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OVERVIEW

We are a retailer of a wide range of premium wine and spirits products and a personalised wine services provider in Hong Kong. We have approximately five years of operating experience in the sale of (i) wine and spirits products such as Fine Red Wine, Rare and Collectible Red Wine, Value Red Wine, Fine White Wine, Value White Wine, sparkling wine and spirits as well as (ii) wine accessory products such as decanters, wine glasses, wine cellars, wine openers, wine books and other wine related products, and (iii) other products such as cigars and other cigars related products in Hong Kong. As part of our after-sales customer services, we also provide complimentary wine appreciation consultation services and wine storage consultation services to our customers.

Our wine and spirits products portfolio spans approximately 30 vintages, from over 15 countries of origin, including wine and spirits products across different Apellations of France, namely, Margaux, Pessac Leognan, St. Julien, Pauillac, St. Estephe, St. Emilion, Pomerol, Sauternes, Burgundy, Champagne, Alsace, Loire Valley, Cognac, etc., and the United States, Australia, Italy, Spain, Germany, New Zealand, Chile, Argentina, Hungary, South Africa, Canada and the United Kingdom. Out of our wine and spirits products, red wine has been the largest product type sold by us, representing approximately 96.6%, 94.7% and 93.3% of our total revenue for the years ended 31 March 2012 and 31 March 2013 and the five months ended 31 August 2013, respectively.

We differentiate our customers by reference to end-consumers. We classify end-consumers who purchase our wine and spirits products for personal consumption as our retail customers and third party retailers who will re-sell our wine and spirits products in the course of their businesses as our wholesale customers. Similarly, all sales to our retail customers are retail sales and all sales to our wholesale customers are wholesales. We have a solid and broad client base comprising retail customers such as individual wine collectors and business corporations, and wholesale customers such as restaurants, hotels and private clubs. Our relationships with our customers place us in a favourable position to enjoy a level of recurring business. Our ability to maintain such relationships with our customers and suppliers is mainly attributable to our integrity and professionalism in customer services.

As at the Latest Practicable Date, we operated (i) one retail showroom, which serves as our retail store for walk-in customers and our showroom where we display some of our most prestigious wine and spirits products, and (ii) one office premises in Hong Kong, which serves as our headquarters to oversee our overall business operations, and handles all of our administrative matters, including liaisons with regards customers purchase orders and signing of purchase contracts that are not executed at our retail showroom. We had conducted both retail sales and wholesales at our retail showroom and our office premises.

For the years ended 31 March 2012 and 31 March 2013 and the five months ended 31 August 2013, our total revenue was approximately HK\$333.4 million, HK\$266.8 million and HK\$117.3 million, respectively, and our profit and total comprehensive income was approximately HK\$7.4 million, HK\$23.5 million and HK\$2.6 million, respectively, for the same periods indicated.

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OUR COMPETITIVE STRENGTHS

We believe our success is attributed to, among other things, the following competitive strengths:

We provide one-stop services for a vast array of wine and spirits related products.

Our retail showroom serves as a one-stop shop for our customers and a showroom of our comprehensive collection of wine and spirits products, offering a wide range of wine and spirits products as well as wine accessory products such as decanters, wine glasses, wine cellars, wine openers, wine books, other wine related products, and other products such as cigars and other cigars related products. We also provide complimentary wine appreciation consultation services and wine consultation services, which are offered by our wine consultants to our customers as part of our after-sales customer services. We believe our diversified products portfolio offers our customers the convenience of one-stop shop and related customer services, while broadening our marketing reach in the wine and spirits market in Hong Kong in different dimensions and offering us opportunities to gather market updates from various perspectives, altogether equipping us with the knowledge and flexibility to react to the changing needs of our customers quickly and effectively.

We have a strong management team with a proven track record and a multi-functional sales team comprising 14 wine consultants.

We are under the management of our experienced and dedicated management team who has operational expertise and in-depth understanding in the wine and spirits industry in Hong Kong. Each of our executive Directors, Mr. Cheung and Mr. Leung, possesses six years and nine years of management experience, respectively, and five years and five years of experience in the wine and spirits industry in Hong Kong, respectively.

Our multi-functional sales team consists of 14 wine consultants, most of whom possess in-depth industry knowledge and wine and spirits products knowledge including but not limited to our Fine Red Wine, Rare and Collectible Red Wine and Fine White Wine, and other aspects of the wine and spirits industry. We believe the extensive management and industry experience of Mr. Cheung and Mr. Leung, coupled with our sales team’s in-depth product and industry knowledge, business network and strong management capabilities, are vital to the continued growth and future development of our business.

We have well-established and stable relationships with our major suppliers forming our extensive supply network.

We have well-established and stable business relationships with our suppliers of wine and spirits products, which create an extensive supply network enabling us to source certain wine and spirits products that are rare or otherwise not widely available in the open market and certain wine and spirits products that are highly sought after. In view of our well-established relationships with our suppliers and our extensive supply network, we have not entered into any long-term supply agreements with any of our suppliers, which would typically include minimum purchase requirements and other restrictive

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terms of supply and thereby restrict our flexibility in sourcing wine and spirits products. We therefore retain our flexibility in sourcing our products, which enables us to select our suppliers on a case-by-case basis based on their respective reputation and industry recognition for product quality, supply reliability, and market demand of the wine and spirits products.

We sell a broad variety of brands of wine and spirits products targeting at different customers.

We believe our comprehensive collection of wine and spirits products, which consists of red wine, white wine, sparkling wine and spirits, is well equipped to satisfy the diverse demands of our customers in the fast-growing wine and spirits industry in Hong Kong. Our red wine portfolio consists of approximately 6,000 types of Fine Red Wine, Rare and Collectible Red Wine and Value Red Wine, which spans across approximately 30 vintages and includes selected old vintages such as Latour 1899. We sell red wine from various countries of origin, including France, the United States, Italy and Spain, Chile, and across various Appellations, including Margaux and Pessac Leognan of France. We source red wine of various classifications including Premier cru and Grand cru and of different volumes ranging from 375 *ml.* to 27 *l.*. Our white wine portfolio consists of approximately 600 types of Fine White Wine and Value White Wine, which spans across approximately 30 vintages and includes selected old vintages such as Leroy Montrachet Blanc 1966. We sell white wine from various countries of origin, including France, the United States, Australia and Italy. We source white wine of various classifications including Premier cru and Grand cru and of different volume ranging from 375 *ml.* to 6 *l.*.

Apart from Fine Red Wine and Rare and Collectible Red Wine, which are the main products we sell, we also offer wine and spirits products with retail prices below HK\$800 for a regular 750 *ml.* bottle. We believe that our strategy to offer wine and spirits products of a wide selling price range will broaden our collection of wine and spirits products available to our customers, thereby allowing us to capture additional market share.

We have an established presence in the fast-growing wine and spirits industry in Hong Kong, and we have maintained a broad and loyal customer base.

Through the quality and the diversity of our wine and spirits products and the after-sales customer services we provide, we have developed a corporate image in the wine and spirits industry in Hong Kong. We have utilised our established presence in the wine and spirits industry in Hong Kong in marketing our wine and spirits products to our new and existing customers. Over the years through sustained course of dealings, we have built stable and recurring business relationships with our customers, thereby forming our solid and broad customer base comprising individual wine collectors, retail consumers, restaurants, hotels, private clubs, business corporations and wine traders. We believe our solid and broad customer base is mainly attributable to our experienced and knowledgeable sales team offering personalised wine and spirits products to each individual customer which matches each of their respective preferences, needs and requirements.

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OUR BUSINESS STRATEGIES

We intend to continue our business diversification and strive to obtain a leading position in the wine and spirits industry in Hong Kong. We intend to achieve these goals by pursuing the following business strategies:

We plan to expand our existing supply arrangements and diversify our existing wine products portfolio with the objectives of broadening our existing customer base and our existing market share and position in the wine and spirits industry in Hong Kong.

We plan to expand our existing supply arrangements by entering into new supply agreements, with new wineries and vineyards from across the world, including countries where we have not sourced wine previously. With our expanded supply arrangements, we aim to provide a broader range of wine products, including certain wine products with limited authorised distributors in Hong Kong, in addition to the existing products and vineyards to cater a wider range of customer tastes and preferences, thus enabling us to capture an even wider range of customers. With our supply arrangements, we are authorised by Domaine de Bellene and Amuse Bouche Winery to sell certain wine products of Domaine de Bellene and Amuse Bouche Winery in Hong Kong. As at the Latest Practicable Date, we were one of the two authorised sellers of Domaine de Bellene in Hong Kong authorised to sell certain wine products of Domaine de Bellene in Hong Kong. As such, we gain a competitive advantage over our competitors who are not authorised by Domaine de Bellene to sell the wine products of Domaine de Bellene in Hong Kong. However, we do not place heavy reliance on our supply arrangements in compiling our wine products portfolio as internal sourcing remains to be our key sourcing means. We believe expansion of the existing supply arrangements will further diversify our wine products portfolio and differentiate our Group from our competitors. We will continue to adopt internal sourcing as our key sourcing means and the proposed expansion of supply arrangements will not change our existing business model. In addition, we plan to expand our existing collection of Fine Red Wine and Rare and Collectible Red Wine by increasing our vintage spectrum from the existing 30 vintages to 50 vintages and by increasing our levels of stock inventories. We believe the expanded products portfolio will give us a competitive advantage to expand our market reach to a wider range of customers by addressing a wider range of customer tastes and preferences, thereby strengthening our existing market share and position in the wine and spirits industry in Hong Kong.

Furthermore, we plan to expand our market reach by expanding our wine and spirits products portfolio, in particular, by expanding our Value Red Wine and Value White Wine portfolio, with an aim to capture the vast and growing mass market demand for value wine and spirits products.

Please also refer to the section headed “Statement of Business Objectives and [REDACTED]”.

We will continue to enhance consumer awareness of our wine and spirits products and promote our corporate image, recognition and brand reputation.

We believe that our corporate image and brand recognition are fundamental to our continued success and we intend to foster our corporate image, recognition and brand reputation and enhance consumer awareness of our wine and spirits products by increasing advertising, marketing and other

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promotional activities. We had implemented various publicity campaigns such as advertising in magazines, organising wine tasting events, participating in wine and spirits fairs and other promotional activities. We will continue to strategically conduct advertising, marketing and promotional activities to boost sales of our products, as well as our own corporate image. We will also continue to organise other public relations activities such as wine tasting gatherings with a view to creating a community for wine appreciation among our customers and us, and hence strengthening our existing relationships with our customers. We plan to continue to participate in wine and spirits industry trade shows such as the Hong Kong International Wine & Spirits Fair to further promote our corporate image and brand as well as to increase awareness and recognition of our wine and spirits products in the wine and spirits industry in Hong Kong, thereby attracting new customers and expanding our customer base.

We will continue to develop and enhance our customer communication and interaction, strengthening our sale of wine and spirits products in Hong Kong, and thereby maintaining our market position in the wine and spirits industry in Hong Kong.

We believe it is crucial to our continued growth and development to maintain and strengthen our market position in the wine and spirits industry in Hong Kong by broadening our customer base through attracting new customers and retaining existing customers as wine appreciation and the wine culture in Hong Kong are becoming increasingly popular. We plan to open an additional one-stop retail showroom in Hong Kong as an additional integrated platform for a more effective and direct exchange of communication and interaction between our customers and us.

Throughout our course of dealings in the past years, we have established our customer base and recurring customers who visit our retail showroom. To further expand the size of our operations, we have decided to expand our point of sales thereby attracting more new customers as well as increasing public awareness of our Company. In relation to the proposed expansion of a new point of sale, we plan to open a new retail showroom of a gross floor area of approximately 1,000 sq. m, which will be situated on the street level within prime shopping areas or near luxury hotels in Causeway Bay or Tsim Sha Tsui. Taking into account our previous experience with the retail showrooms in Yuen Long and Central, our Directors are of the view that the location of the new retail showroom should be located in a prime shopping area and on the street level as accessibility and influx of passersby are crucial to attracting new customers. It is currently contemplated that the new retail showroom will be operated and managed by two to three employees. It is currently expected that a new lease will be entered into on or before 31 March 2014. We expect to incur a total capital expenditure of HK\$500,000 for the renovation and monthly working capital requirements of approximately HK\$150,000 to HK\$300,000, covering our costs of operations of our new retail showroom including monthly rental payments. Based on the estimated total capital expenditure and working capital requirements, we anticipate that the estimated investment payback period will be approximately six months. As at the Latest Practicable Date, no lease agreement had been entered into in respect of the new retail showroom.

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

We believe that providing customers with comprehensive products and proactive services is the key to differentiate ourselves from our competitors in the wine and spirits industry in Hong Kong. In

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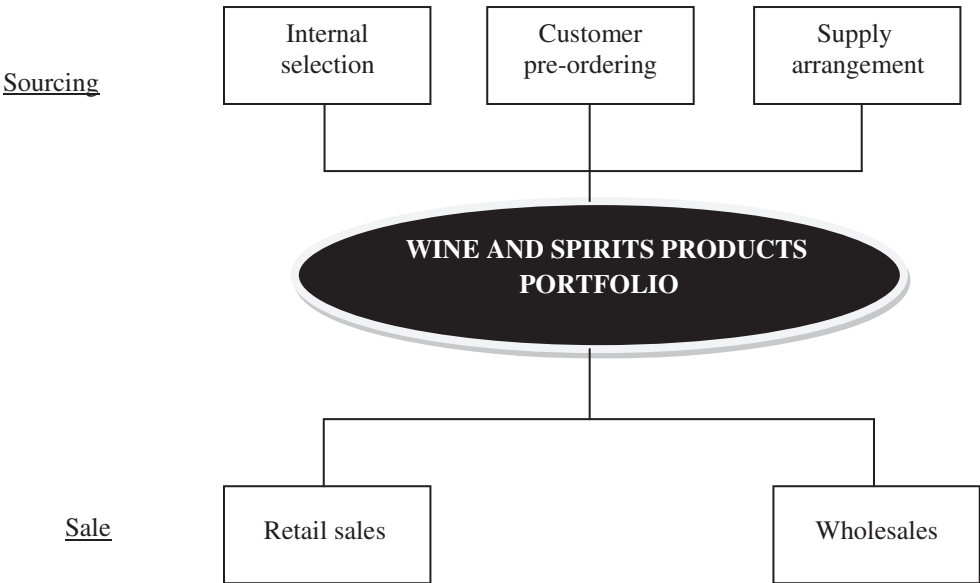
addition to our wine and spirits products, we will continue to offer one-stop services to our customers by offering wine and spirits related products, such as wine accessory products including decanters, wine glasses, wine cellars, wine openers, wine books, cigars and other cigar related products and provision of after-sales customer services including complimentary wine appreciation consultation and wine storage advisory and consultation services. To further amplify our one-stop services and enhance our customers’ shopping experience with us, we intend to expand and explore additional wine and spirits products and services to supplement our current wine and spirits products portfolio.

We will retain, develop and attract high-quality talents.

We focus on management quality, product and industry knowledge and personalised sales as key elements of our growth strategy and will remain committed to the training and development of our experienced and dedicated team at all levels to achieve this end. We also plan to further expand our team through the recruitment, training and retention of qualified, skilled and experienced personnel in all aspects to assist our expansion and growth plans. Furthermore, in order to enhance our current sale capabilities and network, we plan to recruit additional wine consultants to strengthen our sales team and we intend to attract additional sales and marketing talents by offering competitive compensation packages including bonus programs, performance incentives, share options and education and training allowances.

OUR BUSINESS MODEL

Our business focuses on the sale of a wide range of premium wine and spirits products and the provision of personalised wine services in Hong Kong. Predominantly, we operate on a business model consisting of sourcing and sale, whereby our wine and spirits products portfolio plays a central and critical role. In establishing our wine and spirits portfolio, we have utilised various means in sourcing our wine and spirits products, which then become available for sale to our retail and wholesale customers via our retail showroom and office premises.



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Sourcing

Sourcing is the process whereby we compile our wine and spirits products portfolio, which is conducted by means of internal selection, customer pre-ordering and supply arrangements. Wine and spirits products sourced from our internal selection is our primary means to compile our wine and spirits portfolio and presents the wine and spirits products that meets our target customers’ preferences, our customer pre-ordering sourcing method is a personalised service aiming to source the specific wine and spirits products to meet certain customers’ specific requests and our supply arrangements enables us to pre-determine the purchase prices and logistics arrangements of certain wine products. Wine and spirits products sourced under our internal selection and our supply arrangements are available for sale to all of our customers, including our retail customers and our wholesale customers, while wine and spirits products sourced under customer pre-ordering are order-by-order and are available to the designated customer only.

Internal selection

Internal selection includes (i) a selection process, whereby our sales team will identify selected wine and spirits products to be included in our wine and spirits products portfolio, and (ii) a purchasing process, whereby our purchasing team will source the selected wine and spirits products from our selected list of suppliers. See “— Our suppliers — Product sourcing — Internal selection” for further details.

Customer pre-ordering

Customer pre-ordering is the process whereby our customers approach us with a specific purchase order setting out the specifications of wine and spirits products, which may include wine and spirits products that are not contained in our wine and spirits portfolio. Thereafter, our purchasing team will source the specific wine and spirits products from our selected list of suppliers. See “— Our suppliers — Product sourcing — Customer pre-ordering” for further details.

Supply arrangement

To distinguish us from our competitors in the wine and spirits industry, we have entered into four supply agreements with two vineyards, whereby we have been authorised to sell in Hong Kong, non-exclusively, certain wine products of Domaine de Bellene and Amuse Bouche Winery. As at the Latest Practicable Date, we are one of the two authorised sellers of Domaine de Bellene in Hong Kong authorised to sell certain wine products of Domaine de Bellene in Hong Kong. See “— Our suppliers — Product sourcing — Supply arrangement” for the major terms of the supply agreements.

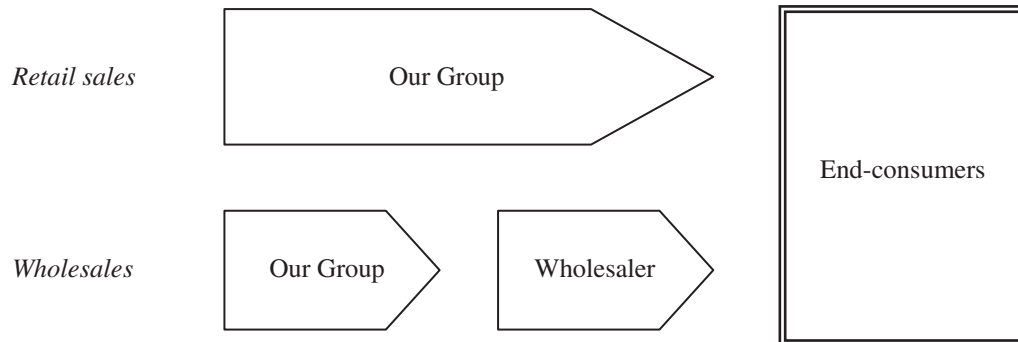
Sale

We classify sales to our retail customers, being the end-consumers, as retail sales, and sales to our wholesale customers, being third party retailers who will re-sell our products in the course of their businesses, as wholesales. Our primary retail customers comprise individual wine collectors, retail consumers and business corporations and our primary wholesale customers comprise wine cellars and wine traders, or catering businesses, such as hotels, restaurants and private clubs. See “— Our

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Customers” below. All of our wine and spirits products are offered for retail sales and wholesales at our retail showroom and office premises at retail prices to our retail customers, subject to applicable discounts, and at wholesale prices to our wholesale customers. Both retail prices and wholesale prices which are determined on a cost-plus basis.

