group to any of our Directors.

In light of our Group's status as a private group of companies under the shareholding of the same Chan's family, no remuneration has been paid to our Directors during the Track Record Period and up to the Latest Practicable Date, whether as Directors or in any other capacity. This will change upon the Listing when the Company obtains its listing status on the GEM as it will place more responsibilities and accountability on our Directors to our Shareholders as a whole. Our Directors' remuneration after the Listing is determined with reference to salaries paid by comparable companies, inflation rates, experience, responsibilities and performance of our Group.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, of our Directors for the financial year ending 31 March 2018, the financial year ending 31 March 2019 and the financial year ending 31 March 2020 to be approximately Nil, HK\$1.0 million and HK\$1.0 million, respectively.

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## SHARE CAPITAL

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### SHARE CAPITAL OF OUR COMPANY

The issued share capital of our Company consists of fully paid ordinary shares. Pursuant to the Companies Ordinance, companies incorporated in Hong Kong no longer have an authorised share capital and there is no concept of par value in respect of issued shares.

As of the date of this prospectus, our Company's issued and paid-up share capital is HK\$10,000. Conditional upon the Share Offer having become unconditional, our Company will complete the Bonus Issue, i.e., allotting and issuing 269,990,000 shares to Profit Ocean, and will immediately thereafter complete the Share Offer, i.e., allotting and issuing 90,000,000 new shares to public shareholders, representing 25% of the enlarged share capital of our Company upon Listing (without taking into account any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme).

So far as is known to our Directors, the total number of Shares immediately after the completion of the Bonus Issue and the Share Offer (without taking into account of any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme) will be as follows:

#### Number of Shares

*Issued and to be issued, fully paid, or credited as fully paid*

10,000	Shares in issue as of the date of this prospectus
269,990,000	Shares to be issued to Profit Ocean under the Bonus Issue
<u>90,000,000</u>	Shares to be issued under the Share Offer
<u>360,000,000</u>	Total

#### ASSUMPTIONS

The above table assumes that the Share Offer becomes unconditional and the issue of Shares pursuant to the Share Offer are made. It takes no account of any Shares which may be issued or repurchased by us pursuant to the general mandates given to our Directors to allot and issue or repurchase Shares as described below.

#### MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, we must maintain the minimum prescribed percentage of at least 25% of our total issued share capital in the hands of the public.

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## SHARE CAPITAL

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### **RANKING**

The Offer Shares will be ordinary Shares in the share capital of our Company and will rank *pari passu* in all respects with all the Shares now in issue or to be issued as mentioned in this prospectus, and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

### **SHARE OPTION SCHEME**

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the section headed “Statutory and general information – 8. Share Option Scheme” in Appendix IV of this prospectus.

Save for the Share Option Scheme, we did not have any outstanding share option(s), warrant(s), convertible instrument(s), or similar right(s) convertible into our Shares as at the Latest Practicable Date.

### **GENERAL MANDATE TO ALLOT AND ISSUE/REPURCHASE SHARES**

Subject to the Share Offer becoming unconditional, general mandates have been granted to our Directors to allot and issue Shares and to repurchase Shares. For details of such general mandates, please see Appendix IV to this prospectus.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other shares. The circumstances under which general meeting and class meeting are required are provided in the Articles of Association. A summary of the Articles of Association is set out in Appendix III to this prospectus.

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## FINANCIAL INFORMATION

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*You should read the following discussion and analysis of our Group's financial condition and results of operations together with our combined financial information as at and for each of the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, and the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with HKFRSs. Potential investors should read the whole of the Accountants' Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk factors" in this prospectus.*

### OVERVIEW

We are a Chinese tea leave retailer in Hong Kong. During the Track Record Period, we derived our revenue mainly from the sale of Chinese tea leaves and to lesser extent, from the sales of tea wares and tea gift sets in Hong Kong. As at the Latest Practicable Date, we operate 10 retail shops and concession counters for selling our tea products in Hong Kong. During the Track Record Period, we generated revenue mainly from selling our tea products to our retail customers through retail shops, showroom and concession counters, online sales on our own website, sales through platforms provided by our business partners, and exhibition and/or other booth sales and direct sales to our commercial customers. Our head office, processing facilities, warehouse and showroom are located at 8/F, Wah Shing Centre, No. 5 Fung Yip Street (the "Siu Sai Wan Premises"). We offer to sell over 70 products of Chinese tea leaves which are broadly categorised into eight types including black tea, green tea, fragrant tea, Oolong tea, old Luk On tea, Pu-erh tea, white tea and miscellaneous.

### MAJOR FACTORS AFFECTING OUR GROUP'S REVENUE AND RESULTS OF OPERATIONS

Our Directors believe that the following major factors may affect our Group's revenue and results of operations:

#### **Economic conditions in Hong Kong**

We operated in Hong Kong and derived substantially all our revenue in Hong Kong during the Track Record Period. We expect that Hong Kong will continue to be our place of operations. Accordingly, if Hong Kong experiences any adverse economic, political or regulatory conditions due to events beyond our control, such as local economic downturn, natural disasters, contagious disease outbreaks, terrorist attacks, or if the Government adopts regulations that place restrictions or burdens on us or on our industry in general, our business, financial condition, results of operations and prospects may be materially and adversely affected. In addition, we do not have business presence in overseas jurisdictions, and may have difficulties in relocating our entire business operations to other geographic markets if there is any material deterioration in the economic, political and regulatory environment in Hong Kong.



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## FINANCIAL INFORMATION

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### Seasonal impact on our revenue

The sales of our products are subject to seasonality. We generally record higher sales of our tea products around Chinese New Year and our annual sale from the end of October to early November each year. Accordingly, our results of operations may vary from period to period in a year due to seasonal impact on our sales.

### Marketing and promotion activities

Demand for our tea products may be impacted by our marketing and promotion activities. We market and promote our brand and products and annual sale through a number of different channels and methods, including placing advertisements in newspapers, television as well as marketing via social media. For each of the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, our advertising expenses amounted to approximately HK\$0.8 million, HK\$0.9 million and HK\$0.6 million, respectively.

### Our product portfolio

We have a diverse product portfolio comprising numerous varieties of products principally across our three types of products, i.e. tea leaves, tea wares and tea gift sets. Different types of products have different gross profit margins, depending on a variety of factors including sales volume, costs of raw materials, pricing and our marketing and branding strategy. For example, our tea leaves tend to have higher gross profit margins than both our tea wares and tea gift sets. Therefore, our overall gross profit margin will vary depending on the product mix across different types of products.

Please refer to the table under “(a) Analysis by product types” of “Financial Information – Principal income statement components – Gross profits and gross margins” of this prospectus.

Gross Profit Margin	Year ended 31 March		Six months ended 30 September	
	2016	2017	2016 (unaudited)	2017
<b>Types of products</b>				
Tea leaves	80.1%	80.6%	79.3%	79.3%
Tea wares	69.3%	67.1%	68.0%	69.4%
Tea gift sets	80.7%	52.4%	64.8%	59.7%
Others ( <i>Note</i> )	100.0%	100.0%	100.0%	100.0%

*Note:* As confirmed by our Directors, others include service fees for providing tea appreciation courses to customers, providing shop space to media for video taking and wrapping services for tea products.

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## FINANCIAL INFORMATION

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### **Cost of inventories**

Cost of inventories consists primarily cost of tea leaves and cost of tea wares. Our cost of inventories was relatively stable with amount of approximately HK\$7.7 million, HK\$7.5 million and HK\$2.8 million, representing approximately 87.4%, 83.6% and 81.4% of our total cost of sales, in the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. Tea leaves took up over 85% of our cost of inventories during the Track Record Period. As a result, any significant fluctuations in our cost of inventories, in particular tea leaves, may materially impact our cost of sales and gross profit margins.

### **Rental and license expenses**

We lease or license all the properties on which our Siu Sai Wan Premises, retail shops and concession counters operate, parking spaces and booths for short-term from time to time. Such rental and license expenses constituted a significant part of our overall expenses and amounted to approximately HK\$11.8 million, HK\$8.6 million and HK\$4.0 million for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively, which represented approximately 54.0%, 47.1% and 43.6% of our total administrative expenses excluding the listing expenses, respectively. As rental expenses represented a significant portion of our expenses, our profitability may be affected by any changes in the rental and license expenses.

### **Staff costs, salaries and benefits**

Our success, to a considerable extent, depends upon our ability to attract, motivate and retain a sufficient number of qualified employees including labour in our warehouse, shop managers and staff. Our staff costs, including salaries, allowances and other benefits, pension cost-defined contribution plans and reversal of provision for long service payment, remained relatively stable as a percentage of revenue during the Track Record Period and amounted to approximately HK\$9.1 million, HK\$9.3 million and HK\$4.4 million, representing approximately 21.2%, 20.9% and 27.6% of our total revenue for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively.

### **BASIS OF PRESENTATION**

Pursuant to our Reorganisation as detailed in the section headed “History, reorganisation and group structure”, our Company became the holding company of Ying Kee on 14 September 2017.

As all the companies now comprising our Group that took part in the Reorganisation were under the common control of our Controlling Shareholders before and after the Reorganisation, there was a continuation of risk and benefits to our Controlling Shareholders and accordingly, the Reorganisation is considered to be a business combination of entities under common

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## FINANCIAL INFORMATION

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control. The Historical Financial Information (as defined in the Accountants' Report set out in Appendix I to this prospectus) has been prepared by applying the merger basis of accounting as if the companies now comprising our Group have been combined at the beginning of the Track Record Period, or since their respective dates of incorporation, whichever was shorter. The assets and liabilities of all the companies now comprising our Group are combined using the book values from our Controlling Shareholders' perspective.

### **BASIS OF PREPARATION**

Our financial information has been prepared in accordance with Hong Kong Financial Reporting Standard issued by the Hong Kong Institute of Certified Public Accountants. The financial information also complies with the applicable disclosure provisions of the GEM Listing Rules and the Companies Ordinance.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of the combined financial information in conformity with HKFRSs requires our Group to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Our Group also makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Certain key accounting policies, judgements and estimations applied in preparing our Group's financial information are discussed below.

#### **Key accounting policies**

##### ***(a) Revenue recognition***

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and the use by others of our Group's assets yielding interest, net of returns and discounts. Provided it is probable that the economic benefits will flow to our Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customers. These are usually taken as the time when the goods are delivered and the customers have accepted the goods.

Interest income is recognised on an accrual basis using the effective interest method.

Royalty income is recognised on an accrual basis in accordance with the substance of the license agreements.

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## FINANCIAL INFORMATION

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### ***(b) Property, plant and equipment***

Property, plant and equipment are stated at cost less accumulated depreciation and amortisation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and reinstatement cost. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation is provided to write off the cost less their residual values over their estimated useful lives, using the reducing balance method, at the following rates per annum, except for reinstatement cost which is amortised over the lease terms using the straight-line method:

Machinery and equipment	20%
Leasehold improvement and furniture and fixtures	20%
Motor vehicles	20%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

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

### ***(c) Inventories***

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. Cost is determined using the weighted average basis.

### ***(d) Impairment of non-financial assets***

Our Group's property, plant and equipment are tested for impairment whenever there are indications that the assets' carrying amounts may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

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## FINANCIAL INFORMATION

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For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Our Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### ***(a) Net realisable value of inventories***

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition, the ageing of the inventories and the historical experience of selling products of similar nature. Management reassess these estimates at the reporting date to ensure inventories are carried at the lower of cost and net realisable value.

#### ***(b) Impairment of trade receivables***

The policy for impairment of trade receivables of our Group is based on the evaluation of collectability and the ageing analysis of the receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer.

#### ***(c) Useful lives, residual values and depreciation of property, plant and equipment***

Our Group determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment with reference to the estimated periods that our Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charge where useful lives or residual

## FINANCIAL INFORMATION

values are materially different from those previously estimated. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expenses in the future periods.

### Others

For details of other significant accounting policies and key sources of estimation uncertainty relating to our Group's financial information, please refer to notes 2 and 3 to the Accountants' Report as set out in Appendix I to this prospectus.

### RESULTS OF OPERATIONS

The following is a summary of the combined statements of profit or loss and other comprehensive income of our Group for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017 extracted from the Accountants' Report, the text of which is set out in Appendix I to this prospectus. This summary should be read in conjunction with the Accountants' Report as set out in Appendix I to this prospectus.

	Year ended 31 March		Six months ended 30 September	
	2016	2017	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)			
<b>Revenue</b>	42,781	44,540	14,946	16,039
Cost of sales	<u>(8,771)</u>	<u>(8,991)</u>	<u>(3,217)</u>	<u>(3,426)</u>
<b>Gross profit</b>	34,010	35,549	11,729	12,613
Other income	178	207	97	–
Selling and distribution costs	(2,597)	(2,584)	(784)	(1,201)
Administrative expenses	(21,763)	(18,197)	(8,165)	(15,148)
Finance costs	<u>(257)</u>	<u>(175)</u>	<u>(70)</u>	<u>(106)</u>
<b>Profit/(Loss) before income tax</b>	9,571	14,800	2,807	(3,842)
Income tax expenses	<u>(1,682)</u>	<u>(2,505)</u>	<u>(455)</u>	<u>(352)</u>
<b>Profit/(Loss) for the year/period and total comprehensive income/(expense) for the year/period</b>	<u>7,889</u>	<u>12,295</u>	<u>2,352</u>	<u>(4,194)</u>

## FINANCIAL INFORMATION

### PRINCIPAL INCOME STATEMENT COMPONENTS

#### Revenue

Our Group generated revenue mainly from the sales of Chinese tea leaves, tea wares and tea gift sets in Hong Kong. Revenue is recognised upon transfer of the significant risks and rewards of ownership to the customers and net of discounts to customers.

Revenue of our Group increased by approximately 4.1% from approximately HK\$42.8 million for the financial year ended 31 March 2016 to approximately HK\$44.5 million for the financial year ended 31 March 2017, and by approximately 7.3% from approximately HK\$14.9 million for the six months ended 30 September 2016 to approximately HK\$16.0 million for the six months ended 30 September 2017.

The increase in revenue for the financial year ended 31 March 2017 and the six months ended 30 September 2017 as compared with corresponding year/period in 2016 was mainly because of the increase in revenue generated from Pu-erh tea from approximately HK\$17.8 million to HK\$20.6 million for the financial year ended 31 March 2017; and from approximately HK\$5.8 million for the six months ended 30 September 2016 to approximately HK\$6.4 million for the six months ended 30 September 2017. Our second best seller, Oolong tea, however experienced decrease in revenue from approximately HK\$9.2 million for the financial year ended 31 March 2016 to approximately HK\$9.0 million for the financial year ended 31 March 2017; and remained stable at approximately HK\$3.2 million and HK\$3.4 million for the six months ended 30 September 2016 and 30 September 2017, respectively.

#### (a) Analysis by product type

In terms of product type, we derived our revenue mostly from the sale of tea leaves for the Track Record Period. The following table sets out a breakdown of revenue by products category for the years/periods indicated:

	Year ended 31 March				Six months ended 30 September			
	2016		2017		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Tea leaves	40,321	94.3	42,230	94.8	13,922	93.1	15,042	93.8
Tea wares	2,264	5.3	2,078	4.7	953	6.4	857	5.4
Tea gift sets	187	0.4	225	0.5	71	0.5	119	0.7
Others (Note)	9	0.0	7	0.0	0	–	21	0.1
<b>Total</b>	<b>42,781</b>	<b>100.0</b>	<b>44,540</b>	<b>100.0</b>	<b>14,946</b>	<b>100.0</b>	<b>16,039</b>	<b>100.0</b>

*Note:* As confirmed by our Directors, others include service fees for providing tea appreciation courses to customers, providing shop space to media for video taking and wrapping services for tea products.

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### (b) Analysis by sales channel

We derived majority of our revenue from sales directly to retail customers through our retail shops and concession counters and to a lesser extent, to our retail customers through other channels and our commercial customers. The table below sets out the breakdown of the sale of our products under each of our sales channels for the years/period indicated:

	Year ended 31 March 2016		Year ended 31 March 2017		Six months ended 30 September 2017	
	Revenue		Revenue		Revenue	
	% of total		% of total		% of total	
	HK\$'000	revenue	HK\$'000	revenue	HK\$'000	revenue
<b>Retail customers</b>						
Retail shops, showroom and concession counters (Note 1)	39,005	91.2	41,362	92.9	14,718	91.8
Online sales on our own website	172	0.4	159	0.4	64	0.4
Sales through platforms provided by business partners	386	0.9	389	0.9	122	0.7
Exhibition and/or other booth sales	1,128	2.6	920	2.0	380	2.4
<b>Commercial customers</b>						
(Note 2)	2,000	4.7	1,422	3.2	735	4.6
<b>Others</b> (Note 3)	90	0.2	288	0.6	20	0.1
<b>Total</b>	<u>42,781</u>	<u>100.0</u>	<u>44,540</u>	<u>100.0</u>	<u>16,039</u>	<u>100.0</u>

*Notes:*

- Retail shops, showroom and concession counters exclude commercial customers under Note 2 and others under Note 3 below. During the Track Record Period, some customers may also purchase our tea products at our showroom in Siu Sai Wan. Such sales amounted to approximately HK\$0.1 million, HK\$0.2 million and HK\$52,000 for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. Our Hong Kong Conveyancing Legal Advisers opined that according to the Government Lease, the building in which our premises in Siu Sai Wan can be used for industrial purpose i.e. factory or godown (i.e. warehouse purpose or both). We made enquiry through the Hong Kong Conveyancing Legal Advisers to the Lands Department of Hong Kong and understand from their officer that selling of products at our showroom in the Siu Sai Wan premises would amount to retail activity which would be likely in breach of the Government Lease if electronic cash machine register(s) and Octopus card machine terminal(s) were installed at the showroom and acceptance of instant payments by customers took place at the showroom.



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We confirmed that the cash register(s) and Octopus card terminal(s) at the showroom have been removed and our Group ceased to accept instant payments by customers at the Siu Sai Wan premises. We also confirmed that to the best of our Company and our Directors' knowledge, information and belief, there was no complaint from the public to the Lands Department of Hong Kong regarding the retail activities inside the said premises which was caught in the act by the Lands Department of Hong Kong.

2. Commercial customers mean the customers, whether individual or corporate, who placed orders to our Group and our head office in Siu Sai Wan has issued invoices to such customers.
3. Others include sales to our staff (including our Directors) and Golden Ocean and/or Chan Sing Hoi Enterprises, which are entities held by our Controlling Shareholders.

During the Track Record Period, we adopt a uniform retail pricing policy which was implemented by our retail shops, showroom, concession counters, as well as our online shop on our company website. A standard price list is provided to our retail network and will be reviewed and adjusted from time to time. Prices are determined by our Directors mainly with reference to the economic condition, prices of competitors, labour and overhead costs and material purchase costs, which are related to tea product types, level of tea leave grades and market demand. Please refer to the section headed "Business – Our business model and products – Chinese tea leaves" of this prospectus for information on the selling price range of each type of our tea leaves.

We would offer better pricing and/or offer discounts to certain corporate customers having considered various factors such as whether the sales are binding by sales contracts, the length of business relationship and/or the volume of their purchases. We also offer discount to the public during our annual sale and other promotion activities. Staff purchases are limited to once a month. Percentage of discount granted to the staff and limit of the amount for each of their purchase are determined after having considered the staff grading. Staff purchases (including Directors' purchases) and purchases from Golden Ocean and/or Chan Sing Hoi Enterprises, which are entities held by our Controlling Shareholders amounted to approximately HK\$90,000, HK\$0.3 million and HK\$20,000 for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. We confirmed that purchases by our Directors going forward will be conducted on normal commercial terms. Please also refer to the section headed "Connected transactions – Exempt continuing connected transactions" of this prospectus for details.

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### Cost of sales

A breakdown on cost of sales by cost component for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017 is summarised as below:

	Year ended 31 March				Six months ended 30 September			
	2016		2017		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<b>(unaudited)</b>							
Cost of inventories	7,670	87.4	7,517	83.6	2,639	82.0	2,788	81.4
Labour costs	1,140	13.0	1,155	12.8	491	15.3	521	15.2
Adjustment on stock written off	–	–	18	0.2	–	–	–	–
Packaging cost (Note)	(39)	(0.4)	301	3.4	87	2.7	117	3.4
	<u>8,771</u>	<u>100.0</u>	<u>8,991</u>	<u>100.0</u>	<u>3,217</u>	<u>100.0</u>	<u>3,426</u>	<u>100.0</u>

*Note:* Packaging cost for the financial year ended 31 March 2016 included adjustment for prior years overstated packaging costs in an aggregate amount of approximately HK\$0.2 million as a result of re-classification of certain packaging materials such as, among others, packaging bags since the financial year ended 31 March 2016.

Total cost of sales of our Group experienced slight increase from approximately HK\$8.8 million for the financial year ended 31 March 2016 to approximately HK\$9.0 million for the financial year ended 31 March 2017. Cost of inventories consumed decreased slightly from approximately HK\$7.7 million for the financial year ended 31 March 2016 to approximately HK\$7.5 million for the financial year ended 31 March 2017 mainly because of (i) the decrease in revenue generated from certain types of tea leaves including green tea, Oolong tea, old Luk On tea, white tea and miscellaneous. Revenue generated from these types of tea decreased by approximately 6.2% from approximately HK\$17.0 million for the financial year ended 31 March 2016 to approximately HK\$15.9 million for the financial year ended 31 March 2017; and (ii) although revenue generated from Pu-erh tea increased by approximately 15.7% from approximately HK\$17.8 million for the financial year ended 31 March 2016 to approximately HK\$20.6 million for the financial year ended 31 March 2017, cost of inventories for Pu-erh tea only increased by approximately 5.6% from approximately HK\$1.8 million for the financial year ended 31 March 2016 to approximately HK\$1.9 million for the financial year ended 31 March 2017. Our Directors advised that this is because we took advantage of lower prices offered by suppliers for bundled purchases of Pu-erh cakes. Labour costs maintained at similar level of approximately HK\$1.1 million and HK\$1.2 million, for the financial year ended 31 March 2016 and the financial year ended 31 March 2017, respectively.

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Total cost of sales of our Group slightly increased by approximately 6.5% from approximately HK\$3.2 million for the six months ended 30 September 2016 as compared to approximately HK\$3.4 million for the six months ended 30 September 2017, which is in line with the increase in revenue of approximately 7.3% for the corresponding period.

### Gross profits and gross margins

Our gross profit increased by approximately 4.5% from approximately HK\$34.0 million for the financial year ended 31 March 2016 to approximately HK\$35.5 million for the financial year ended 31 March 2017; and increased by approximately 7.5% from approximately HK\$11.7 million for the six months ended 30 September 2016 to approximately HK\$12.6 million for the six months ended 30 September 2017, which were in line with our abovementioned growth in overall revenue. Our gross margins remained relatively stable at approximately 79.5%, 79.8% and 78.6% for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. Please refer to the sub-section headed “Revenue” above for analysis on our revenue; and the sub-section headed “Cost of sales” above for analysis on our cost of sales.

#### (a) Analysis by product type

The following table sets out a breakdown of gross profits and gross margins by product category for the years/periods indicated:

	Year ended 31 March				Six months ended 30 September			
	2016		2017		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Tea leaves	32,280	80.1	34,030	80.6	11,035	79.3	11,926	79.3
Tea wares	1,570	69.3	1,394	67.1	648	68.0	595	69.4
Tea gift sets	151	80.7	118	52.4	46	64.8	71	59.7
Others (Note)	9	100.0	7	100.0	0	100.0	21	100.0
<b>Overall</b>	<b>34,010</b>	<b>79.5</b>	<b>35,549</b>	<b>79.8</b>	<b>11,729</b>	<b>78.5</b>	<b>12,613</b>	<b>78.6</b>

*Note:* As confirmed by our Directors, others include service fees for providing tea appreciation courses to customers, providing shop space to media for video taking and wrapping services for tea products.

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We had gross profits from sale of tea leaves of approximately HK\$32.3 million, HK\$34.0 million, HK\$11.0 million and HK\$11.9 million for the financial year ended 31 March 2016, the financial year ended 31 March 2017, the six months ended 30 September 2016 and the six months ended 30 September 2017, respectively. The gross margin from sale of tea leaves was relatively stable at approximately 80.1%, 80.6%, 79.3% and 79.3% as at the corresponding years/periods. We had gross profits from sale of tea wares of approximately HK\$1.6 million, HK\$1.4 million, HK\$0.6 million and HK\$0.6 million for the corresponding years/periods, representing gross margins of approximately 69.3%, 67.1%, 68.0% and 69.4%, respectively. Gross profits derived from sale of tea gift sets amounted to approximately HK\$0.2 million, HK\$0.1 million, HK\$46,000 and HK\$71,000 for the corresponding years/periods, and the respective gross margins were approximately 80.7%, 52.4%, 64.8% and 59.7%, respectively. The relatively high gross margin from sale of tea gift sets for the financial year ended 31 March 2016 was mainly due to the sales of tea gift sets for the special celebration of anniversary of our business.

### **Other income**

Our Group recorded other income of approximately HK\$0.2 million, HK\$0.2 million and Nil for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. For the financial year ended 31 March 2016 and the financial year ended 31 March 2017, royalty income of approximately HK\$0.1 million and HK\$0.1 million was recorded, which represented the royalty income from the Licensee under the License Agreement entered into with our Group, among others, for the right to use certain of our trademarks registered in Japan and to distribute and sell the Products using the Signboard. For details, please refer to the section headed “Business – License agreement” of this prospectus. For the financial year ended 31 March 2016, there was a sundry income of approximately HK\$7,000 which mainly represented recovery of contractor’s deposit for decoration of Shop 9. For the financial year ended 31 March 2017, there was a gain on disposal of property, plant and equipment of approximately HK\$71,000 due to the sale of a motor vehicle by our Group. Bank interest income of approximately HK\$57,000 and HK\$22,000 were also recorded for the financial year ended 31 March 2016 and the financial year ended 31 March 2017, respectively.

### **Selling and distribution costs**

Selling and distribution costs of our Group remained relatively stable for the financial year ended 31 March 2016 and the financial year ended 31 March 2017 at approximately HK\$2.6 million and HK\$2.6 million, respectively. Selling and distribution costs of our Group increased by approximately 53.2% from approximately HK\$0.8 million for the six months ended 30 September 2016 to approximately HK\$1.2 million for the six months ended 30 September 2017 mainly due to the increase in advertising expenses because of the placing of television commercials.

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A breakdown on selling and distribution costs of our Group for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2016 and 2017 is set out as below:

	Year ended 31 March		Six months ended 30 September	
	2016	2017	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)			
Advertising	791	877	216	638
Trademark design and marketing consultancy	94	69	33	19
Entertainment	522	297	115	22
Sales commission paid	1,187	1,332	413	520
Business trip expenses	3	9	7	2
	<u>3</u>	<u>9</u>	<u>7</u>	<u>2</u>
<b>Total</b>	<u>2,597</u>	<u>2,584</u>	<u>784</u>	<u>1,201</u>

Advertising expenses increased from approximately HK\$0.8 million for the financial year ended 31 March 2016 to approximately HK\$0.9 million for the financial year ended 31 March 2017 due to the promotion of sales events in relation to the special celebration of anniversary of our business; and increased from approximately HK\$0.2 million for the six months ended 30 September 2016 to approximately HK\$0.6 million for the six months ended 30 September 2017 due to the placing of television commercials in 2017. Entertainment expenses decreased from approximately HK\$0.5 million for the financial year ended 31 March 2016 to approximately HK\$0.3 million for the financial year ended 31 March 2017; and decreased from approximately HK\$0.1 million for the six months ended 30 September 2016 to approximately HK\$22,000 for the six months ended 30 September 2017. Sales commission paid went up from approximately HK\$1.2 million for the financial year ended 31 March 2016 to approximately HK\$1.3 million for the financial year ended 31 March 2017; and increased from approximately HK\$0.4 million for the six months ended 30 September 2016 to approximately HK\$0.5 million for the six months ended 30 September 2017 because of the increase in revenue which leads to the increase in commission paid to the business partner of internet shopping platform, which was calculated with reference to a certain percentage of selling price of ordered products; and the increase in payment of sales commission to our employees. In addition to their basic salaries and allowances, we seek to motivate staff by offering (1) commission based on total company-wide sales results and (2) bonus based on our internal sales target.

### Administrative expenses

Administrative expenses of our Group decreased from approximately HK\$21.8 million for the financial year ended 31 March 2016 to approximately HK\$18.2 million for the financial year ended 31 March 2017.

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Administrative expenses of our Group increased from approximately HK\$8.2 million for the six months ended 30 September 2016 to approximately HK\$9.1 million (if excluding the listing expenses) for the six months ended 30 September 2017.

A breakdown on major administrative expenses of our Group for the financial year ended 31 March 2016, the financial year ended 31 March 2017, the six months ended 30 September 2016 and the six months ended 30 September 2017 is set out as below:

	<b>Year ended 31 March</b>		<b>Six months ended 30 September</b>	
	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>			
Rent and license fees	11,752	8,577	4,005	3,967
Staff salaries	5,854	5,689	2,357	2,658
Staff benefit	949	1,047	531	651
Depreciation and amortisation of property, plant and equipment	613	496	258	218
Credit card charges	403	438	144	133
Electricity, water and telephone	367	342	188	170
Bad debt expense	2	–	–	–
Listing expenses	–	–	–	6,053
Others	1,823	1,608	682	1,298
	<u>21,763</u>	<u>18,197</u>	<u>8,165</u>	<u>15,148</u>
<b>Total</b>	<b>21,763</b>	<b>18,197</b>	<b>8,165</b>	<b>15,148</b>

### *Rent and license fees*

Rent and license fees comprise fees for the lease and license for properties including Siu Sai Wan Premises, retail shops and concession counters, parking spaces and booths for short-term from time to time.

Rent and license fees decreased from approximately HK\$11.8 million for the financial year ended 31 March 2016 to approximately HK\$8.6 million for the financial year ended 31 March 2017 mainly due to the close down of a retail shop in Yau Tong and the reduction of monthly rent of certain properties leased from Chan Sing Hoi Enterprises or Golden Ocean, the entities controlled by our Controlling Shareholders.

Rents and license fees maintained similar level at approximately HK\$4.0 million for the six months ended 30 September 2016 and approximately HK\$4.0 million for the six months ended 30 September 2017.

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### *Staff salaries*

Staff salaries maintained at similar level at approximately HK\$5.9 million and HK\$5.7 million for the financial year ended 31 March 2016 and the financial year ended 31 March 2017, respectively.

Staff salaries maintained at similar level at approximately HK\$2.4 million and HK\$2.7 million for the six months ended 30 September 2016 and the six months ended 30 September 2017, respectively.

### *Staff benefits*

Staff benefits maintained at similar level at approximately HK\$0.9 million and HK\$1.0 million for the financial year ended 31 March 2016 and the financial year ended 31 March 2017, respectively.

Staff benefits maintained at similar level at approximately HK\$0.5 million and HK\$0.7 million for the six months ended 30 September 2016 and the six months ended 30 September 2017, respectively.

### *Depreciation and amortisation of property, plant and equipment*

Depreciation and amortisation of property, plant and equipment decreased from approximately HK\$0.6 million for the financial year ended 31 March 2016 to approximately HK\$0.5 million for the financial year ended 31 March 2017. Depreciation is provided to write off the cost less their residual values over their estimated useful lives, using the reducing balance method, at the rates of 20% per annum, except for reinstatement cost which is amortised over the lease terms using the straight-line method.

