



# 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

ANNUAL REPORT  
2018



## CHARACTERISTICS OF GEM

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This report, for which the directors (the “Directors”) of Ying Kee Tea House Group Limited (the “Company” and together with its subsidiaries, the “Group”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report 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 report misleading.





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# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

Mr. Chan Kwong Yuen (*Chairman*)  
Mr. Chan Kun Yuen (*Chief Executive Officer*)  
Mr. Chan Shu Yuen

### Independent Non-executive Directors

Mr. Siu Chi Ming  
Mr. Lee Wai Ho  
Mr. Wong Chee Chung

## Company Secretary

Mr. So Stephen Hon Cheung

## Authorised Representatives

Mr. Chan Kun Yuen  
Mr. So Stephen Hon Cheung

## Compliance Officer

Mr. Chan Kun Yuen

## Audit Committee

Mr. Siu Chi Ming (*Chairman*)  
Mr. Lee Wai Ho  
Mr. Wong Chee Chung

## Remuneration Committee

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

## Nomination Committee

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

## Registered Office and Principal Place of Business

8/F., Wah Shing Centre  
5 Fung Yip Street  
Siu Sai Wan, Hong Kong

## Compliance Adviser

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

## Legal Adviser as to Hong Kong Law

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

# CORPORATE INFORMATION

## 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

## Hong Kong Share Registrar and Transfer Office

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

## Independent Auditor

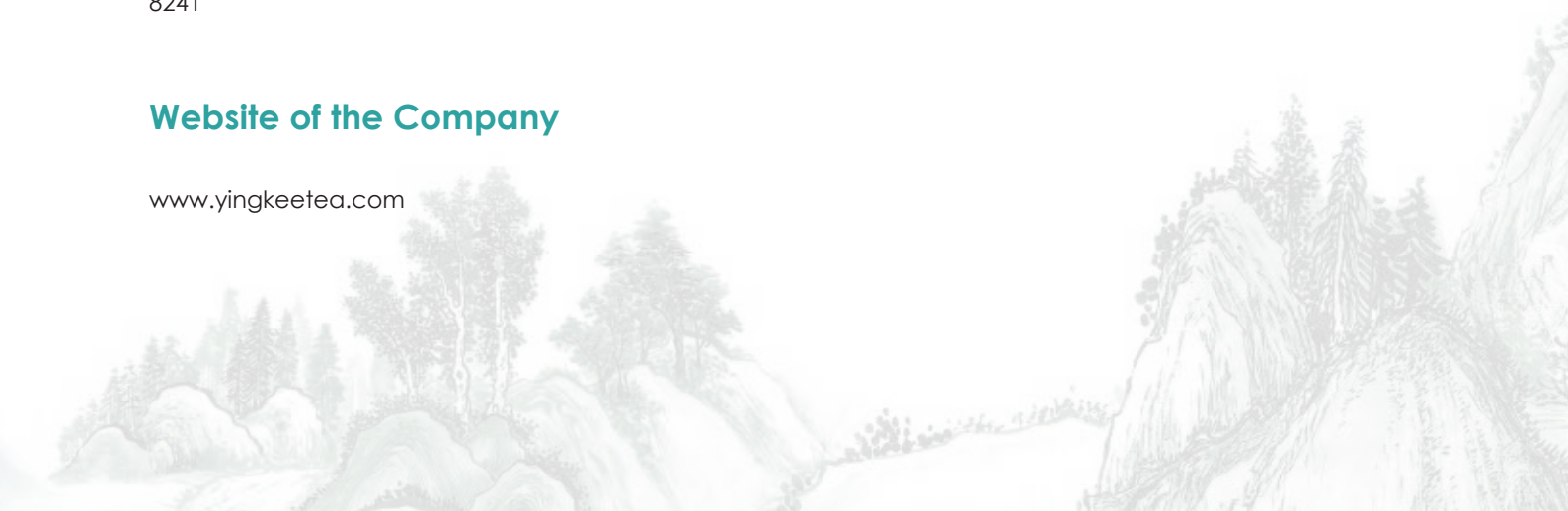
Grant Thornton Hong Kong Limited  
12/F., 28 Hennessy Road  
Wanchai  
Hong Kong

## Stock Code

8241

## Website of the Company

[www.yingkeetea.com](http://www.yingkeetea.com)







# I CHAIRMAN'S STATEMENT

# CHAIRMAN'S STATEMENT

*Dear Stakeholders,*

*On behalf of the board of directors (the "Board") of Ying Kee Tea House Group Limited, I am pleased to present the annual report of the Group for the year ended March 31, 2018.*



## Overview

Financial year 2018 witnessed a steady growth in turnover for Ying Kee Tea House Group Limited (the "Group") prior to its listing on GEM of the Stock Exchange of Hong Kong Limited on April 16, 2018. During the year ended March 31, 2018, the Group, through its subsidiary, has 10 retail shops and concessionary counters selling more than 70 products.

The Group's revenue increased by 2.0% to approximately HK\$45.4 million for year ended March 31, 2018 from approximately HK\$44.5 million for the year ended March 31, 2017. A net loss attributable to the owners of the Group of approximately HK\$3.2 million was recorded for the year ended March 31, 2018, as compared to a net profit of the previous year of approximately HK\$12.3 million, predominantly with comprising the non-recurring listing expenses. Excluding the listing expenses of approximately HK\$12.7 million, the Group recorded a net profit for the year of approximately HK\$9.5 million.

# CHAIRMAN'S STATEMENT

## Outlook

In April 2018, the Group raised net proceeds of approximately HK\$25.0 million after deducting corresponding fees, commission and expenses. Approximately 49.8% of the net proceeds will be used to open two retail outlets for the year ending March 31, 2019 and two more retail outlets for the year ending March 31, 2020. Approximately 13.4% of the net proceeds will be utilised to enhance our management capability and efficiency through improvement of our information system. Up to the date of the report, we have engaged approximately HK\$1.1 million to revamp the existing information system in the areas of accounting, procurement, customer relationship management and inventory. Around 2.6% of the net proceeds will be employed for recruitment of staff to cope with the expansion of the Group. As at the date of this report, one financial manager, one accounting officer and two packing staff are recruited. The Group might add another head count to the Administration Department when necessary. The Group will use approximately 9.6% of the net proceeds to carry out renovation of our office and warehouse. To date we have engaged interior designer to draft a renovation plan in order to utilise the space more effectively and efficiently. Up to 15.0% of the net proceeds will be used to repay part of the bank loan. Up to the date of this report, Approximately 15.0% of the net proceeds was applied to partial repayment of the bank loan. The remaining net proceeds will be set for working capital of the Group to maintain sufficient cash flow for operation.

Management is keeping pace with the expansion plan of the Group and uses all available resources to keep the growth. The Board is optimistic about the business prospects.





# CHAIRMAN'S STATEMENT

## Change of auditor

Our auditor changed from David T.W. Siu & Company to Grant Thornton Hong Kong Limited in August 2016.

## Appreciation

Finally, on behalf of the Board, I would like to offer my appreciation and gratitude to our shareholders, business associates, customers and suppliers for their support and confidence in the Group, especially to our colleagues for their dedication and effort, which is crucial to our successful listing on GEM of the Stock Exchange of Hong Kong Limited. In the upcoming year, we will continue to work closely to create greater success for the Group and drive higher returns to the shareholders.

Yours sincerely,

**Chan Kwong Yuen**

*Chairman of the Board*

Hong Kong, June 22, 2018



# I MANAGEMENT

## DISCUSSION AND ANALYSIS



# MANAGEMENT DISCUSSION AND ANALYSIS



## Business and Operational Review

For the year ended 31 March 2018, Ying Kee Tea House Group Limited (the "Company", together with its subsidiary, the "Group") enjoyed a stable retail environment with an overall uptrending economy in Hong Kong. With a GDP growth rate of 3.8% year on year, an unemployment rate of 2.9% and an inflation rate of 1.7%, the overall retail industry captured a growth rate of 6.3% year-on-year.

With the opening of a new retail shop at Telford Plaza II in Kowloon Bay on 17 October 2017, the Group maintained a steady growth of 2.0%, signifying that the market is not saturated to date. The directors of the Group (the "Directors") were of the opinion that retail of tea leaves and tea-related products would remain in an upward trend for the financial year ending 31 March 2019.





# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review

### Revenue, gross profit and net profit

The consolidated revenue of the Group for the financial year ended 31 March 2018 (the "Reporting Year") reached approximately HK\$45.4 million (2017: HK\$44.5 million), representing an increase by 2.0%. The gross profit for the year amounted to approximately HK\$36.1 million, (2017: HK\$35.5 million), increasing by 1.7% year-on-year. Gross profit margin was 79.5% (2017: 79.8%), remaining relatively consistent with that of last year. Net loss for the Reporting Year was approximately HK\$3.2 million (2017: Net profit of HK\$12.3 million). The loss for the Reporting Year was mainly due to the non-recurring listing expenses of approximately HK\$12.7 million recognised (2017: Nil). The net profit would have been approximately HK\$9.5 million if listing expenses were excluded (2017: HK\$12.3 million). Basic and diluted loss per share attributable to equity holders of the company were HK\$1.18 cents (2017: earnings per share of HK4.55 cents) for the Reporting Year.

### Segmental information

For the Reporting Year, tea leaves were still the predominant products sold with a percentage of 94.8% of total revenue (2017: 94.8%). Tea wares and tea gift sets recorded percentage of 4.7% and 0.5% respectively of total revenue (2017: 4.7% and 0.5% respectively), representing a lower proportion of sales as compared with that of tea leaves. Pu-erh remained the most sellable products among the other items followed by oolong tea and fragrant tea. Their percentage of sales relative to total sales were 45.2% (2017: 46.2%), 20.9% (2017: 20.1%) and 11.8% (2017: 11.9%) respectively.

### Other income

For the Reporting Year, the Company did not receive any royalty income (2017: HK\$114,000) derived from assigning the trademarks to a Japanese company being used in Japan. Under the existing trademark agreement between the Company and its Japanese counterpart, the Japanese company will not pay any royalty to the Company unless new product is launched with the use of the Company's trademark in Japan.

There is no gain (2017: HK\$71,000) on disposal of property, plant and equipment. Bank interest income increased from HK\$22,000 for the year ended 31 March 2017 to HK\$32,000 for the Reporting Year. The reason is mainly due to the increase of average deposit rate during the Reporting Year.

### Selling and distribution costs

For the Reporting year, the Company incurred additional costs on selling and distribution because of additional promotion activities held before the listing on GEM of the Hong Kong Stock Exchange Limited on 16 April 2018. Four special sale events took place in June, July 2017 and March 2018, along with additional advertisements in mass media, resulting in an incurrence of selling and distribution costs on top of the normal activities at approximately HK\$3.1 million (2017: HK\$2.6 million), an increase of 19.2% as compared to that of the year ended 31 March 2017.



# MANAGEMENT DISCUSSION AND ANALYSIS

The opening of a new shop at Telford Plaza II in Kowloon Bay on 17 October 2017 and corresponding promotion activities, which were intended to boost sales and obtain public recognition augmented the selling and distribution costs. Promoters were hired and special pop-up counters were employed in these activities.

## Administrative expenses

The following expenses were substantially increased for the year ended 31 March 2018 relative to those for the year ended 31 March 2017 because of the followings:

1. Audit fees increased by approximately 122.2% from HK\$135,000 to HK\$300,000;
2. Building management fees increased by approximately 235.0% from HK\$163,000 to HK\$546,000 while renewed tenancy agreement required lessee to bear the fee;
3. Consultancy fee increased by approximately 474.2% from HK\$31,000 to HK\$178,000 for hiring of assistant to the Chief Financial Officer (the "CFO") during pre-listing processes;
4. Legal and professional fees increased by approximately 270.5% from HK\$44,000 to HK\$163,000 for additional legal and professional advice;
5. Rates increased by approximately 456.9% from HK\$72,000 to HK\$401,000 while renewed tenancy agreement required the lessee to bear rates on the rental property;
6. Staff benefits increased by approximately 40.0% from approximately HK\$1.0 million to approximately HK\$1.4 million for the newly recruited CFO; and
7. Staff salaries increased by approximately 19.3% from approximately HK\$5.7 million to approximately HK\$6.8 million for the newly recruited CFO.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Finance costs

For the year ended 31 March 2018, the finance costs, which were basically bank borrowing interest, were HK\$282,000 as compared to that for the year ended 31 March 2017 of HK\$175,000. The reason for the increase of 61.1% was because of the additional drawdown on the revolving loan to settle the listing expenses to professional parties.

## Listing expenses

The listing cost of approximately HK\$16.0 million for the Reporting Year (2017: Nil) were paid as partial settlement of fees to professional parties including but not limited to, reporting accountants, financial advisory service provider, corporate lawyers, sponsor, sponsor's lawyers, lawyers to issue legal opinions on conveyancing, intellectual properties, taxation by Japan and the People's Republic of China, rental property surveyor, market researcher, financial printer and public and investor relations agency.

Of the listing cost for the year ended 31 March 2018, approximately HK\$16.0 million (2017: Nil) which were non-recurring, in which approximately HK\$12.7 million (2017: Nil) were charged to profit and loss for the Reporting Year while approximately HK\$3.3 million (2017: Nil) were capital in nature and treated as prepaid listing expenses which will be deducted from equity after listing. Recurring listing expenses include but not limited to payments made to corporate lawyers, compliance adviser, share registrar, financial printer, company secretary agency, public and investor relationship agency and dues to the Hong Kong Stock Exchange Limited.

## Inventory control

The net carrying value of the Group's inventories amounted to approximately HK\$6.3 million (2017: HK\$7.0 million) as at the end of the Reporting Year, representing a decrease of approximately HK\$0.7 million or 10.0% from that as at 31 March 2017.