The table below illustrates the flow of our wine and spirits products from our Company to the end-consumers under our business model:



The table below sets forth the approximate revenue attributable to our retail sales and wholesales during the Track Record Period:

	Year ended 31 March		Five months ended 31 August	
	2012	2013	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(unaudited)</i>			
Retail sales	297,242	248,204	103,254	109,358
Wholesales	<u>36,125</u>	<u>18,629</u>	<u>4,841</u>	<u>7,948</u>
Total	<u><u>333,367</u></u>	<u><u>266,833</u></u>	<u><u>108,095</u></u>	<u><u>117,306</u></u>

OUR PRODUCTS PORTFOLIO

We believe that provision of a comprehensive one-stop shopping experience to our customers is vital in distinguishing us from our competitors in the wine and spirits industry in Hong Kong. Building on our one-stop shop concept, we offer a full range of wine and spirits products as well as wine accessory products and other products. Furthermore, in order to enhance our customers’ overall shopping experience, we also provide complimentary wine appreciation consultation services and wine storage consultation services as part of our after-sales customer services.

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For the years ended 31 March 2012 and 31 March 2013 and the five months ended 31 August 2013, our wine and spirits products comprising red wine, white wine, sparkling wine and spirits are our main products, which accounted for approximately 99.5%, 99.7% and 99.5% of our total revenue, respectively. Our wine accessory products and other products are products ancillary to our wine and spirits products and are primarily offered to enhance the one-stop shopping experience for our customers.

The table below sets out a breakdown of our revenue by product category and product range during the Track Record Period:

Product category	Product range
Wine and spirits products	<u>Red wine</u>
	<ul style="list-style-type: none">Fine Red WineRare and Collectible Red WineValue Red Wine
	<u>White wine</u>
	<ul style="list-style-type: none">Fine White WineValue White Wine
	<u>Sparkling wine</u>
	<u>Spirits</u>
Wine accessory products	<ul style="list-style-type: none">DecantersWine glassesWine cellarsWine openersWine booksOther wine related products
Other products	<ul style="list-style-type: none">CigarsOther cigars related products

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Wine and Spirits Products

Our wine and spirits products accounted for approximately 99.5%, 99.7% and 99.5% of our total revenue for the years ended 31 March 2012 and 31 March 2013 and the five months ended 31 August 2013, respectively, and comprise red wine, white wine, sparkling wine and spirits. We categorise our red wine into Fine Red Wine, Rare and Collectible Red Wine and Value Red Wine, which is in line with the categorisations commonly adopted in respect of red wine within the wine and spirits industry. We categorise our white wine products into Fine White Wine and Value White Wine, which is in line with the categorisations commonly adopted in respect of white wine in the wine and spirits industry. Our sparkling wine portfolio comprises mostly champagne and consists of approximately 100 types of champagne and includes selected old vintages such as Dom Perignon Oenothèque 1962. Our spirits portfolio comprises mostly cognac and whisky.

A significant proportion of our revenue are generated from the sale of red wine, which accounted for approximately 96.6%, 94.7% and 93.3% of our total revenue for the years ended 31 March 2012 and 31 March 2013 and the five months ended 31 August 2013, respectively. The table below sets forth a breakdown of our revenue among the four wine and spirits products during the Track Record Period:

Our wine and spirits products	Year ended 31 March 2012		Year ended 31 March 2013		Five months ended 31 August 2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Red wine	321,891	97.1	252,666	95.0	109,467	93.8
White wine	5,393	1.6	7,606	2.8	2,686	2.3
Sparkling wine	2,443	0.7	2,549	1.0	805	0.7
Spirits	<u>2,028</u>	<u>0.6</u>	<u>3,198</u>	<u>1.2</u>	<u>3,744</u>	<u>3.2</u>
Total	<u><u>331,755</u></u>	<u><u>100%</u></u>	<u><u>266,019</u></u>	<u><u>100%</u></u>	<u><u>116,702</u></u>	<u><u>100%</u></u>

Red Wine

Through our sustained course of dealings over the years, we have established a red wine portfolio of approximately 6,000 types of red wine, which spans across approximately 30 vintages and includes selected old vintages such as Latour 1899. We sell red wine from various countries of origin, including France, the United States, Italy, Spain, Chile and Argentina, and across various Appellations, including Margaux and Pessac Leognan of France. We source red wine of various classifications including Premier cru and Grand cru and of different volumes ranging from 375 ml. to 27 l.. The retail prices of our red wine range from approximately HK\$50 to HK\$388,000 for a regular 750 ml. bottle.

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Our red wine portfolio can be categorised into three categories, namely Fine Red Wine, Rare and Collectible Red Wine and Value Red Wine. The table below sets out a breakdown of our revenue among Fine Red Wine, Rare and Collectible Red Wine and Value Red Wine during the Track Record Period:

Red wine	Year ended 31 March 2012		Year ended 31 March 2013		Five months ended 31 August 2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Fine Red Wine	220,332	68.4	161,676	64.0	90,954	83.1
Rare and Collectible Red Wine	88,187	27.4	75,627	29.9	13,845	12.6
Value Red Wine	<u>13,372</u>	<u>4.2</u>	<u>15,363</u>	<u>6.1</u>	<u>4,668</u>	<u>4.3</u>
Total	<u>321,891</u>	<u>100%</u>	<u>252,666</u>	<u>100%</u>	<u>109,467</u>	<u>100%</u>

Fine Red Wine

Based on our own categorisation, Fine Red Wine refers to red wine with retail prices ranging from HK\$800 to HK\$20,000 for a regular 750 *ml.* bottle. Some common characteristics of Fine Red Wine include production by reputable vineyards, origin of France and specifically from Burgundy and Bordeaux, and a consensus among wine critics as to the quality of such red wine. The retail prices of our Fine Red Wine depend on factors such as brand, vintage and market demand. The target customers of our Fine Red Wine are primarily high-end spending class corporate and individual retail and wholesale customers, hotels, upper-scale restaurants and private clubs.

Rare and Collectible Red Wine

Based on our own categorisation, Rare and Collectible Red Wine refers to red wine with retail prices above HK\$20,000 for a regular 750 *ml.* bottle. Some common characteristics of Rare and Collectible Red Wine include rarity or otherwise not readily available in the market, limited production and typically of Premier cru or Grand cru, a proven track record of holding well over time, a long drinking-window plateau, and a consensus among wine critics as to the quality of such red wine. The retail prices of our Rare and Collectible Red Wine depend on factors such as the rarity, brand, vineyard, vintage, country and region of origin and growth. The target customers of our Rare and Collectible Red Wine are red wine collectors who are high-end spending class individual customers.

Value Red Wine

Based on our own classification, Value Red Wine refers to red wine with retail prices below HK\$800 for a regular 750 *ml.* bottle. The retail prices of our Value Red Wine depend on factors such as brand and vintage. The target customers of our Value Red Wine are primarily mid-end spending class corporate and individual retail and wholesale customers.

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White Wine

Over the years, we have established a white wine portfolio of approximately 600 types of white wine, which spans across approximately 30 vintages and includes selected old vintages such as Leroy Montrachet Blanc 1966. We sell white wine from various countries of origin, including France, the United States, Australia, Argentina, Chile, Germany, Italy, Spain and New Zealand. We source white wine of various classifications including Premier cru and Grand cru and of different volumes ranging from 375 *ml.* to 6 *l.*. The retail prices of our white wine range from approximately HK\$60 to HK\$70,000 for a regular 750 *ml.* bottle. Our white wine portfolio can be categorised into two categories, namely, Fine White Wine and Value White Wine.

Fine White Wine

Based on our own categorisation, Fine White Wine refers to white wine with retail prices above HK\$800 for a regular 750 *ml.* bottle. The retail prices of our Fine White Wine depend on factors such as brand and vintage. The target customers of our Fine White Wine are primarily high-end spending class corporate and individual retail and wholesale customers.

Value White Wine

Based on our own categorisation, Value White Wine refers to white wine with retail prices below HK\$800 for a regular 750 *ml.* bottle. The retail prices of our Value White Wine depend on factors such as brand and vintage. The target customers of our Value White Wine are mid-end spending class corporate and individual retail and wholesale customers.

Sparkling wine

Our sparkling wine portfolio comprises mostly champagne which consists of approximately 100 types of champagne and includes selected old vintages such as Dom Perignon Oenotheque 1962. Our sparkling wine products are of different volumes ranging from 375 *ml.* to 12 *l.*. The retail prices of our sparkling wine range from HK\$60 to HK\$40,000 for a regular 750 *ml.* bottle. Though we sell our sparkling wine to mid-end spending class, our primary target customers of our sparkling wine are primarily high-end spending class corporate and individual retail and wholesale customers.

Spirits

Our spirits portfolio comprises mostly cognac and whisky with retail prices ranging from approximately HK\$500 to HK\$238,000 for a regular 750 *ml.* bottle. The target customers of our spirits ranging from mid-end to high-end spending class corporate and individual retail and wholesale customers.

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Wine accessory products

Decanters, wine glasses, wine cellars, wine openers, wine books and other wine related products

Our wine accessory products are products ancillary to our wine and spirits products and are primarily offered to enhance the one-stop shopping experience for our customers. We offer decanters, wine glasses, wine cellars, wine openers and other wine related products for the convenience of our customers as such products promote the better enjoyment of wine and spirits products, while we offer wine books for educational purposes to further promote the wine and spirits culture and knowledge of our customers. Most of our wine accessory products are sold at a flat rate applicable to our retail and wholesale customers. For the years ended 31 March 2012 and 31 March 2013 and the five months ended 31 August 2013, we recorded revenue in the amount of approximately HK\$1.5 million, HK\$0.8 million and HK\$0.6 million from the sales of wine accessory products, respectively, which accounted for approximately 0.5%, 0.3% and 0.5% of our total revenue for the same periods indicated, respectively.

Other products

Cigars and other cigars related products

We offer cigars and other cigars related products such as cigar cutters principally for the convenience of our customers who enjoy the combination of cigars and wine and spirits products. The total revenue generated from the sale of cigars and other cigars related products accounted for less than 0.1% of our total revenue during the Track Record Period.

SALE

All of our products purchased from our suppliers, including our wine and spirits products, are offered for sale and we do not purchase any products for speculation purposes. Our products are offered for sale in Hong Kong only and all transactions are conducted, delivered and concluded in Hong Kong, by means of retail sales and wholesales. We classify sales to our retail customers, being the end-consumers, as retail sales, and sales to our wholesale customers, being third party retailers who will re-sell our products in the course of their businesses, as wholesales. During the Track Record Period, we have been selling our products to our retail and wholesale customers through (i) our retail showroom, which serves as our retail store for walk-in customers and our showroom where we display some of our most prestigious wine and spirits products; and (ii) our office premises, which serves as our headquarters to oversee our overall business operations, and handles all of our administrative matters, including liaisons with regards customers purchase orders and signing of purchase contracts that are not executed at our retail showroom.

Our Directors believe the combination of retail sales and wholesales has facilitated us in expanding our commercial presence and market coverage in the wine and spirits industry in Hong Kong, thereby enabling us to market and offer for sale our products to a diverse range of customers spanning across high to mid-end spending class corporate and individual retail and wholesale customers, hotels, restaurants, private clubs and individual wine collectors.

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Sale channels

Predominantly, we sell our products to end-consumers through two sale channels comprising retail sales and wholesales. During the Track Record Period, we have generated an aggregate revenue of approximately HK\$654.8 million and HK\$62.7 million from our retail sales and wholesales, respectively, which accounted for approximately 91.3% and 8.7% of our Group’s aggregate revenue during the Track Record Period.

Retail sales of wine and spirits products

We classify direct sales of wine and spirits products to end-consumers, which is commonly adopted within the wine and spirits industry in Hong Kong, as retail sales. Our primary retail customers for our wine and spirits products comprise individual wine collectors, retail consumers and business corporations. See “— Sale — Sale channels — Our customers” for further details.

We conduct our retail sales at our two point of sales, being our retail showroom and our office premises. See “— Our point of sales” for further details.

All wine and spirits products sold to our retail customers regardless of our point of sales are offered at retail prices, and subject to applicable discounts in accordance with our discount policy. See “— Pricing strategy — Retail price” for further details.

Wholesales of wine and spirits products

Under our wholesales, our wine and spirits products are sold to third party retailers who will re-sell our products in the course of their businesses, such as wine traders and catering businesses, such as hotels, restaurants and private clubs. See “— Our customers” for further details.

We conduct our wholesales at our two point of sales, being our retail showroom and our office premises. See “— Sale — Our point of sales” for further details.

All wine and spirits products sold to our wholesale customers regardless of our point of sales are offered at wholesale prices. See “— Pricing strategy — Wholesale price” for further details.

Sales of wine accessory products and other products

Our primary customers of our wine accessory products and other products are retail and wholesale customers who visit our retail showroom and a substantial amount of our sales of wine accessory products and other products are conducted at our retail showroom. Most of our wine accessory products and other products available for sale at our retail showroom or office premises are sold at a flat rate to our retail and wholesale customers.

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Our point of sales

We conduct sales of our products through our two points of sales comprising our retail showroom and our office premises. Both retail sales and wholesales conducted at our retail showroom are by face-to-face transactions, and our walk-in customers attending our retail showroom are served by our sales team at our retail showroom; while retail sales and wholesales conducted at our office premises are transacted by way of: (i) face-to-face transactions; (ii) electronic transactions, such as email; (iii) telephone orders; and (iv) fax orders. Our customers attending our office premises are served by our sales team at our office premises. We believe the combination of our retail showroom and our office premises would assist us in developing a close relationship with our customers and facilitating communication of our wine and spirits products with our customers.

In November 2009, we established Major Aim to expand the wine business which we believe, given its proximity to the PRC, would attract PRC travellers and established a retail showroom under the business name “Major Cellar” in Yuen Long in December 2010. Our retail showroom in Yuen Long was closed down in November 2011 due to mismatch of the customers in the area and our Group’s business. In July 2010, we opened a retail showroom in a commercial building in Central which was subsequently closed down in May 2011 because the then directors believed the store was inconveniently located as it was situated within an office building and not easily accessible or seen.

After the closing down of the retail stores in Yuen Long and Central, we considered that the retail showroom in Tsim Sha Tsui is the most suitable for our Group’s business model; accordingly, we focused our business and resources in the Tsim Sha Tsui retail showroom which catered for the retail sale of premium wine and spirits products and the provision of personalised wine services.

As we conduct both retail sales and wholesales at all of our points of sales, sales revenue generated at the retail showroom comprise both retail sales and wholesales and similarly, sales revenue generated at the office premises comprise both retail sales and wholesales. The table below sets out a breakdown of our revenue generated from retail sales and wholesales transacted at each of our retail showrooms in Tsim Sha Tsui, Yuen Long and Central and our office premises during the Track Record Period:

	Year ended 31 March 2012		Year ended 31 March 2013		Five months ended 31 August 2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Retail showroom						
Tsim Sha Tsui	96,540	28.9	73,672	27.6	34,053	29.0
Yuen Long	1,221	0.3	—	—	—	—
Central	96	0.0	—	—	—	—
Office premises	236,731	70.8	193,161	72.4	83,253	71.0

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Our retail showroom

Our retail showroom is currently situated in Tsim Sha Tsui, a prime shopping area in Hong Kong, with an area of approximately 700 sq. ft., which is primarily targeted at walk-in customers, and is our principal gateway to attract new retail customers. See “— Property” for further details. At all times, our retail showroom is managed by a shop manager together with at least four wine consultants. See “— Sale — Our sales and marketing team” for further details.

We offer our wine and spirits products, wine accessory products and other products at our retail showroom to all of our customers, including our retail and wholesale customers. In respect of all retail sales conducted at our retail showroom, we require customers to pay in full for merchandises at the time of purchase, and all purchases are settled in Hong Kong dollars only. In respect of wholesales with our long-term wholesale customers, we customarily offer a credit period in accordance with our credit policy in line with past dealings with the relevant wholesale customers. During the Track Record Period, a majority of our retail sales have been settled through non-cash payments including payments by bank debit and credit cards, with the remainder settled by cash payments and occasionally, bank-in payments.

Our office premises

Our office premises is currently situated in Tsim Sha Tsui, which is a prime shopping area in Hong Kong, with an area of approximately 4,000 sq. ft., serving as our headquarters to oversee our overall business operations, and handles all of our administrative matters, including liaisons with regards customers’ purchase orders and signing of purchase contracts that are not conducted at our retail showroom. At all times at our office premises, we have a sales and marketing team of at least six wine consultants. See “— Sale — Our sales and marketing team” for further details.

We offer all of our products to retail and wholesale customers at our office premises, which serves as our headquarters to oversee our overall business operations, and handles all of our administrative matters, including liaisons with regards to customers’ purchase orders and signing of purchase contracts that are not executed at our retail showroom. During the Track Record Period, transactions concluded in the office premises were made by way of: (i) face-to-face transactions; (ii) electronic transactions, such as email; (iii) telephone orders; and (iv) fax orders. As for face-to-face transactions, none of the our customers attending the office premises could place purchase orders and take their purchases at the same time even after payment of their purchases as we did not hold any stock inventories at the office premises. As for electronic transactions, telephone orders and fax orders, after orders were placed by our customers, we would arrange for delivery or pick-up of such purchases separately after payments had been made. During the Track Record Period, a majority of our sales transacted at our office premises have been settled through non-cash payments including payments by bank-in and cheque payments, with the remainder settled by cash payments, bank-in or cheque payments. However, we only accept cheque payments from existing customers, which we have maintained a record and all cheque payments exceeding HK\$10,000 received at our office premises require the prior approval of our sales manager or our Directors. In the case of cheque payments from new customers, we will only arrange to deliver the purchases to our customers after the clearance of the relevant cheque payments with our banks.

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As advised by our legal advisers as to Hong Kong law, the current usage of the office premises is in compliance with its tenancy agreement and the applicable laws and regulations in Hong Kong.

Our sales and marketing team

As at the Latest Practicable Date, our sales and marketing team consists of 14 wine consultants, who are stationed at our retail showroom or our office premises. Most of our wine consultants possess various levels of the certificate in wines and spirits awarded by WSET ranging from level one foundation certificate in wines to level three advance certificate in wines and spirits.

Primarily, most of the customers attending our retail showroom or at our office premises are served by any one of our wine consultants stationed at our retail showroom or at our office premises.

Incentive schemes

In order to enhance our sales performance, we have implemented a commission and bonus scheme, which provides a commission at the rate of up to 1.5% monthly to our sales staff who have attained the designated target sales volume. The designated target sales volume and the commission and bonus scheme are reviewed and determined by our Directors.

Marketing and promotion

Our Directors consider that it is important for us to continue to promote our corporate image and maintain our brand recognition amongst our customers. We strive to attract customers by deploying different advertising and promotional strategies. For the years ended 31 March 2012 and 31 March 2013 and the five months ended 31 August 2013, the promotion, selling and distribution expenses incurred by us were approximately HK\$15.4 million, HK\$14.5 million and HK\$6.8 million, respectively, and accounted for approximately 4.6%, 5.4% and 5.8% of our total revenue for the same periods indicated, respectively. The following are our key marketing strategies to promote our business:

Advertisements and promotional materials

From time to time, we publish brochures and promotional leaflets for distribution to our existing and potential customers for promoting our corporate image and brand and our wine and spirits business. We also market ourselves through paid advertising campaigns in some wine magazines and we accept requests for interviews and publications of our wine and spirits products from the press media such as newspapers and magazines.

Participating in wine fairs

Historically and during the Track Record Period, we have participated in the Hong Kong International Wine & Spirits Fair organised by the HKTDC in November annually to acquire latest market intelligence and promote our wine and spirits products.

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Organising wine tasting events

From time to time, we host a variety of tasting events for our wine and spirits products such as red wine and whisky tasting. Historically, we organised tasting events which were exclusive to our customers, tasting events available to the public, as well as tasting events organised in collaboration with certain vineyards or wine critics. Our Directors believe that tasting events assist to maintain and enhance our relationships with our customers and broaden our customer base by increasing our commercial presence in Hong Kong while providing an opportunity for us to introduce our wine and spirits products portfolio to existing and potential customers.