Depreciation and amortisation of property, plant and equipment maintained at similar level at approximately HK\$0.3 million and HK\$0.2 million for the six months ended 30 September 2016 and the six months ended 30 September 2017, respectively.

### *Credit card charges*

Credit card charges maintained at similar level at approximately HK\$0.4 million and HK\$0.4 million for the financial year ended 31 March 2016 and the financial year ended 31 March 2017, respectively.

Credit card charges maintained at similar level at approximately HK\$0.1 million and HK\$0.1 million for the six months ended 30 September 2016 and the six months ended 30 September 2017, respectively.

### *Electricity, water and telephone*

Electricity, water and telephone maintained at similar level at approximately HK\$0.4 million and HK\$0.3 million for the financial year ended 31 March 2016 and the financial year ended 31 March 2017, respectively.

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Electricity, water and telephone at similar level at approximately HK\$0.2 million and HK\$0.2 million for the six months ended 30 September 2016 and the six months ended 30 September 2017, respectively.

### *Bad debt expense*

Bad debt expense of approximately HK\$2,000 was incurred for the financial year ended 31 March 2016. The policy for impairment of trade receivables of our Group is based on the evaluation of collectability and the ageing analysis of the receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. No bad debt expense was incurred for the financial year ended 31 March 2017, the six months ended 30 September 2016 and the six months ended 30 September 2017.

### *Other administrative expenses*

Other major administrative expenses include contribution to mandatory provident fund, repairs and maintenance, delivery expenses, motor car expenses, etc. They remained at a similar level at approximately HK\$1.8 million and HK\$1.6 million for the financial year ended 31 March 2016 and the financial year ended 31 March 2017, respectively.

Other major administrative expenses increased from approximately HK\$0.7 million for the six months ended 30 September 2016 to approximately HK\$1.3 million for the six months ended 30 September 2017 mainly due to the increase in various administrative expenses such as building management fees, rates, legal and professional fee in relation to trademarks applications, renewals and assignments, etc.

### **Listing expenses**

The total estimated listing expenses in connection with the Share Offer is approximately HK\$23.2 million (based on the Offer Price of HK\$0.51 per Offer Share, being the midpoint of the indicative Offer Price range). Expenses in relation to the Listing are non-recurring. There was no such expense for the financial year ended 31 March 2016 and the financial year ended 31 March 2017. We had incurred listing expenses of approximately HK\$7.6 million for the six months ended 30 September 2017, among which the amount of approximately HK\$6.0 million was recognised as expenses and the remaining listing expenses of approximately HK\$1.6 million is expected to be charged to equity after the completion of the Share Offer. By the completion of the Share Offer, we expect to further incur listing expenses of approximately HK\$15.6 million, among which an estimated amount of approximately HK\$11.3 million is to be recognised as expenses and the remaining estimated listing expenses of approximately HK\$4.3 million is expected to be charged to equity under the relevant accounting standards. Therefore, our financial results for the financial year ending 31 March 2018 will be significantly and adversely affected by the expenses in relation to the Share Offer.



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### Finance costs

Finance costs of our Group amounted to approximately HK\$0.3 million and HK\$0.2 million for the financial year ended 31 March 2016 and the financial year ended 31 March 2017, respectively. The decrease in finance costs were mainly due to the retirement of a tax loan during the financial year ended 31 March 2017.

Finance costs of our Group amounted to approximately HK\$70,000 and HK\$0.1 million for the six months ended 30 September 2016 and the six months ended 30 September 2017, respectively. The increase in finance costs was mainly due to increase in bank borrowings. Our bank borrowings increased from HK\$5.0 million as at 31 March 2017 to HK\$10.0 million as at 30 September 2017. As at 31 March 2016, 31 March 2017 and 30 September 2017, the bank loans bear interest at fixed rate of 2.50%, variable rates of 2.73% to 3.25% and 2.93% to 2.97% per annum, respectively.

### Income tax expenses

Income tax expenses of our Group amounted to approximately HK\$1.7 million and HK\$2.5 million for the financial year ended 31 March 2016 and the financial year ended 31 March 2017, respectively. The increase in income tax expenses were mainly due to the increase in profit before income tax of our Group. The applicable tax rates of our Group were 16.5% for the Track Record Period.

Income tax expenses remained at a similar level at approximately HK\$0.5 million and HK\$0.4 million for the six months ended 30 September 2016 and the six months ended 30 September 2017, respectively, despite loss before income tax was recorded for the six months ended 30 September 2017 mainly due to the incur of listing expenses. This is because the listing expenses was not deductible under Hong Kong profits tax.

As advised by our Reporting Accountants, since the amount is not material nor significant, the settlement of additional profit tax liability amounting to HK\$51,585 has not been included in the income tax expenses for the financial year ended 31 March 2017. Please refer to “Compliance – Legal compliance” of the “Business” section of this prospectus for details of the incident which resulted in such additional profit tax liability.

### Profit/(Loss) and total comprehensive income/(expense) and net profit margin for the years/periods

As a result of the abovementioned reasons, the net profit of our Group increased by approximately 55.8% from approximately HK\$7.9 million for the financial year ended 31 March 2016 to approximately HK\$12.3 million for the financial year ended 31 March 2017. The increase in net profit of our Group for the financial year ended 31 March 2017 was mainly due to the increase in sales of Pu-erh tea leaves and the decrease in rent and license fee due to the close down of a retail shop in Yau Tong and the reduction of monthly rent of certain properties. Net profit margin increased from approximately 18.4% for the year ended 31 March 2016 to approximately 27.6% for the year ended 31 March 2017.

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The net profit of our Group turned from approximately HK\$2.4 million (and net profit margin of approximately 15.7%) for the six months ended 30 September 2016 to a net loss of approximately HK\$4.2 million for the six months ended 30 September 2017 mainly due to the listing expenses. If excluding the listing expenses, our Group would record adjusted net profit of approximately HK\$1.9 million and adjusted net profit margin of approximately 11.6% for the six months ended 30 September 2017. The main reason for the decrease in adjusted net profit margin for the six months ended 30 September 2017 as compared to the corresponding period of 2016 was the increase in advertising expenses by approximately HK\$0.4 million due to the placing of television commercials.

### **The financial performance of our Group for the four months ended 31 January 2018**

#### ***Revenue***

Based on the unaudited management accounts of our Group, revenue of our Group decreased slightly for the four months ended 31 January 2018 as compared to the corresponding period in 2017. Our Directors advised that this is mainly due to the decline of revenue in January 2018 because of the promotion activities (i.e. discounts on certain types of limited edition tea cakes) held from time to time since end of January 2017 following the Chinese Lunar New Year whereas no similar promotion activities happened in January 2018.

#### ***Gross profit margin***

Gross profit margin maintained at similar level for the four months ended 31 January 2017 and the four months ended 31 January 2018, respectively.

#### ***Selling and distribution costs***

Selling and distribution costs maintained at similar level for the four months ended 31 January 2017 and the four months ended 31 January 2018, respectively.

#### ***Administrative expenses***

Administrative expenses increased largely for the four months ended 31 January 2018 as compared to the corresponding period in 2017 mainly due to the listing expenses, the increase in staff salaries and benefits following the employment of our chief financial officer since June 2017 and certain new staff as well as the increase in other administrative expenses such as rent and rates and depreciation on fixed assets.

#### ***Finance costs***

Finance costs increased largely for the four months ended 31 January 2018 as compared to the corresponding period in 2017 mainly because of the increase in bank borrowings. The increases in bank borrowings are mainly related to drawdown of bank loans for payments of listing expenses incurred or to be incurred.

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### *Profit/(Loss) and total comprehensive income/(expense)*

If excluding the listing expenses, we would record a net profit for the four months ended 31 January 2018 although it would be a decrease as compared with that of the corresponding period in 2017 mainly because of the slight decrease in revenue, the increase in staff salaries and benefits and the increase in other administrative expenses as mentioned above.

### *No material adverse change in the financial or trading position of our Group*

Our Directors confirmed that except for the listing related expenses which had been incurred, there has been no material adverse change in the financial or trading position of our Group since 30 September 2017 (being the date to which the latest audited combined financial information was prepared which was set out in the Accountants' Report in Appendix I to this prospectus) to the date of this prospectus. In view of the listing expenses, it is expected that our Group will record net loss for the financial year ending 31 March 2018. Our Directors currently expect that there will be a moderate decrease in net profit for the financial year ending 31 March 2018 mainly because of the decline of revenue in January 2018 mentioned above and the incurring of listing expenses.

### **DIVIDEND**

Save for a dividend of HK\$20.0 million declared and paid by Ying Kee to its then shareholders through book entries to their respective current accounts in March 2017 (i.e. the dividend was settled by netting off with the amounts due to/due from the related parties); and an interim cash dividend of HK\$2.0 million paid by us to our ultimate shareholders in December 2017, we had not declared other dividend during the Track Record Period and up to the Latest Practicable Date.

Our Group does not have any dividend policy and has not adopted a fixed dividend payout ratio. Dividends may be paid out by way of cash or by other means that our Group considers appropriate. Declaration and payment of any dividends would require the recommendation of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. A decision to declare or to pay any dividend in the future, and the amount of any dividends, depends on a number of factors, including results of operations, financial condition, the payment by our Group's subsidiaries of cash dividends to us, and other factors the Board may deem relevant.

There will be no assurance that our Company will be able to declare or distribute any dividend. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Board in the future.

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### IMPACT OF NON-RECURRING EXPENSES

We had incurred listing expenses of approximately HK\$6.0 million for the six months ended 30 September 2017 and the remaining listing expenses of approximately HK\$1.6 million is expected to be charged to equity after the completion of the Share Offer. The total estimated listing expenses in connection with the Share Offer is approximately HK\$23.2 million (based on the Offer Price of HK\$0.51 per Offer Share, being the midpoint of the indicative Offer Price range). By the completion of the Share Offer, we expect to further incur listing expenses of approximately HK\$15.6 million, among which an estimated amount of approximately HK\$11.3 million is to be recognised as expenses and the remaining estimated listing expenses of approximately HK\$4.3 million is expected to be charged to equity under the relevant accounting standards. Accordingly, our Board wishes to inform our Shareholders and potential investors that our Group's financial results for the financial year ending 31 March 2018 will be affected by the estimated expenses in relation to the Listing.

### LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

#### Cash flow

Our Group's working capital and other capital requirements were principally satisfied by cash generated from its operations.

Set out below is the summary of cash flows of our Group for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2016 and 2017:

	Year ended 31 March		Six months ended 30 September	
	2016	2017	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)			
Cash and cash equivalents at the beginning of the year/period	561	1,182	1,182	2,136
Net cash from/(used in) operating activities	9,446	13,670	2,507	(5,416)
Net cash from/(used in) investing activities	4,094	(7,882)	(9,768)	4,118
Net cash (used in)/from financing activities	(12,919)	(4,834)	7,572	2,205
Net increase in cash and cash equivalents	621	954	311	907
Cash and cash equivalents at the end of the year/period	1,182	2,136	1,493	3,043

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### *Operating activities*

Cash flows from operating activities reflected profit/(loss) for the years/periods adjusted for non-cash items such as depreciation, interest income, interest expenses, loss or gain on disposal of property, plant and equipment, reversal of provision for long service payment, amortisation of reinstatement costs and write-off of inventories, and the effect of cash flows arising from the increase/decrease in inventories, increase/decrease in trade and other receivables as well as trade and other payables.

Net cash from operating activities for the financial year ended 31 March 2016 was approximately HK\$9.5 million. Our Group generated approximately HK\$10.2 million cash inflow from operating profit before working capital changes, adjusted for (i) income tax refund of approximately HK\$0.6 million; (ii) the increase in inventories of approximately HK\$1.3 million; (iii) the increase in trade and other receivables of approximately HK\$63,000; and (iv) the decrease in trade and other payables of approximately HK\$16,000. The increase in inventories was mainly due to the relatively large purchases of Pu-erh tea cakes during the financial year ended 31 March 2016.

Net cash from operating activities for the financial year ended 31 March 2017 was approximately HK\$13.7 million. Our Group generated approximately HK\$15.2 million cash inflow from operating profit before working capital changes, adjusted for (i) income tax paid of approximately HK\$2.6 million; (ii) the decrease in inventories of approximately HK\$60,000; (iii) the decrease in trade and other receivables of approximately HK\$0.6 million; and (iv) the increase in trade and other payables of approximately HK\$0.4 million. The trade and other receivables decreased for the financial year ended 31 March 2017 mainly because of better control on collection of trade receivables and the decrease in rental and other deposits due to closure of a shop in Yau Tong in November 2015. The trade and other payables increased for the financial year ended 31 March 2017 mainly because of later settlement of suppliers' invoices; where payments to suppliers were usually conducted after our receiving of suppliers' invoices. Late receipts of invoices from suppliers would cause delay in settlement.

Net cash used in operating activities for the six months ended 30 September 2017 was approximately HK\$5.4 million. Our Group recorded approximately HK\$3.6 million cash outflow from operating loss before working capital changes, adjusted for (i) the increase in inventories of approximately HK\$1.1 million; (ii) the increase in trade and other receivables of approximately HK\$2.1 million; and (iii) the increase in trade and other payables of approximately HK\$1.3 million. The inventories increased for the six months ended 30 September 2017 mainly because of more purchases were made. The trade and other receivables increased for the six months ended 30 September 2017 was mainly because of the newly incurred prepaid listing expenses which amounted to approximately HK\$1.6 million as at 30 September 2017. The trade and other payables increased for the six months ended 30 September 2017 mainly because of the newly incur listing expenses payable.

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We recorded a net cash outflow from operating activities for the six months ended 30 September 2017 mainly because of non-recurring listing expenses incurred during this period. Without taking into account the listing expenses, our Group would generate a positive cash inflow from operating activities of approximately HK\$0.6 million. As disclosed under the paragraph headed “Working Capital” of this section, our Directors are of the opinion that taking into account the estimated net proceeds of the Share Offer, the existing banking facilities and cash flows generated from operations, our Group will have sufficient working capital for at least the next 12 months from the date of this prospectus.

### *Investing activities*

Our Group’s net cash from investing activities for the financial year ended 31 March 2016 were approximately HK\$4.1 million mainly due to (i) the decrease in time deposits of approximately HK\$0.9 million and (ii) the decrease in the amounts due from related parties of approximately HK\$3.3 million.

Our Group’s net cash used in investing activities for the financial year ended 31 March 2017 were approximately HK\$7.9 million mainly due to increase in amounts due from related parties.

Our Group’s net cash from investing activities for the six months ended 30 September 2017 were approximately HK\$4.1 million mainly due to decrease in amounts due from related parties.

Please refer to the paragraph headed “Amounts due from/to related parties” under “Major components in net current assets” below for details.

### *Financing activities*

Our Group’s net cash used in financing activities for the financial year ended 31 March 2016 was approximately HK\$12.9 million mainly due to the repayment of bank borrowings of approximately HK\$13.7 million.

Our Group’s net cash used in financing activities for the financial year ended 31 March 2017 was approximately HK\$4.8 million mainly due to (i) the repayment of bank borrowings of approximately HK\$8.8 million; and (ii) the decrease in amounts due to related parties of approximately HK\$8.4 million; whilst our Group received proceeds from new bank borrowings of approximately HK\$12.5 million.

Our Group’s net cash from financing activities for the six months ended 30 September 2017 was approximately HK\$2.2 million mainly due to proceeds received from new bank borrowings of approximately HK\$6.0 million, which was partially offset by the repayment of bank borrowings of approximately HK\$1.0 million and the decrease in amounts due to related parties of approximately HK\$2.7 million.

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### Net current assets/(liabilities)

As at 31 March 2016, 31 March 2017 and 30 September 2017, our Group had net current assets of approximately HK\$13.6 million, HK\$6.2 million and HK\$2.2 million, respectively. Details of the components are set out as below:

	As at 31 March		As at 30 September	As at 31 January
	2016	2017	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)			
<b>Current assets</b>				
Inventories	7,060	6,982	8,090	6,986
Trade and other receivables	2,114	1,548	3,617	4,214
Amounts due from related parties	6,264	4,281	95	153
Time deposits	628	614	614	614
Cash and bank balances	1,182	2,136	3,043	3,112
<b>Total current assets</b>	<u>17,248</u>	<u>15,561</u>	<u>15,459</u>	<u>15,079</u>
<b>Current liabilities</b>				
Trade and other payables	401	826	2,152	999
Amounts due to related parties	1,087	2,699	–	–
Tax payable/(receivable)	852	795	1,147	(1,581)
Bank borrowings	1,271	5,000	10,000	13,000
<b>Total current liabilities</b>	<u>3,611</u>	<u>9,320</u>	<u>13,299</u>	<u>12,418</u>
<b>Net current assets</b>	<u>13,637</u>	<u>6,241</u>	<u>2,160</u>	<u>2,661</u>

Our net current assets decreased from approximately HK\$13.6 million as at 31 March 2016 to approximately HK\$6.2 million as at 31 March 2017 mainly due to the increase in current liabilities. Amounts due to related parties increased from approximately HK\$1.1 million as at 31 March 2016 to approximately HK\$2.7 million as at 31 March 2017. Our bank borrowings also increased from approximately HK\$1.3 million as at 31 March 2016 to approximately HK\$5.0 million as at 31 March 2017.

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Our net current assets decreased from approximately HK\$6.2 million as at 31 March 2017 to approximately HK\$2.2 million as at 30 September 2017 mainly due to the increase in current liabilities. Our bank borrowings increased from approximately HK\$5.0 million as at 31 March 2017 to approximately HK\$10.0 million as at 30 September 2017. We recorded net current assets of approximately HK\$2.7 million as at 31 January 2018 mainly because of the decrease in trade and other payables. Decrease in trade and other payables was mainly due to the settlement of listing expenses.

As at the Latest Practicable Date, our Group has fully settled the outstanding balances of amounts due from/to related parties. Please refer to the paragraph headed “Amounts due from/to shareholders” under “Major components in net current assets” below for details.

### **Major components in net current assets**

#### *Cash and bank balances*

The cash and bank balances were approximately HK\$1.2 million, HK\$2.1 million and HK\$3.0 million as at 31 March 2016, 31 March 2017 and 30 September 2017, respectively.

#### *Trade and other receivables*

Our sales to customers are mainly on cash basis. We also grant credit terms of 0 to 75 days to corporate customers. We normally do not grant credit terms to new customers. We review the credit terms for each corporate customer with reference to, among other things, (i) the length of the business relationship; and (ii) the background and credibility of the customers.

Trade and other receivables were approximately HK\$2.1 million as at 31 March 2016 and approximately HK\$1.5 million as at 31 March 2017. Trade and other receivables of our Group as at 31 March 2016 and 31 March 2017 consist of trade receivables of approximately HK\$0.7 million and HK\$0.5 million, respectively, which have been fully settled as at the Latest Practicable Date, and deposits, prepayments and other receivables of approximately HK\$1.4 million and HK\$1.1 million, respectively. The decrease in trade receivables was mainly due to better control on collection of trade receivables. As at 31 March 2016 and 31 March 2017, none of our trade receivables was individually or collectively considered to be impaired. The decrease in deposits, prepayments and other receivables was mainly due to the decrease in rental and other deposits.

The trade receivables turnover days (calculated based on average trade receivables divided by revenue times number of days) were approximately 5 days and 5 days for the financial year ended 31 March 2016 and the financial year ended 31 March 2017, respectively as customers of our retail shops and concession counters contributed substantial portion of our revenue and payments from such retail customers were in general settled immediately.



## FINANCIAL INFORMATION

Trade and other receivables were approximately HK\$3.6 million as at 30 September 2017, which consist of trade receivables of approximately HK\$0.4 million, and deposits, prepayments and other receivables of approximately HK\$3.2 million. As at 30 September 2017, none of our trade receivables was individually or collectively considered to be impaired. The trade receivables turnover day maintained at approximately 5 days for the six months ended 30 September 2017.

The ageing analysis of trade receivables as at 31 March 2016, 31 March 2017 and 30 September 2017 based on the invoice date is as follows:

	Subsequent settlement up to the Latest Practicable Date			Subsequent settlement up to the Latest Practicable Date			Subsequent settlement up to the Latest Practicable Date		
	As at 31 March 2016	Latest Practicable Date	Percentage of subsequent settlement up to Latest Practicable Date	As at 31 March 2017	Latest Practicable Date	Percentage of subsequent settlement up to Latest Practicable Date	As at 30 September 2017	Latest Practicable Date	Percentage of subsequent settlement up to Latest Practicable Date
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
0 – 30 days	391	391	100.0	416	416	100.0	341	341	100.0
31 – 60 days	291	291	100.0	48	48	100.0	19	18	94.7
61 – 90 days	20	20	100.0	11	11	100.0	13	13	100.0
	<u>702</u>	<u>702</u>	<u>100.0</u>	<u>475</u>	<u>475</u>	<u>100.0</u>	<u>373</u>	<u>372</u>	<u>99.7</u>

Below is an ageing analysis of trade receivables that were past due but not impaired, based on due dates and their respective subsequent settlement up to the Latest Practicable Date:

	Subsequent settlement up to the Latest Practicable Date			Subsequent settlement up to the Latest Practicable Date			Subsequent settlement up to the Latest Practicable Date		
	As at 31 March 2016	Latest Practicable Date	Percentage of subsequent settlement up to Latest Practicable Date	As at 31 March 2017	Latest Practicable Date	Percentage of subsequent settlement up to Latest Practicable Date	As at 30 September 2017	Latest Practicable Date	Percentage of subsequent settlement up to Latest Practicable Date
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
Neither past due nor impaired	375	375	100.0	430	430	100.0	330	330	100.0
1 – 30 days past due	326	326	100.0	45	45	100.0	43	42	97.7
Over 90 days past due	1	1	100.0	-	-	-	-	-	-
	<u>702</u>	<u>702</u>	<u>100.0</u>	<u>475</u>	<u>475</u>	<u>100.0</u>	<u>373</u>	<u>372</u>	<u>99.7</u>

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As illustrated by the ageing analysis, up to the Latest Practicable Date, the past due trade receivables as at 31 March 2016 and 31 March 2017 had been fully settled.

Up to the Latest Practicable Date, approximately HK\$900 of past due trade receivables (within 30 days) as at 30 September 2017 remained outstanding (which in aggregate represents approximately 0.3% of the total trade receivables as at 30 September 2017).

Based on our experience, our management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable.

The policy for impairment of trade receivables of our Group is based on the evaluation of collectability and the ageing analysis of the receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer.

We send payment reminder to our customers for payments overdue and/or payments overdue exceeded 90 days. Our accounts department is responsible for follow-up work on overdue balances and arranges to cease selling of our products to the relevant customers. For payments overdue over 120 days, we may determine the provision for impairment of trade receivables and will cease selling our products to relevant customers unless the outstanding payments have been fully settled; and if so, no credit terms would be granted. It is our policy that staff in our accounts' department will prepare analysis on account receivables and account payables, which will be approved by our chief financial officer quarterly.

### ***Trade and other payables***

The trade and other payables were approximately HK\$0.4 million, HK\$0.8 million and HK\$2.2 million as at 31 March 2016, 31 March 2017 and 30 September 2017, respectively. Trade and other payables of our Group consist of trade payables of approximately HK\$0.2 million, HK\$0.3 million and HK\$0.5 million; and accrued charges and other payables of approximately HK\$0.2 million, HK\$0.5 million and HK\$1.7 million, as at 31 March 2016, 31 March 2017 and 30 September 2017, respectively.

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## FINANCIAL INFORMATION

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Set out below is the ageing analysis of the trade payables of our Group as at 31 March 2016, 31 March 2017 and 30 September 2017:

	Subsequent settlement up to the		Subsequent settlement up to the		Subsequent settlement up to the	
	As at 31 March 2016 <i>HK\$'000</i>	Latest Practicable Date <i>HK\$'000</i>	As at 31 March 2017 <i>HK\$'000</i>	Latest Practicable Date <i>HK\$'000</i>	As at 30 September 2017 <i>HK\$'000</i>	Latest Practicable Date <i>HK\$'000</i>
0 – 30 days	<u>174</u>	<u>174</u>	<u>337</u>	<u>337</u>	<u>477</u>	<u>477</u>

Purchases from suppliers are generally made without prescribed credit terms. However, it is our practice that payments are generally made by cheques within 10 days after receipt of suppliers' invoices. The trade payable turnover days (calculated based on average trade payables divided by total purchases times number of days) increased from approximately 9 days for the financial year ended 31 March 2016 to approximately 12 days for the financial year ended 31 March 2017 and increased further to approximately 19 days for the six months ended 30 September 2017. Increase in trade payable turnover days was mainly due to the late receipt of suppliers' invoices, which caused delay in settlement. Up to the Latest Practicable Date, trade payables as at 30 September 2017 had been fully settled.

Accruals and other payables mainly represent accrual expenses for mandatory provident fund payment, professional fee, stamp duty and/or listing expenses payables.

### ***Inventories***

Our inventories balance were approximately HK\$7.1 million, HK\$7.0 million and HK\$8.1 million as at 31 March 2016, 31 March 2017 and 30 September 2017, respectively, and accounted for approximately 36.1%, 40.2% and 45.4% of our total assets as at the same dates. Inventories consist of tea leaves, tea wares, packaging materials and canned/packed tea products for sale.

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Set out below is the inventory ageing analysis of our Group as at 31 March 2016, 31 March 2017 and 30 September 2017:

### As at 31 March 2016

(in HK\$'000)

	Less than 1 year	1 – 2 years	Over 2 years	Total	Subsequent usage/sales up to Latest Practicable Date	Percentage of subsequent usage/sales up to Latest Practicable Date %
Tea leaves	1,666	150	1,834	3,650	1,410	38.6
Canned/Packed tea products for sale	1,832	29	345	2,206	1,983	89.9
Tea wares	467	53	86	606	466	76.9
Packing materials	586	1	11	598	417	69.7
<b>Total</b>	<b>4,551</b>	<b>233</b>	<b>2,276</b>	<b>7,060</b>	<b>4,276</b>	<b>60.6</b>

### As at 31 March 2017

(in HK\$'000)

	Less than 1 year	1 – 2 years	Over 2 years	Total	Subsequent usage/sales up to Latest Practicable Date	Percentage of subsequent usage/sales up to Latest Practicable Date %
Tea leaves	692	936	1,718	3,346	999	29.9
Canned/Packed tea products for sale	1,950	86	254	2,290	2,043	89.2
Tea wares	274	167	82	523	334	63.9
Packing materials	586	227	10	823	303	36.8
<b>Total</b>	<b>3,502</b>	<b>1,416</b>	<b>2,064</b>	<b>6,982</b>	<b>3,679</b>	<b>52.7</b>

### As at 30 September 2017

(in HK\$'000)

	Less than 1 year	1 – 2 years	Over 2 years	Total	Subsequent usage/sales up to Latest Practicable Date	Percentage of subsequent usage/sales up to Latest Practicable Date %
Tea leaves	1,015	906	1,648	3,569	1,163	32.6
Canned/Packed tea products for sale	2,738	243	64	3,045	2,612	85.8
Tea wares	325	82	159	566	289	51.1
Packing materials	363	403	144	910	208	22.9
<b>Total</b>	<b>4,441</b>	<b>1,634</b>	<b>2,015</b>	<b>8,090</b>	<b>4,272</b>	<b>52.8</b>

## FINANCIAL INFORMATION

Tea leaves aged over two years in our inventories are mainly Pu-erh tea leaves; and most of the canned/packed tea products for sale over two years in our inventories are also Pu-erh tea leaves. As mentioned in the Euromonitor Report, generally, the longer Pu-erh tea is preserved, the better is its taste and the higher is its value.

For the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, our inventory turnover days (calculated based on average inventories divided by cost of sales times number of days) were approximately 266 days, 285 days and 403 days, respectively. The inventory turnover days was relatively long for the six months ended 30 September 2017 mainly because it was a low season during such months. For the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, our Group recorded inventories written off of Nil, approximately HK\$18,000 and Nil, respectively. The inventories written off for the financial year ended 31 March 2017 was mainly due to the damaged packing material which might affect the appearance of our final products. Our Group will not consider impairment on inventories of Pu-erh tea leaves as its value will not decline with the time. For other types of tea leaves, our Group performs regular review of the carrying amounts of inventories. Based on the review, write-down of inventories will be made for the tea leaves aged for more than two years.

### *Amounts due from/to related parties*

Set out below is the breakdown of the amounts due/from to related parties as at 31 March 2016, 31 March 2017 and 30 September 2017:

	As at 31 March 2016 HK\$'000	2017 HK\$'000	As at 30 September 2017 HK\$'000
<b>Amounts due from:</b>			
Mr. Chan Kwong Yuen	2,891	1,492	–
Mr. Chan Kun Yuen	1,383	–	–
Mr. Chan Shu Yuen	1,990	592	–
Chan Sing Hoi Enterprises	–	988	–
Golden Ocean	–	1,209	–
Profit Ocean	–	–	19
Tri-Luck	–	–	19
Wealth City	–	–	19
Sky King	–	–	19
Coastal Lion	–	–	19
<b>Total</b>	<b>6,264</b>	<b>4,281</b>	<b>95</b>
<b>Amounts due to:</b>			
Mr. Chan Tat Yuen	1,087	2,584	–
Mr. Chan Kun Yuen	–	115	–
<b>Total</b>	<b>1,087</b>	<b>2,699</b>	<b>–</b>

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The amounts due are non-trade in nature, unsecured, interest-free and repayable on demand. Our Group will fully settle the amounts due from/to related parties prior to the Listing.

### ***Bank borrowings***

Bank borrowings increased from approximately HK\$1.3 million as at 31 March 2016 to approximately HK\$5.0 million as at 31 March 2017 and further to approximately HK\$10.0 million as at 30 September 2017. The increases in bank borrowings are related to drawdown of bank loans for payments of listing expenses incurred or to be incurred. As at 31 March 2016, 31 March 2017 and 30 September 2017, the bank loans are secured by (i) personal guarantee provided by our Controlling Shareholders and, (ii) corporate guarantee provided by a related company, Chan Sing Hoi Enterprises, an entity controlled by our Controlling Shareholders. Our Directors confirmed that all guarantees provided by our Controlling Shareholders or their entities for our banking facilities will be released prior to the Listing.

### **MAJOR FINANCIAL RATIOS**

	<b>As at/For the year ended</b>		<b>As at/For the</b>
	<b>31 March</b>		<b>six months</b>
	<b>2016</b>	<b>2017</b>	<b>ended</b>
			<b>30 September</b>
			<b>2017</b>
Return on equity	52.6%	168.7%	(135.0)%
Return on total assets	40.4%	70.8%	(23.5)%
Current ratio ( <i>unit: times</i> )	4.8	1.7	1.2
Quick ratio ( <i>unit: times</i> )	2.8	0.9	0.6
Gearing ratio	8.5%	68.6%	322.0%
Debt-to-equity ratio	Nil	30.9%	204.2%
Interest coverage ( <i>unit: times</i> )	38.2	85.6	Nil

*Notes:*

- Return on equity equals the profit/(loss) and total comprehensive income/(expense) for the year/period divided by the equity of our Group as at the end of the respective year/period and multiplied by 100%.
- Return on total assets equals the profit/(loss) and total comprehensive income/(expense) for the year/period divided by the total assets of our Group as at the end of the respective year/period and multiplied by 100%.
- Current ratio equals the current assets divided by the current liabilities as at the end of the respective year/period.
- Quick ratio equals the current assets minus inventories then divided by the current liabilities as at the end of the respective year/period.
- Gearing ratio equals total debt divided by the total equity as at the end of the respective year/period and multiplied by 100%. Debts are defined to include interest bearing payables incurred not in the ordinary course of business.