The board of directors (the "Board") closely monitored the inventory level and movements during the year to ensure an optimal amount of stock was maintained and to avoid loss of sales due to under-stocking. As vintage pu-erh contributed the highest gross margin, the Directors responsible for procurement and warehouse staff responsible for stocktaking ascertained an adequate quantity of vintage pu-erh was available for sale in the immediate future.

In order to enhance stringent inventory control, the following procedures were conducted:

- Stocktake by shop and warehouse staff was carried out every month;
- Reconciliation of physical stock and amount in the accounting system was performed by the office accountant every month;
- Office personnel observed physical stocktake by shop and warehouse staff every quarter;
- Warehouse staff regularly checked for inventory damage and spoilage for proper provision at the end of each quarter.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Trade and other receivables

At the end of the Reporting Year, trade and other receivables increased from approximately HK\$1.5 million for the year ended 31 March 2017 to approximately HK\$5.1 million, an increase by approximately HK\$3.6 million or 240.0%. The increase was due primarily to the prepaid listing expenses of approximately HK\$3.3 million (2017: Nil). As at 31 March 2018, rental and other deposits rose by HK\$164,000 or 17.1% to HK\$1,123,000 from HK\$959,000 as at 31 March 2017. This was the result of paying rental deposits for opening of a new shop at Telford Plaza II in Kowloon Bay.

## Liquidity and Cash Flow Management

The Group adopted a prudent financial policy in order to maintain a healthy financial position with steady growth. The Group has funded the liquidity and capital requirements principally from cash generated from operations and bank borrowings.

As at 31 March 2018, the Group's net current assets amounted to approximately HK\$0.7 million (2017: HK\$6.2 million) which decreased by approximately HK\$5.5 million or 88.7% due to substantial increase in accrued listing liabilities. Cash and bank balances amounted to approximately HK\$2.9 million (2017: HK\$2.1 million), representing an increase of approximately HK\$0.8 million or 38.1%, compared with that at 31 March 2017. Time deposits amounted to HK\$639,000 as at 31 March 2018, a relative stable increase by HK\$25,000 or 4.1%, as compared to HK\$614,000 as at 31 March 2017.

## Trade and other payables

As at 31 March 2018, trade and other payables increased from HK\$826,000 for the year ended 31 March 2017 to approximately HK\$4.9 million, an increase by approximately HK\$4.1 million or 493.2%. The increase was due primarily to the listing expenses accrual of approximately HK\$4.0 million (2017: Nil).

## Bank borrowings

Banking facility of HK\$20.0 million (2017: HK\$20.0 million) in the form of a revolving loan was granted to the Group's wholly-owned subsidiary, Ying Kee Tea Company Limited (the "Subsidiary"). As at 31 March 2018, bank revolving loan stood at HK\$10.0 million (2017: HK\$5.0 million), an increase by HK\$5.0 million or 100.0% as compared with that at 31 March 2017. The increase was a result of settlement of listing expenses due to professional parties. Banking facility in the form of banker's guarantee in the amount of HK\$1.0 million (2017: Nil) was held as surety for rental deposits in lieu of cash.

As at the end of 31 March 2018, the revolving loan bore interest at variable rates of 2.30% to 3.13% (2017: 2.73% to 3.25%) per annum.

## Charge of Group's assets

At the end of the Reporting Year, the bank revolving loan and banker's guarantee were guaranteed jointly and severally by the directors of the Subsidiary of the Group, Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Tat Yuen, together with a corporate guarantee by Chan Sing Hoi Enterprises Limited, an entity controlled by the directors of the Subsidiary.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Significant Investment

There was no significant investment during the year ended 31 March 2018 and as at the end of the financial year, there was no significant investment held by the Group.

## Material Acquisitions and Disposals of Subsidiary, Associates and Joint Ventures

There was no material acquisitions and disposals of subsidiary, associates and joint ventures during the year ended 31 March 2018.

## Capital Structure

During the Reporting Year, a reorganisation took place which turned the Subsidiary wholly-owned by the Company. The Company was incorporated in Hong Kong as an investment company with limited liability on 14 September 2017.

On 18 August 2017, Tri-Luck Investments Limited ("Tri-Luck"), a limited liability company incorporated in the British Virgin Islands ("BVI"), 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. Wealth City Global Limited ("Wealth City"), a limited liability company incorporated in the BVI, 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. Sky King Global Limited ("Sky King"), a limited liability company incorporated in the BVI, 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. Coastal Lion Limited ("Coastal Lion"), a limited liability company incorporated in the BVI, allotted and issued 100 ordinary shares of nominal value of US\$1.00 each, credited as fully paid, to Mr. Chan Kwong Yuen at a nominal subscription price of US\$100.

On 18 August 2017, Profit Ocean Enterprises Limited ("Profit Ocean"), a BVI company with limited liability, 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).

On 14 September 2017, the 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, the Company purchased and Mr. Chan Tat Yuen and Mr. Chan Kun Yuen each sold his 2,500 shares of the Subsidiary (representing 25.0% each of the issued share capital) for a cash consideration of HK\$2,500 each. The Company purchased and Mr. Chan Kwong Yuen and Mr. Chan Shu Yuen each sold his 2,450 shares of the Subsidiary (representing 24.5% each of the issued share capital) for a cash consideration of HK\$2,450 each. The Company purchased and Mr. Chan Ka Min sold his 100 shares of the Subsidiary (representing 1.0% of the issued share capital) for a cash consideration of HK\$100.



# MANAGEMENT DISCUSSION AND ANALYSIS

Upon completion of the share purchases, Profit Ocean became the direct sole shareholder of the entire issued share capital of the Company, and the Subsidiary also became a direct wholly-owned subsidiary of the Company. Each of Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Tat Yuen had since held a 25.0% beneficial interest in the Company and the Subsidiary.

The shares of the Company were listed on GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 April 2018. There has been no change in the capital structure of the Group since then and share capital of the Group only comprises ordinary shares.

## Equity

Equity attributable to owners of the Company amounted to approximately HK\$2.1 million (2017: HK\$7.3 million).

## Treasury Policy

The Directors will continue to follow a prudent policy in managing the Group's cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of future growth opportunities.

## Foreign Exchange Exposure

Since all of the assets and liabilities are situated in Hong Kong and almost all of the revenue is generated from Hong Kong, the functional and reporting currency is Hong Kong dollar. There was no hedging instruments for payment of purchases in Renminbi as the Directors considered such purchases represented 7.1% (2017: 6.5%) of total purchases and settlement within 60 days would not cause material foreign exchange risk.

## Employees and Remuneration Policies

As at 31 March 2018, the Group had 52 employees (2017: 44 employees) working in Hong Kong. Employees are remunerated based on their qualifications, position and performance. The remuneration offered to employees generally includes salaries, allowances and discretionary bonus. Various training was provided to the employees. The total staff costs (including remuneration of Directors and mandatory provident funds contributions) for the year ended 31 March 2018 and 2017 amounted to approximately HK\$11.0 million and HK\$9.3 million respectively.

## Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 March 2018 (2017: Nil).

# MANAGEMENT DISCUSSION AND ANALYSIS

## Commitments

The contract commitments mainly involve rental payable by the Group in respect of certain shops, concessionary counters, office and warehouse premises under operating leases arrangements. As at 31 March 2018, the Group's operating lease commitments were approximately HK\$4.6 million (2017: HK\$669,000).

## Final Dividends

The board of directors (the "Board") does not recommend the payment of final dividend for the Reporting Year.

During the year ended 31 March 2018, the Group declared an interim dividend in the sum of HK\$2.0 million (2017: HK\$20.0 million) to the shareholders.

## Gearing Ratio

As at 31 March 2018, the gearing ratio of the Group stood at 472.8% (2017: 68.6%). The increase was mainly due to the increase in bank borrowings and the reduction in reserves after payment of an interim dividend.

## Future Plan for Material Investments or Capital Assets and Their Expected Sources of Funding

Future plan for material investments or capital assets and their expected sources of funding for the forthcoming year are set out on pages 231 to 241 under the heading "FUTURE PLANS AND USE OF PROCEEDS" in the prospectus.

## Use of Proceeds

The net proceeds from the issue of new shares of the Group at the time of its listing on GEM of the Stock Exchange on 16 April 2018 through the share offer of 90,000,000 shares of HK\$0.01 each in the share capital of the Group at the price of HK\$0.54 per share, after deduction of the underwriting commission and actual expenses paid by the Group in connection thereto, were approximately HK\$25.0 million.

No proceeds were available as at 31 March 2018. Therefore, no actual usage of proceeds for the year ended 31 March 2018.

Up to the date of the report, the Group opened a new concession counter in a department store in Kwun Tong, engaged a service provider to enhance our information system, recruited new staff and repaid the bank loan of HK\$3.8 million. There is no material difference between the disclosure in the listing document and actual business progress.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Principal Risks and Uncertainties

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that only well-established customers will be considered for open account terms and the approval of credit terms is subject to stringent credit check procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its short-term debt obligations with floating interest rates. The Group's policy is to manage its interest cost using variable rate debts, which is regularly reviewed by senior management.

### Liquidity risk

The Group monitors its risk to a shortage of funds using monthly cash flow forecast. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and funds generated from operations.

## Relationship with Suppliers, Customers and Other Stakeholders

The Group understands the importance of maintaining a good relationship with its suppliers, customers and other stakeholders in order to meet its immediate and long-term goals. During the year under review, there was no material or significant dispute between the Group and its suppliers, customers and other stakeholders.

## Events After the Reporting Period

### Listing on GEM of the Stock Exchange

The shares of the Company were listed on GEM of the Stock Exchange on 16 April 2018 through the share offer of 90,000,000 shares at a price of HK\$0.54 per share.

### Subsequent to listing

After the listing, 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 regarded as a group of controlling shareholders of our Group 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. The controlling shareholders hold 75.0% while the public holds 25.0% of the issued share capital of the Company.

The bank guarantees provided by our controlling shareholders or their entities for our banking facilities were released.

Mr. Siu Chi Ming, Mr. Lee Wai Ho and Mr. Wong Chee Chung were appointed as independent non-executive directors of the Company on 14 March 2018.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Objectives

The board of directors (the "Board") is pleased to present the first Environmental, Social and Governance ("ESG") Report for the financial year ended 31 March 2018 (the "Reporting Period").

This Report is prepared with a view to complying with the applicable code provision of the Environmental, Social and Governance Reporting Guide as set out in the Appendix 20 to the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited.

## Strategy, Management Approach and Priorities

The Group is principally engaged in the retail of tea products, including Chinese tea leaves, tea wares and tea gift sets set in Hong Kong. The Group is committed to the long-term sustainability of the employment and labour practices, operating practices and communities as part of its business strategy.

The Board has overall responsibility for evaluating and determining the Group's ESG-related risks, and overseeing the management in the design, implementation and monitoring of the risk management and internal control systems to address the ESG-related issues.

The management of the Group prioritises food safety, product responsibility and employee rights and obligations in the tea industry as key aspects of its sustainability management. Effective internal control systems and procedures on these areas were reinforced with a view to enhancing efficiency of operation and generating the environmental and social benefits to the stakeholders.

## A. Environmental

### A1. Emissions

The production activities of the Group mainly involve blending, packaging and deliveries. These activities produce minimal air pollutants and greenhouse gas from the use of vehicles and purchased electricity.

Notwithstanding with the production has remote impact on the environment, the Group encourages employees to take the initiatives to participate in various emission reduction and energy saving measures, including electricity preservation.

In addition, the Group closely follows the laws and regulations relating to environmental protection in Hong Kong. For instance, the Company complies with the Air Pollution Control Ordinance so as to address the emission of air pollutants and greenhouse gases which leads to acid rain and also global warming.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, no incidents where fines nor penalties were imposed for non-compliance of environmental regulations upon the Group.

Air pollutants, such as nitrogen oxides ("NOx"), Sulphur oxides ("SOx") etc., are generated from transportation directly. The data of air pollutants emission during the Reporting Period was not available to the Group as the transportation has been outsourced to the third-party providers.

During the Reporting Period, the greenhouse gas emission and its intensity indirectly derived from the purchased electricity are as follows:

Description	Emission & Intensity
Consumption of Purchased Electricity (A)	174,239 kWh
Carbon Dioxide (CO <sub>2</sub> ) Emission (B)	129,187 kg
Area of Office, Factory Premise and Retail Shops (C)	14,086 sq. ft.
CO <sub>2</sub> Emission Intensity per Office and Factory Premises Area (D = B/C)	9 kg/sq. ft.

Given the nature of the business, the processing of tea products does not produce any material hazardous and non-hazardous wastes that cause significant impact to the environment.

## A2. Use of Resources

Electricity, water and paper are the primary resources used within the Group. The Group is actively strengthening its management of resources with an aim to improve the resource efficiency in a cost-effective manner.

Energy conservation is being adopted to promote efficient usage of resource and reduction in air emission. The Group encourages employees in greening throughout daily operations in office and retail shops, such as switching lights to energy-saving LED lightings; switching off all idle lights, computers, air-conditioners and other office equipment when they are not in use.

The Group has also adopted conservation of water and paper, such as reminding employees to "turn off the tap" after using; printing and photocopying on both sides of paper; sending documents electronically; use of recycled papers; shredding waste paper and returning to paper-recycling company etc., in order to reduce excessive use of resource.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the usage of electricity, water and paper and their intensity of the Group are disclosed in the following table:

Description	Purchased Electricity	Water	Paper
Resources Consumption (A)	174,239 kWh	487 m <sup>3</sup>	59,410 piece
Area of Office & Factory Premise and Retail Shops (B)	14,086 sq. ft.	12,545 sq. ft.	10,562 sq. ft.
Intensity (C = A/B)	12 kWh/sq. ft.	0.04 m <sup>3</sup> /sq. ft.	6 piece/sq. ft.

A control mechanism has being put in place to monitor the inventory levels and to minimise obsolete inventory, including the package materials.