Website

Our website, www.majorcellar.com, is an online platform established by us to provide all of our customers with the convenience of viewing our products online and a platform for anyone to make online enquiries. All of our products, including wine and spirits products and wine accessory products that are contained in our online catalogue are offered for sale to public on our online store. Our electronic wine and spirits products catalogue is automatically updated and therefore is up-to-date and consistent with our database.

To increase our profile on the internet, we maintain a website at www.majorcellar.com, on which we make available information in respect of our wine and spirits products and other marketing and promotional activities such as wine tasting events, wine dinners and information on wine exhibitions. Our Directors believe the use of online marketing plays a vital role in expanding our market coverage by attracting new customers and promoting our commercial presence in Hong Kong.

Sponsorship

As part of our marketing and promotional strategies, we sponsor selected events which our Directors consider appropriate for the promotion of our corporate image, recognition and brand reputation. We typically sponsor such events by providing selected wine and spirits products on a complimentary basis. Historically and during the Track Record Period, we have sponsored the marketing for certain arts exhibition. Through such cross-channel marketing, we believe we have increased consumer awareness of our wine and spirits products.

Seasonality

Historically, we experienced higher sales of wine and spirits products as a result of increased local consumption during holiday seasons such as Christmas, New Year and Chinese New Year, which are typically in the last quarter of our financial year. In anticipation of the increased sales and as a common practice among the wine and spirits industry, we increase our levels of inventories in advance of the holiday seasons. See “— Inventory control” for further details.

See “Risk Factors — Risks relating to our business — Sales of our wine and spirits products are subject to seasonality, and success of our sales during particular seasons depends on our selection of the right product mix.” for further details.

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AFTER-SALES SERVICES

Customer service has always been important to us and the success of our business. To distinguish ourselves from our competitors and to promote customer satisfaction with their purchases with us, we have implemented wine appreciation consultation services and wine storage advisory and consultation services as our complimentary after-sales customer services to our customers. Our Directors believe that well-established after-sales customer services will enhance our relationships with our customers thereby creating customer loyalty and expanding our existing customer base through the goodwill of our existing customers.

After the conclusion of a sale to our customers, a member of our sales team will give our customers brief introductions explaining the basic information on wine appreciation and guidance to the full enjoyment of their purchases, such as breathing time, as well as wine storage advisory and consultation, to provide guidance to our customers in respect of the requirements of storage, hence minimising the risks of damaged products due to storage and reducing the possibility of returned products.

DELIVERY SERVICES

In relation to our retail sales, we provide complimentary delivery services to a single designated place of delivery in Hong Kong for any purchase of wine and spirits products of HK\$3,000 or more and for any purchase of 12 bottles or more of wine and spirits products, and an additional HK\$80 is chargeable for delivery of wine and spirits products below our prescribed minimum purchase. In relation to our wholesales, we also provide complimentary delivery services to a single designated place of delivery in Hong Kong for any purchase of wine and spirits products of HK\$3,000 or more and for any purchase of 24 bottles or more of wine and spirits products, and an additional HK\$80 is chargeable for delivery of wine and spirits products below our prescribed minimum purchase. We do not provide delivery service outside Hong Kong.

Alternatively, our customers may choose to pick up their purchases physically at our retail showroom or our office premises upon presentation of a valid receipt.

PRICING STRATEGY

All of our wine and spirits products for retail sales and wholesales are initially priced based on a cost-plus basis, which allows us to maintain a satisfactory profit margin ranging from 5% to 50%. We have adopted and adhered to a set of internal pricing policies and procedures to control and monitor the costs, the retail prices and the wholesale prices of our wine and spirits products. Typically, retail price of our wine and spirit products is approximately 20% to 40% higher than our wholesale price of the same products and therefore the profit margin of our retail sales is higher than our wholesales. From time to time, we review our pricing and make necessary adjustments to maintain our price competitiveness. Our Directors believe that the pricing of our wine and spirits products on a cost-plus basis, which is reviewed from time to time and at such other times and circumstances as our Directors deem necessary, is efficient means to control, monitor and limit our cost of sales, while ensuring our profit margins and maintaining the pricing of our wine and spirits products competitive and in line with the changing market demands and industry trends.

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During the Track Record Period, we maintained an average gross profit margin of 18.9%, 25.5%, 23.1% and 37.1% for our red wine, white wine, sparkling wine and spirits, respectively.

Retail price

All wine and spirits products sold to our retail customers are offered for sale at retail prices, subject to applicable discounts in accordance with our discount policy. In determining our retail prices, we take into account various factors including the retail prices of similar products of our competitors and the retail prices in the open market, income level of our target customers and historical sales performance of similar products, recent market trends, reviews of the particular wine and spirits product by wine critics or grading by other industry authoritative magazines and the liquidity and availability of the particular wine and spirits products. As a general guideline, we typically set our profit margin at a level which is comparable to our competitors in Hong Kong.

Wholesale price

All wine and spirits products sold to our wholesale customers are offered for sale at wholesale prices. No further discounts are offered on our wine and spirits products under our wholesales, save for occasional special offers which are only considered by our Directors on a case-by-case basis. Wholesale prices are also offered to our long-term customers in consideration of our past dealings with such customers, and to our wholesale customers who place bulk purchase orders with us. In determining our wholesale prices, we take into account various factors including the retail prices of similar products of our competitors, the retail prices in the open market, income level of our target customers, historical sales performance of similar products, business nature of our customers, recent market trends, reviews on the particular wine and spirits product by wine critics or grading by other industry authoritative magazines, the liquidity and availability of the particular wine and spirits product, and our stock inventory levels.

Discounts

Discounts are only offered to our retail customers on our wine and spirits products and some of our wine accessory products. All discounts offered to our customers must adhere to our discount policy, which is reviewed and approved by our Directors from time to time. In setting our discount policies, our Directors take into account factors including the quantity of products purchased, the total purchase price of the purchase order, the retail prices of the wine and spirits products, the retail prices of similar products of our competitors, record of past-dealings, our relationship with the customer and the level of obsolete and slow-moving inventories. Our sales team members are given discretion to offer discounts of up to 15% off our retail prices, to our retail customers as permitted under our discount policy, and all discounts proposed by our sales team members which exceed the approved discount limit will require special approval from our Directors.

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In addition to our discount policy, we also offer staff discounts to all of our employees for purchase of wine and spirits products for their personal enjoyment subject to a maximum monthly quota of HK\$3,000 after discount. We believe offering staff discounts to our employees will enhance their individual product knowledge and acquaintance with our product range and diversity as well as forming part of our remuneration package to retain our experienced and dedicated employees.

Special promotions

Depending on the turnover rate and level of inventories of our wine and spirits products, we may from time to time offer our retail or wholesale customers with special offers in respect of slow-moving wine and spirits products, which may not be in line with our pricing policy. For more information, please refer to the paragraph headed “— Inventory control — Inventory management” in this section.

OUR CUSTOMERS

With our diversified wine and spirits products portfolio, our Directors believe that we are well-positioned to target a broad range of customers. We differentiate our customers by reference to end-consumers and we classify end-consumers of our wine and spirits products as our retail customers and third party retailers who will re-sell our wine and spirits products in the course of their businesses as wholesale customers.

In relation to any single purchase order of HK\$300,000 or above or customers who purchase 10 cases or more of a single type of wine, our wine consultant will request such customer for details relating to the proposed usage of such wine and spirits products and such information will be used for our internal purposes to classify such customer as retail or wholesale customer. Also, if any of our customer describes himself as a wholesale customer, our wine consultants will refer such sales to our wholesale consultant for follow up, whereafter our wholesale consultant will obtain further details of such wholesale customer, by means of phone interview, face to face interview, or by conducting an internet background search before we conclude the transaction.

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Year ended 31 March 2012

For the year ended 31 March 2012, the total sales to our five largest customers represented approximately 29.3% of our total revenue, the total sales to our 10 largest customers represented approximately 37.1% of our total revenue and the total sales to our single largest customer represented approximately 17.2% of our total revenue. The table below sets out details of our five largest customers for the year ended 31 March 2012:

Rank	Customer	Principal business	Location	Size of operation	Year(s) of business relationship with our Group	Percentage of revenue attributed	Place of Delivery during the Track Record Period
1	A	Import of food oil for processing and property development	PRC	Private company	4	17.2%	Logistics companies, office premises, residential address and restaurants in Hong Kong
2	B	Restaurant, electricity production and property development	PRC	Private company	1	4.4%	Logistics companies and residential address in Hong Kong
3	C	Individual customer engaged in the business of property development	PRC	Not applicable	3	3.1%	Logistics companies and residential address in Hong Kong
4	D	Property development and logistics	PRC	Private company	1	2.4%	Logistics companies and office premises in Hong Kong
5	E	Property development	PRC	Private company	1	2.2%	Logistics companies in Hong Kong

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Year ended 31 March 2013

For the year ended 31 March 2013, the total sales to our five largest customers represented approximately 34.6% of our total revenue, the total sales to our 10 largest customers represented approximately 39.5% of our total revenue and the total sales to our single largest customer represented approximately 15.6% of our total revenue. The table below sets out details of our five largest customers for the year ended 31 March 2013:

Rank	Customer	Principal business	Location	Size of operation	Year(s) of business relationship with our Group	Percentage of revenue attributed	Place of Delivery during the Track Record Period
1	A	Import of food oil for processing and property development	PRC	Private company	4	15.6%	Logistics companies, office premises, residential address and restaurants in Hong Kong
2	C	Individual customer engaged in the business of property development	PRC	Not applicable	3	6.8%	Logistics companies and residential address in Hong Kong
3	F	Individual customer engaged in the business of property development and food trading	Hong Kong and PRC	Not applicable	3	6.1%	Logistics companies and residential address in Hong Kong
4	G	Hotel and property development	PRC	Private company	3	4.4%	Hotels, office premises, service apartments, residential address and restaurants in Hong Kong
5	H	Property development and financial industry	Hong Kong and PRC	Private company	2	1.7%	Office premises in Hong Kong

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Five months ended 31 August 2013

For the five months ended 31 August 2013, the total sales to our five largest customers represented approximately 40.2% of our total revenue, the total sales to our 10 largest customers represented approximately 47.9% of our total revenue and the total sales to our single largest customer represented approximately 30.7% of our total revenue. The table below sets out details of our five largest customers for the five months ended 31 August 2013:

Rank	Customer	Principal business	Location	Size of operation	Year(s) of business relationship with our Group	Percentage of revenue attributed	Place of Delivery during the Track Record Period
1	A	Import of food oil for processing and property development	PRC	Private company	4	30.7%	Logistics companies, office premises, residential address and restaurants in Hong Kong
2	I	Coal business/ Property development	PRC	Private company	0.5	3.5%	Hotel, logistics companies and office premises in Hong Kong
3	C	Individual customer engaged in the business of property development	PRC	Not applicable	3	2.1%	Logistics companies and residential address in Hong Kong
4	J	Individual customer	PRC	Not applicable	1	2.0%	Car park in a commercial building and logistics company in Hong Kong
5	K	Property development	Hong Kong	Private company	3	1.9%	Residential address and restaurants in Hong Kong

Sales to our customers

To the best knowledge of our Directors and based on information available to our Directors, save for customer B, being the second largest customer for the year ended 31 March 2012, none of our five largest customers during the Track Record Period is engaged in any business relating to the wine and spirits industry and resold any wine and spirits products purchased from our Group in Hong Kong or elsewhere. As such, sales to such customers were classified as retail sales.

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A majority of our largest customers during the Track Record Period are PRC nationals or entities, which may be attributable to the location of our retail showroom, which is situated in Tsim Sha Tsui, a prime shopping area enjoying a high influx of PRC tourists that is conveniently accessible by the train connecting Hong Kong and the PRC. Through our course of dealings with the PRC nationals, we have, in addition to our other customers, established a PRC nationals and entities clientele, which we believe has expanded through referrals from existing PRC nationals customers.

Based on general enquiry made with the Hong Kong Customs and Excise Department, no clearance or declarations are required for the purposes of bringing wine and spirits products outside Hong Kong regardless of the means of departure. As advised by our legal advisers as to PRC law based on general enquiry made with the General Administration of Customs of the PRC, person(s) or corporation(s) bringing or importing wine and spirits products into the PRC, whether for business or self consumption purposes, is solely responsible for making the relevant customs clearance. Accordingly, our Group is under no obligation to make any filing, clearance or declarations in respect of any wine and spirits products brought to the PRC from Hong Kong by any of our customers.

To the best knowledge of our Directors and based on information available to our Directors, all of our five largest customers who subsequently bring the wine from Hong Kong to the PRC had complied with all applicable laws, regulations and policies.

To the best knowledge of our Directors, a substantial number of PRC nationals or entities come to Hong Kong to purchase wine and spirits products due to the combined effects of, among others, the presence of counterfeit wine and spirits products in the PRC and higher consumer confidence in wine and spirits products sold in Hong Kong than in the PRC as well as the more competitive price of wine and spirits products in Hong Kong as a result of the reduced levy on alcoholic beverage in Hong Kong. Also, to the best knowledge of our Directors’ knowledge and based on information available to our Directors, (i) the selling prices of wine and spirits products are typically higher in the PRC than in Hong Kong due to various reasons, such as the reduced levy on alcoholic beverages in Hong Kong and the presence of higher competition in the wine and spirits market in Hong Kong, and (ii) purchase of alcoholic beverages in Hong Kong are free from the consumption tax of approximately 10%, the value-added tax of approximately 17% and the import customs levy, which varies from 14% to 180%, depending on the bottle size and the origin of the alcoholic beverage, which are chargeable on alcoholic beverages in the PRC. Nonetheless, our Directors do not consider the price advantages the key factor attracting PRC nationals or entities to purchase wine and spirits in Hong Kong, taking into account of the increased disposable income and purchasing power of PRC nationals or entities. Our Directors consider the presence of counterfeit wine and spirits products in the PRC, the limited varieties of wine and spirits products in the PRC and higher consumer confidence in consumables sold in Hong Kong the key reasons attracting PRC nationals or entities to purchase wine and spirits in Hong Kong. Accordingly, in order to secure the revenue stream from the PRC nationals or entities, we will

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uphold the quality of our products by adhering and maintaining our quality control measures as well as maintaining the competitiveness of the selling prices of our products within the wine and spirits market in Hong Kong.

To the best knowledge of our Directors, none of our 10 largest customers during the Track Record Period were PRC government officials or PRC government entities and we did not experience any significant decrease in purchase orders from any of our top 10 largest customers as a result of the PRC Government Initiatives. As such, our Directors are of the view that the PRC Government Initiatives did not affect our financial performance during the Track Record Period. As at the Latest Practicable Date, our Directors were not aware of any circumstances as a result of which, our financial performance or the prospects of our financial performance will be adversely affected by the PRC Government Initiatives.

As advised by our legal advisers as to Hong Kong law, sales of wine and spirit products to PRC customers will not cause any breach on the part of our Group of any of the terms of the existing supply agreements in respect of geographical coverage as our business and conclusion thereof take place in Hong Kong only.

For the years ended 31 March 2012 and 31 March 2013 and the five months ended 31 August 2013, to the best knowledge of our Directors, none of our Directors or executive officers, or our Controlling Shareholders or our subsidiaries, or any of their respective associates held any interest, directly or indirectly, in any of our five largest customers.

As a general guideline, we do not grant any credit period to walk-in customers at our retail showroom and all payments for all retail purchase orders are settled at the time of purchase prior to pick up or delivery of the products. We only offer credit periods ranging of up to 90 days to our long-term customers and wholesale customers depending on various factors, such as record of past dealings with the customer and our relationships with the relevant customer. For more information, please refer to the section headed “Financial Information — Net Current Assets and Selected Items of Consolidated Statements of Financial Position — Trade and other receivables, deposits and prepayments” in this document.

OUR SUPPLIERS

As part of our quality control measures and in order to preserve our brand reputation, we have established a set of strict guidelines in our selection of suppliers including supplier background assessment procedures before we source from such new suppliers. We typically select our suppliers of wine and spirits products based on their reputation for product quality and supply reliability, history of operations, size of business, overall reputation, ability to procure delivery on a timely basis, products portfolio, stock inventories, market demand of the wine and spirits products supplied by such suppliers, and promotional offers offered by the suppliers. In order to mitigate the counterparty risk and credit risk on purchases of wine and spirits products from overseas suppliers, in addition to our typical supplier selection procedures, we limit the amount of our first purchase order to an aggregate amount of not more than HK\$300,000 for all new overseas suppliers.

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Over the years, we have established stable business relationships with most of our suppliers of wine and spirits products. In view of our well-established relationship with our suppliers, we have not entered into any long-term supply agreements with them, which would restrict our flexibility in sourcing wine and spirits products. Instead, we source from our suppliers, including our major suppliers, on an order-by-order basis.

As part of our measures to ensure that the procured wine and spirits products are not counterfeits and are of merchantable quality, we source from suppliers which we consider reputable and we conduct supplier background assessment procedures on new suppliers to ensure the above criteria before we purchase wine and spirits products from them. See “— Quality control of our wine and spirits products” for further details.

We do not conduct any additional measures to ensure our suppliers have the ability to honour our purchase orders. Nonetheless, as we do not provide refund to our customers due to delays in delivery, unexpected delays in delivery of wine and spirits products from our supplier will not have a material operational or financial impact on us. To avoid shortage of wine and spirits products, we maintain an optimal level of stock inventories. In the event of default by our suppliers, we may terminate the existing purchase order and source wine and spirits products from alternative suppliers or we may choose to wait for the wine and spirits products. Our Directors will consider the appropriate remedial measures taking into consideration the urgency for the wine and spirits products and the quality of the wine and spirits products. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any default by our suppliers in delivering purchase orders placed by us. While we are usually requested to settle payments for our sales orders from our suppliers in full prior to pick up at our suppliers’ warehouses, some of our major suppliers, whom we have developed a relationship through our past dealings, offer us a credit period of up to 60 days.

We have sourced from our five largest suppliers of wine and spirits products representing a total of approximately 38.1%, 37.6% and 42.3% of our total purchase for the years ended 31 March 2012 and 31 March 2013 and the five months ended 31 August 2013, respectively, and we have sourced from our 10 largest suppliers of wine and spirits products representing a total of approximately 56.5%, 55.2% and 57.9% of our total purchase for the same periods indicated, respectively. Purchases from our single largest supplier represented approximately 11.2%, 11.1% and 13.3%, during the same periods indicated, respectively. Based on the information available to our Directors, our five largest suppliers are wholesalers and auction house. Most of these top suppliers require payment settlement in full by way of telegraphic transfers in their local currencies prior to delivery of the products and save for supplier B who grants us a credit period of up to 60 days, none of our five largest suppliers offer a credit period to us.