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## FINANCIAL INFORMATION

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6. Debt to equity ratio equals net debt divided by the net equity as at the end of the respective year/period and multiplied by 100%. Net debts are defined to include all interest bearing payables net of cash and cash equivalents and time deposits.
7. Interest coverage equals the profit/(loss) before interest and tax divided by the finance costs for the respective year/period.

### **Return on equity**

Our return on equity ratio improved from approximately 52.6% for the financial year ended 31 March 2016 to approximately 168.7% for the financial year ended 31 March 2017 mainly because of the increase in net profit from approximately HK\$7.9 million for the financial year ended 31 March 2016 to approximately HK\$12.3 million for the financial year ended 31 March 2017 and the dividend of HK\$20.0 million paid during the financial year ended 31 March 2017. Our return on equity ratio decreased significantly to approximately (135.0)% for the six months ended 30 September 2017 mainly due to the fact that the listing expenses were incurred which resulted in net loss during the period.

### **Return on total assets**

Our return on total assets ratio improved from approximately 40.4% for the financial year ended 31 March 2016 to approximately 70.8% for the financial year ended 31 March 2017 mainly because of the increase in net profit from approximately HK\$7.9 million for the financial year ended 31 March 2016 to approximately HK\$12.3 million for the financial year ended 31 March 2017. Our return on total assets ratio decreased significantly to approximately (23.5)% for the six months ended 30 September 2017 mainly due to the fact that the listing expenses were incurred which resulted in the net loss during the period. Please refer to the paragraph headed “Profit/(loss) and total comprehensive income/(expense) for the year/period” under “Principal income statement components” and the paragraph headed “Net current assets” under “Liquidity, financial and capital resources” for details of return and current assets.

### **Current ratio and quick ratio**

The current ratio and quick ratio decreased from approximately 4.8 and 2.8 as at 31 March 2016 to approximately 1.7 and 0.9 as at 31 March 2017 respectively due to the increase in amounts due to related parties and increase in bank borrowings. The current ratio and quick ratio decreased to approximately 1.2 and 0.6 as at 30 September 2017 due to further increase in bank borrowings.

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### Gearing ratio

Our gearing ratio was approximately 8.5%, 68.6% and 322.0% as at 31 March 2016, 31 March 2017 and 30 September 2017, respectively. The increases were mainly due to (i) the substantial increase in bank borrowings from approximately HK\$1.3 million as at 31 March 2016 to HK\$5.0 million as at 31 March 2017 and to HK\$10.0 million as at 30 September 2017; and (ii) the lower total equity. The lower total equity as at 31 March 2017 compared to 31 March 2016 was mainly due to the dividend of HK\$20.0 million paid by Ying Kee during the financial year ended 31 March 2017 and the lower total equity as at 30 September 2017 compared to 31 March 2017 was mainly due to the listing expenses which lowered the retained earnings.

### Debt-to-equity ratio

Our debt-to-equity ratio was approximately Nil, 30.9% and 204.2% as at 31 March 2016, 31 March 2017 and 30 September 2017 respectively. The increases were mainly due (i) to the increase in bank borrowings from approximately HK\$1.3 million as at 31 March 2016 to HK\$5.0 million as at 31 March 2017 and to HK\$10.0 million as at 30 September 2017; and (ii) the lower total equity. The lower total equity as at 31 March 2017 compared to 31 March 2016 was mainly due to the dividend of HK\$20.0 million paid by Ying Kee during the financial year ended 31 March 2017 and the lower total equity as at 30 September 2017 compared to 31 March 2017 was mainly due to the listing expenses which lowered the retained earnings.

### Interest coverage

Our interest coverage was approximately 38.2, 85.6 and Nil for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017 respectively. The increase from the financial year ended 31 March 2016 to the financial year ended 31 March 2017 was mainly due to the increase in net profit. The turnaround from positive interest coverage for the financial year ended 31 March 2017 to Nil interest coverage for the six months ended 30 September 2017 was mainly due to net loss recorded as a result of the incur of the listing expenses.

### WORKING CAPITAL

Our existing banking facilities with a bank (the “**Bank**”) were secured by (i) personal guarantee provided by our Controlling Shareholders and (ii) corporate guarantee provided by a related company, Chan Sing Hoi Enterprises, an entity controlled by our Controlling Shareholders. The said corporate guarantee and the personal guarantee will be released subject to the successful listing of our Company and other conditions including but not limited to corporate guarantee from our Company and time deposit of not less than HK\$20 million.



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After taking into consideration the time deposit of HK\$20 million with the Bank upon successful listing and all other basis and assumptions (including implementation of future plans and application of use proceeds in accordance with the expected time frame as set out in the table under “Implementation Plans” of the section headed “Future plans and use of proceeds” in this prospectus), our Directors are of the view that our Group will still be able to maintain positive cash flow balances for at least the next 12 months from the date of this prospectus. The Sole Sponsor concurred with our Directors’ view that the main reasons are:

- (i) our Group will receive gross proceeds of approximately HK\$45.9 million (based on the Offer Price of HK\$0.51 per Offer Share, being the mid-point of the proposed Offer Price range of HK\$0.48 to HK\$0.54 per Offer Share) and to the extent that the net proceeds of the Share Offer are not immediately applied to the respective purposes, such proceeds will be deposited into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong;
- (ii) it is expected that of the estimated listing expenses of approximately HK\$23.2 million, large portion would have already been paid by our Group before the approval of the Listing; and
- (iii) profit before income tax for the years ended 31 March 2016 and 2017 amounted to approximately HK\$9.6 million and HK\$14.8 million, respectively. Net cash from operating activities amounted to approximately HK\$13.7 million for the year ended 31 March 2017. Having considered, among others, the historical trend of our Group’s profitability, the opening of new shops and other implementation plans of our Group, and the stable market trend of the packaged branded Chinese tea retail industry in Hong Kong with reference to the Euromonitor Report, it is expected that our cashflow from operating activities will be maintained at similar level as that of the year ended 31 March 2017 for at least the next 12 months from the date of this prospectus.

Our Directors are of the opinion that taking into account the estimated net proceeds of the Share Offer, the existing banking facilities and cash flows generated from operations, our Group will have sufficient working capital for at least the next 12 months from the date of this prospectus.

The Sole Sponsor is satisfied that after taking into account the estimated net proceeds from the Share Offer, the existing banking facilities and cash flows generated from the business operations, our Group will have sufficient working capital for at least the next 12 months from the date of this prospectus.

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### INDEBTEDNESS

The following table sets forth our total debts as at 31 March 2016, 31 March 2017, 30 September 2017 and 31 January 2018. As at 31 January 2018, being the latest practicable date of our indebtedness statement, except as disclosed in the table below, our Group did not have any outstanding debt securities, borrowings, indebtedness, mortgages or charges on a combined basis. Since 31 January 2018 and up to the Latest Practicable Date, there is no material adverse change in our indebtedness.

	<b>As at 31 March</b>		<b>As at 30 September</b>	<b>As at 31 January</b>
	<b>2016</b>	<b>2017</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<b>(unaudited)</b>
Amounts due to				
Controlling Shareholders	1,087	2,699	–	–
Bank borrowings	1,271	5,000	10,000	13,000
<b>Total</b>	<b>2,358</b>	<b>7,699</b>	<b>10,000</b>	<b>13,000</b>

For details of the fluctuation of our indebtedness, please refer to the paragraphs headed “Amounts due from/to related parties” and “Bank borrowings” in this section.

As at the Latest Practicable Date, our unutilised banking facilities for funding to our Group amounted to HK\$11.0 million.

### Contingent liabilities and off-balance sheet arrangement

As at 31 March 2016, 31 March 2017, 30 September 2017, 31 January 2018 and the Latest Practicable Date, our Group did not have material contingent liabilities or material off-balance sheet arrangement. Our Directors confirm that, to the best of their knowledge, they are not aware of any material defaults in the payment of trade and non-trade payables or bank borrowings or any defaults in material financial covenants. Our bank loan arrangements do not contain any material covenants that will have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future.

### Disclaimers

Save as disclosed in the paragraphs headed “Indebtedness” and “Contingent liabilities and off-balance sheet arrangement” in this section, and apart from intra-group liabilities, we did not have, at the close of business on 31 January 2018, any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities.

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Our Directors confirm that there has been no material change in indebtedness, commitments and contingent liabilities of our Group since 31 January 2018 to the Latest Practicable Date.

### CAPITAL EXPENDITURES

During the Track Record Period, we incurred capital expenditures for the purchase of property, plant and equipment. The following table sets forth our capital expenditures for the years/period indicated:

	Year ended 31 March		Six months ended 30 September
	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Purchase of machinery and equipment	(209)	(45)	(68)
<b>Total capital expenditures</b>	<b>(209)</b>	<b>(45)</b>	<b>(68)</b>

### Capital commitment

	As at 31 March		As at 30 September	As at 31 January
	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Contracted but not provided for: Property, plant and equipment	–	–	278	–

### Operating lease commitments

At 31 March 2016, 31 March 2017 and 30 September 2017, the total future minimum lease payments payable by our Group under non-cancellable operating leases are as follows:

	As at 31 March		As at 30 September	As at 31 January
	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within one year	1,382	669	2,138	2,288
In the second to fifth years	371	–	3,119	2,148
	<b>1,753</b>	<b>669</b>	<b>5,257</b>	<b>4,436</b>

## FINANCIAL INFORMATION

Our Group leases a number of premises which comprises office, warehouse, retail shops and concession counters under operating leases. The leases run for an initial period of one to three years and our Group may renegotiate the lease terms with the respective landlords/lessors upon or near expiry of the leases.

In addition to the above, contingent rentals are charged on certain retail shops and concession counters based on pre-determined percentages of realised sales, but generally with a basic or minimum lease payment as agreed of the respective leases.

### PROPERTY INTERESTS

As at the Latest Practicable Date, our Group leased and were licensed certain properties from related parties and Independent Third Parties. For details, please refer to the sub-sections headed “Properties” and “Our retail network” under the section “Business” of this prospectus.

### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS

The unaudited pro forma adjusted combined net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of our Group attributable to owners of our Company had the Share Offer been completed as at 30 September 2017 or at any future dates. It is prepared based on the audited combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 as set out in the Accountants’ Report in Appendix I to this prospectus, and adjusted as described below.

	Audited combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Share Offer <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 <i>HK\$'000</i> <i>(Note 4)</i>	Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 per Share <i>HK\$</i> <i>(Notes 3 and 4)</i>
Based on the Offer Price of HK\$0.54 per Offer Share	3,106	31,314	34,420	0.10
Based on the Offer Price of HK\$0.48 per Offer Share	3,106	26,103	29,209	0.08

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*Notes:*

- (1) The audited combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited combined net tangible assets of our Group attributable to the owners of our Company as at 30 September 2017 amounting to approximately HK\$3,106,000.
- (2) The estimated net proceeds from the Share Offer are based on the Offer Price of HK\$0.48 and HK\$0.54 per Offer Share, being the low-end and high-end of the indicative range of the Offer Price, respectively, after deduction of the estimated underwriting fees and other listing expenses expected to be incurred by our Group subsequent to 30 September 2017 (i.e. approximately HK\$6,053,000 listing expenses which has been charged to the profit or loss up to 30 September 2017 was excluded) and 90,000,000 Offer Shares expected to be issued under the Share Offer.
- (3) The unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 per Share is calculated based on 360,000,000 Shares, being the number of Shares expected to be in issue immediately following the Bonus Issue and the Share Offer had it been completed on 30 September 2017, without taking into account of any Shares which may be granted and issued by our Company pursuant to the Share Option Scheme.
- (4) The unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 does not take into account of dividend of HK\$2,000,000 declared and paid in December 2017 by a subsidiary of our Group. Had the dividend been taken into account, the unaudited pro forma adjusted combined net tangible assets per Share would be HK\$0.09 (assuming an Offer Price of HK\$0.54 per Offer Share) and HK\$0.08 (assuming an Offer Price of HK\$0.48 per Offer Share), respectively.
- (5) No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 to reflect any trading results or other transactions of our Group entered into subsequent to 30 September 2017.

### RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in note 21 to the Accountants' Report of our Group in Appendix I to this prospectus, our Directors are of the view that these transactions were conducted on arm's length basis and did not distort our results of operations during the Track Record Period.

For a discussion of related party transactions, please see note 21 to the Accountants' Report of our Group as contained in Appendix I to this prospectus.

Please refer to "Connected transactions – non-exempt continuing connected transactions" of this prospectus for details of the rental expenses, management fee and rates paid to Chan Sing Hoi Enterprises and Golden Ocean.

We confirmed that we have ceased selling products to Chan Sing Hoi Enterprises and Golden Ocean since March 2017.

Please also refer to "Connected transactions – exempt continuing connected transactions" of this prospectus for the continuing connected transactions relating to the purchases of products by our Directors, which will be conducted on normal commercial terms after the Listing.

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## **FINANCIAL INFORMATION**

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In addition, during the Track Record Period, Golden Ocean made certain purchases on behalf of our Group. We confirmed that Golden Ocean and/or any of our connected persons ceased making purchases on behalf of our Group since June 2017. We confirm that all invoices of our Group (including customers invoices and suppliers invoices) are now/will be in name(s) of companies within our Group.

### **DISTRIBUTABLE RESERVES**

Our Company was incorporated on 14 September 2017. As at the Latest Practicable Date, our Company had no reserves available for distribution to our Shareholders. It has not carried out any business since the date of its incorporation, save for the transactions relating to our Reorganisation.

### **DISCLOSURE UNDER RULES 17.15 TO 17.21 OF THE GEM LISTING RULES**

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

### **TAX**

Our Group's profits 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 financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017 on the estimated assessable profits of our Group arising in Hong Kong.

## FUTURE PLANS AND USE OF PROCEEDS

### BUSINESS OBJECTIVES AND STRATEGIES

Our business objectives are to continue to grow our business, to maintain our established position in the Chinese tea leaves industry in Hong Kong and to promote the Chinese tea drinking culture and our tea products to our customers. To achieve these objectives, we have formulated the following major business strategies:

#### Open new retail points in Hong Kong

Our retail shops, showroom and concession counters generated most of our revenue, account for approximately 91.2%, 92.9% and 91.8% of our total revenue, for the financial year ended 31 March 2016, the financial year ended 31 March 2017 and the six months ended 30 September 2017, respectively. As at the Latest Practicable Date, we have established a retail network spread out across Hong Kong Island, Kowloon and the New Territories, with a total of 10 retail shops and concession counters. For details, please refer to the section headed “Business – Our retail network” in this prospectus. We have opened Shop 8, our Kowloon Bay shop in October 2017. Part of the proceeds will also be used for the rental and staff expenses of our Shop 8. We plan to open a new concession counter in a department store in Kwun Tong (“Shop 11”) and a new retail shop in Causeway Bay (“Shop 12”) in the first half of the financial year ending 31 March 2019, and two more other retail shops (“Shop 13” and “Shop 14”) in Shatin and Yuen Long in the first half of the financial year ending 31 March 2020, and the second half of the financial year ending 31 March 2020, respectively. The increment of our retail shops will expand our retail network in more geographical locations and enhance accessibility of our sale points by our customers. Our customers can purchase tea products and learn more about tea culture and the Ying Kee Tea House brand through more widespread channels. Therefore, we believe that such expansion of retail network would help promote the Ying Kee Tea House brand’s recognition and awareness to the public. We will hire staff for each of our new retail points, which will be opened during the two financial years ending 31 March 2020 as mentioned above. It is estimated that the monthly salary for new staff for opening of each new shop will be around HK\$18,000 to HK\$26,000. We estimate that approximately HK\$11.3 million will be incurred as follows:

	Shop 8 HK\$’000	Shop 11 HK\$’000	Shop 12 HK\$’000	Shop 13 HK\$’000	Shop 14 HK\$’000
Rental expenses	1,146	1,249	1,811	836	585
Staff costs (including staff benefits and MPF)	844	584	739	320	213
Renovation expenses	–	143	496	579	579
Rental deposits	–	152	245	251	251
Miscellaneous ( <i>Note</i> )	–	2	82	84	84
<b>Total</b>	<b>1,990</b>	<b>2,130</b>	<b>3,373</b>	<b>2,070</b>	<b>1,712</b>

*Note:* Miscellaneous include fixed assets and advance payments for electricity, water and telephone.

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## FUTURE PLANS AND USE OF PROCEEDS

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### *Feasibility for our Group to open more retail points in Hong Kong*

Our Directors consider that it is feasible for our Group to open more retail points in Hong Kong on the following basis:

- (i) given the long operating history of our Group, Ying Kee Tea House is a recognised brand among people in Hong Kong and this will benefit our Group in attracting general public to visit our new retail points and soliciting business from potential customers;
- (ii) our expansion plan will be supported by adequate demand despite the slow growth of the market. According to the Euromonitor Report, while retail value sales of packaged branded Chinese tea in Hong Kong increased only by approximately 2.0% from 2015 to 2016 and is forecasted to grow by approximately 2.5% from 2016 to 2017, our Group recorded revenue growth of approximately 4.1% for the year ended 31 March 2017.

Euromonitor is of the view that retail value sales of packaged branded Chinese tea will accelerate to a CAGR of 2.7% from 2017 to 2021 (as compared to CAGR of 1.7% from 2012 to 2016) mainly because (i) the growing health consciousness of Hong Kong's consumers will further intensify, attracting more consumers to packaged branded Chinese tea as a convenient, affordable and healthy hot beverage; and (ii) free-spending, affluent tourists from an improved Chinese economy are expected to help revive retail sales of high-end premium Chinese tea for Hong Kong retailers.

As the overall market for Chinese tea business in Hong Kong is competitive and fragmented, it is important that our Group to react promptly to ride on opportunities from the accelerate growth of the market by expanding its business in order to sustain its market position and attempt to gain larger market share. Given the established position of our Group in the tea industry, our Directors are confident that our Group's revenue will continue to grow and outperform the market;

- (iii) it is expected that the breakeven period and the investment payback period for the new retail shops will not be long. For illustration purpose, our Directors, based on their best estimation on the investment cost, cashflow and profitability of the four new retail points, advised that both the breakeven and investment payback period for new retail points would be around 0.5 year to 1.4 years. Please refer to the paragraph "Historical and expected breakeven and investment payback period of the existing and new retail shops and concession counters, respectively" under "Our retail network" of the "Business" section of this prospectus for details; and
- (iv) our Group will select the locations by taking into due and careful consideration of, among others, the spending power of surrounding area, the proximity to competitors and the degree of brand recognition, etc.



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## **FUTURE PLANS AND USE OF PROCEEDS**

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### **Enhance our management capability and efficiency through improvement of our information system**

We believe that an enhancement of our management capability and efficiency could increase our competitiveness. We plan to add on and improve our existing information system. Currently, we have a POS system in place which allows us to monitor the sales and inventory at our retail stores in Hong Kong on a real-time basis. We plan to upgrade to a more comprehensive information system which include financial services, inventory management, order management and purchasing service management. Upon implementation of the upgraded information system, our management could manage our tea business more effectively and efficiently. The new system will also facilitate our business and operational processes. The total investment of one-off implementation of the upgrade of our information system is estimated at approximately HK\$2.4 million and the annual license fee is estimated at approximately HK\$0.6 million.

### **Expand our human resources**

In view of the expected expansion of our businesses and the increase in time needed for the compliance with the relevant laws and regulations because of the Listing, in addition to the recruitment of new sales staff to our new retail shops, we also plan to strengthen the capability of our back office through the recruitment of an accountant to handle the accounting and finance aspect of our operation. We estimate that approximately HK\$0.3 million will be incurred per annum.

### **Improve working environment and efficiency through renovation**

To improve our working environment and efficiency, we also plan to renovate our office and warehouse in Siu Sai Wan. Since we expect new staff will join our Group in the future, we plan to implement a more efficient working layout in our office and warehouse. The renovation will be carried out in stages and our Directors believe that it will not affect our operation. The total renovation cost is estimated at approximately HK\$2.2 million.

## **IMPLEMENTATION PLANS**

We set forth below the implementation plans of our Group in pursuance of our business strategies. Prospective investors should note that the following implementation plans are formulated on the bases and assumptions as referred to in the sub-section headed “Bases and key assumptions” in this section. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors set forth in the section headed “Risk factors” of this Prospectus. Our Group’s actual course of business may vary from the business objectives set out in this prospectus. There can be no assurance that the plans of our Group will materialise in accordance with the expected time frame or that the objectives of our Group will be accomplished at all.

## FUTURE PLANS AND USE OF PROCEEDS

	For the period from the Latest Practicable Date to 31 March 2018 <i>HK\$'000</i>	For the six months ending 30 September 2018 <i>HK\$'000</i>	For the six months ending 31 March 2019 <i>HK\$'000</i>	For the six months ending 30 September 2019 <i>HK\$'000</i>	For the six months ending 31 March 2020 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Opening of new retail points in Hong Kong	–	2,376	1,754	3,909	3,236	11,275
Improving information system	–	2,380	–	333	333	3,046
Recruitment	–	147	147	150	151	595
Renovation of office and warehouse	–	2,167	–	–	–	2,167
Partial repayment of bank loan	–	3,400	–	–	–	3,400
General working capital	–	543	543	543	543	2,172
	–	11,013	2,444	4,935	4,263	22,655

### For the period from 1 April 2018 to 30 September 2018

Business strategies	Implementation plan	Use of proceeds <i>HK\$'000</i>
Open new retail points in Hong Kong	<ul style="list-style-type: none"> <li>• Locate and renovate premises for Shop 11 and Shop 12 and payment of rental related expenses</li> <li>• Recruit sales staff for each of Shop 11 and Shop 12 respectively and payment of salary</li> <li>• Rental and staff payment for Shop 8</li> </ul>	2,376
Enhance our management capability and efficiency through improvement of our information system	<ul style="list-style-type: none"> <li>• Engage third party to enhance the existing information system in the areas of accounting, procurement, customer relationship management, inventory and human resources</li> </ul>	2,380
Expand our human resources	<ul style="list-style-type: none"> <li>• Payment of salary for the accounting officer</li> </ul>	147
Repay bank loan partially	<ul style="list-style-type: none"> <li>• Repay outstanding loan under the banking facilities with a bank</li> </ul>	3,400
Renovation of our office and warehouse	<ul style="list-style-type: none"> <li>• Payment for renovating our office and warehouse in Siu Sai Wan</li> </ul>	2,167

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## FUTURE PLANS AND USE OF PROCEEDS

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### For the period from 1 October 2018 to 31 March 2019

<b>Business strategies</b>	<b>Implementation plan</b>	<b>Use of proceeds HK\$'000</b>
Open new retail points in Hong Kong	<ul style="list-style-type: none"> <li>• Rental and staff payment for Shop 8, Shop 11 and Shop 12</li> </ul>	1,754
Expand our human resources	<ul style="list-style-type: none"> <li>• Payment of salary for the accounting officer</li> </ul>	147

### For the period from 1 April 2019 to 30 September 2019

<b>Business strategies</b>	<b>Implementation plan</b>	<b>Use of proceeds HK\$'000</b>
Open new retail points in Hong Kong	<ul style="list-style-type: none"> <li>• Locate and renovate premises for Shop 13 and Shop 14 and payment of rental related expenses</li> <li>• Recruit sales staff for each of Shop 13 and Shop 14 respectively and payment of salary</li> <li>• Rental and/or staff payment for Shop 8, Shop 11, Shop 12, Shop 13 and Shop 14</li> </ul>	3,909
Enhance our management capability and efficiency through improvement of our information system	<ul style="list-style-type: none"> <li>• Engage third party to enhance the existing information system in the areas of accounting, procurement, customer relationship management, inventory and human resources</li> </ul>	333
Expand our human resources	<ul style="list-style-type: none"> <li>• Payment of salary for the accounting officer</li> </ul>	150

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## FUTURE PLANS AND USE OF PROCEEDS

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For the period from 1 October 2019 to 31 March 2020

Business strategies	Implementation plan	Use of proceeds <i>HK\$'000</i>
Open new retail points in Hong Kong	<ul style="list-style-type: none"><li>Rental and staff payment for Shop 8, Shop 11, Shop 12, Shop 13 and Shop 14</li></ul>	3,236
Enhance our management capability and efficiency through improvement of our information system	<ul style="list-style-type: none"><li>Engage third party to enhance the existing information system in the areas of accounting, procurement, customer relationship management, inventory and human resources</li></ul>	333
Expand our human resources	<ul style="list-style-type: none"><li>Payment of salary for the accounting officer</li></ul>	151

### BASES AND KEY ASSUMPTIONS

Prospective investors should note that the attainability of our Group's business objectives depends on the following general assumptions and specific assumptions:

- we are not materially or adversely affected by any change(s) in existing governmental policies or political, legal (including changes in legislations, regulations or rules), fiscal or economic conditions in Hong Kong or any other countries or territories in which we carry or will carry on business;
- we are not materially or adversely affected by any change(s) in bases or rates of taxation or duties in Hong Kong or any other countries or territories in which we carry or will carry on business or is incorporated;
- we are not materially or adversely affected by any change(s) in inflation rates, interest rates or exchange rates from those currently prevailing which will adversely affect our business;
- there will be no disasters, natural, political or otherwise, which would materially disrupt our business or operations or cause substantial loss, damage or destruction to our properties or facilities;
- our operating activities will not be adversely affected by critical labour shortages and disputes, or any other factors outside the control of our management such as government act;
- our Group is not adversely affected by any of the risk factors set out in the section headed "Risk factors" of this prospectus;

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## FUTURE PLANS AND USE OF PROCEEDS

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- we are able to retain our key management and personnel during the period covered by the forecasts;
- we will be able to recruit new staff when required;
- there will not be any material change in the funding requirements for each of the near term business objectives described in this section from the amount as estimated by our Directors;
- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- there will be no change in the effectiveness of the licenses and permits obtained by us;
- we will continue to be able to renew all licenses;
- the Share Offer will be completed in accordance with and as described in the section headed “Structure and conditions of the Share Offer” of this prospectus; and
- we will be able to continue our operations in substantially the same manner as it has been operating during the Track Record Period and we will also be able to carry out our development plans without disruptions.

### REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

As mentioned in the Euromonitor Report, the overall market for Chinese tea business in Hong Kong is competitive and fragmented and Ying Kee as a well-established market player in the industry represented only approximately 12.6% share of the specialist Chinese tea retailers market in Hong Kong in terms of our revenue in 2016. This means that our Group may be able to attract existing demand in the market from other market players and seek a larger market share through enhancing its competitiveness.

Our Directors believe that listing will enhance the competitiveness of our Group; in particular, with the listing status:

- (i) customers will have more confidence in the quality of the tea products of our Group and its credibility. This may help our Group to retain the existing customers and attract new customers and lead to better sales and business performance; in return, strengthen our competitiveness, enable us to maintain or even expand our market share and this may result in an increase in financial return to our shareholders;
- (ii) it would strengthen the confidence of the general public towards the management of our Company and may attract potential investors or business partners for exploring the possibility of cooperation which would create synergies to our Group and benefit the long term growth of our Group;

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## FUTURE PLANS AND USE OF PROCEEDS

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- (iii) Ying Kee Tea House brand will be reinforced. Our Group may have better chance on securing rental of new shops at desired locations. Our Directors believe that landlords in general will appreciate the transparency of financial strength and credibility of a listed company rather than a private company;
- (iv) corporate image of our Group will be enhanced and as such, it would be easier to recruit experienced labour in the tea industry, shop staff and talents in the market to work for further development of our Group; and
- (v) our Group will be able to access the capital markets for future secondary fund-raising activities to cater its further expansion plans if and when opportunities arise.

Our Directors consider that a public listing status is an endorsement and recognition of our market position in the tea industry in Hong Kong. It will enhance our corporate profile and recognition and assist us in reinforcing our Ying Kee Tea House brand exposure, and promote Chinese tea culture and our tea products to a broad audience.

Our Company intends to raise funds by the Share Offer in order to pursue our business objectives. For our business objectives and strategies, please refer to the sub-section headed “Business objectives and strategies” above. Our Directors believe that the net proceeds from the Share Offer will strengthen our Group’s financial position. According to the implementation plans as disclosed in this section, the total expenditure for the implementation of our future plans is estimated to be approximately HK\$22.7 million (assuming an Offer Price of approximately HK\$0.51 per Share, being the mid-point of the proposed Offer Price range of HK\$0.48 to HK\$0.54 per Share) during the period from the Latest Practicable Date and up to 31 March 2020, which will be entirely financed by the net proceeds from the Share Offer. For details, please refer to the sub-section headed “Implementation plans” in this section.

Based on the Offer Price of HK\$0.51 per Offer Share, being the mid-point of the proposed Offer Price range of HK\$0.48 to HK\$0.54 per Offer Share, we will receive gross proceeds of HK\$45.9 million. The net proceeds from the Share Offer are estimated to be approximately HK\$22.7 million, after deducting the underwriting commission and other estimated expenses in the amount of approximately HK\$23.2 million, payable by our Company in relation to the Share Offer. We intend to apply such net proceeds from the Share Offer as follows:

- (i) approximately 49.8% of the net proceeds from the Share Offer, or approximately HK\$11.3 million will be used for opening new retail points in Hong Kong, as set out in details in “Business objectives and strategies” above;
- (ii) approximately 13.4% of the net proceeds from the Share Offer, or approximately HK\$3.0 million will be used for improving the information system of our Group, as set out in details in “Business objectives and strategies” above;

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## FUTURE PLANS AND USE OF PROCEEDS

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- (iii) approximately 2.6% of the net proceeds from the Share Offer, or approximately HK\$0.6 million will be used for recruitment, as set out in details in “Business objectives and strategies” above;
- (iv) approximately 9.6% of the net proceeds from the Share Offer, or approximately HK\$2.2 million will be used for the renovation of our office and warehouse, as set out in details in “Business objectives and strategies” above;
- (v) approximately 15.0% of the net proceeds from the Share Offer, or approximately HK\$3.4 million will be used for the partial repayment of bank loan. Our interest-bearing banking facilities was increased to HK\$20 million by a bank (the “**Bank**”) with effect from September 2017 with an interest rate of 2.25% per annum over the bank’s cost of funds at the absolute discretion of the bank or 2.25% per annum over the applicable HIBOR rate at the absolute discretion of the Bank. The banking facilities were secured by (i) personal guarantee provided by the Controlling Shareholders and (ii) corporate guarantee provided by a related company, Chan Sing Hoi Enterprises, an entity controlled by the Controlling Shareholders. Our Directors advised that the banking facilities had been utilised for working capital, listing expenses and/or renovation of shops. The said corporate guarantee and the personal guarantee will be released subject to the successful listing of our Company and other conditions including but not limited to corporate guarantee from our Company and time deposit of not less than HK\$20 million. As at the Latest Practicable Date, we had outstanding bank borrowings of HK\$9.0 million under the banking facilities and our unutilized banking facilities for funding to our Group amounted to HK\$11.0 million. As at 31 March 2016 and 2017 and 30 September 2017, the bank loans bear interest at fixed rate of 2.50%, variable rates of 2.73% to 3.25% and 2.93% to 2.97% per annum, respectively. For further details of our bank borrowings, please refer to section headed “Financial Information – Liquidity, financial and capital resources – Major components in net current assets – Bank borrowings” in this prospectus; and
- (vi) approximately 9.6% of the net proceeds from the Share Offer, or approximately HK\$2.2 million will be used for our general working capital.