The Group is engaged in the industry of packaged branded Chinese tea. A variety of tea products specifications requires different packaging. Due to the packing materials are light and in wide range, the consumption of packing materials in terms of weight is not available. The main types and usage unit of packing materials during the Reporting Period are as follows:

Types of Package Material	Amount of Unit
Paper	183,326
Plastic	12,392
Aluminium foil	4,473
Gift boxes	2,407

## A3. The Environment and Natural Resources

By the nature of the business, the management considers that the operation of the Group does not cause any significant impact to the environment and natural resources.

## B. Social

### (i) Employment and Labour Practices

#### B1. Employment

The management understands the importance of maintaining a good relationship with employees. Policies of Human Resource Management and Employee Handbook have been established to create an optimal working environment and to protect the basic rights of the employees.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

All employees are treated fairly in regards to recruitment, training and development, appraisal of work performance, promotion and transfers, remuneration and benefits. The Group aims to provide equal employment opportunity which is free from any form of discrimination or harassment, regardless of age, gender, race, religion, disability, political stance and marital status.

The Group provides competitive remuneration and benefits to employees in the market. Apart from basic salary and welfare, the Group offers extra benefit including night shift and meal allowance, commission and bonus, marriage and compassionate leave.

All levels of staff are appraised annually based upon the same performance criteria. Bonus, salary increment and promotion are determined in accordance with the results of the staff appraisal.

The Group conforms to the relevant laws and regulations in Hong Kong, including the Employment Ordinance, Mandatory Provident Fund Schemes Ordinance, Minimum Wage Ordinance, Occupational Safety and Health Ordinance, Employees' Compensation Ordinance. During the Reporting Period, no material and significant disputes between the Group and the employees were occurred.

## B2. Health and Safety

The Group is committed to provide a workplace free from injury and illness through an effective procedures and practice on occupational health and safety.

A safety manual has been implementing to assist staff in dealing with unexpected incidents, minimise the discharge or hazardous outputs and mitigate its impact. The safety measures include but not limited to the guidelines of fire safety, handling equipment and dangerous goods, delivering heavy goods, ensuring hygiene, providing first-aid kits and anti-theft measures etc. The Group also provides free biannual medical checks to ensure a good health of its employees.



The Group adheres to, in all material respects, applicable health, safety and environmental laws and regulations in Hong Kong such as Occupational Safety and Health Ordinance.

The Group has maintained a healthy and safe working environment and recorded no work-related fatalities and health injuries during the Reporting Period.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## B3. Development and Training

The management acknowledges that continuous staff training and development helps to improve the efficiency and productivity in the Group. Employees are encouraged to participate in relevant internal and external training courses so as to heighten their competence and maintain high quality of services.

The administrative department sets out training plans annually taking consideration into survey and requirements from various departments. The Group arranges regular trainings in accordance with the training plans, which cover trainings in relation to customer services skills to retail staff such as knowledge of tea products, sales techniques, handling of complaints, identification of bills etc.

After the trainings, staff is subjected to performance evaluation to ascertain that their skills and abilities can meet the Group's performance standard.

## B4. Labour Standards

The Group complies with the Employment Ordinance in Hong Kong, and does not engage in any forced or child labour.

During the process of recruitment, information of candidate is strictly verified. The administrative department checks identify proof and documents of candidate to prevent employment of child and forced labour.

## (ii) Operating Practices

### B5. Supply Chain Management

The Group has formulated policies and procedures of supply management to streamline and standardise the procurement process of tea leaves, tea wares and tea gift sets.

New suppliers are selected in the consideration of their brand name, reputation, cooperation history, product quality etc. Raw materials are only sourced from suppliers that meet the Group's quality requirements. In particular, the suppliers would provide inspection reports of tea leaves if necessary by the Group.

Meanwhile, the Group carries out an annual assessment of their performance based on the product quality, delivery and post-sale services. Existing suppliers are required to provide valid registration documents and business licenses to ensure that they retain the high quality to the Group's acceptable standards.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A majority of suppliers of the Group are located in Hong Kong with long-established relationships. Number of suppliers grouped by geographical region as at 31 March 2018 are as follows:

Region	Number of suppliers	Portion
Hong Kong	26	79%
China	5	15%
Taiwan	2	6%
Total	33	100%

## B6. Product Responsibility

The Group is responsible for an uncompromising philosophy in quality standards, which is essential to business sustainability. The Group has established a sound quality management system and has been accredited with ISO 9001:2008 certification from UKAS Management Systems for design, manufacturing, packaging and retail of Chinese tea leaves and retail of tea wares since June 2009. The Group adopts and maintains quality standards in tea products throughout the constant quality and safety inspection of raw materials and finished products.

The Group strictly follows the relevant regulations regarding product responsibility in Hong Kong, including but not limited to the Food Safety Ordinance, the Trade Descriptions Ordinance, the Competition Ordinance and the Personal Data (Privacy) Ordinance.

The Group endeavors to improve its quality control system and to raise customer satisfaction continuously. Any customers' feedback or complaints will be recorded and handled immediately for improvement.

During the Reporting Period, the Group has not received any complaints from customers or the public, in which encountered any litigation regarding food safety and retail of tea products.

The Group stresses on the importance of safeguarding and protecting the intellectual property rights. Certain trademarks and domain names of the Group were registered in Hong Kong, China, Macau, Japan and other jurisdictions over the world.

Without the consent of the Group, staff or distributors should not authorise any third-parties to use the registered trademark(s) of the Group for any purposes and shall not participate in or assist in any activity that may infringe the intellectual property right of the Group.

The Group has included in the staff handbook and policy a stipulation on data privacy matters. All information containing of secret, proprietary, confidential or generally undisclosed nature in relation to operations, activities and business affairs of the Company and its business associates should be safeguarded with security controls and procedures.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## B7. Anti-Corruption

The Group strives to comply not only with requirements of the statutory law, rules and regulations, such as the Prevention of Bribery Ordinance in Hong Kong, but also with recognised compliance practices.

The Group adheres to stringent anti-corruption policies as stated in the Company's Code of Business Ethics, Anti-Fraud Policy and Anti-money Laundering Policy.

Regular trainings on anti-fraud and anti-money laundering are provided to the staff. All levels of employees are expected to understand and be accountable for compliance.

The Group conducts periodic and systematic fraud risk assessments through internal and external audit. Suspected cases of fraud should be reported promptly to the management. All potential frauds are fully investigated and immediate corrective actions will be taken to resolve substantiated frauds.

Furthermore, the Group has been adopting precautions of money laundering and terrorist financing, including customers due diligence procedures.

The Group has also put in place a whistle-blowing framework to provide a channel for employees and other stakeholders to raise legitimate concerns, where they have reasonable grounds for believing that there is fraud or corruption within the Group. Employees or stakeholders can raise out their concerns as long as they feel comfortable to an appropriate management, including an independent non-executive director.

There was no legal cases regarding corruption brought against the Company and its employees during the Reporting Period. There was also no whistle-blowing messages received during the Reporting Period.

## (iii) Community

### B8. Community Investment

The Group is devoted to take up the corporate social responsibility for the communities in Hong Kong through Chinese tea drinking culture promotion, occupational health and safety management and social support.

The Group actively engages with the stakeholders including customers, suppliers, employees, social media during different channels and platforms to understand their needs and develop relationship with the community.

The Group contributed approximate HK\$59,000 donation in terms of fund and gifts to support the community services of non-profit organisations and the education of schools during the Reporting Period.

# CORPORATE GOVERNANCE REPORT

## Corporate Governance Practice

Ying Kee Tea House Group Limited (the “Company”), together with its subsidiary (the “Group”), commenced listing on 16 April 2018 on GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). During the year, the Group was committed to maintain a high standard of corporate governance, and to comply to the extent practicable with the Code of Corporate Governance Practices. The Company has applied the code provisions and recommended best practices in the Corporate Governance Code (the “CG Code”) as set out in Appendix 15 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”). During the year, the Company has complied with the CG Code.

The board of directors of the Company (the “Board”) is responsible for the leadership and control, and promoting the success of the Group. This is achieved by the setting up of corporate strategic objectives and policies, and the monitoring and evaluations of operating activities and financial performance of the Group.

## Board Composition

As at the date of this report, the board of directors of the Group (the “Board”) consists of six members. Among them, three are executive directors (“EDs”) and three are independent non-executive directors (“INEDs”).

## Executive Directors

Mr. Chan Kwong Yuen (*Chairman*)

Mr. Chan Kun Yuen (*Chief Executive Officer*)

Mr. Chan Shu Yuen

Appointed in September 2017, all of the EDs possess the qualification and experiences in their respective areas of responsibility and have been working for the Group for many years. Under the leadership of the Chairman of the Board (the “Chairman”) and the chief executive officer (the “CEO”), the EDs are able to conduct business effectively and efficiently.

Mr. Chan Kwong Yuen is the older brother of Mr. Chan Shu Yuen and also a cousin of Mr. Chan Kun Yuen. The biographical details of the directors of the Group (the “Directors”), including their respective interests in the Group and their respective relationships with other Directors of the Group, are set out on pages 38 to 40 and pages 47 to 49 of this annual report.

# CORPORATE GOVERNANCE REPORT

## Independent Non-Executive Directors

Mr. Siu Chi Ming  
Mr. Lee Wai Ho  
Mr. Wong Chee Chung

The three INEDs were appointed in March 2018, and all are experienced professionals in accounting and finance. Their independent view would definitely provide constructive comments and recommendations to the Board towards the aim of safeguarding the interests of the shareholders in general and the Group as a whole.

The Company has received from each independent non-executive Director an annual confirmation of his independence and the Company considers such Directors to be independent in accordance with the criteria set out in rule 5.09 of the GEM Listing Rules.

## Directors' Training and Professional Development

The Company acknowledges the importance of adequate and ample continuing training and professional development for the Directors in order to enhance the quality of corporate governance. Each Director has attended a training session conducted by the Company regarding the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFO and the GEM Listing Rules.

## Appointment, Re-Election and Removal of Directors

A person may be appointed as a member of the Board at any time either by the shareholders in a general meeting or by the Board upon recommendation of the Nomination Committee of the Group. Directors who are appointed by the Board must retire at the first annual general meeting after their appointment.

According to the bye-laws of the Group as amended from time to time and the Code, all Directors are subject to retirement by rotation once every three years and no less than provided that one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting.

## Chairman and Chief Executive Officer

The roles of Chairman and Chief Executive Officer are separate and not performed by the same individual. Mr. Chan Kwong Yuen is the Chairman of the Board throughout the year. Mr. Chan Kun Yuen is the Chief Executive Officer.



# CORPORATE GOVERNANCE REPORT

## Access to Supporting

The Directors may have access to the advice and services of the company secretary of the Group (the "Company Secretary") with a view to ensuring that board procedures, and all applicable rules and regulations, are followed. Similarly, the Directors may obtain financial information, summaries and reports from the chief financial officer (the "CFO") of the Group for ascertaining the financial position on a regular basis. In addition, the Directors may, upon reasonable request, seek independent professional advice in appropriate circumstances, at the Group's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

Appropriate insurance coverage has been arranged in respect of any plausible legal action arising from the business of the Group against the Directors.

## Board Meetings

The Board held a total of two meetings during the year ended 31 March 2018. The two meetings were held mainly for endorsing documents prepared prior to the listing of the Group.

Sufficient notices to board meetings are given to all Directors prior to the meetings for the purpose of providing all Directors with adequate time to reschedule their business for the meetings, if necessary, and to propose matters to be included in the agenda for the meetings. An agenda and related documents are dispatched to all Directors at least three days before each of the meetings to ensure that the Directors have sufficient time to review the related documents and be adequately prepared for the meeting. When Directors are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting.

Management of the Group has, from time to time, supplied to the Board relevant information, as well as reports relating to operational and financial performance of the Group, enabling the Directors to make informed decisions. Members of the management who are responsible for the preparation of the documents for discussion at the board meetings are usually invited to present the relevant documents and to take any questions or address queries that the Directors may have on the documents. This enables the Board to perform a comprehensive and informed evaluation as part of the Board's decision-making processes.



# CORPORATE GOVERNANCE REPORT

The proceedings of the Board at its meetings are conducted by the Chairman who is responsible to ensure that sufficient time is allocated for discussion and consideration of each item on the agenda and that equal opportunities are given to the Directors to speak and express their views and share their concerns. Minutes of the board meetings are recorded in sufficient detail about the matters considered by the Board and the decisions reached, including any concerns raised by the Directors. The minutes are kept by the Company Secretary, or another personnel appointed by the Board at the meetings. Subsequently, the minutes are circulated to and signed by all the Directors and are opened for inspection by the Directors.

The attendance of individual members at board meetings and general meetings held during the year ended 31 March 2018 is set out as follows:

Name of Director	Board meetings	
	Number of meetings attended/held	Attendance rate
<b>Executive Directors</b>		
Mr. Chan Kwong Yuen	2/2	100%
Mr. Chan Kun Yuen	2/2	100%
Mr. Chan Shu Yuen	2/2	100%
<b>Independent Non-executive Directors (Appointed in March 2018)</b>		
Mr. Siu Chi Ming	1/1	100%
Mr. Lee Wai Ho	1/1	100%
Mr. Wong Chee Chung	1/1	100%

## Securities Transactions of Directors

The Group has adopted a code of conduct regarding securities transactions by Directors ("Code of Conduct") on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Up to the date of this annual report, no specific enquiry has been made in respect of whether the Directors have complied with the required standard of dealings and its code of conduct regarding directors securities transactions.

# CORPORATE GOVERNANCE REPORT

## Board Committees

As an integral part of good corporate governance and to assist the Board in execution of its duties, the Board is supported by four board committees, namely the executive committee, nomination committee, remuneration committee and audit committee. Each of these committees oversees particular aspects of the Group's affairs under its defined scope of duties and terms of reference approved by the Board. The terms of reference of the nomination committee, remuneration committee and audit committee can be found on the Group's website through the link [www.yingkeetea.com](http://www.yingkeetea.com). All of these committees are provided with sufficient resources to discharge their duties.