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For the year ended 31 March 2012, the total purchase attributable to our five largest suppliers represented approximately 38.1% of our total purchase, the total purchase attributable to our 10 largest suppliers represented approximately 56.5% of our total purchase and the total purchase to our single largest supplier represented approximately 11.2% of our total purchase. The table below sets out details of our five largest suppliers for the year ended 31 March 2012:

Rank	Supplier	Principal business	Location	Size of operation	Year(s) of business relationship with our Group	Percentage of purchase attributed
1	A	Auction house	United States	Private company	5	11.2%
2	B	Fine wine trading	Switzerland	Private company	5	10.6%
3	C	Fine wine trading	Britain	Private company	4	5.5%
4	D	Burgundy specialist	Hong Kong	Private company	3	5.5%
5	E	Auction house	International	Private company	2	5.2%

For the year ended 31 March 2013, the total purchase attributable to our five largest suppliers represented approximately 37.6% of our total purchase, the total purchase attributable to our 10 largest suppliers represented approximately 55.2% of our total purchase and the total purchase to our single largest supplier represented approximately 11.1% of our total purchase. The table below sets out details of our five largest suppliers for the year ended 31 March 2013:

Rank	Supplier	Principal business	Location	Size of operation	Year(s) of business relationship with our Group	Percentage of purchase attributed
1	B	Fine wine trading	Switzerland	Private company	5	11.1%
2	A	Auction house	United States	Private company	5	10.3%
3	E	Auction house	International	Private company	2	5.9%
4	D	Burgundy specialist	Hong Kong	Private company	3	5.2%
5	F	Fine wine trading	Hong Kong	Private company	2	5.1%

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For the five months ended 31 August 2013, the total purchase attributable to our five largest suppliers represented approximately 42.3% of our total purchase, the total purchase attributable to our 10 largest suppliers represented approximately 57.9% of our total purchase and the total purchase to our single largest supplier represented approximately 13.3% of our total purchase. The table below sets out details of our five largest suppliers for the five months ended 31 August 2013:

Rank	Supplier	Principal business	Location	Size of operation	Year(s) of business relationship with our Group	Percentage of purchase attributed
1	A	Auction house	United States	Private company	5	13.3%
2	B	Fine wine trading	Switzerland	Private company	5	12.0%
3	G	Fine wine trading	Hong Kong	Private company	0.5	7.3%
4	H	Auction house	United States	Private company	2	4.9%
5	I	Fine wine trading	United Kingdom	Private company	2.5	4.8%

As at 31 August 2013, the total contract value of wine and spirits products for which our Group had paid trade deposits was approximately HK\$50.2 million.

For the years ended 31 March 2012 and 31 March 2013 and the five months ended 31 August 2013, to the best knowledge of our Directors, none of our Directors or executive officers, or our Controlling Shareholders or our subsidiaries, or any of their respective associates held any interest, directly or indirectly, in any of our five largest suppliers.

Product sourcing

Internal selection

During our internal selection, we typically select our suppliers, and place and conclude purchase orders with our suppliers before any customers place any matching purchase orders. Our sales team, which is led by our Directors, will conduct weekly market updates and identify selected wine and spirits products to be included in our wine and spirits products portfolio. In considering additional wine and spirits products to be included in our wine and spirits products portfolio and evaluating any proposed purchase orders, our Directors take into account various factors, including the prevailing market demand, current market trends, consumer preferences, the promotions offered by our suppliers, our levels of stock inventories and historical sales of such wine and spirits products. As a guiding principle, we place purchase orders for wine and spirits products which, in the opinions of our

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Directors, are at the relevant time being highly sought-after, or that our Directors see a growing consumer preference or expanding market share and are at the relevant time undervalued, or that we are at the relevant time low on stock inventories and our Directors consider necessary to replenish stock inventories in view of historical sales and inventory turnover.

Our Directors take into account of the following criteria for the procurement of our red wine products, white wine products, sparkling wine products and spirits products:

Fine Red Wine

- the location of the vineyard
- cost of procurement, proposed retail and wholesale prices and profit margin
- the outlook of the wine and overall packaging
- annual capacity of the wine
- market demand and our customers’ preferences
- ratings from wine critics
- our existing stock inventories

Rare and Collectible Red Wine

- fame, history and reputation of the brand
- ratings from wine critics
- market trend and demand
- cost of procurement

Value Red Wine

- the location of the vineyard and its potential
- the outlook of the wine and overall packaging
- annual capacity of the wine
- market demand and our customers’ preferences
- our existing stock inventories and portfolio

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Fine White Wine

- the location of the vineyard
- cost of procurement, proposed retail and wholesale prices and profit margin
- the outlook of the wine and overall packaging
- annual capacity of the wine
- market demand and our customers’ preferences
- ratings from wine critics
- our existing stock inventories

Value White Wine

- the location of the vineyard and its potential
- the outlook of the wine and overall packaging
- annual capacity of the wine
- market demand and our customers’ preferences
- our existing stock inventories and portfolio

Sparkling wine

- the location of the vineyard and its potential
- the outlook of the wine and overall packaging
- annual capacity of the wine
- market demand and our customers’ preferences
- our existing stock inventories and portfolio

Spirits

- fame, history and reputation of the brand
- market trend and demand

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- whether the spirits is a limited edition or a limited production
- price of the spirits
- packaging of the spirits

Once a selected wine and spirits product has been identified, our purchasing team will select a list of suppliers and obtain purchase order quotations in respect of the selected wine and spirits products. Our Directors will then consider and approve the selected supplier and other material terms of such purchase order. Thereafter our purchasing team will proceed to confirm our purchase order. See “— Logistics and warehousing” for further details.

All purchase orders will, upon arrival at our warehouse in Hung Hom, be subject to our quality control policies and procedures and inspections. Non-defective wine and spirits products will thereafter be stored at our warehouse in Hung Hom as stock inventories or transported to our retail showroom for sale or display, as determined by our sales team.

Customer pre-ordering

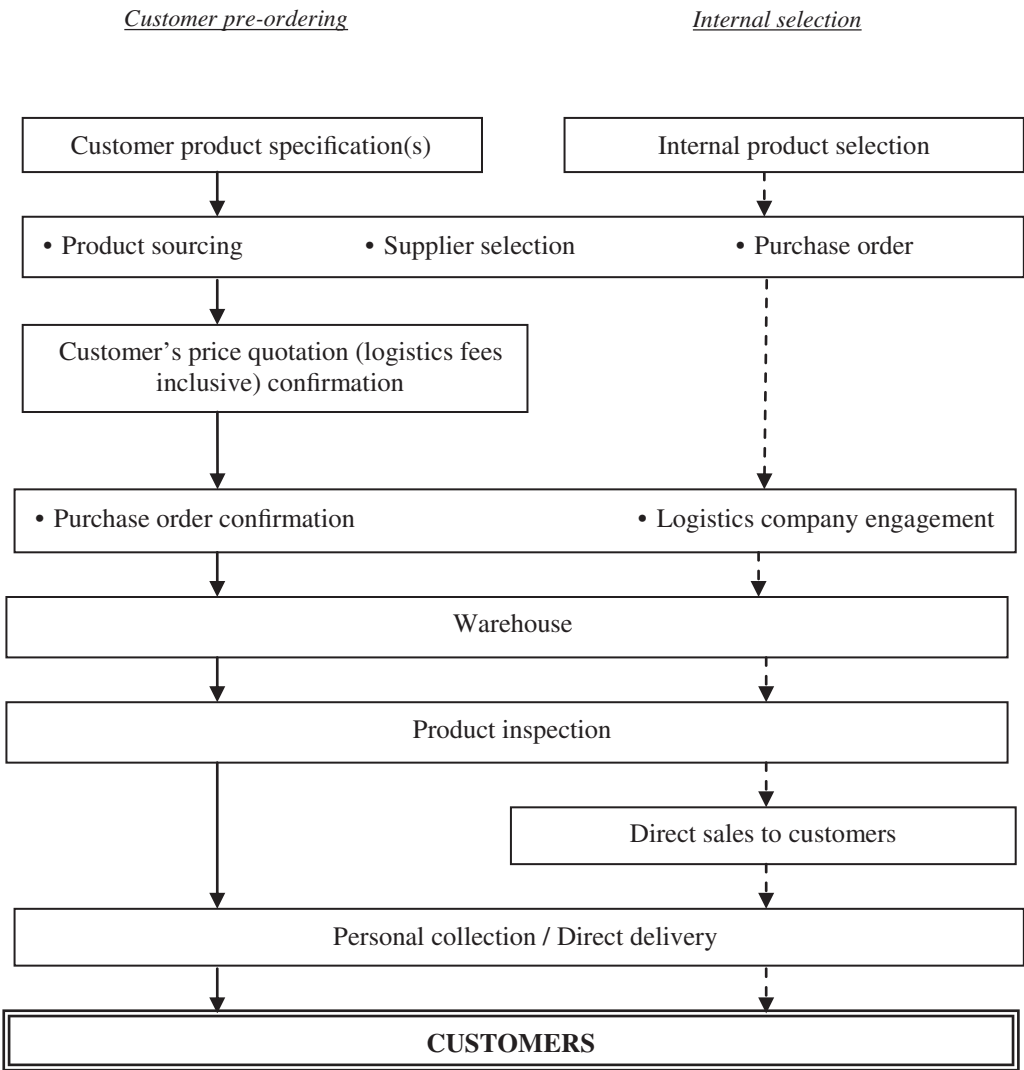
In addition to our wine and spirits products as contained in our stock inventories for sale at our retail showroom and our office premises, we also offer to all of our retail customers and wholesale customers other wine and spirits products which are not contained in our wine and spirits products portfolio upon specific purchase order requests. This model supplements our wine and spirits products portfolio and enables us to broaden our wine and spirits products portfolio beyond our stock inventories limitations to cover wine and spirits products of most of vintages, brands, countries and regions while providing the benefits of risk-averse sales and reducing our burdens of stock inventories, which is highly capital intensive, thereby promoting a healthy financial structure.

Any customer may approach us with specific purchase order in respect of wine and spirits products of any specifications such as brand and vintage. Historically, we were approached for wine and spirits products of various product range, brands and/or vintages.

Once we receive a request for a specific wine and spirits product which we do not carry stock inventories to match such specific purchase order request, our purchasing team will proceed to source the specific wine and spirits product based on the specifications provided. Typically, our purchasing team will approach our suppliers whom we have well-established relationships with and obtain from each of them photographs of the specific product and price quotations. Upon receipt of such photographs and price quotations, our wine consultants will select the most appropriate product, and the selected price quotation, which is determined by us, subject to applicable discounts, as the case may be, will then be submitted to our Directors for approval, and if approved, our sales team will contact the customer and provide the customer with a quotation in respect of the specific purchase order. Upon receipt of the confirmation of the purchase order from our customer by our sales team, we will place the purchase order. When we receive the specific wine and spirits product from our selected supplier, our wine consultants will inspect the product in accordance with our quality control policies and procedures. Once our wine consultants determined that the product fulfills our requirements as to product quality, our sales team will inform the customer, and the product may be delivered to the address in Hong Kong as directed by the customer or delivered to our retail showroom or office premises for personal collection, as appropriate.

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The following diagram illustrates the flow of operations of our customer pre-ordering and internal selection of wine and spirits products:



Supply arrangements

To distinguish us from our competitors in the wine and spirits industry, we have entered into four supply agreements with two vineyards. Historically, we received certain wine samples from certain vineyards, which our Directors consider suitable to be included in our wine portfolio after considering various factors including the procurement cost, the quality and the country of origin. Thereafter, we entered into the supply agreements with such vineyards, including the four supply agreements. With our supply arrangements, we are the authorised seller of Domaine de Bellene and Amuse Bouche Winery to sell certain wine products of Domaine de Bellene and Amuse Bouche Winery in Hong Kong. As at the Latest Practicable Date, we were one of the two authorised sellers of Domaine de Bellene in Hong Kong authorised to sell certain wine products of Domaine de Bellene in Hong Kong. As such, we gain a competitive advantage over our competitors who are not authorised by Domaine de Bellene

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to sell the wine products of Domaine de Bellene in Hong Kong, and therefore we are assured of the genuineness of such wine products and we are not exposed to risks of counterfeit in respect of such products. However, we do not place heavy reliance on our supply arrangements in compiling our wine products portfolio as internal sourcing remains to be our key sourcing means and the main purpose of our supply arrangements is to further diversify our wine products portfolio and to differentiate our Group from our competitors. We will continue to adopt internal sourcing as our key sourcing means and the proposed expansion of supply arrangements will not change our existing business model. In the event that our existing supply arrangements are terminated, our Directors are of the view that we will be able to source alternatives within a reasonable time. We set out below the major terms of the supply agreements:

Supply agreements	Background of winery / vineyard	Types of wine and spirits products	Duration	Prices	Geographical coverage	Exclusivity	Rights and obligations of the parties	Restrictive covenants (if any)	Year(s) of business relationship with our Group
Non-exclusive supply agreement A with Domaine de Bellene	Domaine de Bellene, a vineyard located in the Burgundy region of France (“Domaine de Bellene”)	Burgundy red wine	1 year from 1 July 2013, subject to automatic renewal unless terminated by a three-month notice	According to the price list of the agreement	Hong Kong	Non-exclusive	The supplier will, at its own expenses, arrange and obtain all governmental permits, licences or any such necessary documents and pay all charges, duties, fees, levies, tariffs or taxes imposed by the government of the place of origin in relation to the exportation of the products	Nil	3
Non-exclusive supply agreement B with Domaine de Bellene	As above	Burgundy red wine	As above	As above	As above	As above	As above	As above	3
Non-exclusive supply agreement C with Domaine de Bellene	As above	Burgundy red wine	1 year from 1 August 2012, subject to automatic renewal unless terminated by a three-month notice	As above	As above	As above	As above	As above	3
Non-exclusive supply agreement D with Amuse Bouche Winery	Amuse Bouche Winery, a vineyard located in Napa Valley of the United States (“Amuse Bouche Winery”)	Napa valley wine	1 year from 4 October 2012, subject to automatic renewal unless terminated by a three-month notice	As above	As above	As above	As above	As above	3

Under the existing supply arrangements, there are no price adjustment provisions as it was the intention of our Group to fix the prices of the products and the supply arrangements would have to be terminated if any party wishes to adjust the price. None of the existing supply arrangements impose minimum purchase commitments on us.

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During the Track Record Period, we have sold 2,462 bottles of red wine from our supply arrangements at a total cost of sales of approximately HK\$0.9 million and generated sales revenue of approximately HK\$1.3 million.

During the Track Record Period and up to the Latest Practicable Date, we had not been alleged of any material breach of our supply agreements and our Directors are not aware of any factors which may affect our existing supply arrangements.

Costs of procurement

Costs of procurement for wine and spirits products generally vary depending on, among others, the vintage, the reputation of the vineyard and brand, market demand and supply, grading and reviews by wine critics. All procurement prices obtained from our suppliers are subject to preliminary review by our purchasing team, and all procurement prices must be approved by at least one of our Directors prior to confirmation.

Policy on return of products to suppliers

We obtain from our suppliers of wine and spirits products full refund guarantee policy on all of our purchase orders of wine and spirits products on the basis of defective products to match our three-day full refund guarantee policy granted by us to our customers on all of our wine and spirits products within 10 years vintage and below HK\$700 per bottle.

Pursuant to the terms of our purchase invoice with our suppliers of wine and spirits products, we may request for refund in the event that our Directors conclude that the product is defective after conducting our quality control inspections. Under such circumstances, our purchasing team will liaise with the relevant supplier informing them of such defects with photograph images in support of our complaint, and will arrange for return of the defective product, and subsequently, refund of our purchase order.

Under the existing supply arrangements, there are no return policies to enable a flexible return arrangements to be determined by our Group and our suppliers on a case-by-case basis with reference to the quantity and the transportation and other costs associated with the return. In the event that we received damaged products, we may choose to request for a discount on the products, instead of returning the damaged products to our suppliers if the costs associated with the return of such products are too high, and in such cases, we will sell such products at discounts.

We have not obtained any refund guarantee on our purchase orders of wine accessory products from our suppliers of wine accessory products.

During the Track Record Period and up to the Latest Practicable Date, we had not made any product recalls.

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LOGISTICS AND WAREHOUSING

Our wine and spirits products are stored mainly at a leased warehouse located at Hung Hom, Kowloon, with some of our wine and spirits products stored at a warehouse located in Kwai Chung, which is maintained and managed by an independent logistics and management company. To ensure our inventories are free from contamination and properly stored, the temperature and humidity level at our warehouses in Hung Hom and Kwai Chung are strictly between 15 to 19 degree Celsius and 55% to 70%, respectively. Our warehouse and logistics team monitors and records the conditions of the warehouse on a daily basis. There is also a security system to safeguard our inventories in our warehouse in Hung Hom, while security at our warehouse in Kwai Chung is monitored by our independent logistics and management company. See “— Inventory control — Inventory management — Outsourced warehousing and inventory management” for further information on the inventory management services provided to us at our warehouse in Kwai Chung.

During the Track Record Period and up to Latest Practicable Date, we had not experienced any material loss due to the inappropriate storage of our products and we had not encountered any material theft, misappropriation, embezzlement or loss of cash or inventories.

At present, we have engaged independent third party logistics service providers for the pick up and delivery of the wine and spirits products that we purchased from our suppliers to our warehouse in Hung Hom, who would assume all risks from our suppliers’ warehouse to our warehouse in Hung Hom. We rely solely on our logistics service providers to ensure that our wine and spirits products are stored in temperature controlled containers during the transportation process. As part of our measures to ensure that the procured wine and spirits products are not contaminated during its shipment to our warehouse and are in merchantable quality upon arrival, we engage logistics companies which we consider reputable and experienced in the shipment of wine and spirits products. It is our common practice, and as part of our quality control measures, to arrange for delivery of our wine and spirits products by air freight as the transportation time is minimised, thereby reducing the potential risks of damage to the quality of the wine during transportation. We would adopt delivery by ship as a low-cost alternative under exceptional circumstances in which our Directors, taking into account factors such as the aggregate amount of our purchase order, consider that the purchase order does not justify the high logistics costs of delivery by air.

The wine and spirits products that we purchased from our suppliers are generally delivered to us at our own costs and risks. The fees that we pay to the logistics service providers typically cover all the expenses to be incurred by the logistics service providers, including taxes and any other handling fees.

We will assume the risk and liability of our products upon arrival at our warehouse in Hung Hom until our products are delivered to our customers. In respect of products that are collected by our customers personally at our retail showroom or our office premises, we have no liability to our customers once the relevant customer collected the products and left our retail showroom or our office premises, and in respect of products that are delivered to our customers, we will assume liability until the delivery to and pick-up by our customer at the designated point of pick-up in Hong Kong. In both instances, we have obtained insurance to cover the risk on our products. See “— Insurance” for further details.

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During the Track Record Period, we have not experienced any material loss in relation to the delivery of our wine and spirits products.

QUALITY CONTROL OF OUR WINE AND SPIRITS PRODUCTS

Due to inherent limitations to conduct product sampling of our wine and spirits products, we adopt and adhere to a set of strict quality control guidelines comprising a combination of restrictive selection process for our suppliers and multiple physical inspections to be conducted by various wine consultants. See “— Our suppliers” for further information on our selection criteria and process in respect of our suppliers, and see “— Logistics and warehousing” for further information on our delivery logistics.

Upon the arrival of the wine and spirits products at our warehouse in Hung Hom, a member of our logistics team will inspect the product by examining the physical appearance of the product based on its labelling, wine level, sealing and its overall packaging.

In relation to certain wine and spirits products which are prone to counterfeiting, we adhere a sticker bearing an unique bar-code to such wine and spirits products for our internal identification purposes to prevent counterfeiting. We also procure wine and spirits products from suppliers which we consider reputable and conduct assessment procedures on new suppliers. During our inspection process to ascertain whether a bottle of wine is a suspected counterfeit, we examine the wooden case, the exterior design of the wine bottle, carvings at the bottom of the wine bottle, the label (such as the graphics, quality of the label, and whether the label is too new or too old with reference to the vintage of the wine), the capsule (such as the color and the aluminum foil’s design, and whether there is any hologram/anti-counterfeit sticker) and whether there are any special designs. During the Track Record Period and up to the Latest Practicable Date, no counterfeit product had been found and identified.

During the inspection process, should our logistics team consider the product defective for any reason such as defective labelling, inadequate wine level, broken-seals or unacceptable overall packaging and appearance, our logistics team will inform our purchasing team, who would then liaise with the relevant supplier informing them of such defects with supporting photograph images and arrange for return of the product, and subsequently, refund of our purchase order. Thereafter, our suppliers will deliver another batch of the same product to us. Depending on the circumstances of each case, costs incurred by us for the return of products may be borne by our suppliers or alternatively, our suppliers will grant us a special discounts on our subsequent orders to cover the additional costs incurred by us.