In the event that the net proceeds from the issue of the Offer Share is insufficient to finance the expenditure as mentioned above, we will finance our remaining business plans as scheduled up to 31 March 2020 from internal resources or external financing from independent financial institution with good standing.

The net proceeds of the Share Offer will be fully utilised by 31 March 2020 according to our business plans. We will finance our plans as scheduled after 31 March 2020 from internal resources. Our Directors consider that the net proceeds of the Share Offer of approximately HK\$22.7 million and our internal resources will be sufficient to finance our business plans as scheduled up to 31 March 2020.

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## FUTURE PLANS AND USE OF PROCEEDS

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If the final Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds to be received by us from the Share Offer will increase by approximately HK\$2.6 million or decrease by approximately HK\$2.6 million, respectively. In such event, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis.

To the extent that the net proceeds of the Share Offer are not immediately applied to the above purposes, it is the present intention of our Directors that such proceeds will be deposited into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong.

The possible use of proceeds outlined above may change in light of our evolving business development. In the event of any material modification to the use of proceeds as described above, our Company will issue an announcement and make disclosure in its annual report for the relevant year as required by the GEM Listing Rules.

### **The proposed use of proceeds is commensurate with our Group's past and business strategy**

Our Group opened retail shops and concession counters to conduct retail business in different areas of Hong Kong, which also served the purpose of advertising Ying Kee Tea House brand through wide spread of retail presence and enhanced customers' confidence as they can physically visit the retail shops/concession counters to view the tea products or even to taste the tea and exchange tea drinking experience with shop staff. Our Directors believe that this helped our Group to develop and maintain a group of loyal retail customers. On the other hand, with retail shops/concession counters closer to its target customers at different areas of Hong Kong, our Group can easily reach potential customers who would like to explore drinking of Chinese tea around the areas where they are living, working or shopping and attract businesses to our Group.

Our Group's business strategy is proven to be successful. According to the Euromonitor's estimation, Ying Kee ranked first among the specialist Chinese tea retailers in Hong Kong in terms of retail value sales and among the top five such specialist Chinese tea retailers in Hong Kong in terms of retail value sales, it had most number of retail outlets in 2016. Moreover, its revenue growth outperformed the overall industry growth. While retail value sales of packaged branded Chinese tea in Hong Kong increased only by approximately 2.0% from 2015 to 2016 and is forecasted to grow by approximately 2.5% from 2016 to 2017, our Group recorded revenue growth of approximately 4.1% for the year ended 31 March 2017.



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## FUTURE PLANS AND USE OF PROCEEDS

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As mentioned in the “Business objectives and strategies” above, our Group’s business objectives are to continue to grow its business, to maintain its established position in the Chinese tea leaves industry in Hong Kong and to promote the Chinese tea drinking culture and its tea products to its customers. Our Directors believe that the proposed use of proceeds from the Share Offer is commensurate with our Group’s past and future business strategy because (i) opening of new retail points in different areas of Hong Kong is to follow the trace of success of our Group, which would enable our Group to capture business opportunities that may arise from the expected accelerate industry growth in Hong Kong in the coming years; (ii) improving information system would enhance our Group’s management capability and efficiency and thus, increase its competitiveness; (iii) renovating the office and warehouse to improve working environment as well as expanding human resources will also benefit the growth of our Group in long run; and (iv) repaying part of the bank loan will improve our Group’s gearing position. Besides, the advertising impact from the Listing accompanied with the opening of new retail points to cover more areas in Hong Kong will promote the Chinese tea drinking culture and our Group’s tea products to customers.

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## UNDERWRITING

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### **PUBLIC OFFER UNDERWRITERS**

#### **Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager**

KGI Capital Asia Limited

#### **Co-Managers**

Ever-Long Securities Company Limited

Global Mastermind Securities Limited

### **UNDERWRITING ARRANGEMENTS AND EXPENSES**

#### **Public Offer**

##### *Public Offer Underwriting Agreement*

Pursuant to the Public Offer Underwriting Agreement, our Company is initially offering for subscription by the public in Hong Kong of the 9,000,000 Public Offer Shares at the Offer Price under the Public Offer, on and subject to the terms and conditions set forth in this prospectus and the Application Forms. The Public Offer Underwriters have agreed, severally, but not jointly, on and subject to the terms and conditions in the Public Offer Underwriting Agreement, to procure subscribers for, or failing which they shall subscribe for, the Public Offer Shares.

The Public Offer Underwriting Agreement is subject to various conditions, which include, without limitation:

- (a) the Listing Division granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus; and
- (b) the Placing Underwriting Agreement having been executed, becoming unconditional and not having been terminated.

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## UNDERWRITING

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### *Grounds for termination*

The respective obligations of the Public Offer Underwriters to subscribe for, or procure subscribers for, the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination. The Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) may in its absolute discretion terminate the Public Offer Underwriting Agreement with immediate effect by written notice to our Company at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date if:

- (a) there develops, occurs, exists or comes into effect:
  - (i) any change or development involving a prospective change, or any event or series of events resulting in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal, regulatory or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies) in or affecting Hong Kong or any other jurisdiction relevant to any member of our Group (collectively the “**Relevant Jurisdictions**”); or
  - (ii) any new laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgements, decrees or rulings of any governmental authority or laws or change or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application of the law by any court or other competent authority in any of the Relevant Jurisdictions; or
  - (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, epidemics, pandemics, outbreak of diseases, breakdown in computer or communication or telecommunication network or system, civil commotion, riot, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption or delay in transportation) in or affecting any of the Relevant Jurisdictions; or
  - (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency, declaration of a national or international emergency or war, or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
  - (v) a general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or other competent authority) or any of the Relevant Jurisdictions, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
  - (vi) any material change or prospective material change in taxation or exchange controls, currency exchange rates or foreign investment regulations in any of

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## UNDERWRITING

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the Relevant Jurisdictions (including without limitation a devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies) or the implementation of any exchange control in any of the Relevant Jurisdictions; or

- (vii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (viii) the commencement by any state, governmental, judicial, law enforcement agency, regulatory or political body or organisation (collectively the “**Organisations**”) of any action, proceedings, investigation or enquiry, or any sanction, penalty or reprimand imposed or issued by any of the Organisations, against any member of our Group or any Director or an announcement by any of the Organisations that it intends to take any such action; or
- (ix) any litigation or claim being threatened or instigated against any member of our Group or any Director; or
- (x) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xi) the chairman or chief executive officer of our Company vacating his office; or
- (xii) a contravention by any member of our Group of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the GEM Listing Rules or any applicable law; or
- (xiii) a prohibition on our Company for whatever reason from allotting and issuing the Offer Shares under the terms of the Share Offer; or
- (xiv) non-compliance of this prospectus, or any other documents used in connection with the subscription of the Offer Shares or any aspect of the Share Offer with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the GEM Listing Rules or any other applicable law; or
- (xv) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by our Company of a supplement or amendment to this prospectus (or to any other documents used in connection with the subscription or sale of the Offer Shares) under the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the GEM Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xvi) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable before its stated maturity; or
- (xvii) any material loss or material damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person);

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## UNDERWRITING

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(xvii) a petition is presented for the winding up or liquidation of any member of our Group or bankruptcy of any Director, or any member of our Group or any Director makes any composition or arrangement with its or his creditors or enters into a scheme of arrangement, or any resolution is passed for the winding up of any member of our Group, or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or any Director or any analogous matter occurs in respect of any member of our Group or any Director,

and which, in any such case and in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters),

- (1) is or will or may or is likely to be materially adverse to, or materially and prejudicially affect, the business, management, general affairs, financial or trading position or prospects of our Group as a whole; or
  - (2) has or will have or may have or is likely to have an adverse effect on the success, marketability or pricing of the Share Offer or the level of applications under the Public Offer or the level of interest under the Placing; or
  - (3) makes or will or may make or is likely to make it impracticable, inadvisable or inexpedient to proceed with the Public Offer, the Placing and/or the Share Offer or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
  - (4) makes or will or may make or is likely to make it impracticable, inadvisable or inexpedient for any part of the Public Offer Underwriting Agreement (including underwriting), the Public Offer, the Placing and/or the Share Offer (including processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof) to be performed or implemented as envisaged; or
- (b) there comes to the notice of the Sole Global Coordinator or any of the Public Offer Underwriters that:
- (i) any statement or information, or any matter or circumstance that renders or could render any statement or information, contained in this prospectus, the Application Forms, the formal notice and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Public Offer and/or the Placing (including any supplement or amendment to any of the documents) was or has or may become, untrue, incorrect or misleading in any respect or that any estimate, forecast, expression of opinion, intention or expectation expressed in this prospectus or the Application Forms is not or may not be, in the sole and absolute opinion of the Sole Global Coordinator, fair and honest and based on reasonable assumptions; or
  - (ii) any matter or circumstance has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, constitute an omission from this prospectus or the Application Forms and/or in any notices,

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## UNDERWRITING

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announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Public Offer (including any supplement or amendment thereto); or

- (iii) any breach of, or any event rendering untrue or incorrect or misleading in any respect, any of the representations, warranties and undertakings in the Public Offer Underwriting Agreement and the warranties or representations in the Placing Underwriting Agreement; or
- (iv) any breach of any of the obligations, confirmations or undertakings of our Company, our Controlling Shareholders or our executive Directors under the Public Offer Underwriting Agreement or the Placing Underwriting Agreement; or
- (v) any event, act or omission which gives or may give or is likely to give rise to any liability of any of the indemnifying parties pursuant to the indemnity provisions under the Public Offer Underwriting Agreement; or
- (vi) any information, matter or event which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters);
  - (1) is inconsistent in any respect with any information contained in Form A in Appendix 6 to the GEM Listing Rules given by our Directors; or
  - (2) would cast any serious doubt on the integrity or reputation of any Director or the reputation of our Group; or
- (vii) any material adverse change or development or prospective material adverse change or development in the conditions, business, general affairs, management, prospects, assets, liabilities, shareholders' equity, profits, losses, operating results, the financial or trading position or performance of any member of our Group; or
- (viii) approval by the Listing Division of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, on or before the date of approval of the listing of the Shares on GEM, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (ix) our Company withdraws this prospectus or the Application Forms (and any other documents used in connection with the contemplated subscription of the Offer Shares) or the Share Offer; or
- (x) any person (other than the Sole Global Coordinator and any of the Underwriters) has withdrawn or sought to withdraw its consent to being named in this prospectus or the Application Forms or to the issue of this prospectus or the Application Forms,

then the Sole Global Coordinator may, upon giving notice orally or in writing to our Company and the Public Offer Underwriters, terminate the Public Offer Underwriting Agreement with immediate effect.

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## UNDERWRITING

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### Undertakings to the Public Offer Underwriters

#### *Undertakings by our Company*

Our Company has undertaken to and covenanted with each of the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the Public Offer Underwriters that our Company will not, and each of our Controlling Shareholders has jointly and severally undertaken to and covenants with the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the Public Offer Underwriters that he/it will procure our Company that it shall:

- (a) not except pursuant to the Share Offer, the Bonus Issue, the exercise of the subscription rights attaching to any share options to be granted under the Share Option Scheme or under the circumstances provided under Rules 17.29 of the GEM Listing Rules, not without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters), and subject always to the provisions of the GEM Listing Rules, offer, allot, issue or sell, or agree to allot, issue or sell, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates (as defined in the Public Offer Underwriting Agreement)), either directly or indirectly, conditionally or unconditionally, any Shares or any securities convertible into or exchangeable for such Shares or any voting right or any other right attaching thereto or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares or such securities or any voting right or any other right attaching thereto, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise or announce any intention to effect any such transaction during the period commencing from the date of this prospectus up to and including the date falling six months after the Listing Date (the “**First Six-month Period**”);
- (b) not at any time during the First Six-month Period, issue or create any mortgage, pledge, charge or other security interest or any rights in favour of any other person over, directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any Shares or securities of our Company) or repurchase any Shares or securities of our Company or grant any options, warrants or other rights to subscribe for any Shares or other securities of our Company or agree to do any of the foregoing, except pursuant to the Share Offer, the Bonus Issue or the exercise of the subscription rights attaching to any share options to be granted under the Share Option Scheme or under the circumstances provided under Rules 17.29 of the GEM Listing Rules;

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## UNDERWRITING

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- (c) not at any time within the period of six months immediately following the expiry of the First Six-month Period (the “**Second Six-month Period**”) do any of the acts set out in (a) and (b) above such that any of our Controlling Shareholders, directly or indirectly, would cease to be a member of a group of controlling shareholders of our Company (within the meaning defined in the GEM Listing Rules); and

provided that none of the above undertakings shall (a) restrict our Company’s ability to sell, pledge, mortgage or charge any share capital or other securities of or any other interest in any of the subsidiaries provided that such sale or any enforcement of such pledge, mortgage or charge will not result in such subsidiaries ceasing to be a subsidiary of our Company; or (b) restrict any of the subsidiaries from issuing any share capital or other securities thereof or any other interests therein provided that any such issue will not result in that subsidiary ceasing to be a subsidiary of our Company.

Under Rule 17.29 of the GEM Listing Rules, we have also undertaken to the Stock Exchange that we will not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except pursuant to the Bonus Issue and the Share Offer (including the exercise of any options which may be granted under the Share Option Scheme) or for the circumstances provided under Rule 17.29 of the GEM Listing Rules.

### *Undertakings by our Controlling Shareholders*

- (a) Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders jointly and severally undertakes to and covenants with our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Public Offer Underwriters and the Stock Exchange that, none of our Controlling Shareholders will, and they will procure the relevant registered holder(s) and their respective associates and companies controlled by them and any nominee or trustee holding in trust for them shall not:
  - (i) during the First Six-month Period, sell, dispose of, nor enter into any agreement to dispose of or otherwise create any Encumbrances (as defined below) in respect of, any of the Shares in respect of which he/it is shown in this prospectus to be the beneficial owner(s);
  - (ii) during the Second Six-month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third party right or interest, other encumbrance or security interest of any kind, or another type



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## UNDERWRITING

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of preferential arrangement (including, without limitation, retention arrangement) having similar effect (“**Encumbrances**”) in respect of any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such Encumbrances, he/it would cease to be a member of a group of controlling shareholders of our Company (within the meaning defined in the GEM Listing Rules); and

- (iii) in addition to the undertakings pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has further voluntarily undertaken to the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the Public Offer Underwriters that for a further 12 months commencing on the date on which the period referred to in (ii) above expires, he/it shall not, and he/it shall procure the relevant registered holder(s) and his/its respective associates and companies controlled by him/it and any nominee or trustee holding in trust for him/it shall not dispose of, nor enter into any agreement to dispose of or otherwise create any Encumbrances in respect of, any of the Shares above if, immediately following such disposal or upon the exercise or enforcement of such Encumbrances, he/it would cease to be a member of a group of controlling shareholders of our Company (within the meaning defined in the GEM Listing Rules); and for avoidance of doubt, the non-disposal undertaking pursuant to this sub-paragraph shall not be waived or amended unless with the affirmative vote of a majority of the independent Shareholders obtained in a general meeting of our Company.
  
- (b) Pursuant to Rule 13.19 of the GEM Listing Rules, each of our Controlling Shareholders jointly and severally undertakes to and covenants with our Company, the Sole Sponsor, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the Stock Exchange that during the 24 months period from the Listing Date:
  - (i) in the event that he/it pledges or charges any of his/its direct or indirect interest in the Shares under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, he/it must immediately inform our Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) in writing of such pledges or charges immediately thereafter, disclosing the details as specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
  
  - (ii) having pledged or charged any of his/its interests in the Shares under paragraph (i) above, when our Controlling Shareholders receive indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or, interests in the securities of our Company will be sold, transferred or disposed of, he/it must immediately inform our Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) in writing of such indications.

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## UNDERWRITING

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### **Placing**

#### ***Placing Underwriting Agreement***

In connection with the Placing, it is expected that our Company, our Controlling Shareholders and our executive Directors will enter into the Placing Underwriting Agreement with the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Placing Underwriters and other parties (if any) on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below.

Under the Placing Underwriting Agreement, subject to the conditions set forth therein, the Placing Underwriters are expected to severally, but not jointly, agree to procure subscribers and purchasers to subscribe for or purchase, or failing which they shall subscribe for or purchase, the Placing Shares initially being offered pursuant to the Placing. It is expected that the Placing Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Potential investors shall be reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed. The Placing Underwriting Agreement is conditional on and subject to the Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated. It is expected that pursuant to the Placing Underwriting Agreement, our Company and our Controlling Shareholders will make similar undertakings as those given pursuant to the Public Offer Underwriting Agreement as described in the paragraph headed “Undertakings to the Public Offer Underwriters” above in this section.

#### **Commission, fees and expenses**

The Public Offer Underwriters will receive a gross underwriting commission of 3.5% of the aggregate Offer Price of the Public Offer Shares initially offered under the Public Offer. For unsubscribed Public Offer Shares reallocated to the Placing and any Placing Shares reallocated from the Placing to the Public Offer, we will pay an underwriting commission at the rate applicable to the Placing and such commission will be paid to the Placing Underwriters and not the Public Offer Underwriters.

Based on the Offer Price of HK\$0.51 per Offer Share (being the mid-point of the indicative range of the Offer Price), the aggregate commission, together with Stock Exchange listing fees, SFC transaction levy, Stock Exchange trading fees, legal and other professional fees and printing and other expenses relating to the Share Offer, are estimated to amount to approximately HK\$23.2 million in total which shall be borne by our Company.

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## UNDERWRITING

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### **SOLE SPONSOR'S AND UNDERWRITERS' INTEREST IN OUR COMPANY**

The Sole Sponsor will receive a sponsorship fee to the Share Offer. The Underwriters will receive an underwriting commission and/or praecipium and/or management fee. Particulars of these underwriting commission, fees and expenses are set forth under the paragraph headed "Commission, fees and expenses" in this section above.

Save as disclosed above, none of the Sole Sponsor and the Underwriters is interested legally or beneficially in any Shares or other securities of our Company or any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase any Shares or other securities of our Company or any members of our Group or has any interest in the Share Offer.

Following the completion of the Bonus Issue and the Share Offer, the Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Public Offer Underwriting Agreement and/or the Placing Underwriting Agreement.

The Sole Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 6A.07 of the GEM Listing Rules.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### THE SHARE OFFER

This prospectus is published in connection with the Share Offer.

The Share Offer consists of:

- (a) the Public Offer of 9,000,000 Shares (subject to reallocation as mentioned below) in Hong Kong as described below under the sub-section headed “The Public Offer” below; and
- (b) the Placing of an aggregate of 81,000,000 Shares (subject to reallocation as mentioned below) which will conditionally be placed with selected professional, institutional, and other investors under the Placing.

Investors may apply for the Offer Shares under the Public Offer or indicate an interest, if qualified to do so, for the Placing Shares under the Placing, but may not do both.

The number of Offer Shares to be offered under the Public Offer and the Placing may be subject to reallocation as described in the sub-section headed “The Public Offer – Reallocation” below.

References in this prospectus to applications, the Application Forms, application monies or the procedure for application relate solely to the Public Offer.

### THE PUBLIC OFFER

#### Number of Offer Shares initially offered

Our Company is initially offering 9,000,000 Public Offer Shares for subscription (subject to reallocation) at the Offer Price by members of the public in Hong Kong under the Public Offer, representing 10% of the total number of Offer Shares initially available under the Share Offer. The Public Offer Shares initially offered under the Public Offer, subject to any reallocation of Offer Shares between the Placing and the Public Offer, will represent 2.5% of our Company’s enlarged issued share capital immediately after completion of the Bonus Issue and the Share Offer.

The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Public Offer is subject to the conditions as set out in the paragraph headed “Conditions of the Share Offer” of this section.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### Allocation

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Multiple or suspected multiple applications under the Public Offer and any application for more than 9,000,000 Public Offer Shares, being the 100% of the Public Offer Shares initially available under the Public Offer are liable to be rejected.

### Reallocation

The allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation on the following basis:

- (a) Where the Placing Shares are fully subscribed or oversubscribed:
  - (i) if the Public Offer Shares are undersubscribed, the Sole Global Coordinator has the discretion (but shall not be under any obligation) to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such amounts as the Sole Global Coordinator deems appropriate;
  - (ii) if the Public Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Public Offer represents less than 15 times the number of the Offer Shares initially available for subscription under the Public Offer, then up to 9,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 18,000,000 Offer Shares, representing approximately 20% of the number of the Offer Shares initially available under the Share Offer;
  - (iii) if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Public Offer, then 18,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 27,000,000 Offer Shares, representing approximately 30% of the number of the Offer Shares initially available for subscription under the Share Offer;

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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- (iv) if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Public Offer, then 27,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 36,000,000 Offer Shares, representing approximately 40% of the number of the Offer Shares initially available for subscription under the Share Offer; and
  - (v) if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more the number of the Offer Shares initially available for subscription under the Public Offer, then 36,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the number of the Offer Shares available under the Public Offer will be increased to 45,000,000 Offer Shares, representing approximately 50% of the number of the Offer Shares initially available under the Share Offer.
- (b) Where the Placing Shares are undersubscribed:
- (i) if the Public Offer Shares are undersubscribed, the Share Offer will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
  - (ii) if the Public Offer Shares are oversubscribed, irrespective of the number of times the number of Offer Shares initially available for subscription under the Public Offer, then up to 9,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 18,000,000 Offer Shares, representing approximately 20% of the number of the Offer Shares initially available under the Share Offer.

In the event of reallocation of Offer Shares between the Public Offer and the Placing in the circumstances where (x) the Placing Shares are fully subscribed or oversubscribed and the Public Offer Shares are oversubscribed by less than 15 times under paragraph (a)(ii) above or (y) the Placing Shares are undersubscribed and the Public Offer Shares are fully subscribed or oversubscribed under paragraph (b)(ii) above, the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$0.48 per Offer Share) stated in this prospectus.

In the event of a reallocation of Offer Shares from the Placing to the Public Offer in circumstances under paragraph (a)(ii), (a)(iii), (a)(iv), (a)(v) and (b)(ii) above, the number of Offer Shares allocated to the Placing will be correspondingly reduced.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Public Offer.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### THE PLACING

#### Number of Offer Shares offered

Subject to reallocation, the Placing will consist of 81,000,000 Shares, representing approximately 90% of the total number of Offer Shares initially available under the Share Offer. Subject to the reallocation of the Offer Shares between the Placing and the Public Offer, the number of Offer Shares initially offered under the Placing will represent approximately 22.5% of our Company's enlarged issued share capital immediately after completion of the Bonus Issue and the Share Offer.

#### Allocation

Pursuant to the Placing, the Placing Shares will be conditionally placed on behalf of our Company by the Placing Underwriters or through selling agents appointed by them. The Placing Shares will be selectively placed to certain professional and institutional and other investors who generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The Placing is subject to the Public Offer being unconditional.

Allocation of Offer Shares pursuant to the Placing will be effected in accordance with the "book-building" process described in the sub-section headed "Pricing and allocation" in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the Placing, and who has made an application under the Public Offer to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Public Offer and to ensure that they are excluded from any application of Offer Shares under the Public Offer.

#### Reallocation

The total number of Offer Shares to be issued and sold pursuant to the Placing may change as a result of the clawback arrangement described in the sub-section headed "The Public Offer – Reallocation" in this section, any reallocation of unsubscribed Offer Shares originally included in the Public Offer.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### **Offer Price range**

The Offer Price will not be more than HK\$0.54 per Offer Share and is expected to be not less than HK\$0.48 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but not expected to be, lowered than the indicative Offer Price range as stated in this prospectus.

### **Price payable on application**

Applicants for Offer Shares under the Public Offer are required to pay, on application, the maximum Offer Price of HK\$0.54 for each Public Offer Share (plus the brokerage, Stock Exchange trading fee and SFC transaction levy payable on each Offer Share), amounting to a total of HK\$2,727.21 per board lot of 5,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum Offer Price of HK\$0.54 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest.

If, for any reason, our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Thursday, 29 March 2018, the Share Offer will not proceed and will lapse.

Further details are set out in the section headed “How to apply for Public Offer Shares” in this prospectus.

### **Change to Offer Price range**

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective investors during a bookbuilding process in respect of the Placing, and with the consent of our Company, reduce the number of the Offer Shares being offered under the Share Offer and/or change the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, our Company will, as soon as practicable following the decision to make such change, and in any event not later than the morning of the last day lodging applications under the Public Offer, cause there to be published on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at [www.yingkeetea.com](http://www.yingkeetea.com) notices of reduction in the number of the Offer Shares and/or the indicative Offer Price range. Upon issue of such a notice, the revised number of the Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised number of the Offer Shares and/or Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Share Offer statistics, and any other financial information in this prospectus which may change as a result of any such change.



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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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Before submitting applications for the Public Offer Shares, applicants should have regard to the possibility that any announcement of an extension or reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer. Applicants who have submitted their applications for Public Offer Shares before such an announcement is made may subsequently withdraw their applications in the event that such an announcement is subsequently made. In the absence of any notice being published in relation to a reduction in the number of the Offer Shares and/or change in the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Public Offer, the Offer Price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

### **Announcement of the Offer Price and the basis of allocations**

Announcement of the final Offer Price, together with the level of indication of interests in the Placing, and the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares are expected to be published on Friday, 13 April 2018 on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.yingkeetea.com](http://www.yingkeetea.com).

### **UNDERWRITING**

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement. We expect to enter into the Placing Underwriting Agreement relating to the Placing on or around Thursday, 29 March 2018. These underwriting arrangements and the Underwriting Agreements are summarised in the section headed "Underwriting" of this prospectus.

### **CONDITIONS OF THE SHARE OFFER**

Acceptance of all applications for the Offer Shares is conditional upon, amongst other things, the satisfaction of all the following conditions, in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus:

- (i) the Listing Division of the Stock Exchange granting the approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Bonus Issue and the Share Offer (including the Shares which fall to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme);
- (ii) the entering into the Price Determination Agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date; and

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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- (iii) the obligations of the Underwriters under each of the Underwriting Agreements becoming and remaining unconditional and not being terminated in accordance with the terms of the Underwriting Agreements.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming and remaining unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be published by us on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.yingkeetea.com](http://www.yingkeetea.com) on the next business day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in "How to apply for Public Offer Shares". In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended from time to time).

Share certificates for the Offer Shares are expected to be issued on Friday, 13 April 2018 but will only become valid certificates of title at 8:00 a.m. on Monday, 16 April 2018 provided that (i) the Share Offer has become unconditional in all respects, and (ii) the right of termination as described in the section headed "Underwriting – Underwriting arrangements and expenses – Public Offer – Grounds for termination" in this prospectus has not been exercised.

### SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made for the Shares to be admitted into CCASS.

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### DEALING ARRANGEMENTS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, 16 April 2018, it is expected that dealings in Shares on the Stock Exchange will commence at 9:00 a.m. on Monday, 16 April 2018.

The Shares will be traded in board lots of 5,000 Shares each. The stock code of the Shares is 8241.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner and Sole Lead Manager may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four.

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you:

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- are an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- are a Director or chief executive officer of our Company and/or any of its subsidiaries;
- are a connected person or a core connected person (as defined in the GEM Listing Rules) of our Company or will become a connected person or a core connected person of our Company immediately upon completion of the Share Offer;
- are a close associate (as defined in the GEM Listing Rules) of any of the above; and
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

### 3. APPLYING FOR PUBLIC OFFER SHARES

#### Which application channel to use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, either (i) complete and sign the **YELLOW** Application Form; or (ii) give **electronic application instructions** to HKSCC via CCASS.

#### Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 23 March 2018 to 12:00 noon on Wednesday, 28 March 2018 from:

- (i) the following office of the Public Offer Underwriters:

**KGI Capital Asia Limited**

41/F Central Place  
18 Harbour Road  
Wan Chai  
Hong Kong

**Ever-Long Securities Company Limited**

18/F, Dah Sing Life Building  
99-105 Des Voeux Road Central  
Hong Kong

**Global Mastermind Securities Limited**

25/F, Nam Wo Hong Building  
148 Wing Lok Street  
Sheung Wan  
Hong Kong

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- (ii) any of the following branches of Standard Chartered Bank (Hong Kong) Limited, the receiving bank(s) for the Public Offer:

<b>District</b>	<b>Branch</b>	<b>Address</b>
<b>Hong Kong Island</b>	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Wanchai Southorn Branch	Shop C2 on G/F and 1/F to 2/F, Lee Wing Building, No. 156-162 Hennessy Road, Wanchai
	North Point Centre Branch	Shop G, G/F, North Point Centre, 284 King's Road, North Point
<b>Kowloon</b>	Telford Gardens Branch	Shop P9-12, Telford Centre, Telford Gardens, Tai Yip Street, Kwun Tong
	Mei Foo Manhattan Branch	Shop Nos. 07 & 09, Ground Floor, Mei Foo Plaza, Mei Foo Sun Chuen
<b>New Territories</b>	Metroplaza Branch	Shop No. 473B, Level 4, Metroplaza, 223 Hing Fong Road, Kwai Chung

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 23 March 2018 until 12:00 noon on Wednesday, 28 March 2018 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

### **Time for lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**Horsford Nominees Limited – Ying Kee Tea House Group Public Offer**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Friday, 23 March 2018 – 9:00 a.m. to 5:00 p.m.
- Saturday, 24 March 2018 – 9:00 a.m. to 1:00 p.m.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- Monday, 26 March 2018 – 9:00 a.m. to 5:00 p.m.
- Tuesday, 27 March 2018 – 9:00 a.m. to 5:00 p.m.
- Wednesday, 28 March 2018 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 28 March 2018, the last application day or such later time as described in paragraph headed “9. Effect of bad weather on the opening of the applications lists” in this section.

#### **4. TERMS AND CONDITIONS OF AN APPLICATION**

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner and/or the Sole Lead Manager (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have received and read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, the receiving bank, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to deposit any share certificate(s) into CCASS and/or to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- (xvii) understand that our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner and Sole Lead Manager will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC by you or by any one as your agent or by any other person;
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent; and
- (xx) understand that, where (i) the Placing Shares are fully subscribed or oversubscribed and the Public Offer Shares are oversubscribed by less than 15 times or (ii) the Placing Shares are undersubscribed and the Public Offer Shares are oversubscribed irrespective of the number of times, up to 9,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 18,000,000 Offer Shares, representing approximately 20% of the number of the Offer Shares initially available under the Share Offer. Further details of the reallocation are stated in the section headed “Structure and Conditions of the Share Offer” in this prospectus.

### **Additional instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.

## **5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS**

### **General**

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).



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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**

**Customer Service Centre**

1/F, One & Two Exchange Square

8 Connaught Place

Central

Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and our Hong Kong Share Registrar.

### **Giving electronic application instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Public Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, the receiving bank, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association of our Company; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 5,000 Public Offer Shares. Instructions for more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

### Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Friday, 23 March 2018 – 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Saturday, 24 March 2018 – 8:00 a.m. to 1:00 p.m.<sup>(1)</sup>
- Monday, 26 March 2018 – 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Tuesday, 27 March 2018 – 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Wednesday, 28 March 2018 – 8:00 a.m.<sup>(1)</sup> to 12:00 noon

*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 23 March 2018 until 12:00 noon on Wednesday, 28 March 2018 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, 28 March 2018, the last application day or such later time as described in the paragraph headed “9. Effect of bad weather on the opening of the application lists” in this section.