## Executive Committee

An executive committee (the "Executive Committee") was established subsequent to the financial year ended 31 March 2018 by the board on 14 April 2018 and comprised of three members, who are all EDs. The chairman of the Executive Committee is Mr. Chan Kwong Yuen and the other members are Mr. Chan Kun Yuen and Mr. Chan Shu Yuen.

The Executive Committee has been delegated with powers from the Board to deal with matters of the Group. The authority and major duties of the Executive Committee are summarised as follows:

- to establish strategic planning for Board approval;
- to monitor daily business operations, including sales, processing, brand and product promotion, capital and human resources of the Group;
- to review and approve management reports;
- to evaluate investments opportunities for Board approval; and
- to monitor fund flows and evaluate cash management policies within the Group.

The Executive Committee held quarterly meetings to review, discuss and evaluate the quarterly business performance and other business and operational matters within the Group.

As the Executive Committee was set up subsequent to the year ended 31 March 2018, no Executive Committee meeting was conducted.

# CORPORATE GOVERNANCE REPORT

## Nomination Committee

A nomination committee (the "Nomination Committee") was set up subsequent to the financial year ended 31 March 2018 under the auspices of the Board on 14 April 2018. The Nomination Committee currently comprises of five members. The chairman of the Nomination Committee is Mr. Lee Wai Ho and the other members are Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen, Mr. Siu Chi Ming and Mr. Wong Chee Chung. Except for Mr. Chan Kwong Yuen and Mr. Chan Kun Yuen who are EDs, the remaining three members are all INEDs.

The terms of reference of the Nomination Committee are summarised as follows:

- to review the structure, size, composition and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, the skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; in identifying suitable individuals, the Committee shall consider individuals on merit and against the objective criteria, with due regard for the benefits of diversity on the Board;
- to assess the independence of independent non-executive directors; and
- taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity required in the future, to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.

In considering the new appointment of Directors, the Nomination Committee makes reference to certain criteria such as integrity, independent mindedness, experience, skill and the ability to commit time and effort to carry out his duties and responsibilities effectively, etc.

The Nomination Committee holds at least one meeting every year. During the year ended 31 March 2018, the Nomination Committee held no meeting.





# CORPORATE GOVERNANCE REPORT

## Remuneration Committee

A remuneration committee (the "Remuneration Committee") was set up subsequent to the financial year ended 31 March 2018 under the auspices of the Board on 14 April 2018. The Remuneration Committee currently comprises five members, with chairman Mr. Wong Chee Chung, Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen, Mr. Siu Chi Ming and Mr. Lee Wai Ho as other members. Except for Mr. Chan Kwong Yuen and Mr. Chan Kun Yuen who are EDs, the remaining three members of the Remuneration Committee are INEDs.

The terms of reference of the Remuneration Committee are summarised as follows:

- make recommendations to the Board on the Company's policy and structure for all directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- to determine with delegated responsibility, the remuneration packages of individual executive directors and senior management. (which should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment);
- to make recommendations to the Board on the remuneration of non-executive directors;
- to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
- to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive for the Company;
- to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
- to ensure that no director or any of his/her associates is involved in deciding his/her own remuneration package.

The Remuneration Committee holds at least one meeting every year. No meeting was held during the financial year ended 31 March 2018.

# CORPORATE GOVERNANCE REPORT

## Remuneration policy of the Group

The remuneration policy of the Group is designed to ensure remuneration offered to the Directors or employees is appropriate for the corresponding duties performed, sufficiently compensation for their effort and time dedicated to the affairs of the Group, and competitive and effective in attracting and motivating employees. The key components of the Company's remuneration package include basic salary, and where appropriate, other allowances, incentive bonus, mandatory provident funds and sales commissions.

The emoluments payable to Directors are determined with reference to the responsibilities, qualifications, experience of individuals. The packages are reviewed annually and as required from time to time. The Group also continuously spends resources in training and encourages staff for self-development and improvements.

The Group recognises that the future success depends on its ability to build up a team of high caliber professional managers as its human resources capital. The Group is fully committed to build up such resources capital to enhance its assets for ensuring future growth.

The remuneration of the individual directors and the five highest paid individuals are set out in notes 10.2 and 10.3 to the consolidated financial statements.

## Audit Committee

The audit committee (the "Audit Committee") was established subsequent to the financial year ended 31 March 2018 by the Board on 14 April 2018. The Audit Committee currently comprises of all three INEDs. The chairman of the Audit Committee is Mr. Siu Chi Ming, and the other members are Mr. Lee Wai Ho and Mr. Wong Chee Chung.

The terms of reference of the Audit Committee were prepared and adopted in compliance with the Code. The terms of reference of the Audit Committee are available on the Company's website through the link [www.yingkeetea.com](http://www.yingkeetea.com).

The major duties of the Audit Committee are summarised as follows:

- to act as the key representative body for overseeing the Company's relations with the external auditor, to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to discuss with the external auditor the nature and scope of the audit and reporting obligations and ensure co-ordination where more than one audit firm is engaged before the audit commences;

# CORPORATE GOVERNANCE REPORT

- to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, “external auditor” includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally; and
- to report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

The Audit Committee holds meetings twice a year and during the financial year ended 31 March 2018, there was no meeting held.

## Accountability and Audit

The Board is accountable to the shareholders of the Group through proper financial reporting, regular internal control reviews, interim reviews and annual audits. These are the most efficient way in assessing the effectiveness of the Board in managing the business and affairs of the Group.

## Financial Reporting

The Directors are responsible for overseeing the preparation of the annual consolidated financial statements which give a true and fair view of the state of affairs and of the results and cash flow of the Group for the year. In preparing the consolidated financial statements for the year ended 31 March 2018, the Directors have:

- approved the adoption of the applicable Hong Kong Financial Reporting Standards;
- selected suitable accounting policies and applied them consistently throughout the period covered by the consolidated financial statements;
- made judgements and estimates that are prudent and reasonable, and ensure the consolidated financial statements are prepared on a going concern basis; and
- ensured that the consolidated financial statements are prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, the GEM Listing Rules and the applicable accounting standards.

The Board recognizes that high quality corporate reporting is important in enhancing the relationship between the Group and its stakeholders. The Board aims at presenting a balanced, clear and comprehensive vision of the performance, position and prospects of the Group in all corporate communications.

# CORPORATE GOVERNANCE REPORT

## Risk Management and Internal Controls

The Board acknowledges its responsibility to ensure that a sound and effective internal control system is maintained. The system includes a defined management structure with specified limits of authority, to:

- achieve business objectives and safeguard assets against unauthorised use or disposition;
- ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and
- ensure compliance with the relevant legislation and regulations.

The internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and manage, rather than eliminate, risks of failure in operational systems, and to ensure achievement of the Group's objectives.

### Internal control framework

The internal control framework that the Board established in maintaining effective internal controls within the Group is as follows:

#### 1. *Distinct organisational structure*

To allow delegation of authority as well as to enhance accountability, a distinct organisational structure exists which details lines of authority and control responsibilities in each department of the Subsidiary. Department heads are involved in preparing the operation plan based on corporate strategies and annual operational and financial targets determined by the Board. Both the strategic plan and the annual operating plan laid down the foundation for the preparation of the annual budgets, which identify and prioritize business opportunities with reference to the resources allocation.

During the year ended 31 March 2018, the Group adopted a clear and distinct organisational structure and a precise authority matrix to improve operation flow. With the continuous focus on the chain of command, the Group anticipates to attain better controls and effectively monitors the management, operational and financial processes.

#### 2. *Regular risk assessment*

Policies and procedures are set up to identify, manage and control risks including but not limited to operational risk, accounting risk and compliance risk that may have an impact on the business of the Group. The Group engaged an advisory company specialising in risk review to study, evaluate and identify risks incidental to the Group and to provide recommendations for mitigation of such risks.



# CORPORATE GOVERNANCE REPORT

### 3. *Regulated cash/treasury management*

The Group maintains a sound system and a clear authority matrix to ensure daily cash/treasury operations meet the relevant policies and rules established by the Group.

### 4. *Regular reviews by external advisory service company on risk and internal control*

During the year ended 31 March 2018, Grant Thornton Advisory Services Limited was engaged to conduct an internal control review before the Group's listing on 16 April 2018. The external adviser assisted all levels of administration in the achievement of the organisational goals and objectives by striving to provide a positive impact on:

- efficiency and effectiveness of operating functions;
- reliability of financial reporting;
- status of implementation and effectiveness of the internal control policies and procedures;
- compliance with applicable laws and regulations.

The external adviser also assisted the Group to ensure that the Company maintains a sound system of internal control by:

- reviewing all aspects of the Group's activities and internal controls;
- reviewing the practices and procedures adopted by the Group and whether the Group has complied throughout the period.

Risk management and internal control systems throughout the year are reviewed on an annual basis by the Board. The Board considered the Group's internal control system as adequate and effective for the year.

## Auditor's Remuneration

The Group's auditor is Grant Thornton Hong Kong Limited. The Audit Committee is mandated to ensure continuing auditor's objectivity and safeguarding independence of the auditor. The remuneration paid or payable by the Group to Grant Thornton Hong Kong Limited in respect of the audit and other non-audit services for the year ended 31 March 2018 were as follows:

<b>Nature of services</b>	<b>2018 HK\$000</b>	<b>2017 HK\$000</b>
Audit service	300	135
Special engagement in relation to the Listing	1,880	—
Agreed-upon procedures regarding to turnover statements	5	3
<b>Total</b>	<b>2,185</b>	138

# CORPORATE GOVERNANCE REPORT

## Company Secretary

The duties of the Company Secretary can be summarised as follows:

### Core Duties

The daily duties of the Company Secretary are generally wide in scope and may range from administrative duties such as personnel management and the maintenance of company accounts and registers, to duties as diverse as ensuring that the company complies with regulations or advising the directors on good corporate governance practices.

### Typical Duties Include:

- Coordinating the production, publication and distribution of company accounts and reports.
- Communicating with shareholders, regulatory bodies and the Stock Exchange on behalf of the Company.
- Ensuring that the Company complies with relevant laws and regulations.
- Organising and facilitating meetings of directors and general meetings of shareholders.
- Reviewing current developments in good corporate governance practices in order to advise the directors.

The Company has appointed Mr. So Stephen Hon Cheung as the Company Secretary.

During the Year, Mr. So has complied with the relevant training requirement under Rule 5.15 of the GEM Listing Rules. The biographical details of Mr. So are set out in the section headed "Biographical Details of the Directors and Senior Management" of this annual report.

## Corporate Communication with Stakeholders and Investor Relations

The Group has in place an effective corporate communication system which provides transparent, regular and timely public disclosures to its stakeholders, including, inter alia, the general public, analysts, and the institutional and individual shareholders. The main features of the system are that:

- the Group maintains a website on which comprehensive information about itself, its products, financial reports and public announcements are disclosed;

# CORPORATE GOVERNANCE REPORT

- the Group establishes and maintains different communication channels with its stakeholders through the publication of annual, interim and quarterly reports, announcements and press releases. To promote effective communication, the shareholders can receive corporate communication electronically via the Group's corporate website [www.yingkeetea.com](http://www.yingkeetea.com).
- annual general meetings of the Group provide a useful forum for the shareholders to exchange views with the Board. The chairman of the Board as well as chairman of the Audit, Nomination and Remuneration Committees, or in their absence, members of the committees will be available to answer questions which may be raised by the shareholders.

## Shareholders' Rights

- separate resolutions are proposed at general meetings for each substantial issue, including the election of individual Directors;
- details of the poll voting procedures and the rights of shareholders to demand a poll are included in a circular to the shareholders dispatched 21 days prior to the date of the relevant general meeting;
- the poll results are published on the website of Stock Exchange [www.hkexnews.hk](http://www.hkexnews.hk) and on the Group's corporate website [www.yingkeetea.com](http://www.yingkeetea.com).

General meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Company shall, in respect of each financial year of the Company, hold a general meeting as its annual general meeting in addition to any other meetings in that year.

According to the Articles, general meetings may be convened by the Directors on the requisition of shareholders pursuant to the provisions of the Companies Ordinance. Such requisition must state the general nature of the business to be dealt with. Directors required to call a general meeting must call a meeting within 21 days after they become subject to the requirement and if they fail to do so, the shareholders who requested the meeting may themselves call a general meeting.

Shareholders may also put forward proposals at general meeting or send any enquiries or requests in respect of their rights to the Company's principal business address in Hong Kong.

## Constitutional Documents

New Articles of Association of the Company was adopted on 14 March 2018 and effective as of 16 April 2018. There was no significant change in other constitutional documents of the Company during the Year.

# DIRECTORS AND SENIOR MANAGEMENT PROFILE

## Executive Directors

**Mr. Chan Kwong Yuen** aged 61, became an executive Director in October 2017. Mr. Chan Kwong Yuen is also the chairman of the Board and one of the Controlling Shareholders. He is responsible for overseeing the finance and investment aspects of the Group, and formulating the Group's strategy and evaluating and negotiation leasing terms and conditions with landlords. Mr. Chan Kwong Yuen is the brother of Mr. Chan Shu Yuen and cousin of Mr. Chan Kun Yuen.

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 Tea Company Limited (the "Subsidiary") 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 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** aged 58, became an executive Director in October 2017. He is also the Chief Executive Officer of the Company and one of the Controlling Shareholders. He is responsible for overseeing the business development, marketing and the Group's corporate strategy formulation and execution. 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 the Subsidiary 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 the Subsidiary 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 is the cousin of both Mr. Chan Kwong Yuen and Mr. Chan Shu Yuen.

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.