COMPLAINT HANDLING POLICY

We have implemented complaint handling policy, and all of the complaints lodged by our customers in respect of our wine and spirits products will be handled by a member of our sales team and considered by our Directors, who will, depending on the circumstances of the complaint and other

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factors such as our relationship with the complainant, consider appropriate remedial actions for our customers. Once appropriate remedial actions have been determined, a member of our sales team will follow up with the relevant customer in respect of remedial arrangements, including arranging for refund of the relevant product in dispute.

During the Track Record Period and up to the Latest Practicable Date, we had not received any material complaints relating to our wine and spirits products.

PRODUCT RETURN POLICY

We offer a three-day full refund guarantee policy to our customers on all of our wine and spirits products within 10 years vintage and below \$700 per bottle sold by us on the basis of defective products.

Under the terms of our sales invoice, customers have the right to request for full refund within three days starting from (and including) the date of purchase on defective products purchased from our retail showroom or our office premises in respect of wine and spirits products within 10 years vintage and below HK\$700 per bottle. We will arrange refund of the full purchase price using the same means of settlement as adopted at the time of purchase. Upon receipt of the return products, with or without our anti-counterfeit sticker (depending on the product), all acclaimed defective products would be examined and inspected by our sales team. Our purchasing staff would then liaise with the relevant supplier and logistics service provider for refund and return of the products if they are found to be defective. We only provide refund after the expiration of the three-day full refund guarantee period in exceptional cases, which are reviewed on a case-by-case basis, as determined at our sole discretion, and at such amount as we deem appropriate.

During the Track Record Period and up to the Latest Practicable Date, we had not received any material requests for return of our products.

INVENTORY CONTROL

Maintaining an optimal level of inventories is important to our business, and our inventory comprises primarily wine and spirits products. Excessive levels of inventories will result in increased working capital and consequently, we may incur additional inventory costs. Conversely, inadequate levels of inventories may affect our ability to meet our customers’ demand, which will adversely affect our operating results. In general, our level of inventories at our retail showroom carries a balanced levels of Rare and Collectible Red Wine and Fine Red Wine with selected Value Red Wine, while the level of inventories at our warehouse in Hung Hom is focused on Fine Red Wine and Value Red Wine.

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any material theft, misappropriation, embezzlement or loss of cash and inventory.

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To ensure the security at our retail showroom, we have implemented the following measures:

- our night-shift staff will calculate the amount of cash in the till every night after the retail showroom is closed. In the event that there is a discrepancy between the amount of cash in the till and the amount shown on the POS system, the responsible staff will report to our management immediately;
- we keep most of our cash in a safe deposit box and we only retain cash in the amount of HK\$3,000 in our till for next day’s operations;
- each day prior to the open of business, we will recount the amount of cash in the till and in the safe deposit box and arrange to deposit all the cash at our bank account. If the amount of cash to be deposited at the bank exceeds HK\$100,000, we will arrange at least two staff to make the deposit for security and safety reasons. All bank-in receipts are kept by our finance department;
- a lock is attached to each of our wine and spirits products with a retail price of more than HK\$3,000, which will only be unlocked upon purchase;
- we have installed 6 CCTVs to monitor the retail showroom at all times; and
- we have installed an infrared security system, which is connected to an external security company and is turned on every night after all staff are left. In the event that the security system has been triggered, our security company will contact our Directors immediately and if our Directors could not be reached, the security company would make a report to the police.

To ensure the security at our office premises, we have implemented the following measures:

- all cash received at our office premises are passed on to our finance department on the same day and the staff receiving the cash from our customers are required to prepare a report confirming the amount of cash. All cash received at our office premises are kept in our safe deposit box; and
- we only retain limited cash of not more than HK\$20,000 at our office premises.

Inventory management

EPOS system

We have installed an EPOS system at our retail showroom, office premises and warehouse to monitor the level of our inventories electronically as the level of inventories will be updated automatically upon registration of a sale at the cashier at our retail showroom and office premises. Information generated from the system enables us to closely monitor our level of inventories. Furthermore, we carry out weekly stock-taking and prepare weekly reports for our internal records to ensure the number of actual physical inventories is consistent with our record in the EPOS system. Our

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Directors will review and analyse the levels of our inventories annually and consider implementation of appropriate actions to be taken against accumulation of slow-moving inventories, such as offering special discounts and, if necessary, conducting stock clearance sale to promote sales or temporarily suspending further intake of slow-moving items.

Outsourced warehousing and inventory management

During the Track Record Period, we have engaged an independent logistics company to provide for certain warehousing and inventory management services to us. Some of our stock inventories, which are mostly Value Red Wine or Value White Wine are kept at our warehouse in Kwai Chung. See “— Logistics and warehousing” for further information about the warehousing services at our warehouse in Kwai Chung. In addition to the warehousing services, our independent logistics and management company also provides certain inventory management services to us and arranges for warehouse management system, inventory control and stock movement reports, including daily receiving, stock take variance, weekly and monthly transaction summary and stock list.

Inventory turnover days

For the years ended 31 March 2012 and 31 March 2013 and the five months ended 31 August 2013, our inventory turnover days were 126 days, 160 days and 134 days, respectively, while the average balance of our inventory during the same periods was approximately HK\$96.6 million, HK\$90.5 million and HK\$81.6 million, respectively. See “Financial Information — Summary of key financial ratios — Capital adequacy ratios — Inventory turnover days” for further details.

Policy for provisions for inventories

At the end of each year, we identify and make provision for inventories which our Directors consider appropriate taking into account various factors such as historical and forecast revenue and marketability of such products. Historically, we made full provisions for selected inventories that we considered low in marketability.

For the year ended 31 March 2012 and the five months ended 31 August 2013, we have made allowance for inventories with net realisable value estimated to be below the cost of approximately HK\$0.1 million and HK\$0.4 million, respectively, and for the year ended 31 March 2013, we have a reversal of approximately HK\$2.4 million for inventories. The reversal of inventories represents the reversal of the relevant inventory provisions, which had been made in prior years with subsequent sales of such inventories at cost or above during the year ended 31 March 2013.

In considering whether provisions for inventories should be made, at the end of each reporting period, our finance department, which consists of our chief financial officer and our accounting staff, will carry out an inventory review whereby we generate an inventory aging report, and we will compare the latest selling prices at the date of the inventory assessment against the costs of inventories as at the end of the reporting period. In respect of products which are either aged over one year or carry an inventory value which is lower than the latest selling price, our finance department will discuss with our Directors to consider if impairment is considered necessary.

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If our management considers it necessary to make provisions, we will estimate the net realisable value for such inventories. To ensure the fairness of the inventory valuation, we estimate the net realisable value of our inventories with reference to the latest market prices and current market conditions, taking into account of various factors, including but not limited to, the retail prices of similar products of some of our competitors, the retail prices in the open market, the historical sales performance of similar products, recent market trends, reviews of the particular wine and spirits products by wine critics or grading by other industry authoritative magazines, if any. Under the HKFRSs, the net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale, and refers to the net amount, which an entity expects to realise from the sale of inventory in the ordinary course of business. We expect the net realisable value to reflect latest market prices and current market conditions set out above and we expect the net realisable value to be the market value of our inventories.

As the net realisable value is estimated to be above the cost, our Directors consider that the inventory provision made is adequate. See “Financial Information — Descriptions of certain income statement items — Cost of sales” for further details.

COMPETITION

Competition in the wine and spirits market in Hong Kong has increased significantly since the removal of all duty-related customs and administrative controls for wine and liquor with less than 30% alcohol content in February 2008, and is categorised by a small number of specialised retailers and a large number of small players, each presenting their own wine and spirits products list varying in terms of product category and product range, and each targeting at their own specific market segment.

The principal bases of competition in the wine and spirits market in Hong Kong include, among other things, product range and sufficient stock inventories, relationships with suppliers to ensure steady supply, responsiveness to changing consumer and market trends, strength and breadth of sales network and competitive price. Our Directors believe that we have distinguished ourselves from our competitors on the basis of the following characteristics:

- our ability to select, manage and sell our wine and spirits products;
- our wide range of premium wine and spirits products portfolio;
- our well-established relationship with our suppliers and our customers;
- our emphasis on product quality and personalised services; and
- our ability to adapt and respond to customer preferences and market trends.

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CORPORATE GOVERNANCE

Corporate Governance Measures

Our Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of the Shareholders:

- (1) the Articles provide that a Director shall abstain from participating in Board meetings (nor shall he/she be counted in the quorum) and voting on any resolution of the Board approving any contract or arrangement or other proposal in which he/she or any of his/her associates is materially interested unless a majority of the independent non-executive Directors expressly requested him/her to attend;
- (2) the independent non-executive Directors will review and disclose decisions with basis, on an annual basis, the compliance with the non-competition undertaking by the Controlling Shareholders;
- (3) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the non-competition undertaking;
- (4) our Company will disclose decisions with basis on matters reviewed by the independent non-executive Directors relating to compliance with and enforcement of the non-competition undertaking of the Controlling Shareholders in the annual reports of our Company;
- (5) our Controlling Shareholders will make an annual declaration on compliance with their non-competition undertaking in the annual report of our Company; and
- (6) the independent non-executive Directors may appoint independent financial advisers and other professional advisers as they consider appropriate to advise them on any matter relating to the non-competition undertaking or connected transaction(s) at the cost of our Company.

Further, any transaction that is proposed between our Group and our Controlling Shareholders and their respective associates will be required to comply with the requirements of [REDACTED], including, where appropriate, the reporting, annual review, announcement and independent shareholders’ approval requirements.

None of the members of our Group has experienced any dispute with its shareholders or among its shareholders themselves and our Directors believe that each member of our Group has maintained positive relationship with its shareholders. With the corporate governance measures including the measures set out above, our Directors believe that the interest of the Shareholders will be protected.

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EMPLOYEES

As at the Latest Practicable Date, we had a total of 36 employees. The table below sets forth a breakdown of our employees by function as at 31 August 2013:

Function	Number of employees
Directors	3
Senior management	4
Accounts	2
Purchase officers	2
Sales and marketing	16
Warehouse and logistics	5
Human resources & administration	4
Total	36

Our standard remuneration package includes base salary, discretionary bonuses, sales commission and medical insurance. Each of our employee’s remuneration package is determined in light of his/her qualification, position and seniority. To ensure our remuneration package remains competitive, we conduct annual assessment on each employee’s remuneration package.

The total amount paid by our Group for our staff costs during the years ended 31 March 2012 and 31 March 2013 and the five months ended 31 August 2013 were approximately HK\$18.8 million, HK\$9.0 million and HK\$4.8 million, respectively, representing 6.7%, 4.4% and 5.2% of our total cost of sales for the corresponding periods.

Staff training

We provide induction programmes and continuous regular trainings to our employees to enhance their industry, technical and product knowledge, as well as their familiarity with work safety standards. We place particular emphasis on the training of our wine consultants in order to promote a high quality of customer service to our customers, and we also arrange training sessions with our suppliers to further enhance our employees’ product knowledge on selected wine and spirits products.

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PROPERTY

Our operation is carried out on leased premises. As at the Latest Practicable Date, we had leased the following properties, a summary of which is set forth in the table below:

Property	Location	Expiry date of contract period	Monthly rental HK\$	Total floor area sq. ft.
Retail showroom	Shop G6 Hankow Centre Nos.5-15 Hankow Road Tsim Sha Tsui Kowloon	14 August 2014	328,000 (exclusive of charges and government rates)	668 (saleable)
Office premises	Suite 822 Ocean Centre Harbour City Tsim Sha Tsui Kowloon	31 Jan 2015	160,488.5	4,063 (lettable)
Warehouse	Hung Hom Kowloon	31 March 2014	25,000	2,090 (saleable)

The retail showroom and the office premises are leased from independent third parties at prevailing market rates. Our warehouse in Hung Hom is leased from Mr. Leung, our Controlling Shareholder. We have been advised by our property valuer that our warehouse in Hung Hom is leased from Mr. Leung at a fair and reasonable price which is consistent with the market rent for similar premises in similar locations. [REDACTED]

Unauthorised building works

A cockloft has been erected in each of our retail showroom and warehouse in Hung Hom leased by Major Cellar. As advised by the registered structural engineer, no formal approval had been granted for such addition/alteration by the relevant government authorities. Such cocklofts may be subject to a closure order to be imposed by the relevant government authority on the landlords in the event that the cocklofts are declared unfit for use and occupation. In the event that any closure order is imposed by the relevant government authority on our retail showroom and warehouse in Hung Hom, the landlords of such premises may be required to remove the cocklofts at the expense of Major Cellar. The total revenue generated from our retail showroom had accounted for approximately 28.9%, 27.6% and 29.0% of our total revenue for the years ended 31 March 2012 and 31 March 2013 and the five months ended 31 August 2013, respectively, and whereas our warehouse in Hung Hom has made no contribution to our revenue during the years ended 31 March 2012 and 31 March 2013 and the five months ended 31 August 2013.

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Pursuant to the tenancy agreement in respect of our retail showroom and warehouse in Hung Hom, the erection of the cocklofts in each of our retail showroom and warehouse in Hung Hom by Major Cellar may lead to a breach of the respective tenancy agreements and accordingly, the landlords have the right to (i) request Major Cellar to remove the cocklofts at its own expenses and (ii) forfeit the lease and claim damages from Major Cellar. As advised by our legal advisers as to Hong Kong law, notwithstanding the existence of the unauthorised building work, the tenancy agreement for the warehouse in Hung Hom continues to be valid and subsisting and in full force. As at the Latest Practicable Date, no termination of the tenancy agreements by the landlords has taken place.

In the event that our landlord in respect of our retail showroom exercises its rights of re-entry under the tenancy agreement, we will have to close our retail showroom at once and relocate elsewhere. The closure of our retail showroom may result in an estimated daily loss of revenue of approximately HK\$180,000, which is calculated by reference to the average daily revenue generated from our retail showroom during the Track Record Period. We will seek to relocate our retail showroom within the proximity of our existing retail showroom or, failing which, within the same district, Tsim Sha Tsui, as we have established our client base and a proven record in the district, and taking into account the failure of our shop in Central, which was located in a commercial building, we will also look for a property which is located on the ground floor, as it will be easily accessible by the public. As we have established a customer base with recurring customers, our Directors believe that the new retail showroom will provide further convenience to our existing customers as well as attracting new customers, thereby generating the targeted level of revenue.

In respect of our warehouse in Hung Hom, Major Cellar and Mr. Leung entered into a supplemental tenancy agreement on 20 May 2013 in which Mr. Leung irrevocably and unconditionally waived his right to take action against Major Cellar and the right to re-enter our warehouse in Hung Hom, and confirmed that in any event the tenancy agreement of our warehouse in Hung Hom shall be valid and subsisting notwithstanding the previous unapproved erection of the cockloft. Based on verbal communication with the landlord of our retail showroom, the landlord had indicated that it has no intention to forfeit the lease of our retail showroom by reason of Major Cellar’s historical erection of the unauthorised addition/alteration in our retail showroom so long as Major Cellar undertakes to remove the cockloft within a reasonable period of time.

The demolition works in respect of the retail showroom and the warehouse in Hung Hom were completed on 28 July 2013 and 24 July 2013, respectively. The costs and expenses incurred in relation to the demolition of the unauthorised building works at the retail showroom and the warehouse in Hung Hom amounted to approximately HK\$110,000 and HK\$9,000, respectively. We did not incur any loss of revenue as we had continued the business operations at our retail showroom during the demolition period and we did not incur any additional costs for the storage of our inventories as we had relocated some of our stock inventories from the warehouse in Hung Hom to our office premises prior to the demolition. Subsequent to the demolition, we further engaged an Authorised Person to issue a report on each of the retail showroom and the warehouse in Hung Hom, which confirmed that the retail showroom and the warehouse in Hung Hom no longer contain any unauthorised building works.

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Our Controlling Shareholders have agreed to indemnify us against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered by or incurred by us, whether directly or indirectly, in connection with the unauthorised addition/alteration in our retail showroom and warehouse in Hung Hom, including the losses incurred as a result of any disruption to the daily operation of our retail showroom and warehouse in Hung Hom resulting from the removal of the unauthorised addition/alteration or closure order imposed by the relevant government authority.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we had registered three trademarks and had applied for the registration of one trademark in Hong Kong and one domain name. See “Appendix IV - Statutory and General Information — Intellectual property rights of our Group” for further details. Our Directors believe that we have taken all reasonable measures to prevent infringement of our own intellectual property rights.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any infringement of our intellectual property rights and we were not aware of any pending or threatened claims against us in relation to the infringement of any intellectual property rights of third parties.

INSURANCE

We had taken insurance policies to protect us against a range of contingencies including damages to our stock inventories at our retail showroom, warehouse in Hung Hom and warehouse in Kwai Chung, which covers substantially all of our stock inventories, destruction or damage to the property and public liability insurance in respect of our retail showroom, warehouse in Hung Hom and warehouse in Kwai Chung, general insurance covering risks and liabilities in connection with our retail showroom, warehouse in Hung Hom, warehouse in Kwai Chung and office premises and inland transit insurance in respect of the delivery of our products from our retail showroom, office premises or warehouses to our customers’ designated point of pick-up in Hong Kong. We have also taken out medical insurance for all of our full-time employees. We do not maintain product liability insurance and no material product liability claims have been made against us in the past.

The total amount paid by our Group for our insurance premiums during the years ended 31 March 2012 and 31 March 2013 and the five months ended 31 August 2013 were HK\$192,000, HK\$202,000 and HK\$52,000, respectively, representing approximately 0.1%, 0.1% and less than 0.1% of our total revenue for the corresponding periods.

During the Track Record Period, we did not submit any material insurance claims. Our Directors believe that the insurance coverage taken by us over our assets, properties and employees is adequate and sufficient for our operations.

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LEGAL PROCEEDINGS AND REGULATORY MATTERS

Legal Proceedings

During the Track Record Period and up to the Latest Practicable date, we had not been involved in any material arbitration, litigation or administrative proceedings which had or could be expected to have a material and adverse effect on our business or results of operations.

Laws and Regulation

As a retailer of consumer products, our business and operations are subject to laws and regulations on general consumer protection. Compliance with the applicable laws and regulations is monitored by governmental and regulatory authorities. See the section headed “Regulatory Overview” for further details. As at the Latest Practicable Date, we had not been involved in any product liability claims.

MATERIAL NON-COMPLIANCE INCIDENTS

We set out below our material non-compliance incidents with applicable laws and regulations during the Track Record Period. Our Directors are of the view that (i) adequate provisions had been made in respect of the non-compliance incidents and (ii) these incidents of non-compliance, whether individually or collectively, will not have a material operational or financial impact on us.

1. Historical Statutory Financial Statements and Tax Computation Containing Incorrect Information and Filing of Incorrect Tax Returns

The audited financial statements of Major Cellar for the period ended 31 March 2011 and for the year ended 31 March 2012 (the “**Historical Statutory Financial Statements**”) and the tax computation for the year of assessment 2011/12 (the “**Tax Computation**”) previously filed with the Inland Revenue Department contained certain incorrect information. As a result, the assessable profits as set out in the tax return for the year of assessment 2010/11 was understated by approximately HK\$22.1 million and consequently, the tax return for the year of assessment 2011/12 was overstated by approximately HK\$14.9 million. Accordingly, the additional tax provision for the year of assessment 2010/11 is approximately HK\$3.6 million and the tax refund for the year of assessment 2011/12 is approximately HK\$2.5 million.