### **No multiple applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit.

Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### **Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

### **Personal data**

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving banker, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## **6. WARNING FOR ELECTRONIC APPLICATIONS**

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Such facility is subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 28 March 2018.

### 7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### 8. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 5,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

### 9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 28 March 2018. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, 28 March 2018 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected timetable” in this prospectus, an announcement will be made in such event.

### 10. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer on Friday, 13 April 2018 on our Company’s website at [www.yingkeetea.com](http://www.yingkeetea.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers (where appropriate) of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at [www.yingkeetea.com](http://www.yingkeetea.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m. on Friday, 13 April 2018;
- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Friday, 13 April 2018 to 12:00 midnight on Thursday, 19 April 2018;
- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Friday, 13 April 2018 to Wednesday, 18 April 2018 on a business day;
- in the special allocation results booklets which will be available for inspection during opening hours from Friday, 13 April 2018 to Tuesday, 17 April 2018 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure and conditions of the Share Offer" of this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

- (i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.



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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Division of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- your Application Form is not completed in accordance with the stated instructions;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator, or the Sole Bookrunner, or the Sole Lead Manager believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Public Offer Shares initially offered under the Public Offer.

### 12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.54 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the section headed "Structure and conditions of the Share Offer – Conditions of the Share Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Friday, 13 April 2018.

### 13. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Public Offer Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Friday, 13 April 2018. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s). Share certificates will only become valid at 8:00 a.m. on Monday, 16 April 2018 provided that the Share Offer has become unconditional and the right of termination described in the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### **Personal collection**

#### ***(i) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 13 April 2018 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Friday, 13 April 2018, by ordinary post and at your own risk.

*(ii) If you apply using a YELLOW Application Form*

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collection of refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Friday, 13 April 2018, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Friday, 13 April 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Public Offer Shares credited to your designated CCASS Participant's stock account (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 13 April 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

*(iii) If you apply via electronic application instructions to HKSCC*

*Allocation of Public Offer Shares*

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### *Deposit of share certificates into CCASS and refund of application monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, 13 April 2018, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in "Publication of Results" above on Friday, 13 April 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 13 April 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, 13 April 2018. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, 13 April 2018.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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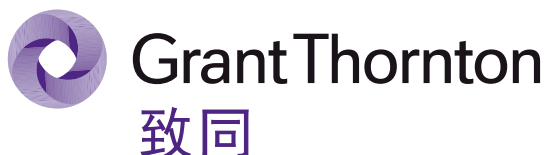
### 14. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of the Company, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong.*



## **ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF YING KEE TEA HOUSE GROUP LIMITED AND KGI CAPITAL ASIA LIMITED**

### **Introduction**

We report on the historical financial information of Ying Kee Tea House Group Limited (the “Company”) and its subsidiary (collectively referred to as the “Group”) set out on pages I-4 to I-36, which comprises the combined statements of financial position of the Group as at 31 March 2016 and 2017 and 30 September 2017, the statement of financial position of the Company as at 30 September 2017, and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the years ended 31 March 2016 and 2017 and the six months ended 30 September 2017 (the “Track Record Period”), and a summary of significant accounting policies and other explanatory information (the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-36 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 23 March 2018 (the “Prospectus”) in connection with the initial listing of shares of the Company on the GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

### **Directors' responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

### **Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants' Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified

Public Accountants (the “HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

### **Opinion**

In our opinion the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the Group’s financial position as at 31 March 2016 and 2017 and 30 September 2017, the Company’s financial position as at 30 September 2017 and of the Group’s financial performance and cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information.

### **Review of stub period comparative financial information**

We have reviewed the stub period comparative financial information of the Group which comprises the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the six months ended 30 September 2016 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong



Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

*Adjustments*

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

*Dividends*

We refer to note 10 to the Historical Financial Information which states that no dividend has been paid by the Company in respect of the Track Record Period.

*No statutory financial statements for the Company*

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

**Grant Thornton Hong Kong Limited**

*Certified Public Accountants*

Level 12

28 Hennessy Road

Wanchai

Hong Kong

23 March 2018

**Chiu Wing Ning**

Practising Certificate No.: P04920

## I. HISTORICAL FINANCIAL INFORMATION

## Preparation of the Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report. The combined financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong Dollars ("HK\$") and all values are rounded to the nearest thousand ("HK\$'000") except when otherwise indicated.

## Combined Statements of Profit or Loss and Other Comprehensive Income

	Notes	Year ended 31 March		Six months ended 30 September	
		2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
<b>Revenue</b>	4	42,781	44,540	14,946	16,039
Cost of sales		<u>(8,771)</u>	<u>(8,991)</u>	<u>(3,217)</u>	<u>(3,426)</u>
<b>Gross profit</b>		34,010	35,549	11,729	12,613
Other income	5	178	207	97	–
Selling and distribution costs		(2,597)	(2,584)	(784)	(1,201)
Administrative expenses		(21,763)	(18,197)	(8,165)	(15,148)
Finance costs	6	<u>(257)</u>	<u>(175)</u>	<u>(70)</u>	<u>(106)</u>
<b>Profit/(Loss) before income tax</b>	7	9,571	14,800	2,807	(3,842)
Income tax expenses	8	<u>(1,682)</u>	<u>(2,505)</u>	<u>(455)</u>	<u>(352)</u>
<b>Profit/(Loss) for the year/period and total comprehensive income/(expense) for the year/period</b>		<u>7,889</u>	<u>12,295</u>	<u>2,352</u>	<u>(4,194)</u>
<b>Earnings/(Loss) per share for profit/(loss) attributable to owners of the Company</b>					
Basic and diluted	11	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

## Combined Statements of Financial Position

		As at 31 March		As at
	Notes	2016	2017	30 September
		HK\$'000	HK\$'000	2017
				HK\$'000
<b>ASSETS AND LIABILITIES</b>				
<b>Non-current asset</b>				
Property, plant and equipment	12	2,296	1,815	2,351
<b>Current assets</b>				
Inventories	13	7,060	6,982	8,090
Trade and other receivables	14	2,114	1,548	3,617
Amounts due from related parties	21.3	6,264	4,281	95
Time deposits	15	628	614	614
Cash and bank balances		1,182	2,136	3,043
		17,248	15,561	15,459
<b>Current liabilities</b>				
Trade and other payables	16	401	826	2,152
Amounts due to related parties	21.3	1,087	2,699	–
Tax payable		852	795	1,147
Bank borrowings	17	1,271	5,000	10,000
		3,611	9,320	13,299
<b>Net current assets</b>		13,637	6,241	2,160
<b>Total assets less current liabilities</b>		15,933	8,056	4,511
<b>Non-current liabilities</b>				
Provision for long service payment		938	723	676
Provision for reinstatement cost		–	43	729
		938	766	1,405
<b>Net assets</b>		14,995	7,290	3,106
<b>EQUITY</b>				
Share capital	18	–	–	10
Reserves		14,995	7,290	3,096
<b>Total equity</b>		14,995	7,290	3,106

## Statement of Financial Position of the Company

	<i>Note</i>	<b>As at 30 September 2017 HK\$'000</b>
<b>ASSETS AND LIABILITIES</b>		
<b>Current asset</b>		
Cash on hand		<u>10</u>
<b>Current liability</b>		
Amount due to a related company		<u>40</u>
<b>Net current liabilities and net liabilities</b>		<b><u><u>(30)</u></u></b>
<b>EQUITY</b>		
Share capital	<i>18</i>	10
Accumulated losses		<u>(40)</u>
<b>Capital deficiencies</b>		<b><u><u>(30)</u></u></b>

## Combined Statements of Changes in Equity

	Share capital <i>HK\$'000</i> <i>(note 18)</i>	Capital reserve <i>HK\$'000</i> <i>(note 19)</i>	Retained profits <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
<b>As at 1 April 2015</b>	–	1,000	6,106	7,106
Profit for the year and total comprehensive income for the year	–	–	7,889	7,889
<b>As at 31 March 2016 and 1 April 2016</b>	–	1,000	13,995	14,995
Profit for the year and total comprehensive income for the year	–	–	12,295	12,295
Dividend paid by a subsidiary	–	–	(20,000)	(20,000)
<b>As at 31 March 2017 and 1 April 2017</b>	–	1,000	6,290	7,290
Issuance of share capital of the Company	10	–	–	10
Loss for the period and total comprehensive expense for the period	–	–	(4,194)	(4,194)
<b>At 30 September 2017</b>	<u>10</u>	<u>1,000</u>	<u>2,096</u>	<u>3,106</u>
<b>(unaudited)</b>				
<b>As at 1 April 2016</b>	–	1,000	13,995	14,995
Profit for the period and total comprehensive income for the period	–	–	2,352	2,352
<b>At 30 September 2016</b>	<u>–</u>	<u>1,000</u>	<u>16,347</u>	<u>17,347</u>

## Combined Statements of Cash Flows

	Year ended 31 March		Six months ended 30 September	
	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
<b>Cash flows from operating activities</b>				
Profit/(Loss) before income tax	9,571	14,800	2,807	(3,842)
Adjustments for:				
Depreciation	613	453	236	190
Amortisation of reinstatement cost	–	43	22	28
Interest income	(57)	(22)	(40)	–
Interest expenses	257	175	70	106
Loss/(Gain) on disposal of property, plant and equipment	172	(71)	–	–
Reversal of provision for long service payment	(343)	(215)	(66)	(47)
Write-off of inventories	–	18	–	–
Operating profit/(loss) before working capital changes	10,213	15,181	3,029	(3,565)
Changes in working capital:				
– Inventories	(1,335)	60	(1,704)	(1,108)
– Trade and other receivables	(63)	566	887	(2,069)
– Trade and other payables	(16)	425	295	1,326
Cash generated from/(used in) operations	8,799	16,232	2,507	(5,416)
Income tax refunded/(paid)	647	(2,562)	–	–
<i>Net cash from/(used in) operating activities</i>	9,446	13,670	2,507	(5,416)
<b>Cash flows from investing activities</b>				
Interest received	57	22	40	–
Decrease/(Increase) in time deposits	858	14	(391)	–
Proceeds from disposal of property, plant and equipment	133	145	–	–
Purchases of property, plant and equipment	(253)	(46)	(25)	(68)
Net change in amounts due from related parties	3,299	(8,017)	(9,392)	4,186
<i>Net cash from/(used in) investing activities</i>	4,094	(7,882)	(9,768)	4,118
<b>Cash flows from financing activities</b>				
Proceeds from issuance of share capital	–	–	–	10
Interest paid	(257)	(175)	(70)	(106)
Proceeds from new bank borrowings	–	12,500	10,000	6,000
Repayment of bank borrowings	(13,749)	(8,771)	(1,271)	(1,000)
Net change in amounts due to related parties	1,087	(8,388)	(1,087)	(2,699)
<i>Net cash (used in)/from financing activities</i>	(12,919)	(4,834)	7,572	2,205
<b>Net increase in cash and cash equivalents</b>	621	954	311	907
<b>Cash and cash equivalents at beginning of the year/period</b>	561	1,182	1,182	2,136
<b>Cash and cash equivalents at end of the year/period, represented by cash and bank balances</b>	1,182	2,136	1,493	3,043

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. GENERAL INFORMATION AND BASIS OF PRESENTATION

#### 1.1 General information

Ying Kee Tea House Group Limited (the “Company”) was incorporated in Hong Kong with limited liability on 14 September 2017. The address of its registered office is 5/F, Standard Chartered Bank Building, 4-4A Des Voeux Road Central, Hong Kong and its principal place of business is Hong Kong.

The Company is an investment holding company and has not carried on any business since its incorporation save for the group reorganisation below. The Company and its subsidiary (together, the “Group”) are principally engaged in the retail trading of tea products.

The Company’s immediate holding company is Profit Ocean Enterprises Limited (“Profit Ocean”), a company incorporated in the British Virgin Islands (“BVI”). Profit Ocean is controlled by Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen (together, the “Controlling Shareholders”) through four companies incorporated in the BVI, namely Tri-Luck Investments Limited (“Tri-Luck”), Wealth City Global Limited (“Wealth City”), Sky King Global Limited (“Sky King”) and Coastal Lion Limited (“Coastal Lion”), respectively.

Pursuant to a group reorganisation (the “Reorganisation”) as detailed in the section headed “History, reorganisation and group structure” to this prospectus, the Company became the holding company of the company now comprising the Group on 10 October 2017.

As at the date of this report, the Company had direct interests in the following private limited liability company:

Company name	Place and date of incorporation	Issued and paid up capital	Equity interest attributable to the Group			date of this report	Principal activity
			As at				
			31 March 2016	30 September 2017	30 September 2017		
Ying Kee Tea Company Limited (“Ying Kee”) (note)	Hong Kong, 13 December 1983	HK\$1,000,000	100%	100%	100%	100%	Retail trading of tea products

Note:

The statutory financial statements for the years ended 31 March 2016 and 2017 were audited by Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong.

As at the date of this report, no audited financial statements have been prepared for the Company as the Company was newly incorporated. All the companies now comprising the Group have adopted 31 March as their financial year end date.

#### 1.2 Basis of presentation

As all the companies now comprising the Group that took part in the Reorganisation were under the common control of the Controlling Shareholders before and after the Reorganisation, there was a continuation of risk and benefits to the Controlling Shareholders and accordingly, the Reorganisation is considered to be a business combination of entities under common control. The Historical Financial Information has been prepared by applying the merger basis of accounting as if the companies now comprising the Group have been combined at the beginning of the Track Record Period, or since their respective dates of incorporation, whichever was shorter. The assets and liabilities of all the companies now comprising the Group are combined using the book values from the Controlling Shareholders’ perspective.

The combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows include the results, changes in equity and cash flows of all the companies now comprising the Group for the Track Record Period (or where the companies were incorporated at a date later than 1 April 2015, for the period from date of incorporation to the reporting date) as if the current group structure had been in existence throughout the Track Record Period. The combined statements of financial position of the Group as at 31 March 2016 and 2017 and 30 September 2017 have been prepared to present the financial position of all the companies now comprising the Group as if the current group structure had been in existence at these dates.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The significant accounting policies that have been used in the preparation of the Historical Financial Information are summarised below. These policies have been consistently applied to all the years/periods presented in the Historical Financial Information, unless otherwise stated.

The Historical Financial Information contained in this prospectus does not constitute the Company’s statutory annual consolidated financial statements for any of the financial years ended 31 March 2016 and 31 March 2017 and period ended 30 September 2017. Further information required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company was incorporated on 14 September 2017 and has not prepared and presented any statutory financial statements since incorporation. Consequently, the Company’s auditor has not reported on any statutory financial statements and none have been delivered to the Registrar of Companies.

The Historical Financial Information has been prepared on the historical cost basis. The Historical Financial Information is presented in Hong Kong Dollars (“HK\$”), which is also the functional currency of the Company and its subsidiary, and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in preparation of the Historical Financial Information. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 3.

### 2.2 Issued but not yet effective HKFRSs

The HKICPA has issued a number of new and amended HKFRSs. For the purpose of preparing the Historical Financial Information, the Group has adopted all applicable new and amended HKFRSs to the Track Record Period, except for the following new and amended HKFRSs that have been published but are not yet effective:

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions<sup>1</sup></i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts<sup>1</sup></i>
HKFRS 9	<i>Financial Instruments<sup>1</sup></i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation<sup>2</sup></i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint venture<sup>4</sup></i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures<sup>2</sup></i>
HKFRS 15	<i>Revenue from Contracts with Customers<sup>1</sup></i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers<sup>1</sup></i>
HKFRS 16	<i>Leases<sup>2</sup></i>
HKFRS 17	<i>Insurance Contracts<sup>3</sup></i>
HK (IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration<sup>1</sup></i>
HK (IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments<sup>2</sup></i>



Amendments to HKAS 40	<i>Transfers of Investment Property</i> <sup>1</sup>
Annual Improvements Project	<i>Annual Improvements to HKFRSs 2014-2016 Cycle</i> <sup>1</sup>
Annual Improvements Project	<i>Annual Improvements to HKFRSs 2015-2017 Cycle</i> <sup>2</sup>

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2018  
<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019  
<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021  
<sup>4</sup> No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and amended HKFRSs upon initial application. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's financial performance and financial position.

#### ***HKFRS 9 Financial instruments***

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group has performed a high-level assessment of the impact upon the adoption of HKFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of HKFRS 9 are summarised as follows:

##### *(a) Classification and measurement*

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring all financial assets as loans and receivables.

##### *(b) Impairment*

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The directors of the Company do not consider the application of HKFRS 9 will have material financial impact on the Group's financial performance and position.

#### ***HKFRS 15 Revenue from contracts with customers***

HKFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company do not consider that the application of HKFRS 15 will have material financial impact on the Group's financial performance and financial position. However, there will be additional qualitative and quantitative disclosures upon the adoption of HKFRS 15.

#### ***HKFRS 16 Leases***

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases", introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classify cash repayments of the lease liability into a principal portion and an interest portion and present them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

As set out in note 20.1, total operating lease commitments of the Group as at 30 September 2017 were amounting to approximately HK\$5,257,000. The directors of the Company do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's results but it is expected that certain portion of these commitments will be required to recognise in the consolidated statement of financial position as right-of-use assets and lease liabilities.

### **2.3 Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the Historical Financial Information from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the Historical Financial Information.

### **2.4 Foreign currency translation**

In the individual financial statements of the combined entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

### **2.5 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and amortisation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and reinstatement cost. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation is provided to write off the cost less their residual values over their estimated useful lives, using the reducing balance method, at the following rates per annum, except for reinstatement cost which is amortised over the lease terms using the straight-line method:

Machinery and equipment	20%
Leasehold improvement and furniture and fixtures	20%
Motor vehicles	20%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

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

## 2.6 Financial assets

Financial assets are classified into loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at each reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

### *Impairment of financial assets*

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- the disappearance of an active market for that financial asset because of financial difficulties.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the profit or loss of the period in which the reversal occurs.

Impairment losses on financial assets other than trade receivables that are stated at amortised cost, are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the profit or loss.

## **2.7 Inventories**

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. Cost is determined using the weighted average basis.

## **2.8 Cash and cash equivalents**

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

## **2.9 Financial liabilities**

The Group's financial liabilities include bank borrowings, trade and other payables and amounts due to related parties.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (note 2.16).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the profit or loss.

### ***Bank borrowings***

Bank borrowings are recognised initially at fair value, net of transaction costs incurred. Bank borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Bank borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

### ***Trade and other payables and amounts due to related parties***

They are recognised initially at their fair values and subsequently measured at amortised cost, using the effective interest method.

**2.10 Leases**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

***Classification of assets leased to the Group***

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

***Operating lease charges as the lessee***

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to the profit or loss in the accounting period in which they are incurred.

**2.11 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**2.12 Share capital**

Ordinary shares are classified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

**2.13 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and the use by others of the Group's assets yielding interest, net of returns and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customers. These are usually taken as the time when the goods are delivered and the customers have accepted the goods.

Interest income is recognised on an accrual basis using the effective interest method.

Royalty income is recognised on an accrual basis in accordance with the substance of the license agreements.

**2.14 Impairment of non-financial assets**

The Group's property, plant and equipment are tested for impairment whenever there are indications that the assets' carrying amounts may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## **2.15 Employee benefits**

### ***Retirement benefits***

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund ("MPF") Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

Contributions are recognised as an expense in the profit or loss as employees render services during the Track Record Period. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

### ***Long service payment***

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payment under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payment in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

The long service payment liabilities are the present value of long service payment obligation less the entitlements accrued under the Group's defined contribution retirement benefit plans that is attributable to contributions made by the Group.

### ***Short-term employee benefits***

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

## **2.16 Borrowing costs**

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

### 2.17 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the Track Record Period. All changes to current tax assets or liabilities are recognised as a component of income tax expenses in the profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the Historical Financial Information and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in the profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - (i) the same taxable entity; or
  - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### 2.18 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors, the chief operating decision maker, for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

**2.19 Related parties**

For the purposes of the Historical Financial Information, a party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and if that person:
  - (i) has control or joint control over of the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group.
- (b) the party is an entity and if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group.
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) The entity and the Group are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

**Net realisable value of inventories**

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition, the ageing of the inventories and the historical experience of selling products of similar nature. Management reassesses these estimates at the reporting date to ensure inventories are carried at the lower of cost and net realisable value. The carrying amounts of inventories at each reporting date are disclosed in note 13.

**Impairment of trade receivables**

The policy for impairment of trade receivables of the Group is based on the evaluation of collectability and the ageing analysis of the receivables and on the management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. The carrying amounts of trade receivables at each reporting date are disclosed in note 14.



**Useful lives, residual values and depreciation of property, plant and equipment**

The Group determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charge where useful lives or residual values are materially different from those previously estimated. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expenses in the future periods. The carrying amounts of property, plant and equipment at each reporting date are disclosed in note 12.

**4. REVENUE AND SEGMENT REPORTING****4.1 Revenue**

	Year ended 31 March		Six months ended 30 September	
	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Sales of tea products	42,781	44,540	14,946	16,039

**4.2 Segment information**

The Group has determined the operating segments based on the information reported to the executive directors, the chief operating decision maker. During the Track Record Period, the chief operating decision maker regards the Group's sales of tea products business as a single operating segment and assesses the operating performance and allocates the resources of the Group as a whole. Accordingly, no segment information is presented.

***Geographical information***

No separate analysis of segment information by geographical segment is presented as substantially all the Group's revenue are derived from Hong Kong based on the location of customers and the Group's property, plant and equipment are all located in Hong Kong.

***Information about major customers***

During the Track Record Period, none of the Group's customers contributed over 10% of the Group's revenue.

**5. OTHER INCOME**

	Year ended 31 March		Six months ended 30 September	
	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Bank interest income	57	22	40	–
Royalty income	114	114	57	–
Sundry income	7	–	–	–
Gain on disposal of property, plant and equipment	–	71	–	–
	<u>178</u>	<u>207</u>	<u>97</u>	<u>–</u>

## 6. FINANCE COSTS

	Year ended 31 March		Six months ended 30 September	
	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Interest on bank borrowings	257	175	70	106

## 7. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(Loss) before income tax is arrived at after charging/(crediting):

	Year ended 31 March		Six months ended 30 September	
	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Auditor's remuneration	130	135	–	–
Cost of inventories recognised as an expense, including	7,631	7,836	2,726	2,905
– write-off of inventories	–	18	–	–
Depreciation of property, plant and equipment	613	453	236	190
Amortisation of reinstatement cost	–	43	22	28
Loss/(Gain) on disposal of property, plant and equipment	172	(71)	–	–
Operating lease charges in respect of premises				
– minimum lease payments	11,111	8,013	3,927	3,895
– contingent rentals ( <i>note</i> )	641	564	78	72
Exchange losses, net	158	37	1	–
Reversal of provision for long service payment	(343)	(215)	(66)	(47)
Listing expenses	–	–	–	6,053

*Note:* The contingent rentals are charged based on pre-determined percentages of realised sales less the minimum lease payments of the respective leases.

## 8. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the Track Record Period.

	Year ended 31 March		Six months ended 30 September	
	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
<b>Current tax</b>				
Hong Kong profits tax				
– Current year/period	1,596	2,484	455	352
– Under-provision in respect of prior years	86	21	–	–
Income tax expenses	1,682	2,505	455	352

Reconciliation between income tax expenses and accounting profit/(loss) at applicable tax rate:

	Year ended 31 March		Six months ended 30 September	
	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Profit/(Loss) before income tax	9,571	14,800	2,807	(3,842)
Tax on profit/(loss) before income tax, calculated at Hong Kong Profits Tax rate of 16.5%	1,579	2,442	463	(634)
Tax effect of non-deductible expenses	26	38	8	1,008
Tax effect of non-taxable income	(9)	(4)	(7)	–
Tax effect of temporary differences not recognised	57	30	(9)	(22)
Under-provision in respect of prior years	86	21	–	–
Others	(57)	(22)	–	–
Income tax expenses	<u>1,682</u>	<u>2,505</u>	<u>455</u>	<u>352</u>

As at 31 March 2016 and 2017 and 30 September 2017, the Group did not have significant unrecognised deferred tax assets and liabilities.

## 9. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

### 9.1 Employee benefit expenses

	Year ended 31 March		Six months ended 30 September	
	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Salaries, allowances and other benefits	9,029	9,190	3,813	4,299
Pension costs – defined contribution plans	368	347	157	178
Reversal of provision for long service payment	(343)	(215)	(66)	(47)
	<u>9,054</u>	<u>9,322</u>	<u>3,904</u>	<u>4,430</u>

## 9.2 Directors' emoluments

	Year ended 31 March 2016				
	Fees	Salaries, allowances and other benefits	Bonuses	Retirement scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors:					
Chan Kwong Yuen	-	-	-	-	-
Chan Kun Yuen	-	-	-	-	-
Chan Shu Yuen	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Year ended 31 March 2017				
	Fees	Salaries, allowances and other benefits	Bonuses	Retirement scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors:					
Chan Kwong Yuen	-	-	-	-	-
Chan Kun Yuen	-	-	-	-	-
Chan Shu Yuen	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Six months ended 30 September 2017				
	Fees	Salaries, allowances and other benefits	Bonuses	Retirement scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors:					
Chan Kwong Yuen	-	-	-	-	-
Chan Kun Yuen	-	-	-	-	-
Chan Shu Yuen	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Six months ended 30 September 2016 (unaudited)				
	Fees <i>HK\$'000</i>	Salaries, allowances and other benefits <i>HK\$'000</i>	Bonuses <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive directors:					
Chan Kwong Yuen	-	-	-	-	-
Chan Kun Yuen	-	-	-	-	-
Chan Shu Yuen	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

*Notes:*

- (i) Chan Kwong Yuen, Chan Kun Yuen and Chan Shu Yuen were appointed as directors of the Company on 14 September 2017 and re-designated as executive directors of the Company on 13 October 2017.
- (ii) Chan Kwong Yuen and Chan Kun Yuen are also the Group's chairman of the board of directors and chief executive officer respectively.

The emoluments above represent emoluments received from the Group by these directors in their capacity as employees of the Group and/or in their capacity as directors of the companies now comprising the Group during the Track Record Period.

**9.3 Five highest paid individuals' emoluments**

The five individuals whose emoluments were the highest in the Group for the Track Record Period do not include the directors during the years ended 31 March 2016 and 2017 and the six months ended 30 September 2016 and 2017, whose emoluments are disclosed in note 9.2. The aggregate of the emoluments payable to the 5, 5, 5 (unaudited) and 5 individuals are as follows:

	Year ended 31 March		Six months ended 30 September	
	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Salaries, allowances and other benefits	1,496	1,518	668	884
Bonuses	157	164	-	-
Retirement scheme contributions	73	73	33	35
	<u>1,726</u>	<u>1,755</u>	<u>701</u>	<u>919</u>

The above individuals' emoluments are within the following bands:

	Number of individuals			
	Year ended 31 March		Six months ended 30 September	
	2016	2017	2016 (unaudited)	2017
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

During the Track Record Period, no emolument was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No director or five highest paid individuals has waived or agreed to waive any emoluments during the Track Record Period.

#### 10. DIVIDENDS

During the Track Record Period, dividends declared and paid by a subsidiary now comprising the Group are as follows:

	Year ended 31 March		Six months ended 30 September	
	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Dividends to the then shareholders	<u>–</u>	<u>20,000</u>	<u>–</u>	<u>–</u>

Subsequent to 30 September 2017, a dividend in respect of the year ended 31 March 2018 of HK\$2,000,000 was proposed and paid by the Company and has not been recognised as a liability as at 30 September 2017.

#### 11. EARNINGS/(LOSS) PER SHARE

Earnings/(Loss) per share is not presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful due to the Reorganisation and the basis of presentation of the results of the Group for the Track Record Period as disclosed in note 1.2 above.

## 12. PROPERTY, PLANT AND EQUIPMENT

	Machinery and equipment <i>HK\$'000</i>	Leasehold improvement and furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>At 1 April 2015</b>				
Cost	943	6,709	1,587	9,239
Accumulated depreciation	(586)	(4,406)	(1,286)	(6,278)
Net book amount	<u>357</u>	<u>2,303</u>	<u>301</u>	<u>2,961</u>
<b>Year ended 31 March 2016</b>				
Opening net book amount	357	2,303	301	2,961
Additions	209	44	–	253
Disposals	–	(138)	(167)	(305)
Depreciation	(100)	(453)	(60)	(613)
Closing net book amount	<u>466</u>	<u>1,756</u>	<u>74</u>	<u>2,296</u>
<b>At 31 March 2016</b>				
Cost	1,152	6,446	799	8,397
Accumulated depreciation	(686)	(4,690)	(725)	(6,101)
Net book amount	<u>466</u>	<u>1,756</u>	<u>74</u>	<u>2,296</u>
<b>Year ended 31 March 2017</b>				
Opening net book amount	466	1,756	74	2,296
Additions	45	44	–	89
Disposals	–	–	(74)	(74)
Depreciation/Amortisation	(101)	(395)	–	(496)
Closing net book amount	<u>410</u>	<u>1,405</u>	<u>–</u>	<u>1,815</u>
<b>At 31 March 2017</b>				
Cost	1,197	6,490	–	7,687
Accumulated depreciation and amortisation	(787)	(5,085)	–	(5,872)
Net book amount	<u>410</u>	<u>1,405</u>	<u>–</u>	<u>1,815</u>
<b>Period ended 30 September 2017</b>				
Opening net book amount	410	1,405	–	1,815
Additions	68	686	–	754
Depreciation/Amortisation	(47)	(171)	–	(218)
Closing net book amount	<u>431</u>	<u>1,920</u>	<u>–</u>	<u>2,351</u>
<b>At 30 September 2017</b>				
Cost	1,265	7,176	–	8,441
Accumulated depreciation and amortisation	(834)	(5,256)	–	(6,090)
Net book amount	<u>431</u>	<u>1,920</u>	<u>–</u>	<u>2,351</u>

## 13. INVENTORIES

	As at 31 March		As at
	2016	2017	30 September
	HK\$'000	HK\$'000	2017
			HK\$'000
Tea leaves	3,650	3,346	3,569
Canned/Packed tea products for sale	2,206	2,290	3,045
Tea wares	606	523	566
Packaging materials	598	823	910
	<u>7,060</u>	<u>6,982</u>	<u>8,090</u>

## 14. TRADE AND OTHER RECEIVABLES

	As at 31 March		As at
	2016	2017	30 September
	HK\$'000	HK\$'000	2017
			HK\$'000
<b>Trade receivables</b>	<u>702</u>	<u>475</u>	<u>373</u>
<b>Deposits, prepayments and other receivables</b>			
Rental and other deposits	1,298	959	1,457
Prepayments	–	–	196
Prepaid listing expenses	–	–	1,591
Royalty income receivable	114	114	–
	<u>1,412</u>	<u>1,073</u>	<u>3,244</u>
	<u>2,114</u>	<u>1,548</u>	<u>3,617</u>

The directors of the Group consider that the fair values of trade and other receivables are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

The Group's sales to customers are mainly on cash basis. The Group also grants credit terms of 0 to 75 days to certain corporate customers. The ageing analysis of trade receivables based on the invoice dates was as follows:

	As at 31 March		As at
	2016	2017	30 September
	HK\$'000	HK\$'000	2017
			HK\$'000
0 – 30 days	391	416	341
31 – 60 days	291	48	19
61 – 90 days	20	11	13
	<u>702</u>	<u>475</u>	<u>373</u>

At each reporting date, the Group reviews receivables for evidence of impairment on both an individual and collective basis. As at 31 March 2016 and 2017 and 30 September 2017, none of the Group's trade receivables was individually or collectively considered to be impaired.