## DIRECTORS AND SENIOR MANAGEMENT PROFILE

**Mr. Chan Shu Yuen**, aged 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 the Subsidiary 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 the Subsidiary since September 2010. From August 1979 to August 1990, Mr. Chan Shu Yuen was working part-time for the Subsidiary 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 is the brother of Mr. Chan Kwong Yuen and cousin of Mr. Chan Kun Yuen.

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.

### Independent Non-Executive Directors

**Mr. Siu Chi Ming** aged 38, joined the Board as an independent non-executive Director in March 2018. He is primarily responsible for providing independent advices to the Board.

Mr. Siu holds a Bachelor of Business Administration (Accounting) from Hong Kong Baptist University. Mr. Siu is a fellow member of the Association of Chartered Certified Accountants and an associate of Hong Kong Institute of Chartered Secretaries as well as the Institute of Chartered Secretaries and Administrators. Mr. Siu has over 10 years of experience in the accounting, company secretarial and corporate finance sectors. Mr. Siu Chi Ming is currently serving as an executive director and company secretary of Jiu Rong Holdings Limited (SEHK: 2358) and an independent non-executive director of China Water Affairs Group Limited (SEHK: 855), both companies are listed on the Main Board of the Stock Exchange.

## DIRECTORS AND SENIOR MANAGEMENT PROFILE

**Mr. Lee Wai Ho** aged 42, joined the Board as an independent non-executive Director in March 2018. He is primarily responsible for providing independent advices to the Board.

Mr. Lee has been serving as a director of Capital Partners CPA Limited since 2004, specializing in advisory, audit and assurance services. Mr. Lee has 20 years of accounting and finance experience.

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.

**Mr. Wong Chee Chung**, aged 42, joined the Board as an independent non-executive director in March 2018. He is primarily responsible for providing independent advice to the 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 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 "Capital structure" in the Management discussion and analysis in this annual report, each of the Directors does not have any interests in the Shares within the meaning of Part XV of the SFO.

# DIRECTORS AND SENIOR MANAGEMENT PROFILE

## Senior Management

**Mr. So Stephen Hon Cheung** aged 62, joined as Chief Financial Officer and Company Secretary of the Subsidiary in June 2017 and was appointed as the Chief Financial Officer and Company Secretary of the 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 is a director of the accounting firm T.M. Ho, So & Leung CPA Limited, and is a fellow member of the Hong Kong Institute of Certified Public Accountants (Practising), a member of the Chartered Professional Accountants of Canada and a member of the Society of Certified Management Accountants of Canada. He holds a bachelor degree in commerce from the University of British Columbia, Canada. Mr. So is an independent non-executive director of Teamway International Group Holdings Limited (stock code: 1239) since August 2017, Pinestone Capital Limited (stock code: 804) since May 2015, PINE Technology Holdings Limited (stock code: 1079) since September 2002 and both YGM Trading Limited (stock code: 375) and YangtzeKiang Garment Limited (stock code: 294) since 20 September 2017, the shares of those companies are listed on the Main Board of the Stock Exchange. From May 2011 to February 2017, Mr. So was an independent non-executive director of Milan Station Holdings Limited (stock code: 1150), Skyworth Digital Holdings Limited (stock code: 751) from March 2000 to December 2014, the shares of which are listed on the Main Board of the Stock Exchange. Genius World Investment Limited (stock code: GNW.H) from 2010 to 2016, the shares of which are listed on TSX Venture Exchange of the Toronto Stock Exchange.

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** aged 55, joined the Subsidiary in June 1994. She was an administration clerk of the Subsidiary 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 the 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.



# DIRECTORS' REPORT

The Directors have pleasure in presenting their annual report and audited consolidated financial statements of Ying Kee Tea House Group Limited (the "Company") and its wholly-owned subsidiary Ying Kee Tea Company Limited (the "Subsidiary"), for the year ended 31 March 2018.

## Principal Activities

The Company is an investment company incorporated in Hong Kong. The principal activity of the Subsidiary is the sale of tea leaves, tea wares and tea gift sets. Details are illustrated on page 63 in the consolidated financial statements.

## Business Review

The business review of the Group during the year and the discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis", and the description of the principal risks and uncertainties facing the Group are set out in the section headed "Management Discussion and Analysis". The financial risk management objectives and policies of the Group are set out in note 24 to the consolidated financial statements. No important event affecting the Group has occurred since the listing date (i.e. 16 April 2018) up to the date of this annual report. Such discussion forms part of this Directors' Report.

## Results and Appropriations

The results of the Group for the year ended 31 March 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 59 of the annual report.

An interim dividend of HK\$200 (2017: HK\$2,000) per share amounting to HK\$2.0 million was paid to the shareholders during the year. The Directors do not recommend the payment of a final dividend to the shareholders.

## Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past three financial years is set out on page 107 of the annual report.





# DIRECTORS' REPORT

## Major Customers and Suppliers

During the year, the aggregate revenue attributable to the Group's five largest customers was 1.7% of the Group's total revenue. The aggregate purchase attributable to the Group's five largest suppliers accounted to 71.7% of the Group's total purchase. The largest supplier accounted for approximately 25.0% of the Group's total purchase.

None of the Directors, their associates or any shareholders (who to the knowledge of the Directors owns more than 5.0% of the Group's shares capital) has any interest in any of the Group's five largest customers or suppliers.

## Property, Plant and Equipment

During the year, the Group has acquired plant and equipment in the sum of approximately HK\$1.4 million and has not disposed of plant and equipment. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 13 of the consolidated financial statements.

## Share Capital

Details of movements in the share capital of the Group during the year are set out in note 19 to the consolidated financial statements.

## Reserves

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

## Distributable Reserves of the Group

The Group's reserves available for distribution to shareholders as at 31 March 2018 amounted to approximately HK\$2.1 million (2017: HK\$6.3 million).

## Related Party Transactions and Connected Transactions

Details of the significant related party transactions entered by the Group during the year ended 31 March 2018 are set out in note 22 to the consolidated financial statements. Details of continuing connected transactions are set out on pages 166 to 175 of the prospectus.

# DIRECTORS' REPORT

## Donations

During the year, the Group made charitable donations amounting to HK\$59,000 (2017: HK\$44,000).

## Directors

The Directors of the Subsidiary for the year are:

Mr. Chan Kwong Yuen  
Mr. Chan Kun Yuen  
Mr. Chan Shu Yuen  
Mr. Chan Tat Yuen

The Directors of the Company as at the date of this report are:

## Executive Directors

Mr. Chan Kwong Yuen      *(Chairman, appointed on 14 September 2017)*  
Mr. Chan Kun Yuen      *(Chief Executive Officer, appointed on 14 September 2017)*  
Mr. Chan Shu Yuen      *(Appointed on 14 September 2017)*

## Independent Non-executive Directors

Mr. Siu Chi Ming      *(Appointed on 14 March 2018)*  
Mr. Lee Wai Ho      *(Appointed on 14 March 2018)*  
Mr. Wong Chee Chung      *(Appointed on 14 March 2018)*

Pursuant to the Company's Articles of Association and the GEM Listing Rules, all the current Directors, who were appointed by the Board to fill a casual vacancy or by way of addition to their number shall hold office only until the next following annual general meeting of the Company, and shall then be eligible for re-appointment. Therefore, all current Directors will retire at the conclusion of the forthcoming annual general meeting of the Company (the "Annual General Meeting") and be eligible to offer themselves for re-election at the Annual General Meeting. The Board and the nomination committee of the Company has recommended the re-election of all the Directors standing for re-election at the Annual General Meeting.

Pursuant to the Article 120 of the Company's Articles of Association, any Director who holds the position as an executive Director shall not be subject to the retirement-rotation requirement of this Article, but for the avoidance of doubt, the provisions of this Article shall not prejudice the power of shareholders in general meeting to remove any such Director.

# DIRECTORS' REPORT

## Independence of Independent Non-Executive Directors

The Company has received from each of the Independent Non-executive Directors annual written confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers all the independent non-executive Directors to be independent.

## Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management of the Group are set out on pages 38 to 41 of the annual report.

## Directors Service Contracts

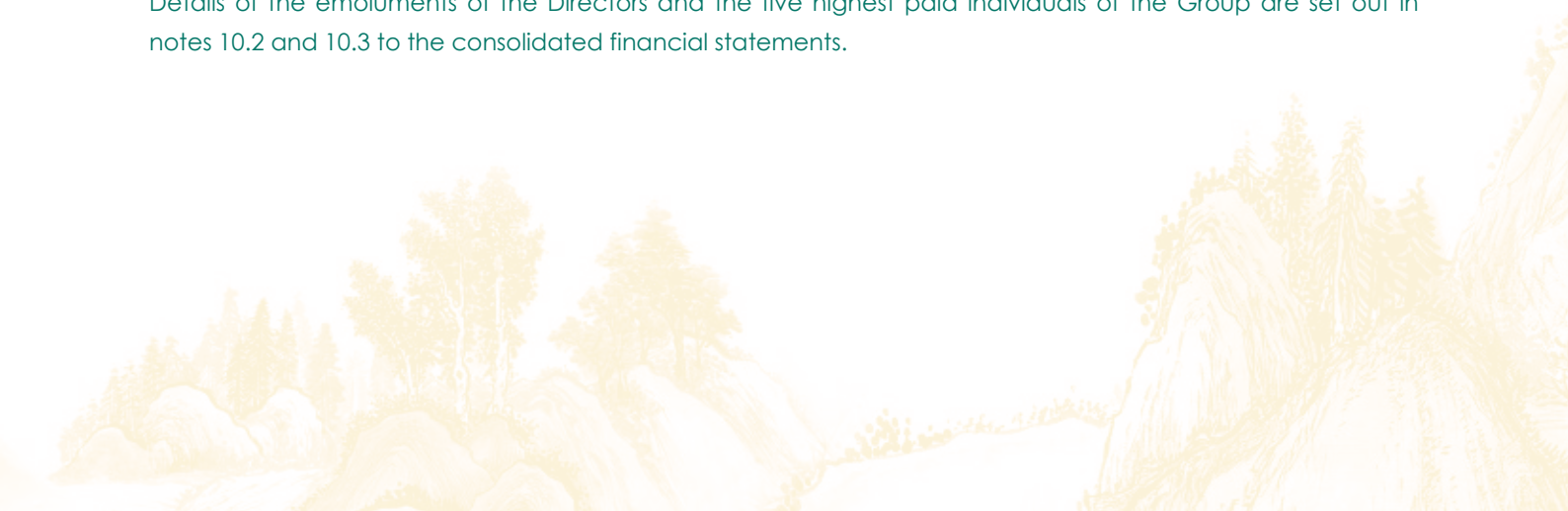
Each of the Directors has entered into a service contract with the Company renewable on every anniversary year. These service contracts remain valid unless terminated for causes or by either party giving at least two months' written notice.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## Emolument Policy and Five Highest Paid Individuals

The emoluments of the Directors of the Company are reviewed by the Remuneration Committee of the Company from time to time with reference to the qualifications, responsibilities, experience and performance of the individual Directors, and the operating results of the Group. Details of the policy are set out in the "Corporate Governance Report" on page 32 of the annual report.

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in notes 10.2 and 10.3 to the consolidated financial statements.



## DIRECTORS' REPORT

The remuneration of the senior management of the Group for the year ended 31 March 2018 falls within the following band:

Remuneration band	Number of senior management
Up to HK\$1,000,000	2
HK\$1,000,000 to HK\$1,500,000	—
Above HK\$1,500,000	—

### Share Option Scheme

The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees of the Company, the Directors and other selected participants for their contributions to the Group. The Company has conditionally approved and adopted the Share Option Scheme by written resolutions on 14 March 2018. Further details of the Share Option Scheme are set in the section headed "Statutory and General Information — 8. SHARE OPTION SCHEME" in Appendix IV of the Prospectus.

For the year ended 31 March 2018, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme.

### Directors' Material Interests in Transactions, Arrangements or Contracts

No director or a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of its subsidiary was a party during the year.

### Permitted Indemnity Provision

Every Director shall be entitled to be indemnified out of the assets of the Group against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgement is given in his favour, or in which he is acquitted. Such permitted indemnity provision is currently in force at the time of approval of this report.

### Management Contracts

As at 31 March 2018, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

# DIRECTORS' REPORT

## Directors' Rights to Acquire Shares or Debentures

Apart from as disclosed under the paragraph headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of the Company's subsidiary a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares or Debentures of the Company

The shares of the Company were only listed on GEM on 16 April 2018 and therefore, the respective Division 7 and 8 of Part XV of the Securities and Futures ("SFO") and Rules 5.46 to 5.67 of the GEM Listing Rules were not applicable as at 31 March 2018.

So far as the Directors are aware, as at the date of this report, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which were notified to the 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 were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### Long positions in ordinary shares and underlying shares of the Company

Name of Director/Chief Executive	Capacity/Nature of interest	Number of shares held/interested	Approximate percentage of shareholding
Chan Kwong Yuen <sup>(Note 1)</sup>	Interested in a controlled corporation	270,000,000	75%
Chan Kun Yuen <sup>(Note 1)</sup>	Interested in a controlled corporation	270,000,000	75%
Chan Shu Yuen <sup>(Note 1)</sup>	Interested in a controlled corporation	270,000,000	75%

Note:

- The total issued share capital of Profit Ocean is owned by Tri-Luck Investments Limited ("Tri-Luck"), Wealth City Global Limited ("Wealth City"), Sky King Global Limited ("Sky King") and Coastal Lion Limited ("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.



## DIRECTORS' REPORT

Save as disclosed above, as at the date of this report, none of the Directors or chief executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

### Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares of the Company

As at 31 March 2018, the shares were not listed on GEM. The respective Division 2 and 3 of Part XV of the SFO and Section 336 of the SFO were not applicable.