Details of the Incorrect Information

The Historical Statutory Financial Statements and the Tax Computation contained the following incorrect information (the “**Incorrect Information**”):

- the impairment loss of inventories (which is included in the cost of sales) for the year ended 31 March 2011 was overstated by approximately HK\$22.1 million. During the period ended 31 March 2011, a general provision on inventories of approximately HK\$28.7 million was made by our Group. Our chief financial officer revisited the net realisable value of our inventories based on the market prices and market conditions as at 31 March 2011 and

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carried out an inventory review on a product-by-product basis as at 31 March 2011 and considered that the net realisable value of our inventories was higher than the cost of such inventories. Accordingly, the impairment loss of inventories in the amount of approximately HK\$22.1 million made on the basis that the net realisable value of such inventories is estimated to be below the cost was incorrect.

- the costs of sales for the year ended 31 March 2012 was understated by approximately HK\$22.1 million. As allowances were made during the year ended 31 March 2011 for our inventories in the amount of approximately HK\$22.1 million were sold during the year ended 31 March 2012, the respective cost of inventories recognised as cost of sales would be reduced by approximately HK\$22.1 million during the year ended 31 March 2012. Accordingly, the overstatement of the impairment loss of inventories for the year ended 31 March 2011 would result in the understatement of the costs of sales for the year ended 31 March 2012.
- the impairment loss of inventories for the year ended 31 March 2012 was understated by approximately HK\$1.2 million when our chief financial officer revisited the net realisable value of our inventories as at 31 March 2012 which was estimated to be lower than the cost of inventories by approximately HK\$1.2 million.
- the impairment loss recognised on trade deposits paid in the amount of approximately HK\$8.7 million for the year ended 31 March 2012 was overstated. Trade deposits paid represented the deposits paid by us to our suppliers for our purchase of inventories. During the year ended 31 March 2012, an impairment loss on trade deposits paid in the amount of approximately HK\$8.7 million was made in view of the decrease in the market values of certain wine products, resulting in the selling prices of certain wine products at the relevant time to fall below our purchase prices agreed with our suppliers. However, while the subject matter wine products were not delivered by our suppliers to us as at 31 March 2012, we had received purchase orders from our customers in respect of the subject matter wine products with agreed selling prices above our purchase prices agreed with our suppliers and we had obtained deposits from such customers as at 31 March 2012. Accordingly, the impairment losses on the trade deposits paid in the amount of approximately HK\$8.7 million was incorrect.

In addition, the Tax Computation contained the following incorrect information:

- the deduction claim in the amount of approximately HK\$0.3 million in the tax computation for the year of assessment 2011/12 was understated due to arithmetical error.

As the tax returns for the years of assessment 2010/2011 and 2011/2012 were prepared based on the Historical Statutory Financial Statements containing the Incorrect Information, the assessable profits as set out in the tax return for the year of assessment 2010/2011 was understated by approximately HK\$22.1 million and consequently the assessable profits for the year of assessment 2011/2012 was overstated by approximately HK\$14.9 million.

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Circumstances leading to the non-compliance incident

In the early stage of development of Major Cellar, the finance department, which was responsible for, among other matters, the internal book keeping and the preparation of the management accounts, consisted of two accounting personnel, both of whom possessed prior experience in accounting but both accounting personnel were not qualified accountants. In addition, Major Cellar had engaged an independent audit firm (the “**local auditor**”) to conduct the audit of its financial statements for each of the financial years ended 31 March 2011 and 31 March 2012 and the local auditor was also appointed as the tax representative of Major Cellar in respect of its tax submission for each of the years of assessment 2010/11 and 2011/12. In connection with the Historical Statutory Financial Statements and the Tax Computation previously filed with the Inland Revenue Department, which were audited/prepared by the local auditor, the finance department of Major Cellar was involved in preparing the management accounts and related supporting information used by the local auditor during its audit process. Prior to the filing with the Inland Revenue Department, the Historical Statutory Financial Statements and the Tax Computation were considered and approved by the directors of Major Cellar at the relevant time, Mr. Cheung and Mr. Leung, taking into account of, among others, the professional advice and judgement of the local auditor at the relevant time in relation to the adoption of the accounting policies and the computation of the assessable profits.

[REDACTED] our Group’s newly employed chief financial officer discovered the Incorrect Information. Upon identification of the Incorrect Information, Mr. Cheung and Mr. Leung, being the directors of Major Cellar at the relevant time, had reviewed the Historical Statutory Financial Statements and the Tax Computation and had discussions with the local auditors to understand the contents (including accounting treatments adopted) thereof. To the best knowledge of each of Mr. Cheung and Mr. Leung, the relevant impairment loss of inventories and trade deposits paid and the understatement of costs of sales had not been properly accounted for in the Historical Statutory Financial Statements and the Tax Computation due to various reasons, including the lack of experience of the members of the finance department of Major Cellar at the relevant time and the misjudgement made by the local auditor on the adoption of the accounting treatment.

Maximum legal liabilities and consequences on our Group and our Directors

In relation to (i) the Historical Statutory Financial Statements and the Tax Computation containing Incorrect Information and (ii) the filing of incorrect tax return, each of Major Cellar and its directors are in breach of section 51 (returns and information to be furnished) of the Inland Revenue Ordinance, accordingly, each of Major Cellar and its directors may be subject to (a) prosecutions under section 80 (penalties for failure to make returns, making incorrect returns, etc.) and section 82 (penal provisions relating to fraud, etc.), or (b) prosecutions under section 82A (additional tax in certain cases) of the Inland Revenue Ordinance.

Pursuant to section 57 of the Inland Revenue Ordinance, the director and principal officer of a body of persons shall be answerable for doing all such acts, matters, or things as are required to be done under the provisions of the Inland Revenue Ordinance by such corporation or body of persons. Accordingly, each of Major Cellar and its directors may be subject to the same liabilities for the breaches of the Inland Revenue Ordinance.

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Prosecutions under sections 80 and 82 of the Inland Revenue Ordinance

Pursuant to section 80(2) of the Inland Revenue Ordinance, the maximum penalty which may be imposed by the Inland Revenue Department on or payable by Major Cellar and/or its directors in relation to the Incorrect Information is a fine at level 3, being HK\$10,000, plus treble the amount of tax which has been undercharged as a result of the incorrect return, statement or information, or would have been so undercharged if the return, statement or information had been accepted as correct, or which has been undercharged in consequence of the failure to comply with a notice under section 51(1) or (2A) of the Inland Revenue Ordinance or a failure to comply with section 51(2) of the Inland Revenue Ordinance, or which would have been undercharged if such failure had not been detected. Furthermore, no person shall be liable to any penalty under this section unless the complaint concerning such offence was made in the year of assessment in respect of or during which the offence was committed or within 6 years after the expiration thereof. Accordingly, our tax legal advisers are of the view that, subject to the confirmation of the tax undercharged on Major Cellar for the year of assessment 2010/11, the potential maximum penalty chargeable against Major Cellar and its directors under section 80(2) of the Inland Revenue Ordinance with respect to the Incorrect Information is HK\$10,000 plus HK\$10,914,807, being treble the amount of tax undercharged.

Pursuant to section 82 of the Inland Revenue Ordinance, the maximum penalty which may be imposed by the Inland Revenue Department on or payable by Major Cellar and/or its directors in relation to the Incorrect Information is:

- on summary conviction, a fine at level 3, being HK\$10,000 plus treble the amount of tax which has been undercharged in consequence of the offence or which would have been undercharged if the offence has not been detected, and to imprisonment for 6 months; or
- on indictment, the penalty is a fine at level 5, being HK\$50,000, plus treble the amount of tax so undercharged or which would have been so undercharged, and to imprisonment for 3 years.

There is no limitation period for an offence committed under section 82 of the Inland Revenue Ordinance. Accordingly, our tax legal advisers are of the view that, subject to the confirmation of the tax undercharged for the year of assessment 2010/11, with respect to the Incorrect Information, the maximum penalty may amount to HK\$50,000 plus HKD10,914,807, being treble the amount of tax undercharged) plus imprisonment for 3 years.

In contrast, there is no limitation period for an offence committed under section 82 of the Inland Revenue Ordinance as stated under the Inland Revenue Ordinance. With respect to additional tax under section 82A of the Inland Revenue Ordinance, there is again no limitation period expressed in the Ordinance for the raising of such additional tax. For the sake of completeness, the additional tax in this section may be regarded as penalty, and according to the Limitation Ordinance (Cap. 347 of the laws of Hong Kong), an action to recover any penalty shall not be brought after the expiration of 2 years from the date on which the cause of action accrued. Kindly note that the two-year period commences from the date of the issue of the penalty assessment or at the latest from the date when payment under the assessment is required to be made.

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As advised by our tax legal advisers, based on the assumptions and qualifications set out in their legal opinion, the chances of Major Cellar and/or its directors being prosecuted for a criminal offence under sections 80 and 82 of the Inland Revenue Ordinance for the Incorrect Information are remote. The legal opinion of our tax legal advisers, together with the assumptions and qualifications in coming to their advice, will be available for inspection as referred to in paragraph (l) under the section headed “Documents Available for Inspection” in Appendix V to this document.

Prosecutions under section 82A of the Inland Revenue Ordinance

Pursuant to section 82A of the Inland Revenue Ordinance, the maximum penalty which may be imposed by the Inland Revenue Department on or payable by Major Cellar and/or its directors in relation to the Incorrect Information is treble the amount of tax which has been undercharged as a result of the incorrect return, statement or information, or would have been so undercharged if the return, statement or information had been accepted as correct, or which has been undercharged in consequence of the failure to comply with a notice under section 51(1) or (2A) of the Inland Revenue Ordinance or a failure to comply with section 51(2) of the Inland Revenue Ordinance, or which would have been undercharged if such failure had not been detected. There is no limitation period for an offence committed under section 82A of the Inland Revenue Ordinance. Accordingly, our tax legal advisers are of the view that, subject to the confirmation of the tax undercharged for the year of assessment 2010/11, with respect to the Incorrect Information, the maximum additional tax as penalty may amount to HKD10,914,807 (treble the amount of tax undercharged).

Under the Limitation Ordinance (Chapter 347 of the laws of Hong Kong), an action to recover any penalty shall not be brought after the expiration of 2 years from the date on which the cause of action accrued. On this basis, our tax legal advisers are of the view that the Inland Revenue Department may take actions against Major Cellar and/or its directors within a two-year period commencing from the date of the issue of the penalty assessment or at the latest from the date when payment under the assessment is required to be made.

As advised by our tax legal advisers, based on the assumptions and qualifications set out in their legal opinion, the risk for penalty under section 82A of the Inland Revenue Ordinance to be imposed on Major Cellar and/or its directors with respect to the Incorrect Information is remote. The legal opinion of our tax legal advisers, together with the assumptions and qualifications in coming to their advice, will be available for inspection as referred to in paragraph (m) under the section headed “Documents Available for Inspection” in Appendix V to this document.

Remedial / Rectification actions taken and updated status

We had made the prior year adjustments in the financial statements of Major Cellar for the year ended 31 March 2013 to rectify the Incorrect Information contained in the Historical Statutory Financial Statements and the Tax Computation.

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Details of the prior year adjustments made in the financial statements of Major Cellar for the year ended 31 March 2013 are as follows:

- 1) Adjustments on increasing cost of sales and decreasing accumulated profits by approximately HK\$22.1 million due to the overstatement of the impairment loss of the relevant inventories for the year ended 31 March 2011;
- 2) Adjustments on increasing impairment loss of inventories and decreasing inventories by approximately HK\$1.2 million due to the revised estimate of net realisable value of the inventories was lower than the cost of inventories, by the same amount as of 31 March 2012;
- 3) Adjustments on decreasing cost of sales and increasing trade deposits paid by approximately HK\$8.7 million due to the overstatement of the impairment loss on trade deposits paid to a supplier of HK\$8.7 million;
- 4) Adjustments on decreasing depreciation expense and increasing property, plant and equipment by approximately HK\$0.8 million due to adoption of wrong depreciation rate and depreciation period in the calculation of depreciation on certain property, plant and equipment;
- 5) Adjustments on decreasing income tax expenses by approximately HK\$2.4 million, increasing tax liabilities by approximately HK\$1.3 million and decreasing accumulated profits by approximately HK\$3.7 million due to the above adjustments on profit or loss for the year ended 31 March 2012;
- 6) Adjustments on increasing deferred tax expenses by approximately HK\$0.2 million, decreasing accumulated profits by HK\$0.2 million and increasing deferred tax liabilities by approximately HK\$0.4 million due to no deferred tax liabilities recognised in respect of the temporary taxable difference arising from the accelerated depreciation allowance in prior periods;
- 7) Reclassifications on certain financial position items as at 31 March 2012 have been made due to misclassifications of certain related parties balances, receivables, payables and wrong classifications among current assets/liabilities and non-current assets/liabilities.

We had on a voluntary basis submitted the rectified tax submission and reported the Incorrect Information relating to the audited financial statements of Major Cellar for the years ended 31 March 2011 and 31 March 2012 to the Commissioner on 7 June 2013. Subsequent to our submission of the rectified tax submission, we received a letter dated 19 July 2013 from the Inland Revenue Department requiring additional information on the rectified tax submission. We had submitted the additional information required by the Commissioner on 13 August 2013.

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On 28 August 2013, our tax representative submitted a combined revised tax computation to the Inland Revenue Department (the “**Combined Revised Tax Computation**”). Under the Combined Revised Tax Computation, there is no adjustment to the year of assessment 2010/11, and the assessable profits for the year of assessment 2011/12 had been revised to approximately HK\$31.0 million, resulting in a net tax payable of approximately HK\$1.4 million for the year of assessment 2011/12. On 5 September 2013, the Inland Revenue Department issued an additional assessment for the year of 2011/12 to Major Cellar demanding approximately HK\$1.4 million, being the additional amount of tax chargeable based on the Combined Revised Tax Computation (the “**Additional Tax Demand**”). Major Cellar had settled the Additional Tax Demand on 10 September 2013.

On 24 October 2013, our tax representatives and our tax legal advisers conducted a telephone enquiry with the assessor in charge at the Inland Revenue Department (the “**Assessor**”) and had been verbally confirmed by the Assessor that the Additional Tax Demand had been fully settled and the case in relation to the Incorrect Information had been settled and was closed. Furthermore, our tax representatives and tax legal advisers had been informed by the Assessor that he was of the view that the Incorrect Information did not constitute a breach of section 82A of the Inland Revenue Ordinance relating to the filing of incorrect return, incorrect statement or incorrect information without reasonable excuse and he had not and would not consider imposing further additional tax/penalty in this regard.

We had made a reversal of approximately HK\$2.1 million to the income tax expense in respect of the Incorrect Information which had been recorded in our combined financial statements for the year ended 31 March 2012. Based on the revised tax computation performed by our chief financial officer and based on the telephone enquiry conducted between our Company’s tax representatives and the Inland Revenue Department assessor in charge on 24 October 2013, our Directors are of the view that the provisions are adequate and our Directors believe that the risk of further additional tax/penalty to be assessed by the Inland Revenue Department for Incorrect Information without reasonable excuse is remote. Accordingly, our Directors are of the view that the non-compliances in connection with the Incorrect Information will not have a material financial impact on our Group.

Furthermore, as we have been advised by our tax legal advisers that the likelihood of prosecutions against Major Cellar and/or its directors is low, our Directors are of the view that the non-compliances in connection with the Incorrect Information will not have a material operational and financial impact on our Group.

As at the Latest Practicable Date, no demand notice or penalties or charges have been made against Major Cellar and its directors in connection with the Incorrect Information.

To avoid the reoccurrence of statutory financial statements and tax computation containing incorrect information, our Group had employed the chief financial officer to handle all accounting matters of our Group since 19 March 2013. See “Directors and Senior Management — Senior management” for further details of the biography of our chief financial officer.

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The following table sets out a summary of the non-compliance incident:

Details of the non-compliance	Legal consequences including potential maximum penalties and other financial liabilities	Remedial / rectification actions taken
<p>The Historical Statutory Financial Statements and the Tax Computation of Major Cellar contained Incorrect Information relating to:</p> <ul style="list-style-type: none"> impairment loss of inventories (which is recognised in the cost of sales) for the year ended 31 March 2011 was overstated by approximately HK\$22.1 million due to the revised estimate of the net realisable value of our inventories as at 31 March 2011 was higher than the cost of such inventories; costs of sales for the year ended 31 March 2012 was understated by approximately HK\$22.1 million due to the overstatement of the impairment loss of the relevant inventories for the year ended 31 March 2011; impairment loss of inventories for the year ended 31 March 2012 was understated by approximately HK\$1.2 million due to the revised estimate of net realisable value of our inventories was lower than the cost of inventories, by the same amount as of 31 March 2012; 	<p>In relation to (i) the Historical Statutory Financial Statements and the Tax Computation containing the Incorrect Information and (ii) the filing of the incorrect tax return containing the Incorrect Information, each of Major Cellar and/or its directors may be subject to:</p> <ul style="list-style-type: none"> prosecutions under sections 80 and 82 of the Inland Revenue Ordinance; or prosecutions under section 82A of the Inland Revenue Ordinance. <p>Any person who without reasonable excuse in breach of section 80(2) of the Inland Revenue Ordinance commits an offence and is liable on conviction to a fine at level 3 (i.e. HK\$10,000) and a further fine of treble the amount of tax which has been undercharged as a result of the incorrect return, statement or information, or would have been so undercharged if the return, statement or information had been accepted as correct.</p>	<p>We had made the prior year adjustments in the financial statements of Major Cellar for the year ended 31 March 2013.</p> <p>We had on a voluntary basis submitted the rectified tax submission and reported the Incorrect Information relating to the audited financial statements of Major Cellar for the years ended 31 March 2011 and 2012 and the tax computation for the year of assessment 2011/2012 to the Commissioner of the Inland Revenue Department on 7 June 2013.</p> <p>On 5 September 2013, the Inland Revenue Department issued an additional assessment for the year of 2011/2012 to Major Cellar demanding an additional amount of tax of approximately HK\$1.4 million, which had been fully settled by Major Cellar on 10 September 2013.</p>

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Details of the non-compliance	Legal consequences including potential maximum penalties and other financial liabilities	Remedial / rectification actions taken
<ul style="list-style-type: none"> impairment loss recognised on trade deposits paid for the year ended 31 March 2012 was overstated by approximately HK\$8.7 million due to the oversight of the purchase orders from our customers in respect of the subject matter wine products with agreed selling prices above our agreed purchase prices with suppliers; and <p>The Tax Computation contained the following incorrect information:</p> <ul style="list-style-type: none"> deduction claim in the amount of approximately HK\$0.3 million in the tax computation for the year of assessment 2011/2012 was understated due to arithmetical error. <p>The assessable profits for the year of assessment 2010/2011 was understated and the assessable profits for the year of assessment 2011/2012 was overstated.</p>	<ul style="list-style-type: none"> Any person who commits an offence under section 82(1) of the Inland Revenue Ordinance is liable — <ul style="list-style-type: none"> (a) on summary conviction to a fine at level 3 (i.e. HK\$10,000), a further fine of treble the amount of tax which has been undercharged in consequence of the offence or which would have been undercharged if the offence has not been detected and imprisonment for 6 months; and (b) on indictment to a fine at level 5 (i.e. HK\$50,000), a further fine of treble the amount of tax which has been undercharged in consequence of the offence or which would have been undercharged if the offence has not been detected and imprisonment for 3 years. 	

Under section 82A of the Inland Revenue Ordinance, any person who without reasonable excuse and no prosecution under section 80(2) or 82(1) has been instituted in respect of the same facts, shall be liable to be assessed to additional tax of an amount not exceeding treble the amount of tax undercharged as a result of the filing of the incorrect tax return.