The ageing analysis of trade receivables that were past due but not impaired, based on due dates is as follows:

	As at 31 March		As at
	2016	2017	30 September
	HK\$'000	HK\$'000	2017
			HK\$'000
Neither past due nor impaired	375	430	330
1 – 30 days past due	326	45	43
Over 90 days past due	1	–	–
	<u>702</u>	<u>475</u>	<u>373</u>

Trade receivables that were neither past due nor impaired related to a number of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related to a number of customers that had a good track record of credit with the Group. Based on past credit history, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable.

#### 15. TIME DEPOSITS

As at 31 March 2016 and 2017 and 30 September 2017, the time deposits earn interest at 4.2%, 4.4% and 4.4% per annum and have maturity periods of six, twelve and twelve months respectively.

#### 16. TRADE AND OTHER PAYABLES

	As at 31 March		As at
	2016	2017	30 September
	HK\$'000	HK\$'000	2017
			HK\$'000
Trade payables	174	337	477
Accrued charges and other payables	227	489	1,675
	<u>401</u>	<u>826</u>	<u>2,152</u>

Purchases are generally made without prescribed credit terms. Based on the invoice dates, the ageing analysis of trade payables was as follows:

	As at 31 March		As at
	2016	2017	30 September
	HK\$'000	HK\$'000	2017
			HK\$'000
0 – 30 days	<u>174</u>	<u>337</u>	<u>477</u>

All amounts are short-term and hence the carrying values of trade and other payables are considered to be a reasonable approximation of fair values.

## 17. BANK BORROWINGS

	As at 31 March		As at
	2016	2017	30 September
	HK\$'000	HK\$'000	2017
			HK\$'000
Unsecured bank loans repayable within one year and contain a repayment on demand clause	1,271	5,000	10,000

As at 31 March 2016 and 2017 and 30 September 2017, the bank loans bear interest at fixed rate of 2.50%, variable rates of 2.73% to 3.25% and 2.93% to 2.97% per annum respectively.

As at 31 March 2016 and 2017 and 30 September 2017, the bank loans are secured by (i) personal guarantee provided by the Controlling Shareholders and (ii) corporate guarantee provided by a related company, Chan Sing Hoi Enterprises, a entity controlled by the Controlling Shareholders.

## 18. SHARE CAPITAL

	Number of shares	HK\$'000
<b>Issued and fully paid:</b>		
At 1 April 2015, 31 March 2016 and 2017	–	–
Issuance of share capital of the Company	10,000	10
At 30 September 2017	10,000	10

The Company was incorporated in Hong Kong with limited liability on 14 September 2017. On the date of its incorporation, 10,000 shares totalling HK\$10,000 were allotted and issued to Profit Ocean, credited as fully paid.

## 19. CAPITAL RESERVE

Capital reserve as at 31 March 2016 and 2017 and 30 September 2017 represented the share capital of Ying Kee.

## 20. COMMITMENTS

## 20.1 Operating lease commitments

At 31 March 2016 and 2017 and 30 September 2017, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	As at 31 March		As at
	2016	2017	30 September
	HK\$'000	HK\$'000	2017
			HK\$'000
Within one year	1,382	669	2,138
In the second to fifth years	371	–	3,119
	1,753	669	5,257

The Group leases a number of premises which comprises office, warehouse, retail shops and concession counters under operating leases. The leases run for an initial period of one to three years and the Group may renegotiate the lease terms with the respective landlords/lessors upon or near expiry of the leases.

In addition to the above, contingent rentals are charged on certain retail shops and concession counters based on pre-determined percentages of realised sales, but generally with a basic or minimum lease payment as agreed of the respective leases.

## 20.2 Capital commitment

	As at 31 March		As at 30 September
	2016	2017	2017
	HK\$'000	HK\$'000	HK\$'000
Contracted but not provided for:			
Property, plant and equipment	–	–	278

## 21. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the Historical Financial Information, the Group entered into the following material related party transactions during the Track Record Period:

### 21.1 Names and relationship

Name of related party	Relationship with the Group
Chan Shu Yuen	One of the Controlling Shareholders
Chan Kwong Yuen	One of the Controlling Shareholders
Chan Kun Yuen	One of the Controlling Shareholders
Chan Tat Yuen	One of the Controlling Shareholders
Chan Sing Hoi Enterprises	An entity controlled by the Controlling Shareholders
Golden Ocean	An entity controlled by the Controlling Shareholders
Profit Ocean	Immediate holding company
Tri-Luck	An entity controlled by one of the Controlling Shareholders
Wealth City	An entity controlled by one of the Controlling Shareholders
Sky King	An entity controlled by one of the Controlling Shareholders
Coastal Lion	An entity controlled by one of the Controlling Shareholders

### 21.2 Related party transactions

	Year ended 31 March		Six months ended 30 September	
	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Rental expenses, management fee and rates paid:</b>				
Chan Sing Hoi Enterprises	3,480	2,088	1,044	1,121
Golden Ocean	4,620	3,024	1,512	1,738
<b>Purchase of goods on behalf of the Group:</b>				
Golden Ocean	1,589	506	255	250
<b>Sales of goods:</b>				
Chan Sing Hoi Enterprises	–	150	–	–
Golden Ocean	4	39	3	–

Rental expenses paid to related parties were negotiated on an arm's length basis with reference to the market rentals.

Purchase of goods made on behalf of the Group by Golden Ocean were sold to the Group at cost.

Sales of goods to related parties were made in the normal course of business and according to the prices and terms similar to those made to other parties.

As at 31 March 2016 and 2017 and 30 September 2017, the Controlling Shareholders and Chan Sing Hoi Enterprises had given personal and corporate guarantee to the banks for banking facilities granted to the Group for an amount up to HK\$15,637,000, HK\$10,000,000 and HK\$21,000,000 respectively.

### 21.3 Balances with related parties

	As at 1 April 2015 <i>HK\$'000</i>	As at 31 March 2016 2017 <i>HK\$'000</i>		As at 30 September 2017 <i>HK\$'000</i>
<b>Amounts due from:</b>				
Chan Shu Yuen	1,868	1,990	592	–
Chan Kwong Yuen	2,769	2,891	1,492	–
Chan Kun Yuen	1,198	1,383	–	–
Chan Tat Yuen	3,728	–	–	–
Chan Sing Hoi Enterprises	–	–	988	–
Golden Ocean	–	–	1,209	–
Profit Ocean	–	–	–	19
Tri-Luck	–	–	–	19
Wealth City	–	–	–	19
Sky King	–	–	–	19
Coastal Lion	–	–	–	19
	<u>9,563</u>	<u>6,264</u>	<u>4,281</u>	<u>95</u>
<b>Amounts due to:</b>				
Chan Tat Yuen	–	1,087	2,584	–
Chan Kun Yuen	–	–	115	–
	<u>–</u>	<u>1,087</u>	<u>2,699</u>	<u>–</u>

The amounts due are non-trade in nature, unsecured, interest-free and repayable on demand. The carrying amounts approximate their fair values and are denominated in HK\$. All the balances with related parties as at 30 September 2017 have been fully settled in February 2018.

The maximum amount outstanding of the amounts due from related parties during the Track Record Period were:

	Year ended 31 March		Six months ended
	2016	2017	30 September
	HK\$'000	HK\$'000	2017
Chan Shu Yuen	4,755	5,543	592
Chan Kwong Yuen	7,658	6,443	1,492
Chan Kun Yuen	4,148	–	–
Chan Sing Hoi Enterprises	–	988	1,254
Golden Ocean	–	1,209	1,423
Profit Ocean	–	–	19
Tri-Luck	–	–	19
Wealth City	–	–	19
Sky King	–	–	19
Coastal Lion	–	–	19
	<u>          </u>	<u>          </u>	<u>          </u>

#### 21.4 Key management personnel remuneration

	Year ended 31 March		Six months ended	
	2016	2017	30 September	2017
	HK\$'000	HK\$'000	2016	2017
			(unaudited)	
Salaries, allowances and other benefits	1,496	1,518	668	884
Bonuses	157	164	–	–
Retirement scheme contributions	73	73	33	35
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	1,726	1,755	701	919
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 22. NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS

### (a) Reconciliations of liabilities arising from financing activities

Reconciliations of liabilities arising from financing activities for the years ended 31 March 2016 and 2017 and the six months period ended 30 September 2017, are as follows:

	As at		Non-cash	As at
	1 April 2015	Cash flows	changes	31 March
	HK\$'000	HK\$'000	HK\$'000	2016
				HK\$'000
Amounts due to related parties	–	1,087	–	1,087
Bank borrowings	15,020	(13,749)	–	1,271
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities from financing activities	15,020	(12,662)	–	2,358
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

	As at 1 April 2016 <i>HK\$'000</i>	Cash flows <i>HK\$'000</i>	Non-cash changes: dividend payable <i>HK\$'000</i>	As at 31 March 2017 <i>HK\$'000</i>
Amounts due to related parties	1,087	(8,388)	10,000	2,699
Bank borrowings	1,271	3,729	–	5,000
Total liabilities from financing activities	<u>2,358</u>	<u>(4,659)</u>	<u>10,000</u>	<u>7,699</u>
	As at 1 April 2016 <i>HK\$'000</i>	Cash flows <i>HK\$'000</i>	Non-cash changes <i>HK\$'000</i>	As at 30 September 2016 <i>HK\$'000</i>
<b>(Unaudited)</b>				
Amounts due to related parties	1,087	(1,087)	–	–
Bank borrowings	1,271	8,729	–	10,000
Total liabilities from financing activities	<u>2,358</u>	<u>7,642</u>	<u>–</u>	<u>10,000</u>
	As at 1 April 2017 <i>HK\$'000</i>	Cash flows <i>HK\$'000</i>	Non-cash changes <i>HK\$'000</i>	As at 30 September 2017 <i>HK\$'000</i>
Amounts due to related parties	2,699	(2,699)	–	–
Bank borrowings	5,000	5,000	–	10,000
Total liabilities from financing activities	<u>7,699</u>	<u>2,301</u>	<u>–</u>	<u>10,000</u>

**(b) Non-cash transaction**

During the year ended 31 March 2017, dividend payable to the then shareholders of HK\$20,000,000 were settled through current accounts with them.

**23. FINANCIAL RISK MANAGEMENT**

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The Group's overall financial risk management policies focuses on the unpredictability and volatility at financial markets and seeks to minimise potential adverse effects on the financial position, financial performance and cash flows of the Group. No derivative financial instruments are used to hedge any risk exposures.

## 23.1 Categories of financial assets and liabilities

	As at 31 March		As at
	2016	2017	30 September
	HK\$'000	HK\$'000	2017
			HK\$'000
<b>Financial assets</b>			
<i>Loans and receivables</i>			
– Trade and other receivables	2,114	1,548	1,830
– Amounts due from related parties	6,264	4,281	95
– Time deposits	628	614	614
– Cash and bank balances	1,182	2,136	3,043
	<u>10,188</u>	<u>8,579</u>	<u>5,582</u>
<b>Financial liabilities</b>			
<i>Financial liabilities measured at amortised cost</i>			
– Trade and other payables	401	826	2,152
– Amounts due to related parties	1,087	2,699	–
– Bank borrowings	1,271	5,000	10,000
	<u>2,759</u>	<u>8,525</u>	<u>12,152</u>

## 23.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to foreign currency risk mainly arise from the Group's financial assets denominated in Renminbi ("RMB"). This is not the functional currency of the Group to which these transactions relate.

Foreign currency denominated financial assets and liabilities, translated into HK\$ at the closing rates, are as follows:

	As at 31 March		As at
	2016	2017	30 September
	RMB	RMB	2017
	HK\$'000	HK\$'000	RMB
			HK\$'000
Time deposits	628	614	614
Cash and bank balances	9	12	10
Trade and other payables	–	–	(118)
	<u>637</u>	<u>626</u>	<u>506</u>

The following table illustrates the sensitivity of the Group's profit/loss after income tax for the Track Record Period and equity as at 31 March 2016 and 2017 and 30 September 2017 in regard to an appreciation in the Group's functional currency against RMB. The sensitivity rate represents management's best assessment of the possible change in RMB.

	Sensitivity rate	Decrease in profit for the year/ Increase in loss for the period	Decrease in equity
	%	HK\$'000	HK\$'000
Year ended 31 March 2016	6%	38	38
Year ended 31 March 2017	6%	38	38
Six months ended 30 September 2017	4%	20	20
	<u>4%</u>	<u>20</u>	<u>20</u>

The same percentage depreciation in the Group's functional currency against RMB would have the same magnitude on the Group's profit/loss after income tax for the Track Record Period and equity as at 31 March 2016 and 2017 and 30 September 2017 but of opposite effect.

### 23.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from bank borrowings bearing variable rates which expose the Group to cash flow interest rate risk. The Group's time deposits mainly pay fixed interest rates.

The following table illustrates the sensitivity of the Group's profit/loss after income tax for the Track Record Period and equity as at 31 March 2016 and 2017 and 30 September 2017 to a possible change in interest rates.

	<b>Decrease in profit for the year/ Increase in loss for the period</b> <i>HK\$'000</i>	<b>Decrease in equity</b> <i>HK\$'000</i>
<b>Year ended 31 March 2016</b>		
Increase by 50 basis points	—	—
<b>Year ended 31 March 2017</b>		
Increase by 50 basis points	21	21
<b>Six months ended 30 September 2017</b>		
Increase by 50 basis points	42	42

A decrease in 50 basis points in interest rate would have the same magnitude on the Group's profit/loss after income tax for the Track Record Period and equity as at 31 March 2016 and 2017 and 30 September 2017 but of opposite effect.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate over the next twelve months period.

### 23.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The Group's maximum exposure to credit risk is limited to the carrying amounts of the financial assets at each reporting date as detailed in note 23.1.

The credit risk for cash at banks and time deposits is considered negligible as the counterparties are reputable banks.

For trade and other receivables, the exposures to credit risk are monitored such that any outstanding debtors are reviewed and followed up on an ongoing basis. As at 31 March 2016 and 2017 and 30 September 2017, 37%, 33% and 29% was due from the largest debtor and 89%, 91% and 83% was due from the five largest debtors of the Group. The Group does not hold any collateral from its debtors.

### 23.5 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of its payables and financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.



Analysed below is the Group's remaining contractual maturities for its financial liabilities as at 31 March 2016 and 2017 and 30 September 2017. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay. The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

	<b>Within 1 year or on demand</b> <i>HK\$'000</i>	<b>Total undiscounted amount</b> <i>HK\$'000</i>	<b>Carrying amount</b> <i>HK\$'000</i>
<b>As at 31 March 2016</b>			
Trade and other payables	401	401	401
Amounts due to related parties	1,087	1,087	1,087
Bank borrowings ( <i>note</i> )	1,271	1,271	1,271
	<u>2,759</u>	<u>2,759</u>	<u>2,759</u>
<b>As at 31 March 2017</b>			
Trade and other payables	826	826	826
Amounts due to related parties	2,699	2,699	2,699
Bank borrowings ( <i>note</i> )	5,000	5,000	5,000
	<u>8,525</u>	<u>8,525</u>	<u>8,525</u>
<b>As at 30 September 2017</b>			
Trade and other payables	2,152	2,152	2,152
Bank borrowings ( <i>note</i> )	10,000	10,000	10,000
	<u>12,152</u>	<u>12,152</u>	<u>12,152</u>

*Note:* The bank loans which are repayable within 1 year and contain a repayment on demand clause are included in the "Within 1 year or on demand" time band in the above maturity analysis.

Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that the bank loans with a repayment on demand clause will be repaid in accordance with the scheduled repayment dates set out in the loan agreements as follows:

	<b>Aggregate principal and interest cash outflows</b>			
	<b>Loans without scheduled repayment dates but contain a repayment on demand clause</b>			
	<i>(Note)</i> <i>HK\$'000</i>	<b>Within 1 year</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>	<b>Carrying amount</b> <i>HK\$'000</i>
<b>As at 31 March 2016</b>	–	1,278	1,278	1,271
<b>As at 31 March 2017</b>	5,000	–	5,000	5,000
<b>As at 30 September 2017</b>	10,000	–	10,000	10,000

*Note:* The revolving bank loans as at 31 March 2017 and 30 September 2017 did not have any fixed repayment date but contain a repayment on demand clause. The above analysis disclosed the undiscounted amounts which approximate their carrying amounts.

**24. CAPITAL MANAGEMENT**

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing goods and services commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose net debt is defined as borrowings less cash and cash equivalents and time deposits. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, raise new debt financing or sell assets to reduce debt.

The net debt to equity ratio at the reporting date was:

	<b>As at 31 March</b>		<b>As at</b>
	<b>2016</b>	<b>2017</b>	<b>30 September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings	1,271	5,000	10,000
Cash and cash equivalents	(1,182)	(2,136)	(3,043)
Time deposits	(628)	(614)	(614)
	<u>          </u>	<u>          </u>	<u>          </u>
Net debt	<u>(539)</u>	<u>2,250</u>	<u>6,343</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Total equity	<u>14,995</u>	<u>7,290</u>	<u>3,106</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Net debt to equity ratio	<u>N/A</u>	<u>31%</u>	<u>204%</u>

**25. SUBSEQUENT EVENTS**

Save as disclosed elsewhere in the Historical Financial Information, the following significant events took place subsequent to 30 September 2017:

- (i) On 10 October 2017, the Group completed the Reorganisation to rationalise the Group's structure in the preparation for the initial listing of the shares of the Company on the GEM of the Stock Exchange. Further details of the Reorganisation are set out in the section headed "History, reorganisation and group structure" to the Prospectus. As the result of the Reorganisation, the Company became the holding company of the Group.
- (ii) A share option scheme was conditionally adopted by the Company on 14 March 2018, the principal terms of which are summarised in the section headed "Statutory and general information – 8. Share option scheme" in Appendix IV to the Prospectus.

**III. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared for the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 September 2017.

The information set forth in this appendix does not form part of the accountants' report on the historical financial information of the Group for each of the years ended 31 March 2016 and 2017 and the six months ended 30 September 2017 prepared by Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I to this prospectus (the "Accountants' Report"), and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

#### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted combined net tangible assets of our Group which has been prepared in accordance with Rule 7.31 of the GEM Listing Rules for the purpose of illustrating the effect of the Share Offer on the audited combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017, as if the Share Offer had taken place on 30 September 2017.

The unaudited pro forma adjusted combined net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of our Group attributable to owners of our Company had the Share Offer been completed as at 30 September 2017 or at any future dates. It is prepared based on the audited combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below.

Audited combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 HK\$'000 (Note 1)	Estimated net proceeds from the Share Offer HK\$'000 (Note 2)	Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 HK\$'000	Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 per Share HK\$ (Note 3)
3,106	31,314	34,420	0.10

Based on the  
Offer Price of  
HK\$0.54 per  
Offer Share

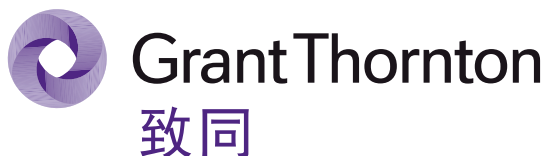
	Audited combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Share Offer <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 <i>HK\$'000</i>	Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 per Share <i>HK\$</i> <i>(Note 3)</i>
<i>Based on the Offer Price of HK\$0.48 per Offer Share</i>	<u>3,106</u>	<u>26,103</u>	<u>29,209</u>	<u>0.08</u>

*Notes:*

- (1) The audited combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited combined net tangible assets of our Group attributable to the owners of our Company as at 30 September 2017 amounting to approximately HK\$3,106,000.
- (2) The estimated net proceeds from the Share Offer are based on the Offer Price of HK\$0.48 and HK\$0.54 per Offer Share, being the low-end and high-end of the indicative range of the Offer Price, respectively, after deduction of the estimated underwriting fees and other listing expenses expected to be incurred by our Group subsequent to 30 September 2017 (i.e. approximately HK\$6,053,000 listing expenses which has been charged to the profit or loss up to 30 September 2017 was excluded) and 90,000,000 Offer Shares expected to be issued under the Share Offer.
- (3) The unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 per Share is calculated based on 360,000,000 Shares, being the number of Shares expected to be in issue immediately following the Bonus Issue and the Share Offer had it been completed on 30 September 2017, without taking into account of any Shares which may be granted and issued by our Company pursuant to the Share Option Scheme.
- (4) The unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 does not take into account of dividend of HK\$2,000,000 declared and paid in December 2017 by a subsidiary of the Group. Had the dividend been taken into account, the unaudited pro forma adjusted combined net tangible assets per Share would be HK\$0.09 (assuming an Offer Price of HK\$0.54 per Offer Share) and HK\$0.08 (assuming an Offer Price of HK\$0.48 per Offer Share), respectively.
- (5) No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company as at 30 September 2017 to reflect any trading results or other transactions of our Group entered into subsequent to 30 September 2017.

**B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.*

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF YING KEE TEA HOUSE GROUP LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Ying Kee Tea House Group Limited (the "Company") and its subsidiary (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets as at 30 September 2017 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 23 March 2018 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of shares of the Company on the GEM of The Stock Exchange of Hong Kong Limited (the "Share Offer") on the Group's financial position as at 30 September 2017 as if the Share Offer had taken place at 30 September 2017. As part of this process, information about the Group's financial position as at 30 September 2017 has been extracted by the Directors from the Group's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

**Directors' Responsibilities for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm apply Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed Share Offer as at 30 September 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of entity, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

### **Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

### **Grant Thornton Hong Kong Limited**

*Certified Public Accountants*

Level 12

28 Hennessy Road

Wanchai

Hong Kong

23 March 2018

### **Chiu Wing Ning**

Practising Certificate No.: P04920

*This appendix contains a summary of the Articles of Association. The principal objective is to provide prospective investors with an overview of the Articles of Association. As the information set out below is in summary form, it does not contain all of the information that may be important to prospective investors. As stated in Appendix V to this prospectus, a copy of the Articles of Association is available for inspection.*

*The Articles of Association were conditionally adopted by our sole Shareholder on 14 March 2018 and became effective on the Listing Date. The following is a summary of certain provisions of the Articles of Association. The powers conferred or permitted by the Articles of Association are subject to the provisions of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and other ordinances, subsidiary legislation and the GEM Listing Rules.*

### **ALTERATION OF CAPITAL**

Our Company may from time to time by ordinary resolution alter its share capital in any one or more of the ways set out in section 170 of the Companies Ordinance, including but not limited to:

- (a) increasing its share capital by allotting and issuing new shares in accordance with the Companies Ordinance;
- (b) increasing its share capital without allotting and issuing new shares, if the funds or other assets for the increase are provided by the members of our Company;
- (c) capitalising its profits, with or without allotting and issuing new shares;
- (d) allotting and issuing bonus shares with or without increasing its share capital;
- (e) converting all or any of its share into a larger or smaller number of existing shares;
- (f) dividing its shares into several classes and attaching thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions, provided always that where our Company issues shares which do not carry voting rights, the words “non-voting” shall appear in the designation of such shares and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words “restricted voting” or “limited voting”;
- (g) cancelling shares:
  - (A) that, at the date of the passing of the resolution for cancellation, have not been taken or agreed to be taken by any person; or
  - (B) that have been forfeited; or
- (h) making provision for the issue and allotment of shares which do not carry any voting rights.



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## **APPENDIX III      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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Our Company may by special resolution reduce its share capital in any manner and with, and subject to, any incident authorised, and consent required by law.

### **PURCHASE OF OWN SHARES AND WARRANTS**

Our Company may exercise any powers conferred or permitted by the Companies Ordinance or any other ordinances from time to time to purchase or otherwise acquire its own shares (including any redeemable shares), or to give, directly or indirectly, by means of a loan, guarantee, the provision of security or otherwise, financial assistance for the purpose of or in connection with a purchase or other acquisition made or to be made by any person of any shares in our Company and should our Company purchase or otherwise acquire its own shares, neither our Company nor our Directors shall be required to select the shares to be purchased or otherwise acquired rateably or in any other particular manner as between the holders of shares of the same class or as between them and the holders of shares of any other class or in accordance with the rights as to dividends or capital conferred by any class of shares provided always that any such purchase or other acquisition or financial assistance shall only be made or given in accordance with any relevant rules or regulations issued by the Stock Exchange, the SFC or the relevant regulator or authorities from time to time in force.

“Shares” referred to above include shares, warrants and any other securities convertible into shares which are issued from time to time by our Company.

### **VARIATION OF RIGHTS**

Subject to the provisions of the Companies Ordinance, if at any time the capital of our Company is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied, either while our Company is a going concern or during or in contemplation of a winding-up, either with the consent in writing of the holders of 75% of the total voting rights of holders of shares in that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class, but not otherwise. To every such separate meeting the provisions of the Articles of Association relating to general meetings shall mutatis mutandis apply, except that:

- (a) the necessary quorum at such meeting (other than an adjourned meeting) shall be no less than two persons together holding or representing by proxy at least one-third in the total voting rights of the issued shares of the class in question;
- (b) at any adjourned meeting the necessary quorum shall be two persons holding shares of that class or by proxy (whatever the number of shares held by them);
- (c) the holders of the shares of that class shall, on a poll, have one vote in respect of every share of that class held by them respectively; and
- (d) any holder of shares of that class present in person or by proxy may demand a poll.

**TRANSFERS OF SHARES**

The instrument of transfer of any share shall be in writing and in any usual form or in any other form which our Directors approve including the standard form of transfer as prescribed by the Stock Exchange and shall be executed by or on behalf of the transferor and by or on behalf of the transferee. If the transferor or transferee is a clearing house or its nominee, the instrument of transfer shall be executed by hand or by machine imprinted signature(s) or by such other manner of execution as our Directors may approve from time to time. The transferor shall be deemed to remain the holder of the share(s) concerned until the name of the transferee is entered in the register in respect thereof. Nothing in the Articles of Association shall preclude our Directors from recognising a renunciation of the allotment or provisional allotment of any share by the allottee in favour of some other person. Shares of different classes shall not be comprised in the same instrument of transfer.

Our Directors may, in their absolute discretion, refuse to register the transfer of a share which is not fully paid. Our Directors may also refuse to register a transfer of a share unless the instrument of transfer:

- (a) is lodged, duly stamped, at the registered office of our Company or at such other place as our Directors may appoint and is accompanied by the certificate for the share to which it relates, and such other evidence as our Directors may reasonably require to show the right of the transferor to make the transfer and a fee as permitted under the rules prescribed by the Stock Exchange;
- (b) is in respect of only one class of share;
- (c) is in favour of not more than four transferees;
- (d) the shares concerned are free of any lien in favour of our Company; and
- (e) such other conditions as our Directors may from time to time impose for the purpose of guarding against losses arising from forgery are satisfied.

If our Directors refuse to register a transfer of a share, they shall within two months after the date on which the transfer was lodged with our Company send to the transferee notice of the refusal in accordance with the Companies Ordinance. If our Directors refuse to register a transfer of a share, the transferee or transferor may request a statement of the reasons for the refusal. If such a request is made, our Company shall, within 28 days after receiving the request: (a) send the person who made the request a statement of reasons; or (b) register the transfer.

No transfer may be made to an infant or to a person of unsound mind or under other legal disability.

**GENERAL MEETINGS**

Our Company shall, in respect of each financial year of our Company, hold a general meeting as its annual general meeting in accordance with the requirements of the Companies Ordinance in addition to any other meetings in that year, and shall specify the meeting as such in the notices calling it. Subject to such requirements, our Directors shall determine the date, time and place at which each annual general meeting shall be held.

Our Directors may convene a general meeting whenever they think fit. General meetings shall also be convened by our Directors on the requisition of members pursuant to the provisions of the Companies Ordinance. Our Directors may, whenever they think fit, convene a general meeting, and general meetings shall also be convened on such requisition, or in default, may be convened by such requisitionists, as provided by the Companies Ordinance. If at any time there are not within Hong Kong sufficient Directors capable of acting to form a quorum, any Director or any two or more members of our Company representing at least 10% of the total voting rights of all members having a right to vote at general meetings, may convene a general meeting in the same manner as nearly as possible, as that in which meetings may be convened by our Directors.

**NOTICE OF GENERAL MEETINGS**

Subject to section 578 of the Companies Ordinance, an annual general meeting shall be called by notice in writing of at least 21 clear days (or such longer period as may be required by the GEM Listing Rules), and a general meeting other than an annual general meeting shall be called by notice in writing of at least 14 clear days (or such longer period as may be required by the GEM Listing Rules), shall be given in the manner mentioned in the Articles of Association to all members, to our Directors and to the auditors of our Company for the time being. Notice of a general meeting shall be given to such persons as are, under the Articles of Association, entitled to receive such notices from our Company.

The notice shall specify the place, the day and the time of meeting (and if the meeting is to be held in two or more places, the principal place of the meeting and the other place or places of the meeting) and, in the case of special business the general nature of such business, and in the case of an annual general meeting shall specify the meeting as such. If a resolution (whether or not a special resolution) is intended to be moved at the meeting, the notice must include notice of the resolution, and include or be accompanied by a statement containing any information or explanation that is reasonably necessary to indicate the purpose of the resolution. For notice of a general meeting, there shall appear on every such notice with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him and that a proxy need not be a member of our Company.

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## **APPENDIX III      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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The accidental omission to give notice of a meeting or a resolution intended to be moved at a general meeting to, or the non-receipt of notice of a meeting or a resolution intended to be moved at a general meeting by, any person entitled to receive notice shall not invalidate any resolution(s) passed or the proceedings at that meeting. In cases where instruments of proxy are sent out with notices, the accidental omission to send such instruments of proxy to, or the non-receipt of such instruments of proxy by, any person entitled to receive notice shall not invalidate any resolution(s) passed or the proceedings at that meeting.

Subject to the provisions of the Companies Ordinance, a meeting of our Company shall, notwithstanding that it is called by shorter notice than that specified in the Articles of Association, be deemed to have been duly called if it so agreed:

- (a) in the case of an annual general meeting, by all the members entitled to attend and vote thereat; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% of the total voting rights at the meeting of all the members.

### **VOTING AT GENERAL MEETINGS**

Subject to any rights or restrictions attached to any shares, and to the Articles of Association and the Companies Ordinance, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative at any general meeting shall have one vote only, and on a poll every member shall have one vote for every fully paid-up share of which he is the holder.