So far as known to the Directors or chief executive of the Company, as at the date of this report, the following persons/entities (other than the Directors and chief executives of the Company) had or were deemed to have an interest or a short position in the shares or the underlying shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or which were directly or indirectly, to be 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 the Company or any other member of the Group:

### Long positions in ordinary shares and underlying shares of the Company

Name of Shareholder	Name of corporation	Nature of interest and capacity	Number of Shares held or interested	Approximate percentage of the total issued shares
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%
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%

# DIRECTORS' REPORT

## Notes:

1. The total issued 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.
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.

Save as disclosed above, as at the date of this report, no person, other than the Directors of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying shares and Debenture of the Company and its associated corporations" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## Interests of Compliance Adviser

Our Compliance adviser, KGI Capital Asia Limited, and any of its close associates, the directors or employees had no interest in the share capital of the Company or any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

## Purchase, Sale or Redemption of Listed Securities of the Company

The shares of the Company were successfully listed on GEM on 16 April 2018. Save for the Reorganisation as disclosed in the Prospectus, neither the Company nor any of its subsidiary has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2018.

# DIRECTORS' REPORT

## Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company bye-laws which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Competition and Conflict of Interests

None of the Directors, the controlling shareholders or substantial shareholders of the Company or any of its respective close associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with Group during the year ended 31 March 2018.

## Deed of Non-Competition

In order to avoid any possible future competition between the Group and the controlling shareholders, Mr. Chan Tat Yuen, Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen and Mr. Chan Shu Yuen (each a "Covenantor" and collectively the "Covenantors") have entered into the Deed of Non-competition with the Company (for itself and for the benefit of each other member of the Group) on 5 December 2017. Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and as trustee for its subsidiary) that, during the period that the Deed of Non-competition remains effective, he shall not, and shall procure that his close associates (other than any member of the Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested or otherwise be involved, whether directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group.

Each of the Covenantors further undertakes that if any of he or his close associates other than any member of the Group is offered or becomes aware of any business opportunity which may compete with the business of the Group, he shall (and he shall procure his close associates to) notify the Group in writing and the Group shall have a right of first refusal to take up such business opportunity. The Group shall, within 6 months after receipt of the written notice (or such longer period if the Group is required to complete any approval procedures as set out under the GEM Listing Rules from time to time), notify the Covenantor(s) (and his close associates, if applicable) whether the Group will exercise the right of first refusal or not.

The Group shall only exercise the right of first refusal upon the approval of all the independent non-executive Directors (who do not have any interest in such opportunity). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the independent non-executive Directors for considering whether or not to exercise the right of first refusal.

## DIRECTORS' REPORT

Each of the covenantors also gave certain non-competition undertakings under the Deed of Non-Competition as set out in the paragraph headed "Relationship with our controlling shareholders — Non-competition undertaking" in the Prospectus.

During the year, the Company has received an annual written confirmation from each controlling shareholder of the Company in respect of him and his associates in compliance with the deed of non-competition.

The independent non-executive Directors have also reviewed and were satisfied that each of the controlling shareholders of the Company had complied with the deed of non-competition.

### Environmental Policies and Performance

Environmental considerations are always an integral part of the Group's decision-making process and it believes that by focusing on reducing resource consumption during its operations and engaging the community in its work, it can act as one of the catalysts for a sustainable future. To help conserve the environment, the Group implements green practices such as reusing and recycling papers, separating paper waste from other waste for easier collection, recycling paper waste instead of disposing them directly, reducing energy consumption by replacing the majority of the lighting system with LED lights and switching off air conditioning and electrical appliances when not used. The Group's operations have complied in all material respects with currently applicable local environmental protection laws and regulations in Hong Kong during the year.

A report on environmental, social and governance matters was set out on pages 18 to 24 of the annual report.

### Corporate Governance

Details of the Group's corporate governance practices are set out in the Corporate Governance Report on pages 25 to 37 of this annual report.

### Compliance with Relevant Laws and Regulations

As far as the Board is aware, the Group has complied with the relevant laws and regulations that may cause a significant impact on the business and operation of the Group in the event of a material breach or non-compliance. During the year under review, there was no material breach or non-compliance with the applicable laws and regulations by the Group.

# DIRECTORS' REPORT

## Equity-Linked Agreements

There was no equity-linked agreement entered into by the Company during the year ended 31 March 2018.

## Sufficiency of Public Float

It is not necessary to maintain a sufficient public float as the shares of the Company were listed on 16 April 2018, which is subsequent to the year ended 31 March 2018.

## Audit Committee

The Company has an audit committee which was established in compliance with Rule 5.28 of the GEM Listing Rules, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the independent non-executive directors of the Company.

The summary of duties and works of the audit committee is set out in the "Corporate Governance Report" of this annual report.

## Auditor

Grant Thornton Hong Kong Limited retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chan Kwong Yuen**

*Chairman*

Hong Kong, 22 June 2018





# INDEPENDENT AUDITOR'S REPORT



**To the members of Ying Kee Tea House Group Limited**  
*(incorporated in Hong Kong with limited liability)*

## Opinion

We have audited the consolidated financial statements of Ying Kee Tea House Group Limited (the "Company") and its subsidiary (collectively referred to as the "Group") set out on pages 59 to 106, which comprise the consolidated statement of financial position as at 31 March 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Revenue recognition

Refer to notes 2.12 and 5 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
<p>The revenue is the primary financial key performance indicator of the Group. Therefore, we identified revenue recognition as a significant risk.</p>	<p>Our audit procedures in relation to the revenue recognition included:</p> <ul style="list-style-type: none"> <li>— Understanding the revenue system of the Group.</li> <li>— Determining whether revenue is recorded in the accounting system consistent with the accounting policy and considering the appropriateness of that policy.</li> <li>— Conducting walkthrough test over the sales procedure to ensure that the internal controls in revenue cycle existed and the described procedures have been properly followed.</li> <li>— Testing the samples of sales transactions to ensure the record and postings of sales transactions were correct and properly made.</li> <li>— Performing sales cut-off test to ensure the record and postings of sales transactions were made in proper accounting period.</li> <li>— Analytically reviewing the gross profit to identify the trends and variances comparing with our understanding of the financial performance of the Group.</li> <li>— Analytically reviewing sales trends by location, by product type and by month to identify trends and variances that would require further substantive testing.</li> </ul>

We found the assessments of revenue recognition were supported by the evidences.

# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matters (Continued)

### Valuation of inventories

Refer to notes 2.6, 4 and 14 to the consolidated financial statements

#### The Key Audit Matter

The Group has significant inventories as at 31 March 2018. The balance is mainly comprised of tea leaves as raw materials. Inventories are valued at the lower of costs and net realisable values.

Significant judgement and estimation by the management are involved in identifying inventories with net realisable values that are lower than their costs, and obsolescence, with reference to the condition of the inventories, historical and current sales information, as well as the ageing of inventories to identify slow-moving items to ascertain the amount of allowance for inventories.

No impairment was provided by the management based on the nature and quality of the inventories for the year ended 31 March 2018.

#### How the matter was addressed in our audit

Our audit procedures in relation to the valuation of inventories included:

- Obtaining an understanding of:
  - (i) how the Group accounts for the inventory costs; and
  - (ii) how the Group identifies and assess inventory write downs.
- Evaluating of the appropriateness of the methodologies applied in determining the impairment.
- Attending inventory counts, performing physical inspection and reconciling the count results to the inventory listings to test the completeness.
- Considering the ageing of the inventories.
- On a sampling basis, we have independently reviewed the net realisable values of inventories.

We found the management's assessment of impairment of inventories were supported by the evidences.



# INDEPENDENT AUDITOR'S REPORT

## Other Information

The directors are responsible for the other information. The other information comprises all the information in the 2018 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors assisted by the audit committee are responsible for overseeing the Group's financial reporting process.



# INDEPENDENT AUDITOR'S REPORT

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



# INDEPENDENT AUDITOR'S REPORT

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Grant Thornton Hong Kong Limited**

*Certified Public Accountants*

Level 12

28 Hennessy Road

Wanchai

Hong Kong

22 June 2018

Chiu Wing Ning

Practising Certificate No.: P04920

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 HK\$'000	2017 HK\$'000
<b>Revenue</b>	5	<b>45,399</b>	44,540
Cost of sales		<b>(9,320)</b>	(8,991)
<b>Gross profit</b>		<b>36,079</b>	35,549
Other income	6	<b>32</b>	207
Selling and distribution costs		<b>(3,136)</b>	(2,584)
Administrative expenses		<b>(33,857)</b>	(18,197)
Finance costs	7	<b>(282)</b>	(175)
<b>(Loss)/Profit before income tax</b>	8	<b>(1,164)</b>	14,800
Income tax expense	9	<b>(2,011)</b>	(2,505)
<b>(Loss)/Profit for the year and total comprehensive (expense)/income for the year</b>		<b>(3,175)</b>	12,295
<b>(Loss)/Earnings per share attributable to equity holders of the Company (expressed in HK cents per share)</b>			
Basic and diluted	12	<b>(1.18)</b>	4.55

The notes on pages 63 to 106 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2018

	Notes	2018 HK\$'000	2017 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current asset</b>			
Property, plant and equipment	13	2,634	1,815
<b>Current assets</b>			
Inventories	14	6,323	6,982
Trade and other receivables	15	5,145	1,548
Amounts due from related parties	22.3	—	4,281
Tax refundable		568	—
Time deposits	16	639	614
Cash and bank balances		2,894	2,136
		<b>15,569</b>	15,561
<b>Current liabilities</b>			
Trade and other payables	17	4,883	826
Amounts due to related parties	22.3	—	2,699
Tax payable		—	795
Bank borrowings	18	10,000	5,000
		<b>14,883</b>	9,320
<b>Net current assets</b>		<b>686</b>	6,241
<b>Total assets less current liabilities</b>		<b>3,320</b>	8,056
<b>Non-current liabilities</b>			
Provision for long service payment		476	723
Provision for reinstatement cost		729	43
		<b>1,205</b>	766
<b>Net assets</b>		<b>2,115</b>	7,290
<b>EQUITY</b>			
Share capital	19	10	1,000
Reserves		2,105	6,290
<b>Total equity</b>		<b>2,115</b>	7,290

Chan Kun Yuen  
Director

Chan Shu Yuen  
Director

The notes on pages 63 to 106 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2018

	Share capital HK\$'000 (note 19)	Capital reserve HK\$'000 (note 20)	Retained earnings HK\$'000	Total equity HK\$'000
<b>As at 1 April 2016</b>	1,000	—	13,995	14,995
Transaction with equity holders of the Company				
Dividend paid by a subsidiary	—	—	(20,000)	(20,000)
Profit for the year and total comprehensive income for the year	—	—	12,295	12,295
<b>As at 31 March 2017 and 1 April 2017</b>	1,000	—	6,290	7,290
Transactions with equity holders of the Company				
Issue of shares and effect of reorganisation	(990)	990	—	—
Dividend paid	—	—	(2,000)	(2,000)
Loss for the year and total comprehensive expense for the year	—	—	(3,175)	(3,175)
<b>At 31 March 2018</b>	10	990	1,115	2,115

The notes on pages 63 to 106 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2018

	2018 HK\$'000	2017 HK\$'000
<b>Cash flows from operating activities</b>		
(Loss)/Profit before income tax	(1,164)	14,800
Adjustments for:		
Depreciation	457	453
Amortisation of reinstatement cost	142	43
Interest income	(32)	(22)
Interest expenses	282	175
Gain on disposal of property, plant and equipment	—	(71)
Reversal of provision for long service payment	(247)	(215)
Write-off of inventories	—	18
Operating (loss)/profit before working capital changes	(562)	15,181
Changes in working capital:		
Inventories	659	60
Trade and other receivables	(3,597)	566
Trade and other payables	4,057	425
Cash generated from operations	557	16,232
Income tax paid	(3,374)	(2,562)
<i>Net cash (used in)/from operating activities</i>	<b>(2,817)</b>	13,670
<b>Cash flows from investing activities</b>		
Interest received	32	22
(Increase)/Decrease in time deposits	(25)	14
Proceeds from disposal of property, plant and equipment	—	145
Purchase of property, plant and equipment	(732)	(46)
Net change in amounts due from related parties	4,281	(8,017)
<i>Net cash from/(used in) investing activities</i>	<b>3,556</b>	(7,882)
<b>Cash flows from financing activities</b>		
Interest paid	(282)	(175)
Proceeds from new bank borrowings	10,000	12,500
Repayment of bank borrowings	(5,000)	(8,771)
Dividends paid to shareholders	(2,000)	—
Net change in amounts due to related parties	(2,699)	(8,388)
<i>Net cash from/(used in) financing activities</i>	<b>19</b>	(4,834)
<b>Net increase in cash and cash equivalents</b>	<b>758</b>	954
<b>Cash and cash equivalents at beginning of the year</b>	<b>2,136</b>	1,182
<b>Cash and cash equivalents at end of the year, represented by cash and bank balances</b>	<b>2,894</b>	2,136

The notes on pages 63 to 106 are an integral part of these consolidated financial statements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 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 and its principal place of business is 8/F., Wah Shing Centre, 5 Fung Yip Street, Siu Sai Wan, Hong Kong.

The Company's shares were listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 April 2018.

The Company is an investment holding company. The Company and its subsidiary (collectively referred to as the "Group") are principally engaged in the retail trading of tea products.

As at the reporting date, 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.

These consolidated financial statements for the year ended 31 March 2018 were approved for issue by the board of directors on 22 June 2018.