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2. Historical Non-compliance with the Companies Ordinance

Since the incorporation of Major Cellar and Major Aim, they had failed to comply with certain regulatory requirements under the Companies Ordinances including (i) failure to hold an annual general meeting in addition to any other meetings in that year, and specify the meeting as such in the notices calling it under section 111 of the Companies Ordinance, (ii) failure to lay before the annual general meeting, financial statements made up to a date being not more than nine months before the date of the annual general meeting under section 122 of the Companies Ordinance and (iii) failure to make timely filings in relation to certain company secretarial matters with the Companies Registry of Hong Kong under sections 13 and 92 of the Companies Ordinance.

Details of the non-compliance incident

Members of our Group have failed to comply with section 111 of the Companies Ordinance in the following manner (the “**convention of annual general meeting**”):

- the annual general meeting for the years of 2010 and 2011 of Major Cellar had not been validly convened; and
- the annual general meeting for the years of 2011 and 2012 of Major Aim had not been validly convened.

Members of our Group have failed to comply with section 122 of the Companies Ordinance in the following manner (the “**proper adoption of financial statements**”):

- the financial statements of Major Cellar for the financial years ended 31 March 2011 and 2012 had not been properly adopted in an annual general meeting; and
- the financial statements of Major Aim for the financial years ended 31 March 2011 and 2012 had not been properly adopted in an annual general meeting.

Major Cellar failed to make timely filings of a printed copy of its certified amended memorandum and articles of association on or before 21 January 2010 in accordance with section 13 of the Companies Ordinance (the “**filing of amended memorandum and articles of association**”).

Members of our Group had failed to comply with section 92 of the Companies Ordinance in the following manner (the “**notification of change of registered office**”):

- Major Aim failed to make timely filings of the notice of change of registered office at the Companies Registry on or before 10 February 2011; and
- Major Cellar failed to make timely filings of the notice of change of registered office at the Companies Registry on or before 10 February 2011.

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Circumstances leading to the non-compliance

Since the incorporation of Major Cellar and Major Aim, our management had engaged an independent third party service provider to handle all corporate secretarial matters relating to Major Cellar and Major Aim. The failures to comply with the Companies Ordinance were unintended and due to inadvertent oversights of and the mistakes as to the necessity of compliance with the time limit requirements under the relevant sections of the Companies Ordinance. Our management was not familiar with, and was not made aware of the statutory requirements under the Companies Ordinance at the relevant time.

Maximum legal liabilities and consequences on our Group and our Directors

Pursuant to section 111(5) and schedule 12 of the Companies Ordinance, the non-compliant company and every officer of the company who failed to hold an annual general meeting at all or in the prescribed manner as required under sections 111(1) and 111(6) of the Companies Ordinance may face a maximum fine of HK\$50,000.

Pursuant to section 122(1) and schedule 12 of the Companies Ordinance, the maximum penalty that may be imposed on the directors of a company for failing to approve the company’s annual financial statements in an annual general meeting as required under section 122(1) of the Companies Ordinance is a fine of HK\$300,000. Under the Companies Ordinance, no reference is made as to the penalty for the non-compliant company for non-compliance with section 122(1) of the Companies Ordinance.

Pursuant to section 13 and schedule 12 of the Companies Ordinance, the maximum penalty that may be imposed on the company and the responsible officer for failing to send a copy of the certified amended Memorandum and Articles of Association to the Companies Registry within 15 days of its adoption is a fine of HK\$10,000 and a daily fine of HK\$300 if the offence remains ongoing.

Pursuant to section 92 and schedule 12 of the Companies Ordinance, the maximum penalty that may be imposed on the company and the responsible officer for failing to notify the Companies Registry of the changing of the company’s registered address within 14 days from the date of the change is a fine of HK\$10,000 and a daily fine of HK\$300 if the offence remains ongoing.

As advised by our legal advisers as to Hong Kong law, in the event that a non-compliant company had rectified its non-compliances under the Companies Ordinance, the chance of prosecution against the non-compliant company or its officer by the Companies Registry is low and thus the chance of the Company and / or its officer, including the directors of Major Cellar and Major Aim, being fined up to the maximum is remote. In addition, by reference to the conviction record of companies being prosecuted under the Companies Ordinance in 2011 and 2012 published by the Companies Registry on its official website at www.cr.gov.hk, the maximum penalty for non-compliance with the Companies Ordinance did not exceed HK\$55,000. Therefore, our legal advisers as to Hong Kong law are of the view that in the event that the Company and/or its officer, including the directors of Major Cellar and Major Aim, is being prosecuted for the non-compliances with sections 111, 122, 13 or 92 of the Companies Ordinance, the penalty that may be imposed on the Company and/or its officer, including the directors of Major Cellar and Major Aim, would likely to fall below HK\$55,000.

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Rectifications taken and updated status

Orders were sought from the High Court for the rectifications of the non-compliances with sections 111 and 122 of the Companies Ordinance by Major Cellar and Major Aim on 4 June 2013 and court orders were made by the High Court on 24 June 2013 (the “**Court Orders**”). Pursuant to the Court Orders, the prescribed time limit for holding the annual general meetings to approve the financial statements for the financial years ended 31 March 2010, 31 March 2011 and 31 March 2012 of each of Major Cellar and Major Aim was extended to 7 July 2013. Each of Major Cellar and Major Aim had held their deemed annual general meetings on 5 July 2013 and approved their financial statements for the financial years ended 31 March 2010, 31 March 2011 and 31 March 2012 on the same day and accordingly, each of Major Cellar and Major Aim had complied with the Court Orders and rectified the non-compliances of sections 111 and 122 of the Companies Ordinance.

In respect of the failures to make timely corporate filings with the Companies Registry of Hong Kong under sections 13 and 92 of the Companies Ordinance, Major Cellar and Major Aim had notified the Companies Registry of the change of their registered addresses on 24 February 2011 and Major Cellar had sent a copy of its certified amended Memorandum and Articles of Association to the Companies Registry on 7 August 2013.

Our legal advisers as to Hong Kong law made a telephone enquiry with the Companies Registry on 17 October 2013 as to whether Major Cellar and Major Aim had been prosecuted by the Companies Registry for non-compliance with sections 13 and 92 of the Companies Ordinance and was informed that there were no records of any prosecutions by the Companies Registry against Major Cellar or Major Aim as at 17 October 2013.

No provisions had been made as the non-compliances with the Companies Ordinance had been rectified. As advised by our legal advisers as to Hong Kong law, the likelihood of prosecutions taken against Major Cellar and Major Aim and/or their respective directors are low, our Directors are of the view that such non-compliances will not have a material financial or operational impact on us.

As at the Latest Practicable Date, no notice, demand notice, penalties, charges or other legal documents have been served on / made against Major Cellar, Major Aim and their directors in connection with the non-compliance with Companies Ordinance from the Companies Registry.

To avoid the reoccurrence of the non-compliance, we will employ Mr. Lee Kwok Wan as our company secretary [REDACTED]. Mr. Lee is a member of the Hong Kong Institute of Chartered Secretaries, and will be responsible for, among other duties, handling the secretarial matters of our Group. See “Directors and Senior Management — Senior management — Company secretary” for further details of the biography of our company secretary. In addition, we will appoint an external Hong Kong legal counsel to advise us on compliance with the [REDACTED] and the applicable laws and regulations. See “— Material non-compliance incidents — Internal control measures to prevent future non-compliance” for further details.

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The following table sets out a summary of the non-compliance incident:

Details of the non-compliance incidents	Legal consequences including potential maximum penalties and other financial liabilities	Remedial / rectification actions taken / to be taken
<ul style="list-style-type: none"> The annual general meeting for the years of 2010 and 2011 of Major Cellar had not been validly convened in accordance with section 111 of the Companies Ordinance The annual general meeting for the years of 2011 and 2012 of Major Aim had not been validly convened in accordance with section 111 of the Companies Ordinance 	<p>The non-compliant company and the responsible officer who failed to hold an annual general meeting at all or in the prescribed manner as required by section 111 of the Companies Ordinance may be fined up to \$50,000.</p>	<p>Orders were sought from the High Court of Hong Kong for rectifying the non-compliances with sections 111 and 122 of the Companies Ordinance on 4 June 2013 and the court orders were granted by the High Court of Hong Kong on 24 June 2013. Pursuant to which, the time limit for holding the deemed annual general meetings and approving the financial statements of Major Cellar and Major Aim for the financial years ended 31 March 2010, 31 March 2011 and 31 March 2012 was extended to 7 July 2013.</p>
<ul style="list-style-type: none"> The financial statements of Major Cellar and Major Aim for the financial years ended 31 March 2011 and 31 March 2012 had not been properly adopted in an annual general meeting in accordance with section 122 of the Companies Ordinance 	<p>A director of the non-compliant company who failed to comply with section 122 of the Companies Ordinance may be imprisoned and fined up to HK\$300,000.</p>	<p>Subsequently, Major Cellar and Major Aim had held their deemed annual general meetings on 5 July 2013 and approved their financial statements for the financial years ended 30 March 2010, 31 March 2011 and 31 March 2012.</p>
<ul style="list-style-type: none"> Failure to make timely filing of a printed copy of its amended Memorandum of Association and Articles in accordance with section 13 of the Companies Ordinance Failure to make timely filing of the notice of the change of registered office in accordance with section 92 of the Companies Ordinance 	<p>The non-compliant company and its responsible officers who failed to make timely filings for the company secretarial matters with the Companies Registry may face a maximum penalty of HK\$10,000 and a daily fine of HK\$300 if the offence remains ongoing.</p>	<p>Major Cellar had sent a copy of its certified amended Memorandum and Articles of Association to the Companies Registry on 7 August 2013.</p> <p>Major Cellar and Major Aim had notified the Companies Registry of the change of their registered addresses on 24 February 2011.</p>

3. Non-compliance with the Mandatory Provident Fund Scheme Ordinance

During the period between October 2009 and March 2013, Major Cellar had failed to make adequate MPF contributions for its employees, which was discovered by our Group’s chief financial officer in May 2013.

Details of the non-compliance incident

Major Cellar had not included the commissions of its employees into their “relevant incomes” during the period between October 2009 and March 2013 (the “**Defaulted Period**”) as a result of which, Major Cellar had made an inadequate amount of MPF contributions for it and its employees during the Defaulted Period under sections 7A(2) and / or 7A(8) of the Mandatory Provident Fund Schemes Ordinance (“**MPFSO**”). The total outstanding MPF contributions payable by Major Cellar and its employees and the 5% surcharge thereon amount to HK\$308,123.02.

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Circumstances leading to the non-compliance

As part of its remuneration package and to provide incentives to its employees, Major Cellar had, in addition to the basic salary payable to its employees, implemented a monthly-commission policy based on the sales performances of each employee with reference to a designated monthly sales target. Accordingly, employees would receive a commission if they could meet the designated monthly sales target, which is payable monthly but separately with their basic salary.

Matters relating to Major Cellar’s payroll and MPF contributions were prepared and handled by Major Cellar’s finance department, which consisted of two personnel. At the end of each month, the sales department would send a breakdown of the sales performance of the employees to the finance department for the computation of the commission entitlements of each employee (if any). As it takes time for both the sales department and the finance department to calculate the employees’ commission entitlements, the commission and the basic salary are not paid to the employees at the same time. Upon enquiry with the finance department, our Directors are of the view that the staff responsible for computing and making the MPF contributions, who is no longer in employment with our Company, oversaw the MPF contributions payable in respect of the employees’ commission entitlements due to the different timing of the payments of the basic salary and the commissions. Although the relevant monthly commission report and the MPF contributions payment reports were reviewed and approved by the directors of Major Cellar at the relevant time, being Mr. Cheung, Mr. Leung and Mr. Cheung Chun Pang, the omission in an average amount of HK\$3,484 payable monthly during the period between October 2009 and March 2013 was too insignificant for the directors to realise or raise any queries thereon.

On 16 July 2013, the Mandatory Provident Fund Schemes Authority (“**MPF Authority**”) issued a Payment Notice for Outstanding Mandatory Provident Fund Contributions and Contribution Surcharge (the “**Notice**”) to Major Cellar regarding its failure to make adequate amount of MPF contributions under sections 7A(2) and/or 7A(8) of the MPFSO and demanded payment for outstanding contribution and surcharge by 30 July 2013. The Notice provides that Major Cellar shall pay all outstanding contributions and surcharges, being 5% of the amount in arrears, for the periods of November 2009 to December 2009, May 2010, July 2010, September 2010, April 2011 and August 2011 to March 2013 to its MPF trustee on or before 30 July 2013. Pursuant to a confirmation from our Group’s MPF trustee dated 5 August 2013, the total amount of the outstanding contributions payable by Major Cellar and its employees and the surcharges thereon, being HK\$308,123.02, had been fully settled. To the best knowledge of our Directors, the Notice was issued by the MPF Authority to Major Cellar in July 2013 despite the voluntary payment by Major Cellar to the MPF trustee as a result of the delays in processing the report of non-compliance and the confirmation of settlement of outstanding contribution filed by the MPF trustee to the MPF Authority.

Maximum legal liabilities and consequences on our Group and our Directors

Pursuant to section 43B(1B) of the MPFSO, the maximum legal penalty that may be imposed on the non-compliant employer (including a company and / or its director) for failing to make an adequate amount of MPF contribution for its employee under section 7A(2) of the MPFSO is a maximum fine of HK\$100,000 and to imprisonment for 6 months on first conviction of the offence; and a maximum fine of HK\$200,000 and to imprisonment for 12 months on each subsequent conviction of the offence.

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Pursuant to section 43B(1C)(b) of the MPFSO, the maximum penalty that may be imposed on the non-compliant employer (including a company and / or its director) for failing to make an adequate MPF contribution for its employee to an approved trustee in the manner required under section 7A(8) of the MPFSO is a maximum fine of HK\$350,000 and to imprisonment for 3 years; and a daily fine of HK\$500 for each day if the offence remains ongoing.

As advised by our legal advisers as to Hong Kong law, it is unlikely that Major Cellar and / or its directors would be prosecuted, penalised or fined at the maximum level in respect of the non-compliance with the MPFSO and the chance of prosecution against Major Cellar and/or its directors is remote as Major Cellar had initiated to rectify its incorrect contribution and had paid the relevant surcharge as required under the MPFSO.

Remedial or rectification actions taken / to be taken and updated status

As soon as the non-compliance incident had been discovered by Major Cellar, Major Cellar immediately made a verbal report about the non-compliance incident to branch manager of its MPF trustee on a voluntary basis. On 24 May 2013, Major Cellar made a voluntary payment to its MPF trustee in the amount of HK\$319,491.15, being the total amount of outstanding MPF contributions payable by it and its employee and surcharges thereon, computed based on Major Cellar’s internal calculations. The amount was finalised upon liaison with the MPF trustee and total MPF contributions made by Major Cellar and its employees and the 5% surcharge thereon amount to HK\$308,123.02.

On 25 July 2013, our legal advisers as to Hong Kong law made a telephone report to an officer of the MPF Authority about the non-compliance incident and enquired on the possibility of the MPF Authority taking any action against Major Cellar and its directors after all the outstanding payments had been settled by Major Cellar with its MPF trustee in accordance with the Notice. We had been advised by our legal advisers as to Hong Kong law that so long as the Notice had been fully complied with, the MPF Authority will not take any further actions against Major Cellar in connection with the non-compliance incident. As advised by our legal advisers as to Hong Kong law, the officer of the MPF Authority who provided the information mentioned above is the appropriate source for seeking clarification on the contents of the Letter, has the relevant authority and is authorised to give such advice regarding the MPF matters.

On 12 August 2013, we sent a letter (the “**Letter**”) to the MPF Authority seeking its confirmation that (i) the non-compliance incident had been fully settled; (ii) the MPF Authority has not initiated any legal proceedings against Major Cellar in relation to the non-compliance incident; and (iii) the MPF Authority will not initiate any legal proceedings against Major Cellar in relation to the non-compliance incident as the non-compliance incident has been fully settled.

In response to the Letter, on 15 August 2013, the MPF Authority issued an Acknowledgment of Receipt of Objection to Imposition of Contribution Surcharge to Major Cellar (the “**Acknowledgement**”). On 3 September 2013, our legal advisers as to Hong Kong law spoke with an officer of the MPF Authority to clarify that Major Cellar had no objection to the imposition of contribution and surcharge and all the outstanding contribution and surcharge as stated in the Letter had already been settled. The relevant officer informed our legal advisers as to Hong Kong law that the Acknowledgement was a standard form which would be sent out to any non-compliant employers

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who replied to the Notice for Outstanding Mandatory Provident Fund Contributions and Contribution Surcharge in writing regardless of the contents of their replies. Our legal advisers as to Hong Kong law further enquired whether the MPF Authority would issue any formal written reply to Major Cellar and whether the MPF Authority has initiated any legal proceedings against Major Cellar in respect of the Notice and was subsequently informed by an officer of the MPF Authority on 5 September 2013 that the MPF Authority was in the process of preparing a formal written reply to Major Cellar and the same would be issued to Major Cellar in or around late-September 2013. In respect of the question regarding whether the MPF Authority had taken any legal action against Major Cellar, the officer of the MPF Authority informed our legal advisers as to Hong Kong that the MPF Authority would have informed or contacted Major Cellar if any legal action has been taken against Major Cellar.

On 9 September 2013, the manager of the Policy and Services Department of the MPF Authority on behalf of the MPF Authority issued a confirmation letter in reply to the Letter which confirms that Major Cellar has settled all the outstanding contributions and surcharges incurred during the Defaulted Period and the matters have been resolved.

As at the Latest Practicable Date, no notice, demand notice, penalties, charges or other legal documents have been served on / made against Major Cellar and its directors in connection with the non-compliance with MPFSO from the MPF Authority.

No provisions had been made as the non-compliance incidents had been rectified. As advised by our legal advisers as to Hong Kong law, the likelihood of prosecutions taken against our Company and/or our Directors are low, our Directors are of the view that the non-compliances with the MPFSO will not have a material financial or operational impact on us.

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The following table sets out a summary of the non-compliance incident:

Details of the non-compliance incidents	Legal consequences including potential maximum penalties and other financial liabilities	Remedial / rectification actions taken / to be taken
<ul style="list-style-type: none"> During the period between October 2009 and March 2013, Major Cellar had not included the commissions paid to its employees into their relevant incomes, as a result of which, Major Cellar had made inadequate MPF contributions for its employees during that period. The total amount of outstanding contribution payable by it and its employees and the surcharge thereon was HK\$308,123.02. 	<p>Pursuant to section 43B(1B) of the MPFSO, the maximum penalty that may be imposed on a non-compliant employer (including a person and a company and/or the director of the company) who failed to make an adequate amount of MPF contribution for its employee under section 7A(2) of the MPFSO is a maximum fine of HK\$100,000 and to imprisonment for 6 months on first conviction of the offence; and to a fine of HK\$200,000 and to imprisonment for 12 months on each subsequent conviction of the offence.</p> <p>Pursuant to section 45B(2)(c) of the MPFSO, the maximum penalty that may be imposed on a non-compliant employer (including a person and a company and/or the director of the company) who failed to make an adequate amount of MPF contribution for its employee to an approved trustee in the prescribed manner as required under section 7A(8) of the MPFSO is a maximum fine of HK\$350,000 and to imprisonment for 3 years and a daily fine of HK\$500 if the offence remains ongoing.</p> <p>Our legal advisers as to Hong Kong law had advised that the MPF Authority may impose an administrative financial penalty of HK\$5,000 or 10 per cent of the total amount to be paid, whichever is the greater on the non-compliant employer (including a company and/or its directors) for the first non-compliance with section 7A(8) of MPFSO. In the circumstances, the total outstanding amount paid was HK\$30,812.30. Therefore, the maximum penalty that may be imposed on Major Cellar and/or its directors by the MPFA is HK\$30,812.30. Our legal advisers as to Hong Kong law further advised that in the event that MPF Authority imposes a fine on the non-compliant employer; the MPF Authority may not prosecute the non-compliant employer if such fine had been paid.</p>	<p>On 24 May 2013, Major Cellar on a voluntary basis made a lump sum payment to its MPF trustee which covered the total outstanding MPF contribution payable by Major Cellar and its employees and the 5% surcharge thereon based on its internal calculation.</p>

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4. Historical Unauthorised Building Works

A cockloft structure had been erected in each of our retail showroom and the warehouse in Hung Hom leased by Major Cellar. As advised by the registered structural engineer, the cockloft structures in each of our retail showroom and the warehouse in Hung Hom were considered unauthorised building works.