Subject to the rules prescribed by the Stock Exchange from time to time, any vote of shareholders at a general meeting shall be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. For the purposes of the Articles of Association, procedural and administrative matters are those that (i) are not on the agenda of the general meeting or in any supplementary circular that may be issued by our Company to its members; and (ii) relate to the chairman's duties to maintain the orderly conduct of the meeting and/or allow the business of the meeting to be properly and effectively dealt with, whilst allowing all members a reasonable opportunity to express their views. A poll shall be taken as the chairman directs, and he may appoint scrutineers (who need not be members) and fix a time and place for declaring the result of the poll. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

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## **APPENDIX III      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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On any resolution where a vote is not required under the Companies Ordinance, the GEM Listing Rules or the Articles of Association to be held on a poll, a poll may be demanded before or on the declaration of the result of the show of hands:

- (a) by the chairman of the meeting;
- (b) by not less than five members having the right to vote at the meeting;
- (c) by a member or members present in person or by proxy, or a duly authorised representative of a corporation which is a member, representing not less than 5% of the total voting rights of all the members having the right to vote at the meeting; or
- (d) by a member or members holding shares conferring a right to vote at the meeting on which an aggregate sum has been paid up equal to not less than 5% of the total sum paid up on all the shares conferring that right,

and a demand for a poll by a person as proxy for a member shall be as valid as if the demand were made by the member himself.

Without prejudice to the generality of the Articles of Association, if a clearing house (or its nominee) is a member of our Company, it (or, as the case may be, its nominee) may authorise such person or persons as it thinks fit to act as its proxy or proxies or its representative or representatives at any meeting of our Company or at any meeting of any class of member of our Company provided that, if more than one person is so authorised, the instrument of proxy or authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person so authorised under the provisions of the Articles of Association will be deemed to have been duly authorised without the need of producing any documents of title, notarised authorisation and/or further evidence to substantiate that it is so authorised and shall be entitled to exercise the same powers on behalf of the clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise as if such person were an individual member of our Company, and where a show of hands is allowed, each such person shall be entitled to a separate vote notwithstanding any contrary provision as provided in the Articles of Association.

Where any member is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

### **DIRECTORS NEED NOT BE MEMBERS**

A Director shall not require a share qualification. A Director who is not a member of our Company shall nevertheless be entitled to attend and speak at all general meeting of our Company.

**BORROWING POWERS OF DIRECTORS**

Our Directors may from time to time at their discretion exercise all the powers of our Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of our Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. Our Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and, in particular by the issue of debentures, bonds or other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

**DIRECTORS' APPOINTMENT, REMOVAL AND RETIREMENT**

Our Company may by ordinary resolution elect any person to be a Director. No person (other than a Director retiring at the meeting or in accordance with the Articles of Association) shall be appointed or re-appointed as a Director at any general meeting unless:

- (a) he is recommended by our Directors; or
- (b) any of the following occurs:
  - (A) a notice executed by a member qualified to attend and vote on the appointment or reappointment has been given to our Company of the intention to propose that person for appointment or reappointment, stating the particulars which would, if he was appointed or reappointed, be required to be included in our Company's register of directors, together with notice executed by that person of his willingness to be appointed or reappointed;
  - (B) the minimum length of the period during which the notices referred to in (A) are given is at least seven days; or
  - (C) the period for lodgement of the notices referred to in (A) will commence no earlier than the day after the dispatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting.

Subject to any express terms to the contrary in the relevant resolution for appointing any Director under the Articles of Association, any Director so elected by our Company shall be elected for a term of not more than approximately three years expiring at the conclusion of the annual general meeting of our Company held in the third year following the year of his appointment.

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## **APPENDIX III      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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Without prejudice to the power of our Company in general meeting in accordance with any of the provisions of the Articles of Association to appoint any person to be a Director, the Board may, at any time, and from time to time, appoint any person to be a Director, either to fill a casual vacancy or by way of addition to their number. Any Director so appointed by the Board shall hold office only until the next following annual general meeting of our Company, and shall then be eligible for re-appointment.

Subject to the Articles of Association, at each annual general meeting, one-third of our Directors (excluding those Director(s) who are not subject to the rotation requirement under the Articles of Association) or, if their number is not three or a multiple of three, the number which is nearest to and is at least one-third, shall retire from office by rotation. A retiring Director shall be eligible for re-election.

Any Director who holds the position as an executive Director shall not be subject to the foregoing retirement-rotation requirement, but for the avoidance of doubt, the Articles of Association shall not prejudice the power of shareholders in general meeting to remove any such Director.

Our Company may, at any general meeting convened and held in accordance with the Companies Ordinance, by ordinary resolution, remove a Director (including an executive Director) at any time before the expiration of his period of office (but such removal shall be without prejudice to any claim to damages for breach of any contract of service between our Director and our Company) provided that the notice of such meeting convened for the purpose of removing a Director shall contain a statement of the intention so to do and be served on such Director 28 days before the meeting and on the members, at least 14 days before the meeting. At such meeting such Director shall be entitled to be heard on the motion of his removal and, subject to the Articles of Association, our Company may, by ordinary resolution, appoint another person instead of him. A person so appointed shall be subject to retirement at the same time as if he had become a Director on the day on which our Director in whose place he is appointed was last appointed or reappointed as a Director.

### **REMUNERATION AND EXPENSES OF DIRECTORS**

Our Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst our Directors in such proportions and in such manner as our Directors may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing shall not apply to a Director who holds any salaried employment or office in our Company except in the case of sums paid in respect of Directors' fees.

Our Directors may also be paid all reasonable travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of our Directors or of committees of our Directors or general meetings or separate meetings of the holders of any class of shares or otherwise in connection with the discharge of their duties as Directors.

Any Director who performs services which our Directors consider go beyond the ordinary duties of a Director may be paid such special remuneration (whether by way of bonus, commission, participation in profits or otherwise) as our Directors, or a committee of our Directors, may determine. In particular, the remuneration of a managing Director, joint managing Director, deputy managing Director or other executive Director or a Director appointed to any other office in the management of our Company shall from time to time be fixed by our Directors, or a committee of our Directors, and may be by way of lump sum or by way of salary, bonus, commission, participation in profits or otherwise and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as our Directors, or a committee of our Directors may from time to time decide. Such remuneration shall be in addition to his remuneration as a Director.

### **DIRECTORS' INTERESTS**

A Director (including his connected entities) who is in any way, whether directly or indirectly, interested in a transaction, arrangement or contract or proposed transaction, arrangement or contract with our Company shall declare the nature and extent of his interest or his connected entities' interest at a meeting of our Directors at which the question of entering into the transaction, arrangement or contract is first taken into consideration, if he knows his interest then exists, or in any other case as soon as reasonably practicable, and in any event at the first meeting of Directors after he knows that he is or has become so interested.

Save as otherwise provided by the Articles of Association, a Director and his alternate shall not vote (nor shall be counted in the quorum) at a meeting of our Directors on any resolution approving any transaction, contract or arrangement or concerning a matter in which he or any of his close associate(s) has, directly or indirectly, a material interest (other than an interest in shares, debentures or other securities of, or otherwise in or through, our Company), unless his interest arises only because the case falls within one or more of the following sub-paragraphs:

- (a) the resolution relates to the giving to him or his close associate(s) of a guarantee, security, or indemnity in respect of money lent to, or an obligation incurred by him or any of them at the request of or for the benefit of, our Company or any of its subsidiaries;
- (b) the resolution relates to the giving to a third party of a guarantee, security, or indemnity in respect of an obligation of our Company or any of its subsidiaries for which our Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
- (c) his interest arises by virtue of his or his close associate(s) being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of any shares in or debentures or other securities of or by our Company or any other corporation which our Company may promote or be interested in subscription, purchase or exchange;



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**APPENDIX III      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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- (d) the resolution relates to an arrangement for the benefit of the employees of our Company or any of its subsidiaries, including but without being limited to the adoption, modification or operation of any pension fund, or retirement, death or disability benefit scheme, which relates to both Directors, his close associate(s) and employees of our Company or any of its subsidiaries and does not accord to any Director or his close associate(s) as such any privilege or advantage not generally accorded to the employees to whom the arrangement relates;
- (e) any transaction, contract or arrangement in which our Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in those shares, debentures or other securities of our Company;
- (f) the resolution relates to an arrangement concerning the adoption, modification or operation of any employee's share scheme, share incentive scheme or share option scheme involving the issue or grant of options over shares or other securities by our Company to, or for the benefit of, the employees of our Company or its subsidiaries under which our Director or his close associate(s) may benefit;
- (g) any contract, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his close associate(s), officer or employee pursuant to the Articles of Association; or
- (h) any proposal concerning any other company in which our Director or his close associate(s) is interested only, whether directly or indirectly, as an officer or executive or shareholder or in which he or any of his close associate(s) is beneficially interested in shares of that company, provided that he and any of his close associate(s) are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his close associate(s) is derived) or of the voting rights.

A Director may:

- (a) hold any other office or place of profit under our Company (other than the office of auditor) in conjunction with his office of Director, for such period and on such terms (as to remuneration or otherwise) as our Directors may determine and such extra remuneration shall be in addition to any remuneration provided for by or pursuant to any other Article;
- (b) act by himself or his firm in a professional capacity for our Company (otherwise than as auditor), and he or his firm shall be entitled to remuneration for professional services as if he were not a Director;

- (c) continue to be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or in which our Company may be interested as a shareholder or otherwise, and subject to the Companies Ordinance, no such Director shall be accountable to our Company for any remuneration or other benefit received by him as a director or officer of, or from his interest in, such other company. Our Directors may exercise the voting powers conferred by the shares in any other company held or owned by our Company, or exercisable by them as directors of such other company in such manner in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of them as directors, managing directors, joint managing directors, deputy managing directors, executive directors, managers or other officers of such company) and any Director may vote in favour of the exercise of such voting rights in the manner aforesaid notwithstanding that he may be, or is about to be appointed as a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer of such a company, and that as such he is or may become interested in the exercise of such voting rights in manner aforesaid.

Subject to the Companies Ordinance and the Articles of Association, no Director or intended Director shall be disqualified by his office from contracting with our Company either with regard to his tenure of any such other office or place of profit or as vendor, purchaser or otherwise, nor shall any such transaction, arrangement or contract, or any transaction, arrangement or contract entered into by or on behalf of our Company in which any Director (including his connected entities) is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company for any profit realised by any such transaction, arrangement or contract by reason of such Director holding that office or of the fiduciary relation thereby established, provided that such Director shall disclose the nature and extent of his (including his connected entities) interest in any transaction, arrangement or contract in which he is interested as required by and subject to the provisions of the Companies Ordinance.

A Director shall not be counted in the quorum present at a meeting in relation to a resolution on which he is not entitled to vote.

## **DIVIDENDS**

Our Company may by ordinary resolution declare dividends but no dividend shall exceed the amount recommended by our Directors. No dividend shall be payable except out of the profits or other distributable reserves of our Company available for distribution. No dividend or other moneys payable on or in respect of a share in the capital of our Company shall bear interest against our Company.

Our Company may retain any dividends or other moneys payable on or in respect of a share upon which our Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. Our Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise in relation to the shares of our Company.

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**APPENDIX III      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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Except as otherwise provided by the Articles of Association or the rights attached to shares or the terms of issue thereof, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid. If any share is issued on terms that it ranks for dividend as from a particular date, it shall rank for dividend accordingly. In any other case (and except as aforesaid), dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For the purpose of this paragraph, an amount paid up on a share in advance of a call shall be treated, in relation to any dividend declared after the payment but before the call, as not paid up on the share.

Our Directors may pay interim dividends if it appears to them that they are justified by the profits of our Company available for distribution. If the share capital is divided into different classes, our Directors may pay interim dividends on shares which confer deferred or non-preferred rights with regard to dividend as well as on shares which confer preferential rights with regard to dividend, and provided that our Directors act bona fide they shall not incur any liability to the holders of shares conferring preferred rights for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferred rights. Our Directors may also resolve to pay at half-yearly or other suitable intervals to be settled by them any dividend which may be payable at a fixed rate if they are of the opinion that the reserves of our Company justify the payment.

Whenever our Directors or our Company have resolved that a dividend be paid or declared on the share capital of our Company, our Directors may further resolve either:

- (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted shall be of the same class or classes as the class or classes already held by the members entitled thereto, provided that these members will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment or;
- (b) that members entitled to such dividend shall be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as our Directors may think fit.

The basis of any such allotment shall be determined by our Directors. Our Directors, after determining the basis of allotment, shall give not less than two weeks' notice in writing to the members of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective.

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## APPENDIX III      SUMMARY OF THE ARTICLES OF ASSOCIATION

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The shares allotted pursuant to the provisions above shall rank *pari passu* in all respects with the shares then in issue save only as regards participation:

- (a) in the relevant dividend (or the right to receive or to elect to receive an allotment of shares in lieu thereof as aforesaid); or
- (b) in any other distributions, bonuses or rights paid, made, declared or announced prior to or contemporaneously with the payment or declaration of the relevant dividend.

Whenever our Directors or our Company in general meeting have resolved that a dividend be paid or declared, our Directors may resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind and in particular of paid up shares, debentures or warrants to subscribe securities of our Company or any other corporation to which our Company is entitled, or in any one or more of such ways, with or without offering any rights to members to elect to receive such dividend in cash.

Any dividend unclaimed for one year after having become payable may be invested or otherwise made use of by our Directors for the benefit of our Company until claimed. Any dividend which has remained unclaimed for six years after having become payable shall, if our Directors so resolve, be forfeited and cease to remain owing by our Company.

### INDEMNITY

Subject to the provisions of the Companies Ordinance, but without prejudice to any indemnity to which a Director may otherwise be entitled every Director, former Director, responsible person, officer or auditor of our Company shall be indemnified out of the assets of our Company against any liability, loss or expenditure incurred by him in defending any proceedings, whether civil or criminal, which relate to anything done or omitted to be done or alleged to have been done or omitted to be done by him as a Director, former Director, responsible person, officer or auditor of our Company.

The above paragraph shall not apply to:

- (a) any liability of our Director, former Director, responsible person, officer or auditor to pay:
  - (i) a fine imposed in criminal proceedings; or
  - (ii) a sum payable by way of a penalty in respect of non-compliance with any requirement of a regulatory nature; or
- (b) any liability incurred by our Director, former Director, responsible person, officer or auditor:
  - (i) in defending criminal proceedings in which our Director, former Director, responsible person, officer or auditor is convicted;

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## **APPENDIX III      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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- (ii) in defending civil proceedings brought by our Company, or an associated company of our Company, in which judgement is given against our Director, former Director, responsible person, officer or auditor;
- (iii) in defending civil proceedings brought on behalf of our Company by a member of our Company or of an associated company of our Company, in which judgement is given against our Director, former Director, responsible person, officer or auditor;
- (iv) in defending civil proceedings brought on behalf of an associated company of our Company by a member of the associated company or by a member of an associated company of the associated company, in which judgement is given against our Director, former Director, responsible person, officer or auditor; or
- (v) in connection with an application for relief under section 903 or 904 of the Companies Ordinance in which the Court refuses to grant our Director, former Director, responsible person, officer or auditor relief.

### **WINDING UP**

Our Directors shall have power in the name and on behalf of our Company to present a petition to the Court for our Company to be wound up.

If our Company is wound up, the liquidator may, with the sanction of a special resolution and any other sanction required by law, divide amongst the members in specie the whole or any part of the assets of our Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he may with the like sanction determine, but no member shall be compelled to accept any assets upon which there is a liability.

### **UNTRACED MEMBERS**

Without prejudice to the rights of our Company, our Company may cease sending such cheques for dividend entitlement or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions or after the first occasion on which a cheque or warrant is returned undelivered.

Our Company shall be entitled to sell in such manner as our Directors think fit any share held by a member, or any share to which a person is entitled by transmission, if:

- (a) all cheques or warrants, being not less than three in total number, in respect of the shares in question sent during the relevant period in the manner authorised by the Articles of Association have remained uncashed or unclaimed;

- (b) so far as it is aware at the end of the relevant period, our Company has not at any time during the relevant period received any indication of the existence of the shareholder who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law;
- (c) at the end of the relevant period, our Company has caused an advertisement in English in one English language newspaper and in Chinese in one Chinese language daily newspaper and by notice to the Stock Exchange (if shares of the class concerned are listed on that exchange) gives notice of its intention to sell such shares;
- (d) our Company has not during the further period of three months after the date of the advertisement and prior to the sale of the shares received any communication from the member or person concerned.

For the purpose of the foregoing, “relevant period” means the period commencing 12 years before the date of publication of the advertisement referred to in sub-paragraph (c) above and ending at the expiry of the period referred to in that paragraph.

The manner, timing and terms of any sale of shares pursuant to this Article (including, but not limited to, the price or prices at which the same is made) shall be such as our Directors determine, based upon advice from such bankers, brokers or other persons consulted by them for the purpose as our Directors consider appropriate, to be reasonably practicable having regard to all the circumstances, including the number of shares to be disposed of and the requirement that the disposal be made without delay, and our Directors shall not be liable to any person for any of the consequences of reliance on such advice.

To give effect to the sale of any share pursuant to the above paragraph our Company may appoint any person to execute an instrument of transfer of the share, and the instrument shall be as effective as if it had been executed by the registered holder of or person entitled by transmission to, the share. The purchaser shall not be bound to see to the application of the proceeds of sale, nor shall his title to the share be affected by any irregularity in or invalidity of the proceedings relating to the sale. Our Company shall be indebted to the member or other person entitled to the share for an amount equal to the net proceeds of the sale, but no trust or duty to account shall arise and no interest shall be payable in respect of the proceeds of sale. Any sale under the above paragraphs shall include any additional shares, which during the relevant period or during any period ending on the date when all the requirements of sub-paragraphs (a) to (d) above have been satisfied, have been issued in respect of those held at the beginning of such relevant period and shall be valid and effective notwithstanding that the member holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.

**1. FURTHER INFORMATION ABOUT OUR COMPANY****(a) Incorporation**

Our Company was incorporated as a company limited by shares in Hong Kong on 14 September 2017 under the Companies Ordinance. Our Company is an investment holding company and has not carried out any business activities since our incorporation.

A summary of various provisions of our Articles of Association is set out in Appendix III to this prospectus.

**(b) Changes in the capital structure of our Company**

On the date of our incorporation, 10,000 Shares were allotted and issued to Profit Ocean. Please refer to the section headed “History, reorganisation and group structure” of this prospectus for details relating to the issue of shares by our Company.

**(c) Written resolutions of our sole Shareholder passed on 14 March 2018**

On 14 March 2018, written resolutions of our sole Shareholder were passed pursuant to which, among others:

- (i) conditional upon the conditions as set out in the section headed “Structure and conditions of the Share Offer” of this prospectus being fulfilled or waived:
  - a. our Company approved and adopted the amended and restated Articles of Association with effect from the Listing Date;
  - b. the Share Offer was approved and our Directors were authorised to allot and issue the Offer Shares; and
  - c. the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” in this Appendix, were approved and adopted and our Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme; and
  - d. the Listing was approved and our Directors were authorised to implement the Listing;

(ii) subject to Rule 17.29 of the GEM Listing Rules, a general unconditional mandate was granted to our Directors to allot, issue and deal with the Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for the Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate number of Shares allotted or agreed to be allotted by our Directors other than pursuant to a (i) rights issue or an issue of share upon the exercise of any subscription or conversion rights attached to any warrants or any securities which are convertible into Shares, or (ii) pursuant to the exercise of any options granted or to be granted under the Share Option Scheme, any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of our Company and/or any of its subsidiaries or any other person of share or rights to acquire Shares, or (iii) any scrip dividend scheme or similar arrangement providing for the allotment of the Shares in lieu of the whole or part of a dividend on the Shares, or (iv) a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of:

- a. 20% of the total number of Shares in issue immediately following the completion of the Bonus Issue and the Share Offer; and
- b. the aggregate number of Shares repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in paragraph (iii) below,

such mandate to remain in effect during the period from the passing of the resolution until the earliest of (I) the conclusion of the next annual general meeting of our Company, (II) the end of the period within which our Company is required by the Articles of Association or any applicable laws to hold its next annual general meeting and (III) the date on which the mandate is varied or revoked by an ordinary resolution of the shareholders of our Company in general meeting; and

(iii) a general unconditional mandate was granted to our Directors to exercise all the powers of our Company to repurchase the Shares on the Stock Exchange, or on any other stock exchange on which the Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose) not exceeding in aggregate 10% of the total number of Shares in issue immediately following the completion of the Bonus Issue and the Share Offer and at such price or prices as may be determined by our Directors provided the purchase price shall not be 5% or more than the average closing market price for the five preceding trading days on which the Shares were traded on the Stock Exchange, and otherwise in accordance with all applicable laws and the requirements of the GEM Listing Rules, such mandate to remain in effect during the period from the passing of the resolution until the earliest of (I) the conclusion of the next annual general meeting of our Company, (II) the end of the period within which our Company is required by the Articles of Association or any applicable laws to hold its next annual general meeting and (III) the date on which the mandate is varied or revoked by an ordinary resolution of the Shareholders in general meeting.



## 2. OUR SUBSIDIARIES AND CHANGES IN THE CAPITAL STRUCTURE OF OUR SUBSIDIARIES

Save as disclosed in the section headed “History, reorganisation and group structure – History and corporate development” of this prospectus, there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus.

## 3. SHARE REPURCHASE MANDATE

This section includes information relating to the repurchase by our Company of the Shares, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

### A. Relevant Legal and Regulatory Requirements

The GEM Listing Rules permit a company whose primary listing is on the Stock Exchange to repurchase its securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

#### *(a) Shareholders' Approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the written resolutions passed by our sole Shareholder on 14 March 2018, a general mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose) not exceeding the aggregate 10% of the total number of the Shares in issue immediately following completion of the Share Offer (excluding any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), such mandate to remain in effect during the period from the passing of the resolution until the earliest of (i) the conclusion of the next annual general meeting of our Company, or (ii) the end of the period within which our Company is required by the Articles of Association or any applicable laws to hold its the next annual general meeting, or (iii) the date on which the mandate is varied or revoked by an ordinary resolution of our Shareholders at general meeting (the “**Relevant Period**”).

**(b) *Source of Funds***

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association, the GEM Listing Rules and the applicable laws of Hong Kong. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Subject to the foregoing, such repurchases by our Company may only be made out of our Company's funds which would otherwise be available for dividend or distribution or out of the proceeds of a new issue of Shares made for the purpose of the repurchase.

**(c) *Trading Restrictions***

A listed company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

The GEM Listing Rules also prohibit a listed company from repurchasing its securities on the Stock Exchange if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

A listed company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

**(d) *Suspension of Repurchase***

Pursuant to the GEM Listing Rules, a listed company may not make any repurchases of shares after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required by the GEM Listing Rules); and (ii) the deadline for a listed company to publish an announcement of its results for any year or half-year under the GEM Listing Rules, or quarterly or any other interim period (whether or not required under the GEM Listing Rules), and in each case ending on the date of the results announcement, the listed company may not repurchase shares on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of the shares on the Stock Exchange if a listed company has breached the GEM Listing Rules.

*(e) Reporting Requirements*

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchase, where relevant, and the aggregate prices paid.

*(f) Core Connected Persons*

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "core connected person" as defined in the GEM Listing Rules, and a core connected person is prohibited from knowingly selling his securities to our Company on the Stock Exchange.

**B. Reasons for Repurchases**

Our Directors believe that it is in our Company's and our Shareholders' best interests for our Directors to have general authority from our Shareholders to enable our Company to execute repurchases of Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and its assets and/or its earnings per Share and will only be made where our Directors believe that such repurchases will benefit us and our Shareholders.

**C. Funding of Repurchases**

In repurchasing securities, a listed company may only apply funds legally available for such purpose in accordance with its constitutional documents/by-laws and the GEM Listing Rules.

On the basis of our Company's current financial position as disclosed in this prospectus and taking into account our Company's current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our Company's working capital and/or our Company's gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our Company's working capital requirements or the gearing position which, in the opinion of our Directors, are from time to time appropriate for our Company.

**D. General**

Exercise in full of the current Repurchase Mandate, on the basis of 360,000,000 Shares in issue immediately following the completion of the Bonus Issue and the Share Offer, could accordingly result in up to approximately 36,000,000 Shares being repurchased by our Company during the Relevant Period.

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates (as defined in the GEM Listing Rules) have any present intention to sell any Shares to us or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, and the Articles of Association.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), depending on the level of increase of the Shareholders' interests, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of a repurchase of Shares made immediately after the Listing. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate immediately after the Listing.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented if the Stock Exchange agrees to waive the GEM Listing Rules requirements regarding the public float referred to above. A waiver of this provision is not normally granted other than in exceptional circumstances. However, our Directors have no present intention to exercise the Repurchase Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the GEM Listing Rules.

No core connected person of our Company has notified us that he or she or it has a present intention to sell Shares to us, or has undertaken not to do so if the Repurchase Mandate is exercised.

No repurchase of Shares has been made by our Company since its incorporation.

**4. CORPORATE REORGANISATION**

For details of the major steps of the Reorganisation effected in preparation for the Listing, please refer to the section headed "History, development and reorganisation – reorganisation" of this prospectus.

**5. FURTHER INFORMATION ABOUT OUR BUSINESS****A. Summary of material contracts**



The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (i) instruments of transfer and bought and sold notes dated 10 October 2017 in respect of Chan Tat Yuen transferring to the Company his 2,500 shares of Ying Kee (representing 25% of Ying Kee's total issued share capital) at a consideration of HK\$2,500;
- (ii) instruments of transfer and bought and sold notes dated 10 October 2017 in respect of Chan Kun Yuen transferring to the Company his 2,500 shares of Ying Kee (representing 25% of Ying Kee's total issued share capital) at a consideration of HK\$2,500;
- (iii) instruments of transfer and bought and sold notes dated 10 October 2017 in respect of Chan Shu Yuen transferring to the Company his 2,450 shares of Ying Kee (representing 24.5% of Ying Kee's total issued share capital) at a consideration of HK\$2,450;
- (iv) instruments of transfer and bought and sold notes dated 10 October 2017 in respect of Chan Kwong Yuen transferring to the Company his 2,450 shares of Ying Kee (representing 24.5% of Ying Kee's total issued share capital) at a consideration of HK\$2,450;
- (v) instruments of transfer and bought and sold notes dated 10 October 2017 in respect of Chan Ka Min transferring to the Company his 100 shares of Ying Kee (representing 1% of Ying Kee's total issued share capital) at a consideration of HK\$100;
- (vi) the agreement of trademarks assignment between Ying Kee and Ying Kee (TM) dated 10 August 2017;
- (vii) the Deed of Indemnity;
- (viii) the Deed of Non-Competition; and
- (ix) the Public Offer Underwriting Agreement.




**B. Intellectual property****(a) Trademarks**

As of the Latest Practicable Date, members of our Group has registered the following trademark(s) which is/are material to our business:










Trademark	Jurisdiction	Registration No.	Registered Owner	Class	Duration of Validity
A 	Hong Kong	300115091	Ying Kee	21, 30, 35	29 July 2013 – 21 November 2023
B 					
A 	Hong Kong	300115118	Ying Kee	21, 30, 35	29 July 2013 – 21 November 2023
B 					
C 英記茶莊					
D 莊茶記英					
<b>YING KEE TEA HOUSE</b>	Hong Kong	300115109	Ying Kee	21, 20, 35	29 July 2013 – 21 November 2023
<b>YING KEE TEA HOUSE</b>	Macau	N/026588	Ying Kee	30	29 January 2008 – 29 January 2022
	Macau	N/026590	Ying Kee	30	29 January 2008 – 29 January 2022
	Macau	N/026592	Ying Kee	30	26 May 2008 – 26 May 2022
	Macau	N/026593	Ying Kee	35	26 May 2008 – 26 May 2022


Trademark	Jurisdiction	Registration No.	Registered Owner	Class	Duration of Validity
英記茶莊	PRC	4545411	Ying Kee	30	28 February 2011 – 27 February 2021
<b>YING KEE TEA HOUSE</b>	Korea	40-0727379	Ying Kee	30	2 November 2007 – 2 November 2027
<b>YING KEE TEA HOUSE</b> 	Korea	40-0758356	Ying Kee	30	25 August 2008 – 25 August 2028
英記茶莊	Japan	5703971	Ying Kee	30	19 September 2014 – 19 September 2024
YING KEE TEA HOUSE	Japan	5703972	Ying Kee	30	19 September 2014 – 19 September 2024
<b>YING KEE TEA HOUSE</b>	Japan	4855904	Ying Kee	31, 30	8 April 2005 – 8 April 2025
	Japan	4855905	Ying Kee	31, 30	8 April 2005 – 8 April 2025
英 記 茶 莊	Japan	2197701	Ying Kee	30	25 December 1989 – 25 December 2019
英記茶莊	Japan	2153239	Ying Kee	31	31 July 1989 – 31 July 2019
英記茶莊	Japan	3094835	Ying Kee	42	30 November 1995 – 30 November 2025

As of the Latest Practicable Date, the following marks are in the process of being transferred from Ying Kee (TM) to Ying Kee:


Trademark	Jurisdiction	Registration No.	Registered Owner	Class	Duration of Validity
<b>YING KEE TEA HOUSE</b>	PRC	4545407	Ying Kee (TM)	35	7 October 2008 – 6 October 2018
<b>YING KEE TEA HOUSE</b>	PRC	4545408	Ying Kee (TM)	30	21 October 2017 – 20 October 2027
	PRC	4545405	Ying Kee (TM)	30	28 October 2017 – 27 October 2027
	PRC	8836268	Ying Kee (TM)	30	28 November 2011– 27 November 2021
	PRC	4545406	Ying Kee (TM)	35	28 April 2011 – 27 April 2021
<b>英記</b>	PRC	8840660	Ying Kee (TM)	21	28 November 2011– 27 November 2021
<b>英記茶莊</b>	PRC	18921538	Ying Kee (TM)	21	21 February 2017 – 20 February 2027
<b>英記茶莊</b>	PRC	18921537	Ying Kee (TM)	21	21 February 2017 – 20 February 2027




Trademark	Jurisdiction	Registration No.	Registered Owner	Class	Duration of Validity
	Singapore	T1015717I	Ying Kee (TM)	30, 35	26 November 2010 – 26 November 2020
	Singapore	T1015718G	Ying Kee (TM)	30, 35	26 November 2010 – 26 November 2020
	EU	009529025	Ying Kee (TM)	21, 30, 35	19 April 2011 – 17 November 2020
	EU	009529082	Ying Kee (TM)	21, 30, 35	19 April 2011 – 17 November 2020
	Russia	468125	Ying Kee (TM)	21, 30, 35	8 September 2011 – 8 September 2021
	Russia	497285	Ying Kee (TM)	21	8 September 2011 – 8 September 2021
	United States	4195324	Ying Kee (TM)	30, 35	21 August 2012 – 21 August 2022
	United States	4242566	Ying Kee (TM)	30, 35	13 November 2012 – 13 November 2022
	Canada	1505745	Ying Kee (TM)	30, 35	29 January 2014 – 29 January 2029


Trademark	Jurisdiction	Registration No.	Registered Owner	Class	Duration of Validity
	Canada	1505744	Ying Kee (TM)	30, 35	17 December 2014 – 17 December 2029

As of the Latest Practicable Date, the following marks are in the process of being registered by Ying Kee in the following jurisdictions:


Trademark	Jurisdiction	Application No.	Applicant	Class	Date of Filing
	Hong Kong	304226760	Ying Kee	30, 35	1 August 2017

A		Hong Kong	304207167	Ying Kee	21, 30, 35	14 July 2017
	Since (創於) 1881					

B						
	Since (創於) 1881					

A		Hong Kong	304207176	Ying Kee	21, 30, 35	14 July 2017
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B						
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C						
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Trademark	Jurisdiction	Application		Class	Date of Filing
		No.	Applicant		
A 	Hong Kong	304207185	Ying Kee	21, 30, 35	14 July 2017
					
					
	Japan	2017-109672	Ying Kee	30	9 August 2017
	Japan	2017-109658	Ying Kee	30	9 August 2017
	Japan	2017-109659	Ying Kee	30	9 August 2017
	Japan	2017-109660	Ying Kee	30	9 August 2017
	Japan	2017-109671	Ying Kee	30	9 August 2017

(b) *Domain Names*

As of the Latest Practicable Date, members of our Group have registered the following domain names which are material to our business:

Domain name	Registered owner	Account/registration number	Expiry date
yingkeetea.com	Ying Kee	20792233	27 January 2026
英記茶莊.公司.香港	Ying Kee	RNW1257963	24 June 2021
英記茶莊.香港	Ying Kee	RNW1251873	14 June 2021

The information contained in the above website does not form part of this prospectus. Save as disclosed above, there are no other intellectual property rights which are material in relation to the business of our Group.