Pursuant to a group reorganisation (the "Reorganisation"), the Company became the holding company of the company now comprising the Group on 10 October 2017. Details of the major steps undertaken to effect the Reorganisation were published in the prospectus of the Group dated 23 March 2018.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 1. General Information and Basis of Presentation (Continued)

### 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 comparative figures have been prepared by applying the merger basis of accounting as if the companies now comprising the Group have been combined at 1 April 2016, or since their respective dates of incorporation, whichever was shorter. The assets and liabilities of all the companies now comprising the Group are consolidated using the book values from the Controlling Shareholders' perspective.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statement of cash flows include the results, changes in equity and cash flows of all the companies now comprising the Group for the years ended 31 March 2017 and 2018 (or where the companies were incorporated at a date later than 1 April 2016, for the period from date of incorporation to the reporting date) as if the current group structure had been in existence throughout the years ended 31 March 2017 and 2018. The consolidated statement of financial position of the Group as at 31 March 2017 has 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 this date.

## 2. Summary of Significant Accounting Policies

### 2.1 Statement of compliance and basis of preparation

The consolidated financial statements have 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") and the accounting principles generally accepted in Hong Kong. The consolidated financial statements also comply with the applicable requirement of the Hong Kong Companies Ordinance and include the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of amended HKFRSs and the impacts on the Group's consolidated financial statements, if any, are disclosed in note 3.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 2. Summary of Significant Accounting Policies (Continued)

### 2.1 Statement of compliance and basis of preparation (Continued)

The consolidated financial statements have been prepared on the historical cost basis. The consolidated financial statements are 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 consolidated financial statements. 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 consolidated financial statements are disclosed in note 4.

### 2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary made up to 31 March each year.

Subsidiary is an entity 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 consolidated financial statements 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 consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiary have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 2. Summary of Significant Accounting Policies (Continued)

### 2.2 Basis of consolidation (Continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

In the Company's statement of financial position, subsidiary are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost also includes direct attributable costs of investment.

The results of subsidiary are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

### 2.3 Foreign currency translation

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Group.

In the individual financial statements of the consolidated 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 the 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 profit or loss.

Non-monetary items carried at fair values that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair values were determined. Non-monetary items that are measured in terms of historical costs in foreign currencies are not retranslated.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 2. Summary of Significant Accounting Policies (Continued)

### 2.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. 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 term 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 assets and is recognised in 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 profit or loss during the financial period in which they are incurred.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 2. Summary of Significant Accounting Policies (Continued)

### 2.5 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. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair values, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 2. Summary of Significant Accounting Policies (Continued)

### 2.5 Financial assets (Continued)

#### Impairment of financial assets (Continued)

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 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 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 profit or loss.

### 2.6 Inventories

Inventories are carried at the lower of costs 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 2. Summary of Significant Accounting Policies (Continued)

### 2.7 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.

### 2.8 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 (see note 2.15).

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 profit or loss.

#### Bank borrowings

Bank borrowings are recognised initially at fair values, net of transaction costs incurred. Bank borrowings are subsequently stated at amortised costs; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in 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 costs, using the effective interest method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 2. Summary of Significant Accounting Policies (Continued)

### 2.9 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

### 2.10 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 2. Summary of Significant Accounting Policies (Continued)

### 2.11 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.

### 2.12 Revenue recognition

Revenue comprises the fair value of the consideration received or receivables for the sale of goods and the use by others of the Group's assets yielding interest, net of rebates 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 accruals basis in accordance with the substance of the license agreements.

### 2.13 Impairment of non-financial assets

The Group's property, plant and equipment are tested for impairment whenever there are indications that the asset's carrying amount 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 2. Summary of Significant Accounting Policies (Continued)

### 2.13 Impairment of non-financial assets (Continued)

Impairment loss is charged pro rata to the assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

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.

### 2.14 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 profit or loss as employees render services during the year. The Group's obligation 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 2. Summary of Significant Accounting Policies (Continued)

### 2.15 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.

### 2.16 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 year. 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 consolidated financial statements 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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 2. Summary of Significant Accounting Policies (Continued)

### 2.16 Accounting for income taxes (Continued)

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.

### 2.17 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 2. Summary of Significant Accounting Policies (Continued)

### 2.18 Related parties

For the purposes of these consolidated financial statements, 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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 3. Adoption of Amended HKFRSs

### Amended HKFRSs that are effective for annual period beginning or after 1 April 2017

In the current year, the Group has applied for the first time the following amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 April 2017:

Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

Other than as noted below, the adoption of the amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

#### Amendments to HKAS 7 “Disclosure Initiative”

The amendments require an entity to provide disclosure that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. A reconciliation between the opening and closing balances of liabilities arising from financing activities is set out in note 23. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 23, the application of these amendments has had no impact on the Group's consolidated financial statements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 3. Adoption of Amended HKFRSs (Continued)

### Issued but not yet effective HKFRSs

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HKFRS 17	Insurance Contracts <sup>3</sup>
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement <sup>2</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>2</sup>
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle <sup>1</sup>
Amendments to HKAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle <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> Effective date not yet determined

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 3. Adoption of Amended HKFRSs (Continued)

### Issued but not yet effective HKFRSs (Continued)

#### 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 Group 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 3. Adoption of Amended HKFRSs (Continued)

### Issued but not yet effective HKFRSs (Continued)

#### HKFRS 15 Revenue from contracts with customers (Continued)

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 Group 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 3. Adoption of Amended HKFRSs (Continued)

### Issued but not yet effective HKFRSs (Continued)

#### HKFRS 16 Leases (Continued)

As set out in note 21, total operating lease commitments of the Group as at 31 March 2018 was amounting to approximately HK\$4,602,000. The directors of the Group 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.

## 4. 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 reassess 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 14.

### 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 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. The carrying amounts of trade receivables at each reporting date are disclosed in note 15.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 4. Critical Accounting Estimates and Judgements (Continued)

### 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 13.

## 5. Revenue and Segment Reporting

### 5.1 Revenue

	2018 HK\$'000	2017 HK\$'000
Sales of tea products	45,399	44,540

### 5.2 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 year, 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 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 year, none of the Group's customers contributed over 10% of the Group's revenue.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 6. Other Income

	2018 HK\$'000	2017 HK\$'000
Bank interest income	32	22
Royalty income	—	114
Gain on disposal of property, plant and equipment	—	71
	<b>32</b>	207

## 7. Finance Costs

	2018 HK\$'000	2017 HK\$'000
Interest on bank borrowings	282	175

## 8. (Loss)/Profit Before Income Tax

(Loss)/Profit before income tax is arrived at after charging/(crediting):

	2018 HK\$'000	2017 HK\$'000
Auditor's remuneration	300	135
Cost of inventories recognised as an expense, including	8,098	7,836
— write-off of inventories	—	18
Depreciation of property, plant and equipment	457	453
Amortisation of reinstatement cost	142	43
Gain on disposal of property, plant and equipment	—	(71)
Operating lease charges in respect of premises		
— minimum lease payments	7,705	8,013
— contingent rentals (note)	539	564
Exchange losses, net	3	37
Reversal of provision for long service payment	(247)	(215)
Listing expenses	12,666	—

Note: The contingent rentals are charged based on pre-determined percentages of realised sales less the minimum lease payments of the respective leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 9. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year.

	2018 HK\$'000	2017 HK\$'000
<b>Current tax</b>		
Hong Kong profits tax		
— Current year	1,939	2,484
— Under-provision in respect of prior years	72	21
<b>Income tax expense</b>	<b>2,011</b>	2,505

Reconciliation between income tax expense and accounting (loss)/profit at applicable tax rate:

	2018 HK\$'000	2017 HK\$'000
(Loss)/Profit before income tax	(1,164)	14,800
Tax on profit before income tax, calculated at Hong Kong profits tax rate of 16.5% (2017: 16.5%)	(192)	2,442
Tax effect of non-deductible expenses	2,110	38
Tax effect of non-taxable income	(4)	(4)
Tax effect of temporary differences not recognised	25	30
Under-provision in respect of prior years	72	21
Others	—	(22)
<b>Income tax expense</b>	<b>2,011</b>	2,505

At the reporting date, the Group did not have significant unrecognised deferred tax assets and liabilities (2017: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 10. Employee Benefit Expenses (Including Directors' Emoluments)

### 10.1 Employee benefit expenses

	2018 HK\$'000	2017 HK\$'000
Salaries, allowances and other benefits	10,828	9,190
Pension costs — defined contribution plans	434	347
Reversal of provision for long service payment	(247)	(215)
	11,015	9,322

### 10.2 Directors' emoluments

	Year ended 31 March 2018				
	Fees HK\$'000	Salaries, allowances and other benefits HK\$'000	Bonuses HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
Executive directors					
Chan Kwong Yuen	—	—	—	—	—
Chan Kun Yuen	—	—	—	—	—
Chan Shu Yuen	—	—	—	—	—
Independent non-executive directors					
Siu Chi Ming	—	—	—	—	—
Lee Wai Ho	—	—	—	—	—
Wong Chee Chung	—	—	—	—	—
	—	—	—	—	—

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 10. Employee Benefit Expenses (Including Directors' Emoluments) (Continued)

### 10.2 Directors' emoluments (Continued)

	Year ended 31 March 2017				
	Fees HK\$'000	Salaries, allowances and other benefits HK\$'000	Bonuses HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
Executive directors					
Chan Kwong Yuen	—	—	—	—	—
Chan Kun Yuen	—	—	—	—	—
Chan Shu Yuen	—	—	—	—	—
Independent non-executive directors					
Siu Chi Ming	—	—	—	—	—
Lee Wai Ho	—	—	—	—	—
Wong Chee Chung	—	—	—	—	—
	—	—	—	—	—

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.
- (iii) Siu Chi Ming, Lee Wai Ho and Wong Chee Chung were appointed as independent non-executive directors of the Company on 14 March 2018.

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 year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 10. Employee Benefit Expenses (Including Directors' Emoluments) (Continued)

### 10.3 Five highest paid individuals' emoluments

The five individuals whose emoluments were the highest in the Group for the year do not include the directors during the year ended 31 March 2018, whose emoluments are disclosed in note 10.2. The aggregate of the emoluments payable to the five (2017: five) individuals are as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries, allowances and other benefits	2,116	1,518
Bonuses	144	164
Retirement scheme contributions	77	73
	<b>2,337</b>	1,755

The above individuals' emoluments are within the following bands:

	2018	2017
Nil to HK\$1,000,000	5	5

During the years ended 31 March 2017 and 2018, 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 directors or five highest paid individuals has waived or agreed to waive any emoluments during the year ended 31 March 2017 and 2018.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 11. Dividends

An interim dividend of HK\$20 million declared and paid by a subsidiary now comprising the Group to its then shareholders for the year ended 31 March 2017. During the year, an interim dividend of HK\$2 million declared and paid by the Company was as follows:

	2018 HK\$'000	2017 HK\$'000
Interim dividend	2,000	20,000

## 12. (Loss)/Earnings Per Share

The basic (loss)/earnings per share is calculated based on the (loss)/profit attributable to equity holders of the Company and 270,000,000 ordinary shares for the years ended 31 March 2017 and 2018, which have been adjusted retrospectively on the assumption that the Reorganisation and bonus issue (note 19) had been effective on 1 April 2016.

	2018 HK\$'000	2017 HK\$'000
(Loss)/Profit for the year attributable to equity holders of the Company for the purposes of basic (loss)/earnings per share	(3,175)	12,295

There were no dilutive potential ordinary shares during both years and therefore, diluted (loss)/earnings per share equals to basic (loss)/earnings per share.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 13. Property, Plant and Equipment

	Machinery and equipment HK\$'000	Leasehold improvement and furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>At 1 April 2016</b>				
Cost	1,152	6,446	799	8,397
Accumulated depreciation	(686)	(4,690)	(725)	(6,101)
<b>Net book amount</b>	<b>466</b>	<b>1,756</b>	<b>74</b>	<b>2,296</b>
<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)
<b>Closing net book amount</b>	<b>410</b>	<b>1,405</b>	<b>—</b>	<b>1,815</b>
<b>At 31 March 2017</b>				
Cost	1,197	6,490	—	7,687
Accumulated depreciation and amortisation	(787)	(5,085)	—	(5,872)
<b>Net book amount</b>	<b>410</b>	<b>1,405</b>	<b>—</b>	<b>1,815</b>
<b>Year ended 31 March 2018</b>				
Opening net book amount	410	1,405	—	1,815
Additions	128	1,290	—	1,418
Depreciation/Amortisation	(105)	(494)	—	(599)
<b>Closing net book amount</b>	<b>433</b>	<b>2,201</b>	<b>—</b>	<b>2,634</b>
<b>At 31 March 2018</b>				
Cost	1,325	7,780	—	9,105
Accumulated depreciation and amortisation	(892)	(5,579)	—	(6,471)
<b>Net book amount</b>	<b>433</b>	<b>2,201</b>	<b>—</b>	<b>2,634</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 14. Inventories

	2018 HK\$'000	2017 HK\$'000
Tea leaves	3,030	3,346
Canned/Packed tea products for sale	1,950	2,290
Tea wares	475	523
Packaging materials	868	823
	<b>6,323</b>	<b>6,982</b>

## 15. Trade and Other Receivables

	2018 HK\$'000	2017 HK\$'000
<b>Trade receivables</b>	<b>631</b>	475
<b>Deposits, prepayments and other receivables</b>		
Rental and other deposits	1,123	959
Prepayments	88	—
Prepaid listing expenses	3,303	—
Royalty income receivable	—	114
	<b>4,514</b>	1,073
	<b>5,145</b>	1,548

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:

	2018 HK\$'000	2017 HK\$'000
0 – 30 days	523	416
31 – 60 days	76	48
61 – 90 days	32	11
	<b>631</b>	475

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 15. Trade and Other Receivables (Continued)

At each reporting date, the Group reviews receivables for evidence of impairment on both an individual and collective basis. As at 31 March 2018 and 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 as at the reporting date but not impaired, based on due date was as follows:

	2018 HK\$'000	2017 HK\$'000
Neither past due nor impaired	549	430
1 – 30 days past due	57	45
31 – 60 days past due	25	—
	<b>631</b>	475

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.