## 6. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### A. Disclosure of interests

#### (a) *Interests of Directors and chief executive of our Company*

Immediately following the completion of the Bonus Issue and the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme), the interests and/or short positions of our Directors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered into in the register referred to in that section, or which will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to our Company and the Stock Exchange once the Shares are listed, will be as follows:

Name of Director	Nature of interest and capacity	Number of Shares held or interested	Approximate percentage of the total issued Shares
Mr. Chan Kun Yuen <sup>(Note 1)</sup>	Interest in a controlled corporation	270,000,000	75%
Mr. Chan Shu Yuen <sup>(Note 1)</sup>	Interest in a controlled corporation	270,000,000	75%
Mr. Chan Kwong Yuen <sup>(Note 1)</sup>	Interest in a controlled corporation	270,000,000	75%

*Note:*

1. The total issued share capital of Profit Ocean is owned by Tri-Luck, Wealth City, Sky King and Coastal Lion in equal shares, *i.e.*, 25%, while the total issued share capital of each of Tri-Luck, Wealth City, Sky King and Coastal Lion are fully owned by Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen, respectively. By virtue of the acting in concert arrangement between the parties, each of Tri-Luck, Wealth City, Sky King and Coastal Lion, as well as Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen, is deemed to be interested in all the Shares held by Profit Ocean for purposes of the SFO.

**(b) *Interests of substantial shareholders***

So far as is known to any Director or chief executive of our Company, immediately following the completion of the Bonus Issue and the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), the following persons (other than a Director or chief executive of our Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which must be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

<b>Name of Shareholder</b>	<b>Name of corporation</b>	<b>Nature of interest and capacity</b>	<b>Number of Shares held or interested</b>	<b>Approximate percentage of the total issued shares</b>
Profit Ocean	Our Company	Beneficial owner	270,000,000	75%
Tri-Luck <sup>(Note 1)</sup>	Our Company	Interest in a controlled corporation	270,000,000	75%
Wealth City <sup>(Note 1)</sup>	Our Company	Interest in a controlled corporation	270,000,000	75%

Name of Shareholder	Name of corporation	Nature of interest and capacity	Number of Shares held or interested	Approximate percentage of the total issued shares
Sky King <sup>(Note 1)</sup>	Our Company	Interest in a controlled corporation	270,000,000	75%
Coastal Lion <sup>(Note 1)</sup>	Our Company	Interest in a controlled corporation	270,000,000	75%
Mr. Chan Tat Yuen <sup>(Note 2)</sup>	Our Company	Interest in a controlled corporation	270,000,000	75%
Ms. Chu Min <sup>(Note 3)</sup>	Our Company	Interest of spouse	270,000,000	75%
Ms. Chan King Chi <sup>(Note 4)</sup>	Our Company	Interest of spouse	270,000,000	75%
Ms. Po Miu Kuen Tammy <sup>(Note 5)</sup>	Our Company	Interest of spouse	270,000,000	75%
Ms. Ng Wai Lam Lana Zoe <sup>(Note 6)</sup>	Our Company	Interest of spouse	270,000,000	75%

*Notes:*

1. The total issued share capital of Profit Ocean is owned by Tri-Luck, Wealth City, Sky King and Coastal Lion in equal shares, *i.e.*, 25%, while the total issued share capital of each of Tri-Luck, Wealth City, Sky King and Coastal Lion are fully owned by Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen, respectively. By virtue of the Acting in Concert Deed, Tri-Luck, Wealth City, Sky King and Coastal Lion are each deemed to be interested in all the Shares held by Profit Ocean for purposes of the SFO.

2. The total issued share capital of Tri-Luck is owned by Mr. Chan Tat Yuen. Mr. Chan Tat Yuen is therefore deemed to be interested in all the Shares held by Profit Ocean for purposes of the SFO.
3. Ms. Chu Min is the spouse of Mr. Chan Tat Yuen. For purposes of the SFO, Ms. Chu Min is deemed to be interested in the Shares held by Mr. Chan Tat Yuen.
4. Ms. Chan King Chi is the spouse of Mr. Chan Kun Yuen. For purposes of the SFO, Ms. Chan King Chi is deemed to be interested in the Shares held by Mr. Chan Kun Yuen.
5. Ms. Po Miu Kuen Tammy is the spouse of Mr. Chan Shu Yuen. For purposes of the SFO, Ms. Po Miu Kuen Tammy is deemed to be interested in the Shares held by Mr. Chan Shu Yuen.
6. Ms. Ng Wai Lam Lana Zoe is the spouse of Mr. Chan Kwong Yuen. For purposes of the SFO, Ms. Ng Wai Lam Lana Zoe is deemed to be interested in the Shares held by Mr. Chan Kwong Yuen.

As of the Latest Practicable Date, so far as is known to our Directors, other than our Company, no other persons were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our subsidiaries.

#### **B. Directors' service contracts and appointment letters**

Each of our executive Directors has entered into a service contract with our Company for a fixed term of three years commencing from the Listing Date, renewable automatically for successive terms of one year each upon expiration of the initial term, which can be terminated before the expiration of the term by not less than three months' written notice served by either party on the other.

Each of the independent non-executive Directors has signed an appointment letter with our Company for a term of two years with effect from the Listing Date, renewable automatically for successive terms of one year each upon expiration of the initial term, which can be terminated by not less than two months' written notice served by either party on the other. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director's fee of approximately HK\$0.1 million or HK\$0.2 million per annum. Their appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

Save as disclosed above, none of our Directors has entered into a service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

### **C. Directors' remuneration**

For details of our Director's remuneration, please refer to the section headed "Directors, senior management and employees – Remuneration and compensation of Directors and senior management" of this prospectus.

### **D. Personal guarantees**

Our Directors have not provided personal guarantees in favour of lenders in connection with banking facilities granted to us.

### **E. Disclaimers**

Saved as the persons disclosed in the section headed "Substantial shareholders" in this prospectus and also the sub-section headed "6. Further information about our Directors and substantial shareholders – A. Disclosure of interests", none of our Directors or chief executive of our Company has any interests or short positions in the Shares, underlying Shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange.

So far as is known to any Director or chief executive of our Company, saved as the persons disclosed in the section headed "Substantial shareholders" in this prospectus and also the sub-section headed "6. Further information about our Directors and substantial shareholders – A. Disclosure of interests", no other person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.



Save as disclosed in the section headed “Connected transactions” in this prospectus, none of our Directors nor any of the persons listed in the paragraph headed “Qualification of experts” below has any direct or indirect interest in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.

None of our Directors is materially interested in any contract or arrangement with our Group subsisting at the date of this prospectus which is unusual in its nature or conditions or which is significant in relation to the business of our Group taken as a whole.

Save in connection with the Underwriting Agreements, none of the persons listed in the paragraph headed “Qualification of experts” below has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Save for the Underwriting Agreements, none of the persons listed in the paragraph headed “Qualification of experts” below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole.

So far as is known to our Directors as of the Latest Practicable Date, none of our Directors or their respective close associates (as defined under the GEM Listing Rules) or any Shareholder (which to the knowledge of our Directors owns 5% or more of the issued share capital of our Company) has any interest in any of our five largest suppliers or customers.

## **8. SHARE OPTION SCHEME**

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by written resolutions of our sole Shareholder on 14 March 2018. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules. The following summary does not form, nor is intended to be, part of the Share Option Scheme. For the purpose of this paragraph 8, references to “Board” shall mean the board of Directors or a committee thereof appointed for the purpose of administering the Share Option Scheme; references to “Participants” shall mean any full-time employee, consultant, adviser and director (including executive, non-executive or independent non-executive directors) of any member of our Group, and any distributor, contractor, supplier, agent, customer, business partner and service provider of any member of our Group, as determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of the Participant’s contribution or potential contribution to the development and growth of our Group; references to “Grantee” shall mean any Participant who accepts an offer of the grant of an option in accordance with the terms of the Share Option Scheme, or (where the context so permits) any person who is entitled to any such option in consequence of the death of the original Grantee, or the legal personal representative(s) of such person.

*(i) Purpose*

The purpose of the Share Option Scheme is to provide Participants with the opportunity to acquire proprietary interests in our Company and to encourage Participants to work towards enhancing the value of our Company and its Shares for the benefit of our Company and its Shareholders as a whole. The Share Option Scheme will provide our Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to Participants.

*(ii) Who may join*

On and subject to the terms of the Share Option Scheme and the requirements of the GEM Listing Rules, the Board may offer to grant an option to any Participant as the Board may in its absolute discretion select.

*(iii) Administration*

The Share Option Scheme shall be subject to the administration of the Board. The Board shall have the right to:

- (a) interpret and construe the provisions of the Share Option Scheme;
- (b) determine the persons who will be offered options under the Share Option Scheme, the number of Shares and the subscription price, subject to paragraph (vi) below, in relation to such options;
- (c) subject to paragraphs (xiv) and (xv) below, make such appropriate and equitable adjustments to the terms of the options granted under the Share Option Scheme as it deems necessary; and
- (d) make such other decisions or determinations as it shall deem appropriate in the administration of the Share Option Scheme.

*(iv) Grant of options*

On and subject to the terms of the Share Option Scheme and the requirements of the GEM Listing Rules (in particular as to grant of options to Directors, chief executives and substantial Shareholders of our Company or their respective associates), the Board shall be entitled at any time within 10 years after the date of adoption of the Share Option Scheme to make an offer for the grant of an option to any Participant as the Board may in its absolute discretion select. The offer shall specify the terms on which the option is to be granted. Such terms may include any minimum periods for which an option must be held and/or any minimum performance targets that must be reached, before the options can be exercised in whole or in part, and may include at the discretion of the Board other terms imposed (or not imposed) either on a case by case basis or generally.

No offer shall be made and no option shall be granted to any Participant after inside information has come to our Company's knowledge until it has announced the information. In particular, our Company shall not grant any option during the period commencing one month immediately preceding the earlier of:

- (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the requirements of the GEM Listing Rules) for the approval of our Company's results for any year, half-year, quarter-year or any other interim period (whether or not required under the GEM Listing Rules); and
- (b) the deadline for our Company to publish an announcement of its results for any year, half-year or quarter-year period in accordance with the GEM Listing Rules or any other interim period (whether or not required under the GEM Listing Rules),

and ending on the date of the results announcement. For the avoidance of doubt, the period during which no option shall be granted mentioned above shall include any period of delay in the publication of a results announcement.

*(v) Payment on acceptance of option offer*

An offer shall remain open for acceptance by the Participant concerned for a period of 7 days from the date of the offer. HK\$1.00 is payable by the Grantee to our Company on acceptance of the offer of the option.

*(vi) Subscription price*

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option but the subscription price shall be no less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant (provided that in the event that any option is proposed to be granted within a period of less than five business days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares in connection with such listing shall be deemed to be the closing price for any business day falling within the period before listing of the Shares on the Stock Exchange); and (iii) the nominal value of a Share on the date of grant.

*(vii) Option period*

The period within which the Shares must be taken up under an option shall be the period of time to be notified by the Board to each Grantee at the time of making an offer, which shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

(viii) *Rights are personal to grantee*

An option and an offer of the grant of an option shall be personal to the Grantee and shall not be transferable or assignable.

(ix) *Rights attaching to Shares allotted*

The Shares to be allotted and issued upon the exercise of an option shall be subject to all the provisions of the Articles of Association for the time being in force and will rank *pari passu* with the fully paid Shares in issue on the date the name of the Grantee is registered on the register of members of our Company. Prior to the Grantee being registered on the register of members of our Company, the Grantee shall not have any voting rights (including those arising on a liquidation of our Company), in respect of the Shares to be issued upon the exercise of the option. The Grantee also has the right to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that the Shares allotted and issued upon the exercise of any option shall not carry any voting rights until the name of the Grantee has been duly entered on the register of members of our Company as the holder thereof.

(x) *Exercise of option*

Subject to the terms and conditions upon which an option is granted, an option may be exercised by the Grantee at any time during the option period, provided that:

- (a) in the event the Grantee (being an employee or a director of any member of our Group) ceases to be a Participant for any reason other than (1) his death or (2) on one or more of the grounds for termination of employment or engagement specified in paragraph (xi)(f) below, the option shall lapse on the date of cessation of such employment or engagement and not be exercisable unless the Board otherwise determines in which event the option shall be exercisable to the extent and within such period as the Board may determine. The date of cessation of employment of a Grantee (being an employee and who may or may not be a director of any member of our Group) shall be the last actual working day on which the Grantee was physically at work with our Company or the relevant subsidiary, whether salary is paid in lieu of notice or not;
- (b) in the event the Grantee dies before exercising the option in full, and none of the events for termination of employment or engagement under paragraph (xi)(f) below then exists with respect to such Grantee, the personal representative(s) of the Grantee shall be entitled within a period of 12 months (or such longer period as the Board may determine) from the date of death to exercise the option up to the entitlement of such Grantee as of the date of death;

- (c) if a general offer by way of voluntary offer, takeover or otherwise (other than by way of scheme of arrangement pursuant to paragraph (x)(d) below) is made to all the holders of Shares (or all such holders other than the offeror, any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, our Company shall forthwith give notice thereof to the Grantee and the Grantee shall be entitled to exercise the option to its full extent or, if our Company shall give the relevant notification, to the extent notified by our Company at any time within such period as shall be notified by our Company;
- (d) if a general offer for Shares by way of scheme of arrangement is made to all the holders of Shares and has been approved by the necessary number of holders of Shares at the requisite meetings, our Company shall forthwith give notice thereof to the Grantee and the Grantee may at any time thereafter (but before such time as shall be notified by our Company) exercise the option to its full extent or, if our Company shall give the relevant notification, to the extent notified by our Company;
- (e) in the event a notice is given by our Company to its Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to the Grantee and the Grantee may at any time thereafter (but before such time as shall be notified by our Company) exercise the option to its full extent or, if our Company shall give the relevant notification, to the extent notified by our Company, and our Company shall as soon as possible and in any event no later than three days prior to the date of the proposed Shareholders' meeting, allot, issue and register in the name of the Grantee such number of fully paid Shares which fall to be issued upon exercise of such option; and
- (f) in the event of a compromise or arrangement, other than a scheme of arrangement contemplated in paragraph (x)(d) above, between our Company and its members and/or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all Grantees on the same day as it first gives notice of the meeting to its members and/or creditors to consider such a compromise or arrangement and the Grantee may at any time thereafter but before such time as shall be notified by our Company exercise the Option to its full extent or, if our Company shall give the relevant notification, to the extent notified by our Company, and our Company shall as soon as possible and in any event no later than 3:00 p.m. on the business day (any day on which the Stock Exchange is open for the business of dealing in securities) immediately prior to the date of the proposed meeting, allot, issue and register in the name of the Grantee such number of fully paid Shares which fall to be issued on exercise of such option.

*(xi) Lapse of option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the option period;
- (b) the date or the expiry of the periods for exercising the option as referred to in paragraph (x) above;
- (c) subject to the scheme of arrangement (referred to in paragraph (x)(d) above) becoming effective, the expiry of the period for exercising the option as referred to in paragraph (x)(d) above;
- (d) subject to paragraph (x)(e) above, the date of the commencement of the winding-up of our Company;
- (e) the date on which the Grantee commits a breach of paragraph (viii) above;
- (f) the date on which the Grantee (being an employee or a director of any member of our Group) ceases to be a Participant by reason of the termination of his employment or engagement on the grounds that he has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become bankrupt or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty, or on any other ground on which an employer would be entitled to terminate his employment summarily;
- (g) the date on which the Grantee (being a corporation) appears either to be unable to pay or to have no reasonable prospect of being able to pay its debts or has become insolvent or has made any arrangement or composition with its creditors generally;
- (h) where the Grantee is an employee, director, officer or contract consultant of a member of our Group (other than our Company), the date on which such member ceases to be a subsidiary; and
- (i) unless the Board otherwise determines, and other than in the circumstances referred to in paragraph (x)(a) or (b) above, the date the Grantee ceases to be a Participant (as determined by a Board resolution) for any reason.

Transfer of employment, engagement or relationship from one member of our Group to another member of our Group shall not be considered as a cessation of employment, engagement or relationship.

*(xii) Cancellation of option*

Any options granted but not exercised may be cancelled if the Grantee so agrees and new options may be granted to the Grantee provided such new options are granted within the limits prescribed by paragraph (xiii) below and otherwise comply with the terms of the Share Option Scheme.

*(xiii) Maximum number of Shares subject to options*

- (a) The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and other share option schemes of our Company (and to which the provisions of Chapter 23 of the GEM Listing Rules are applicable) must not exceed 30% of the Shares in issue from time to time;
- (b) The Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option schemes of our Company (and to which the provisions of Chapter 23 of the GEM Listing Rules are applicable) shall not exceed 36,000,000 Shares, representing 10% of the aggregate of the Shares in issue on the date the Shares commence trading on the Stock Exchange (the “**Scheme Mandate Limit**”). Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit;
- (c) Our Company may refresh the Scheme Mandate Limit at any time subject to prior Shareholders’ approval. However, the Scheme Mandate Limit as refreshed shall not exceed 10% of the Shares in issue as of the date of the aforesaid Shareholders’ approval. Options previously granted under the Share Option Scheme and other share option schemes of our Company (and to which the provisions of Chapter 23 of the GEM Listing Rules are applicable) (including those outstanding, cancelled, lapsed in accordance with its terms or exercised) shall not be counted for the purpose of calculating the limit as refreshed;
- (d) Our Company may also seek separate Shareholders’ approval for granting options beyond the Scheme Mandate Limit to Participants specifically identified by our Company before the aforesaid Shareholders’ meeting where such approval is sought;

- (e) The total number of Shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised, cancelled and outstanding options) in any 12 month period shall not exceed 1% of the Shares in issue (the “**Individual Limit**”). Any further grant of options to a Participant which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Participant (including exercised, cancelled and outstanding options) in the 12 month period up to and including the date of grant of such further options exceeding the Individual Limit shall be subject to Shareholders’ approval in advance with such Participant and his close associates (such term shall have the meaning ascribed to the definition of “associate” under Rule 1.01 of the GEM Listing Rules in relation to any director, chief executive or substantial shareholder (being an individual)) (or his associates if such Participant is a connected person) abstaining from voting; and
- (f) The maximum number of Shares referred to in this paragraph (xiii) shall be adjusted, in such manner as the auditors or the financial adviser of our Company retained for such purpose shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (xiv) below whether by way of capitalisation of profits or reserves, rights issue, subdivision or consolidation of Shares, or reduction of the share capital of our Company.

*(xiv) Reorganisation of capital structure and special dividends*

In the event of an alteration in the capital structure of our Company whilst any option remains exercisable whether by way of capitalisation of profits or reserves, rights issue, subdivision or consolidation of shares, or reduction of the share capital of our Company (other than an issue of Shares as consideration in a transaction), such corresponding alterations (if any) shall be made to: (i) the number or nominal amount of Shares subject to the option so far as unexercised; or (ii) the subscription price; or (iii) the method of exercise of the option; or any combination thereof, as the auditors or a financial adviser engaged by our Company for such purpose shall, at the request of our Company, certify in writing, either generally or as regards any particular Grantee, to be in their opinion fair and reasonable, provided that any such adjustments give a Grantee the same proportion of the equity capital of our Company as that to which that Grantee was previously entitled, but so that no such adjustments be made to the extent that a Share would be issued at less than its nominal value.



*(xv) Alteration of the Share Option Scheme*

- (a) Subject to paragraph (xv)(b) below, the Board may amend any of the provisions of the Share Option Scheme (including without limitation, amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions imposed by the provisions of the Share Option Scheme, which are not found in Chapter 23 of the GEM Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any Grantee at that date);
- (b) Those specific provisions of the Share Option Scheme which relate to the matters set out in Rule 23.03 of the GEM Listing Rules cannot be altered to the advantage of the Participants, and no changes to the authority of our Directors or administrator of the Share Option Scheme in relation to any alteration of the terms of the Share Option Scheme shall be made, without the prior approval of Shareholders in general meeting. Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, or any change to the terms of options granted, must also, to be effective, be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The Share Option Scheme so altered must comply with Chapter 23 of the GEM Listing Rules; and
- (c) Notwithstanding any approval obtained pursuant to paragraph (xv)(b) above, no amendment shall operate to adversely affect the terms of issue of any option granted or agreed to be granted prior to such amendment except with the consent or sanction in writing of such number of Grantees as shall together hold options in respect of not less than three-fourths in nominal value of all Shares then subject to the options granted under the Share Option Scheme, except where such amendment takes effect automatically under the existing terms of the Share Option Scheme.

*(xvi) Termination of the Share Option Scheme*

Our Company by ordinary resolution in general meeting or the Board may at any time resolve to terminate the operation of the Share Option Scheme and in such event no further options shall be offered or granted but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect. Options which are unexercised and unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

*(xvii) Offers made to a director, chief executive or employee who is also substantial Shareholder of our Company or any of their respective associates*

Each grant of options to any Director, chief executive or substantial Shareholder of our Company (or any of their respective associates) (as the aforesaid terms are defined in Rule 1.01 of the GEM Listing Rules) shall be subject to the prior approval of the independent non-executive Directors of our Company (excluding any independent non-executive Director who is a proposed recipient of the grant of options). Where any grant of options to a substantial Shareholder or an independent non-executive Director of our Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12 month period (or such other period as may from time to time be specified by the Stock Exchange) up to and including the date of grant:

- (a) representing in aggregate over 0.1% (or such other percentage as may from time to time be specified by the Stock Exchange) of the Shares in issue on the date of grant; and
- (b) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK\$5 million (or such other amount as may from time to time be specified by the Stock Exchange),

such further grant of options shall be subject to prior approval by the Shareholders (voting by way of poll). The Grantee, his associates and all core connected persons (as defined in the GEM Listing Rules) of our Company shall abstain from voting at such general meeting, except that any such person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to the Shareholders in connection therewith.

*(xviii) Conditions of the Share Option Scheme*

The Share Option Scheme shall take effect subject to and is conditional upon:

- (a) the passing of the necessary resolutions by the Shareholders of our Company to approve and adopt the rules of the Share Option Scheme;
- (b) the Listing Committee of the Stock Exchange granting approval of the Share Option Scheme and the granting of options thereunder, and the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of options under the Share Option Scheme;
- (c) the obligations of the Underwriter under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver(s) of any conditions by the Underwriter) and not being terminated in accordance with its terms or otherwise; and

(d) the commencement of dealings in the Shares on the Stock Exchange.

*(xix) Present status of the Share Option Scheme*

As of the Latest Practicable Date, no option has been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 36,000,000 Shares in total.

## **9. OTHER INFORMATION**

### **A. Litigation**

As of the Latest Practicable Date, save as disclosed in the section headed “Business – Legal proceedings” of this prospectus, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against any member of our Group, that would have a material adverse effect on its business, financial condition or results of operations.

### **B. Sole Sponsor**

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer (including the additional Shares which may be issued pursuant to the exercise of the options to be granted under the Share Option Scheme). All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 6A.07 of the GEM Listing Rules. The Sole Sponsor’s fees payable by us in respect of the Sole Sponsor’s services as sponsors for the Listing is approximately HK\$4.3 million.

### **C. No material adverse change**

Our Directors confirmed that, up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group since 30 September 2017 (being the date to which the latest audited combined financial statements of our Group were reported in the Accountants’ Report included in Appendix I to this prospectus).

**D. Tax and other indemnities****(a) Tax on Dividends**

No tax is payable in Hong Kong in respect of dividends paid by us.

**(b) Profits**

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the Shares. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 16.5% on corporations and at a rate of 15% on unincorporated businesses. Gains from sales of the Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of the Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

**(c) Stamp Duty**

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of the Shares. The duty is charged at the current rate of 0.2% of the consideration or, if higher, the fair value of the Shares being sold or transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares.

**(d) Estate Duty**

Estate duty has been abolished in Hong Kong by The Revenue (Abolition of Estate Duty) Ordinance 2005 which came into effect on 11 February 2006. The estate of a person who died before 11 February 2006 is subject to the provisions of the Estate Duty Ordinance (Chapter 111 of the laws of Hong Kong), and the Shares are Hong Kong property for this purpose. The estate duty chargeable in respect of estates of persons dying between the transitional period from and including 15 July 2005 to 11 February 2006 with the principal value exceeding HK\$7.5 million shall be a nominal amount of HK\$100.

Our Directors have been advised that no material liability for estate duty would likely fall upon any member of our Group in Hong Kong.

*(e) Deed of Indemnity*

Our Controlling Shareholders entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for and on behalf of its subsidiary) (being the contract referred to in the sub-section headed “5. Further information about our business – A. Summary of material contracts” in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, the following:

- (i) taxation falling on any members of our Group resulting from revenue, income, profits or gains granted, earned, accrued, received or made;
- (ii) any claim, payments, suits, damages, settlement payments and any associated costs in connection with any litigation, arbitration and/or legal proceedings against any members of our Group, in relation to any act, non-performance, omission or in connection with any non-compliance of any member of our Group;
- (iii) the relocation of the business or assets from any property owned, leased, rented, occupied in the event our Group is not permitted to use or occupy or is evicted from such property due to the non-compliance matters of our Group on or prior to the Listing; and
- (iv) all amounts expenses, payments, sums, outgoings, fees, demands, claims, damages, losses, costs, charges, liabilities, fines, penalties and expenses incurred resulting from the Reorganisation and the disposal of any subsidiary of any member of our Group by any such Group member,

provided that the same has occurred at any time on or before the Listing Date.

*(f) Consultation with Professional Advisers*

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the tax implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. None of our Company, the Sole Sponsor, Sole Global Coordinator, the Underwriters, any of their respective directors, or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding or disposal of, or dealing in, the Shares or exercise of any rights attaching to them.

**E. Miscellaneous**

Save as disclosed in the sections headed “History, reorganisation and group structure” and “Structure and conditions of the share offer” this prospectus and also the sub-section headed “1. Further information about our Company” in this section, within the two years immediately preceding the date of this prospectus:

- (a) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

- (b) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any shares or loan capital of any member of our Group; and
- (c) no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of any member of our Group.

As of the date of this prospectus:

- (a) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (b) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (c) our Company had no outstanding convertible debt securities or debentures;
- (d) there had not been any interruption in the business of our Group which may have or had a significant effect on the financial position of our Group in the 24 months preceding the date of this prospectus;
- (e) there was no arrangement under which future dividends are waived or agreed to be waived;
- (f) there were no founder, management or deferred shares in our Company or any of its subsidiaries; and
- (g) no company within our Group was listed on any stock exchange or traded on any trading system.

Our register of members will be maintained by our Hong Kong Share Registrar, Tricor Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Share Registrar.

**F. Qualification of experts**

The following are the qualifications of experts who have opined or advised on information contained in this prospectus:

<b>Name</b>	<b>Qualifications</b>
KGI Capital Asia Limited	A corporate licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Nixon Peabody CWL	Hong Kong legal advisers
Raymond T.M. Lau & Co.	Hong Kong Conveyancing legal advisers
Li, Janice Chee Kwan	A barrister-at-law in Hong Kong
Grant Thornton Hong Kong Limited	Certified public accountants
Grant Thornton Tax Services Limited	Hong Kong tax advisers
Knight Frank Petty Limited	Property valuer
Euromonitor International Limited	Industry consultant

**G. Consents of experts**

Each of KGI Capital Asia Limited, Nixon Peabody CWL, Raymond T.M. Lau & Co., Li, Janice Chee Kwan, Grant Thornton Hong Kong Limited, Grant Thornton Tax Services Limited, Knight Frank Petty Limited and Euromonitor International Limited has given and has not withdrawn its consent (each dated as of the date of this prospectus) to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries.

**H. Promoter**

Our Company has no promoter for purposes of the GEM Listing Rules. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given, nor are any proposed to be paid, allotted or given to any promoter in connection with the Share Offer and the related transactions described in this prospectus.

**I. Preliminary expenses**

The estimated preliminary expenses incurred and paid by our Company were HK\$24,000.

**J. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of binding all persons concerned by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

**K. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by Section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the laws of Hong Kong).



**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the **WHITE** and **YELLOW** Application Forms;
- (b) the written consents referred to in the section headed “Statutory and General Information – 9. Other information – G. Consents of experts” in Appendix IV to this prospectus; and
- (c) a copy of each of the material contracts referred to in the section headed “Statutory and General Information – 5. Further information about our business – A. Summary of material contracts” in Appendix V to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Nixon Peabody CWL at 5th Floor, Standard Chartered Bank Building, 4-4A Des Voeux Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (a) our Articles of Association;
- (b) the Accountants’ Report from Grant Thornton Hong Kong Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the audited combined financial statements of companies comprising our Group for the two years ended 31 March 2016 and 2017 and the six months ended 30 September 2017;
- (d) the report on the unaudited pro forma financial information prepared by Grant Thornton Hong Kong Limited, the text of which is set out in Appendix II to this prospectus;
- (e) the two opinions issued by Knight Frank both dated 23 March 2018, confirming, among others, the fairness of the rents payable to Golden Ocean and Chan Sing Hoi Enterprises;
- (f) the legal opinion dated 23 March 2018 and issued by Nixon Peabody CWL as the Hong Kong legal advisers to our Group in respect of Hong Kong law;
- (g) the legal opinion dated 23 March 2018 and issued by Li, Janice Chee Kwan as the Hong Kong Legal Counsel to our Group in respect of the use of certain representation by our Group;
- (h) the tenancy report dated 23 March 2018 and issued by Raymond T.M. Lau & Co. as the Hong Kong Conveyancing Legal Advisers for our Siu Sai Wan premises which contains opinion on the non-compliance issue regarding the permitted use under the Government Lease;

- (i) the tax opinion dated 28 August 2017 (as supplemented on 8 September 2017) issued by Grant Thornton Tax Services Limited as the Hong Kong tax advisers to our Group;
- (j) the industry report issued by Euromonitor International Limited, our industry consultant, in respect of the tea retail industry in Hong Kong as referred to under the section headed “Industry overview” of this prospectus;
- (k) the material contracts referred to in the section headed “Statutory and general information – 5. Further information about our business – A. Summary of material contracts” in Appendix IV to this prospectus;
- (l) the written consents referred to in the section headed “Statutory and general information – 9. Other information – G. Consents of experts” in Appendix IV to this prospectus;
- (m) the service contracts and letters of appointment with each of our Directors referred to in the section headed “Statutory and general information – 6. Further information about our Directors and substantial shareholders – B. Directors’ service contracts” in Appendix IV to this prospectus; and
- (n) the rules of the Share Option Scheme.



英記茶莊

YING KEE TEA HOUSE