## 16. Time Deposits

As at reporting date, the time deposits earn interest at 3.85% (2017: 4.40%) per annum and have maturity period of twelve months (2017: twelve months).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 17. Trade and Other Payables

	2018 HK\$'000	2017 HK\$'000
Trade payables	444	337
Accrued charges and other payables	4,439	489
	<b>4,883</b>	826

Listing expenses payables amounting to HK\$3,983,000 were included in the accrued charges and other payables as at 31 March 2018.

Purchases are generally made without prescribed credit terms. Based on the invoice dates, the ageing analysis of trade payables was as follows:

	2018 HK\$'000	2017 HK\$'000
0 – 30 days	444	337

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.

## 18. Bank Borrowings

	2018 HK\$'000	2017 HK\$'000
Unsecured bank loans repayable within one year and contain a repayable on demand clause	10,000	5,000

The bank loans bear interest at variable rates of 2.30% to 3.13% (2017: 2.73% to 3.25%) per annum. 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 Limited, an entity controlled by the Controlling Shareholders.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 19. Share Capital

	Number of shares	Share capital HK\$'000
<b>Issued and fully paid:</b>		
At 1 April 2016, 31 March 2017 and 1 April 2017	—	—
Upon incorporation	10,000	10
<b>At 31 March 2018</b>	<b>10,000</b>	<b>10</b>

For the purpose of the presentation of these consolidated financial statements, the paid-up capital of the Group at 1 April 2016 and 31 March 2017 represented the paid-up capital of Ying Kee Tea Company Limited ("Ying Kee") with 10,000 shares totalling HK\$1,000,000 existed at those dates and have not been eliminated prior to the completion of the Reorganisation.

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.

The share capital of the Group as at 31 March 2018 represented the share capital of the Company.

Pursuant to the written resolutions of the shareholders passed on 14 March 2018, the directors were authorised to allot and issue a total of 269,990,000 shares credited as fully paid to Profit Ocean ("Bonus Issue"). The Bonus Issue was completed on 13 April 2018. The shares allotted and issued rank pari passu in all respects with the then existing issued shares. Immediately thereafter, 90,000,000 shares credited as fully paid were allotted and issued to public shareholders in relation to the public offer ("Share Offer"). The shares allotted and issued rank pari passu in all respects with the then existing issued shares.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 20. CAPITAL RESERVE

Capital reserve as at 31 March 2018 represented the excess of nominal value of shares of Ying Kee over the nominal value of shares allotted by the Company arising from Reorganisation.

## 21. Operating Lease Commitments

At the reporting date, the total future minimum lease payments payable by the Group under non-cancellable operating leases were as follows:

	2018 HK\$'000	2017 HK\$'000
Within one year	2,365	669
In the second to fifth years inclusive	2,237	—
	<b>4,602</b>	669

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 payments as agreed of the respective leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 22. Related Party Transactions

In addition to those disclosed elsewhere in these consolidated financial statements, the Group entered into the following material related party transactions during the year:

### 22.1 Names and relationship

Name of related party	Relationship with the Group
Chan Shu Yuen	Director of the Company and one of the Controlling Shareholders
Chan Kwong Yuen	Director of the Company and one of the Controlling Shareholders
Chan Kun Yuen	Director of the Company and 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 International Holdings Limited ("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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 22. Related Party Transactions (Continued)

### 22.2 Related party transactions

	2018 HK\$'000	2017 HK\$'000
<b>Rental expenses, management fee and rates paid:</b>		
Chan Sing Hoi Enterprises	2,088	2,088
Golden Ocean	3,024	3,024
<b>Purchases of goods on behalf of the Group:</b>		
Golden Ocean	250	506
<b>Sales of goods:</b>		
Chan Sing Hoi Enterprises	—	150
Golden Ocean	—	39
Chan Kun Yuen	69	—
Chan Kwong Yuen	2	—

Rental expenses paid to related parties were negotiated on an arm's length basis with reference to the market rentals.

Purchases 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 the reporting date, the Controlling Shareholders and Chan Sing Hoi Enterprises had given personal and corporate guarantees to the banks for banking facilities granted to the Group for an amount up to HK\$21,000,000 (2017: HK\$10,000,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 22. Related Party Transactions (Continued)

### 22.3 Balances with related parties

	2018 HK\$'000	2017 HK\$'000
<b>Amounts due from:</b>		
Chan Shu Yuen	—	592
Chan Kwong Yuen	—	1,492
Chan Sing Hoi Enterprises	—	988
Golden Ocean	—	1,209
	—	4,281
<b>Amounts due to:</b>		
Chan Tat Yuen	—	2,584
Chan Kun Yuen	—	115
	—	2,699

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 the related parties as at 31 March 2018 have been fully settled in February 2018.

The maximum amounts outstanding of the amounts due from related parties during the year were as follows:

	2018 HK\$'000	2017 HK\$'000
Chan Shu Yuen	592	5,543
Chan Kwong Yuen	1,492	6,443
Chan Sing Hoi Enterprises	1,254	988
Golden Ocean	1,423	1,209



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 22. Related Party Transactions (Continued)

### 22.4 Key management personnel remunerations

Key management personnel remunerations in the Group during the year were as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries, allowances and other benefits	2,381	1,518
Bonuses	164	164
Retirement scheme contributions	91	73
	<b>2,636</b>	<b>1,755</b>

## 23. Notes to the Consolidated Statement of Cash Flows

### (a) Reconciliation of liabilities arising from financing activities

	As at 1 April 2017 HK\$'000	Cash flows HK\$'000	Non-cash changes HK\$'000	As at 31 March 2018 HK\$'000
Amounts due to related parties	2,699	(2,699)	—	—
Bank borrowings	5,000	5,000	—	10,000
Total liabilities from financing activities	7,699	2,301	—	10,000

### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 24. 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.

### 24.1 Categories of financial assets and financial liabilities

	2018 HK\$'000	2017 HK\$'000
<b>Financial Assets</b>		
<i>Loans and receivables</i>		
— Trade and other receivables	1,754	1,548
— Amounts due from related parties	—	4,281
— Time deposits	639	614
— Cash and bank balances	2,894	2,136
	<b>5,287</b>	8,579
<b>Financial Liabilities</b>		
<i>Financial liabilities measured at amortised cost</i>		
— Trade and other payables	4,883	826
— Amounts due to related parties	—	2,699
— Bank borrowings	10,000	5,000
	<b>14,883</b>	8,525

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 24. Financial Risk Management (Continued)

### 24.2 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, were as follows:

	2018 RMB HK\$'000	2017 RMB HK\$'000
Time deposits	639	614
Cash and bank balances	11	12
	650	626

The following table illustrates the sensitivity of the Group's loss after income tax for the year and equity as at the reporting date 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	Increase in loss/Decrease in profit for the year HK\$'000	Decrease in equity HK\$'000
As at 31 March 2018	11%	60	60
As at 31 March 2017	6%	38	38

The same percentage depreciation in the Group's functional currency against RMB would have the same magnitude on the Group's loss after income tax for the year and equity as at reporting date but of opposite effect.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 24. Financial Risk Management (Continued)

### 24.3 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 loss after income tax for the year and equity as at reporting date to a possible change in interest rates.

	Increase in loss/Decrease in profit for the year HK\$'000	Decrease in equity HK\$'000
<b>As at 31 March 2018</b>		
Increase by 50 basis points	42	42
<b>As at 31 March 2017</b>		
Increase by 50 basis points	21	21

A decrease in 50 basis points in interest rate would have the same magnitude on the Group's loss after income tax for the year and equity as at reporting date 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 month period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 24. Financial Risk Management (Continued)

### 24.4 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 24.1.

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 2018, 22% (2017: 33%) was due from the largest debtor and 71% (2017: 91%) was due from the five largest debtors of the Group. The Group does not hold any collateral from its debtors.

### 24.5 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.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 24. Financial Risk Management (Continued)

### 24.5 Liquidity risk (Continued)

Analysed below is the Group's remaining contractual maturities for its financial liabilities at the reporting date. 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.

	Within 1 year or on demand HK\$'000	Total undiscounted amount HK\$'000	Carrying amount HK\$'000
<b>As at 31 March 2018</b>			
Trade and other payables	4,883	4,883	4,883
Bank borrowings (note)	10,000	10,000	10,000
	<b>14,883</b>	<b>14,883</b>	<b>14,883</b>
<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 (note)	5,000	5,000	5,000
	8,525	8,525	8,525

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 24. Financial Risk Management (Continued)

### 24.5 Liquidity risk (Continued)

Taking into account the Group's financial position, the directors of the Group 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:

	Aggregate principal and interest cash outflows			Carrying amount HK\$'000
	Loans without scheduled repayment dates but contain a repayment on demand clause (note)	Within 1 year	Total	
	HK\$'000	HK\$'000	HK\$'000	
<b>As at 31 March 2018</b>	<b>10,000</b>	<b>—</b>	<b>10,000</b>	<b>10,000</b>
As at 31 March 2017	5,000	—	5,000	5,000

Note: The bank loans as at 31 March 2017 and 31 March 2018 did not have any scheduled repayment dates but contain a repayment on demand clause. The above analysis disclosed the undiscounted amounts which approximate their carrying amounts.

## 25. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 25. Capital Management (Continued)

The net debt to equity ratio at the reporting date was:

	2018 HK\$'000	2017 HK\$'000
Bank borrowings	10,000	5,000
Cash and bank balances	(2,894)	(2,136)
Time deposits	(639)	(614)
<b>Net debt</b>	<b>6,467</b>	<b>2,250</b>
<b>Total equity</b>	<b>2,115</b>	<b>7,290</b>
<b>Net debt to equity ratio</b>	<b>306%</b>	<b>31%</b>

## 26. Statement of Financial Position of the Company

	2018 HK\$'000
<b>ASSETS AND LIABILITIES</b>	
<b>Non-current asset</b>	
Interest in a subsidiary	10
<b>Current assets</b>	
Prepaid listing expenses	3,303
Amount due from a subsidiary	1,092
Cash and bank balances	72
	<b>4,467</b>
<b>Current liability</b>	
Other payables	3,983
<b>Net current assets</b>	<b>484</b>
<b>Net assets</b>	<b>494</b>
<b>EQUITY</b>	
Share capital	10
Reserve (note)	484
<b>Total equity</b>	<b>494</b>

Chan Kun Yuen  
Director

Chan Shu Yuen  
Director

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 26. Statement of Financial Position of the Company (Continued)

Note: The movements of the reserve of the Company were as follows:

	Retained earnings HK\$'000
Transaction with equity holders of the Company	
Interim dividend paid	(2,000)
Profit for the period and total comprehensive income for the period	2,484
<b>As at 31 March 2018</b>	<b>484</b>

## 27. Interest in a Subsidiary

Details of the Company's subsidiary as at 31 March 2018 was as follows:

Company name	Place of incorporation	Issued and paid up capital	Percentage of effective equity interest of the Company	Principal activity
Ying Kee	Hong Kong	HK\$1,000,000	100%	Retail trading of tea products

## 28. Subsequent Events

On 16 April 2018, the Company's shares are listed on the GEM of the Stock Exchange. Details of the Share Offer and the Bonus Issue are disclosed in the prospectus date 23 March 2018.

# FINANCIAL SUMMARY

## Results

	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	45,399	44,540	42,781
Cost of sales	(9,320)	(8,991)	(8,771)
Gross profit	36,079	35,549	34,010
Other income	32	207	178
Selling and distribution costs	(3,136)	(2,584)	(2,597)
Administrative expenses	(33,857)	(18,197)	(21,763)
Finance costs	(282)	(175)	(257)
(Loss)/Profit before income tax	(1,164)	14,800	9,571
Income tax expense	(2,011)	(2,505)	(1,682)
(Loss)/Profit for the year and total comprehensive (expense)/ income for the year	(3,175)	12,295	7,889
(Loss)/Earnings per share attributable to equity holders of the Company (expressed in HK cents per share)	(1.18)	4.55	2.92

## Assets and Liabilities

	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Total consolidated assets	18,203	17,376	19,544
Total consolidated liabilities	(16,088)	(10,086)	(4,549)
Net assets	2,115	7,290	14,995
Equity attributable to equity holders of the Company	2,115	7,290	14,995



# FINANCIAL SUMMARY

## Financial Review

	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
<b>OPERATING RESULTS</b>			
Revenue	45,399	44,540	42,781
Operating (loss)/profit (EBIT)	(882)	14,975	9,828
(Loss)/Profit attributable to equity holders of the Company	(3,175)	12,295	7,889
<b>KEY STATISTICS</b>			
Equity attributable to equity holders of the Company	2,115	7,290	14,995
Working capital	686	6,241	13,637
Cash position*	3,533	2,750	1,810
Bank loans	10,000	5,000	1,271
Trade and other receivable	5,145	1,548	2,114
Inventories	6,323	6,982	7,060
Capital expenditure**	1,418	89	253
Depreciation and amortisation	599	496	613
<b>KEY RATIOS</b>			
Return on equity holders of the Company (ROE) (%)	(150%)	169%	53%
Return on total assets (ROA) (%)	(17%)	71%	40%
Debt to equity***	473%	69%	8%
Current ratio (times)	1.05	1.70	4.78
Trade receivable turnover period (days)	4	5	5
Inventories turnover period (days)****	261	285	266
Gross margin (%)	79%	80%	79%
Earnings before interest, taxation, depreciation and amortization (EBITDA) margin (%)	(1%)	35%	24%
Earnings before interest and taxation (EBIT) margin (%)	(2%)	34%	23%
Profits margin (%)	(7%)	28%	18%

\* Cash position refers to bank balances and cash and structured bank deposits

\*\* Capital expenditure represented the additions to property, plant and equipment

\*\*\* Calculation based on bank loans/equity attributable to equity holders of the Company at year end

\*\*\*\* Calculation based on average inventory/cost of sales