Details of the non-compliance incident

A cockloft structure of approximately 91 sq.m flooring area was erected at the warehouse in Hung Hom and a cockloft structure of approximately 14 sq.m flooring area was erected at our retail showroom (collectively, the “**Cockloft Structures**”).

As advised by the registered structural engineer, the Cockloft Structures were not part of the building works approved by the Buildings Department, and the Cockloft Structures were considered to be unauthorised building works pursuant to section 14 of the Buildings Ordinance. The Cockloft Structures may be subject to a closure order imposed by the Buildings Department on the landlords in the event that the Cockloft Structures are declared unfit for use and occupation. In such circumstances, the landlords may be required to remove the cocklofts at the expense of Major Cellar.

Circumstances leading to the non-compliant incident

After the execution of the tenancy agreements with the landlords of the retail showroom and the warehouse in Hung Hom, Major Cellar engaged two design and renovation service providers to provide design and renovation services in respect of each of the retail showroom and the warehouse in Hung Hom. Upon consultations with each of the design and renovation service provider, the directors of Major Cellar at the relevant time, being Mr. Leung and Mr. Cheung, had been informed that the creation of a cockloft and a stairway at each of the retail showroom and the warehouse in Hung Hom would create additional storage space and provide storage convenience for Major Cellar. Accordingly, Major Cellar engaged the design and renovation service providers to erect the cocklofts and stairways at the retail showroom and the warehouse in Hung Hom, respectively. At all times during the consultations with the design and renovation service providers and the erection of the cocklofts and the stairways, Major Cellar was not aware that the proposed erection of the cocklofts and the stairways would be considered as unauthorised building works under the Buildings Ordinance. In the course of preparation for [REDACTED], Major Cellar engaged a property valuer and during the site visits, the property valuer informed our Directors that the Cockloft Structures may be considered as unauthorised building works, thereafter Major Cellar engaged a registered structural engineer to confirm whether the Cockloft Structures were unauthorised building works.

Maximum legal liabilities and consequences on our Group and our Directors

Pursuant to section 40 of the Buildings Ordinance, the maximum penalty that may be imposed on any person (including a company and / or its directors) who knowingly erected any building works without prior consent of the Buildings Department in contravention of section 14(1) of the Buildings Ordinance is a maximum fine of HK\$400,000 and to imprisonment for 2 years.

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As advised by our legal advisers as to Hong Kong law, it is remote that Major Cellar and / or its directors would be prosecuted, penalised or fined at the maximum level in respect of the Cockloft Structures as Major Cellar had already demolished the unauthorised building works and there was no breach or non-compliance of any demolition notice by Major Cellar as at the Latest Practicable Date.

Breach of Tenancy Agreements

The erection of the Cockloft Structures in the retail showroom and the warehouse in Hung Hom without the approval of the landlords constituted a breach of the respective tenancy agreements. As a result of which, the landlords of the premises may terminate the tenancy agreements, re-enter the premises and bring legal action against Major Cellar for damages arising from the erection of the Cockloft Structures.

On 20 May 2013, Major Cellar and the landlord of the warehouse in Hung Hom have entered into a supplemental tenancy agreement in which the landlord has irrevocably and unconditionally waived its right to bring any action against Major Cellar and the right to re-enter the warehouse in Hung Hom and confirmed that the tenancy agreement in respect of the warehouse in Hung Hom remains valid and subsisting.

As advised by our legal advisers as to Hong Kong law, since the Cockloft Structures in the retail showroom and the warehouse in Hung Hom had already been removed, the actual damages purported to be suffered by the landlord would be minimal if any.

Breach of Deed of Mutual Covenants

The erection of the Cockloft Structures in the retail showroom and the warehouse in Hung Hom constituted a breach of the respective deed of mutual covenants. As a result of which, the property manager of the retail showroom and the warehouse in Hung Hom may remove the Cockloft Structures in the premises at Major Cellar's expense.

As advised by our legal advisers as to Hong Kong law, since the Cockloft Structures in the retail showroom and the warehouse in Hung Hom had already been removed, the likelihood of the manager of the premises taking legal action against us or demanding any removal fee, costs or damages from us would be slim.

Rectifications taken and updated status

Upon confirmation from the Authorised Person that the Cockloft Structures were unauthorised building works, Major Cellar had notified the landlords of the retail showroom and the warehouse in Hung Hom, respectively.

On 20 May 2013, Major Cellar and the landlord of the warehouse in Hung Hom have entered into a supplemental tenancy agreement in which the landlord has irrevocably and unconditionally waived its right to bring any action against Major Cellar and the right to re-enter the warehouse in Hung Hom and confirmed that the tenancy agreement in respect of the warehouse in Hung Hom remains valid and subsisting.

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To rectify our non-compliance with the Buildings Ordinance, we engaged an independent contractor, which was a registered minor works contractor as required under the Buildings Ordinance, to demolish the Cockloft Structures. The demolition works of the unauthorised building works at the retail shop and the warehouse in Hung Hom were completed on 28 July 2013 and 24 July 2013, respectively. Subsequent to the demolitions, we had engaged an Authorised Person to issue a report on each of the retail showroom and the warehouse in Hung Hom, which confirmed that as at 8 August 2013, the retail showroom and the warehouse in Hung Hom are free of unauthorised building works.

On 29 July 2013, our Company’s legal advisers as to Hong Kong law verbally notified the Buildings Department of the past existence of the Cockloft Structures and on 4 September 2013, our Company’s legal advisers as to Hong Kong law verbally notified the Buildings Department that subsequent to the demolition of the Cockloft Structures at the retail showroom and the warehouse in Hung Hom, an Authorised Person had issued two reports on 15 August 2013 which confirmed that as at 8 August 2013, the retail showroom and the warehouse in Hung Hom are free of unauthorised building works. Our Company’s legal advisers as to Hong Kong law further enquired whether any action would generally be taken by the Buildings Department in such cases and had been informed by a building surveyor of the Buildings Department (the “Building Surveyor of the Buildings Department”) that prosecution would be initiated against the owner of the premises if the owner failed to comply with a demolition notice issued by the Buildings Department. The building surveyor of the Buildings Department further stated that since Major Cellar had taken all steps to rectify the non-compliance by demolishing the unauthorised building works at the retail showroom and the warehouse in Hung Hom and had engaged an Authorised Person to confirm the same in writing, the chance of prosecution against Major Cellar in respect of the past erection of the unauthorised building works would be very remote. Based on the verbal enquiry made by our legal advisers as to Hong Kong law with the Buildings Department on 16 October 2013, the Buildings Department confirmed that its view remained the same as the verbal reply given to our legal advisers as to Hong Kong law on 4 September 2013. As at the Latest Practicable Date, no demolition notice had been issued to Major Cellar or the respective owners of the retail showroom and the warehouse in Hung Hom.

No provisions had been made as our Directors consider the likelihood of our Group being fined a heavy penalty is slim. As advised by our legal advisers as to Hong Kong law, the likelihood of prosecutions taken against Major Cellar and/or its directors are low, our Directors are of the view that the non-compliances with the Buildings Ordinance will not have a material financial or operational impact on us.

As advised by our legal advisers as to Hong Kong law, the officer of the Buildings Department who provided the information mentioned above is the appropriate source for seeking clarification on the cockloft structure issue described above, has the relevant authority and is authorised to give such advice regarding such unauthorised building works.

During the Track Record Period and up to the Latest Practicable Date, no notice, warning or legal documents in relation to the erection of the unauthorised building works had been served on the owners of the retail showroom and the warehouse in Hung Hom or Major Cellar from the Buildings Department.

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The following table sets out a summary of the non-compliance incident:

Details of the non-compliance incidents	Legal consequences including potential maximum penalties and other financial liabilities	Remedial / rectification actions taken / to be taken
<ul style="list-style-type: none"> A cockloft structure had been erected at our retail showroom with a flooring area of approximately 14 sq. m without the prior approval of the Buildings Department and the landlord as our management relied on a design and renovation service provider's suggestion to create the cockloft structure for extra storage space without realising that the cockloft structure is an unauthorised building work under the Building Ordinance. 	<p>Pursuant to section 40 of the Buildings Ordinance the maximum penalty that may be imposed on any person who knowingly erected any building works without prior consent of the Buildings Department in contravention of section 14(1) of the Buildings Ordinance is a maximum fine of HK\$400,000 and to imprisonment for 2 years.</p> <p>As advised by our legal advisers as to Hong Kong law, it is unlikely that Major Cellar would be penalised or fined at the maximum level as Major Cellar had voluntarily initiated and completed the demolition of unauthorised building works.</p> <p>The landlords of retail showroom and the warehouse in Hung Hom may terminate the tenancy agreements, re-enter the premises and bring legal action against Major Cellar for damages arising from the erection of the Cockloft Structures.</p> <p>As advised by our legal advisers as to Hong Kong law, since the Cockloft Structures in the retail showroom and the warehouse in Hung Hom had already been removed, the actual damages purported to be suffered by the landlord would be minimal if any.</p> <p>The property manager of the retail showroom and the warehouse in Hung Hom may remove the Cockloft Structures in the premises at Major Cellar's expense.</p> <p>As advised by our legal advisers as to Hong Kong law, since the Cockloft Structures in the retail showroom and the warehouse in Hung Hom had already been removed, the likelihood of the manager of the premises taking legal action against us or demanding any removal fee, costs or damages from us would be slim.</p>	<p>The demolition works in respect of the Cockloft Structures at the retail showroom and the warehouse in Hung Hom were completed on 28 July 2013 and 24 July 2013, respectively.</p> <p>On 20 May 2013, Major Cellar and the landlord of the warehouse in Hung Hom have entered into a supplemental tenancy agreement in which the landlord has irrevocably and unconditionally waived its right to bring any action against Major Cellar and the right to re-enter the warehouse in Hung Hom and confirmed that the tenancy agreement in respect of the warehouse in Hung Hom remains valid and subsisting.</p> <p>Our management had also notified the landlords of the respective premises regarding the erection and the demolition of the Cockloft Structures.</p> <p>As at the Latest Practicable Date, neither did Major Cellar nor the landlords of the premises receive any demolition order nor has it been prosecuted for the erection of the unauthorised building works.</p>

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Indemnity from our Controlling Shareholders in relation to the non-compliance

Our Controlling Shareholders have executed the Deed of Indemnity in favour of our Group pursuant to which they will jointly and severally indemnify each member of our Group against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered by or incurred by our Group as a result of directly or indirectly or in connection with the following:

- losses incurred by us relating to the unauthorised building works at our retail showroom and warehouse in Hung Hom including but not limited to fines and penalties imposed by the relevant government authority, losses suffered by us as a result of any disruption to the daily operations of the retail showroom resulting from the demolition of the unauthorised building works and relocation costs and expenses, when applicable;
- fines and penalties imposed by the relevant government authority relating to the incorrect information and errors in respect of the audited financial statements of Major Cellar for the years of assessment 2010/2011 and 2011/2012;
- fines and penalties imposed by the relevant government authority relating to the failure to comply with sections 111 and 122 of the Companies Ordinance; and
- fines and penalties imposed by the relevant government authority relating to the failure to make adequate mandatory provident scheme contributions under the Mandatory Provident Fund Schemes Ordinance.

See “Appendix IV - Statutory and General Information — Deed of indemnity” for further details.

Internal control measures to prevent future non-compliance

In order to continuously improve our corporate governance and to prevent future non-compliance, we intend to adopt or have adopted the following measures:

- (i) We will form an internal control committee (the “**Internal Control Committee**”) in the long board meeting of the Company, comprising our chairman and executive director, Mr. Cheung, and compliance officer of our Company, an external Hong Kong legal counsel engaged by us, and Mr. Wong Siu Ki, one of our independent non-executive Directors who was admitted as a fellow member of the Association of Chartered Certified Accountants in September 2006 and possesses relevant experience to review and assess the effectiveness and adequacy of our internal control measures on a semi-annual basis. Our Internal Control Committee is also responsible for the implementation of the remedial plans recommended by our internal audit department, so as to ensure our compliance with the [REDACTED] and the relevant Hong Kong laws and regulations. Any deficiencies noted during the review process will be brought to the attention of our Board and our Audit Committee for further action, where necessary.

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- (ii) We will also establish an internal audit department, which consists of a head of internal audit department who will be responsible for monitoring and overseeing daily operation of internal control matters and two other members, namely, our chief financial officer who has approximately 10 years of experience in the accounting and finance field and our internal audit manager, who possesses approximately 4 years of relevant auditing experience, to assist the head of internal audit department in the daily operation of the department. See “Directors and Senior Management — Senior management” for further details of the biography of our chief financial officer. The internal audit department will report to our Audit Committee directly on a semi-annual basis to ensure that our Group’s operations are in compliance with the applicable laws, rules and regulations, and recommend remedial plans to our Audit Committee, and our Audit Committee will give instruction to our Internal Control Committee for the implementation of any remedial plans should there be any internal control deficiencies, and our Internal Control Committee will ensure all the remedial plans are implemented.
- (iii) We will engage independent internal control advisers to conduct semi-annual review for at least one year after [REDACTED]. The review will focus on the status of implementation of the recommended remedial actions in areas where deficiencies and weaknesses were identified, the effectiveness of our internal control measures implemented, and the standards and effectiveness of our corporate governance, operations and management to ensure our compliance with the [REDACTED] and the applicable Hong Kong laws and regulations. We will disclose any material irregularities identified during such review in our interim and annual reports.
- (iv) We will form an audit committee, which will establish formal and transparent arrangements to apply financial reporting and internal control principles in accounting and financial matters to ensure compliance with the [REDACTED] and all relevant laws and regulations, including timely preparation and laying of accounts.
- (v) [REDACTED].
- (vi) [REDACTED].
- (vii) [REDACTED], we have engaged an independent internal control adviser to undertake an evaluation of our internal control on financial reporting and to recommend action plans for improvements. Having considered the internal control review report prepared by our internal control advisers, our Board considers that it is necessary to enhance our current internal control measures. As such, we plan to form the Internal Control Committee, which is responsible for reviewing and monitoring compliance of the [REDACTED] and the relevant Hong Kong laws and regulations, and we will further implement certain internal control measures as stated above to ensure compliance with the [REDACTED] and the relevant Hong Kong laws and regulations.

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(viii) We will develop various internal approval policies and procedures. In order to further enhance the current internal control measures, policies and procedures will be codified in our new internal operational manual, which will be adopted and implemented by us, after taking into account the comments from our internal control advisers. Further, such internal approval policies and procedures will be reviewed by our Internal Control Committee on a semi-annual basis, and we will further implement the following internal control measures to ensure compliance with [REDACTED] and the relevant Hong Kong laws and regulations:

Issues	Measures to ensure compliance
Properties	<p>(a) All lease or tenancy agreements will need to be reviewed by our human resources and administration department, and will obtain legal opinion from our external legal counsels before entering into or varying the terms of any lease agreement.</p> <p>(b) Our human resources and administration department will report to our Internal Control Committee on a semi-annual basis, which shall be responsible for ensuring that all lease or tenancy agreements entered into by us have complied with the relevant Hong Kong laws and regulations.</p> <p>(c) All addition/alteration in any leased and/or owned properties will require confirmation from an Authorised Person under the Buildings Ordinance that such addition/alteration does not constitute an unauthorised building works or breach of the Buildings Ordinance before such addition/alteration is carried out.</p>
Accounting and Taxation	<p>(a) All tax related matters of our Group will be handled by our finance department, which consists of our chief financial officer and our accounting staff. See “Directors and Senior Management — Senior management” for further details. Our internal audit department will, on a semi-annual basis, report to our Internal Control Committee on the compliance of the tax laws and regulations.</p> <p>(b) We will implement the following measures to ensure the compliance with the relevant Hong Kong tax laws and regulations:</p> <p style="padding-left: 40px;">(1) assign designated staff to handle all tax related matters to ensure all tax returns have been properly and correctly filed; and</p>

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- (2) engage a tax representative to review all tax returns before filing. We have engaged a tax representative for the year of assessment 2012/2013 and as at the Latest Practicable Date, we have not entered into any formal engagement in respect of our tax representative for the year of assessment 2013/2014.
 - (c) Establish comprehensive policies and procedures for the financial reporting and disclosure processes and related checklists, period-end accrual procedures and maintenance of chart of accounts.
 - (d) Conduct independent review of journal vouchers.
 - (e) Establish formal corporate planning and budgetary control process.
- MPF
- (a) All MPF related matters of our Group will be handled by our designated staff, who joined us in February 2013 possess certificate in business administration and over 8 years of relevant working experience. In addition, with the support and assistance of our external Hong Kong legal counsels, our human resources and administration department will, on a semi-annual basis, report to our Internal Control Committee on the compliance with the MPF laws and regulations.
 - (b) We will implement the following measures to ensure the compliance with the relevant Hong Kong MPF laws and regulations:
 - (1) assign our designated staff, being our human resources and administration officer who possess certificate in business administration and over 8 years of relevant working experience, to handle all MPF related matters to ensure all MPF payments have been properly and timely made;
 - (2) liaise with our MPF service provider from time to time to obtain updated rules and regulations on MPF schemes and related regulations.

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Corporate Governance

- (a) We will further implement various training programs, including training conducted by our external Hong Kong legal counsel on an annual basis, to update our employees on the relevant Hong Kong laws and regulations including the Companies Ordinance, which are relevant to the compliance of our Company as a public company.
- (b) We will appoint a company secretary, who is familiar with [REDACTED], Companies Ordinance and related matters to advise us on matters relating to our Company’s and our Directors’ obligations.

In connection with [REDACTED], we have engaged an independent internal control adviser to, among others, evaluate the adequacy and effectiveness of our internal control and provide guidance and advice to us on the implementation of the internal control policies. When the proposed internal control measures had been adopted, our internal control will be monitored and reviewed internally by (i) an internal audit department, which will report to our Audit Committee and will monitor and oversee the daily operation of internal control matters, (ii) an Internal Control Committee, which will review and assess the effectiveness and adequacy of our internal control measures, (iii) an Audit Committee, and (iv) [REDACTED], and will also be reviewed externally by an independent internal control adviser, which will conduct semi-annual review for at least one year after [REDACTED] and by the external Hong Kong legal advisers to advise on the compliance with [REDACTED] and the applicable laws and regulations. Also, the independent internal control adviser had also performed follow-up checks on the rectifying measures set out above in September 2013 and have not identified any significant exception based on the information provided by us. Taking into account the expertise of the relevant internal staff of our Company, the external advisers and our independent internal control advisers, our Directors and [REDACTED] are of the view that the proposed internal control measures, when implemented, will be adequate and effective despite the previous non-compliant incidents of our Group.

INTERNAL CONTROL

In preparation for [REDACTED], we have engaged an independent internal control advisers, and the first internal control review commenced in March 2013 to review and to provide recommendations on our internal control procedures. We had adopted various recommendations by the internal control advisers to enhance our internal control measures. We set out below a summary of the recommendations from our independent internal control advisers:

- **Control Environment**, including recommendations to, among others, (i) establish a number of corporate governance and other comprehensive internal policies and procedures governing, among others, director’s dealings, evaluation and approval of investment projects, evaluation of departure of management and supervisory personnel, evaluation of reliability and timeliness of external information used for decisions making, training development, govern the risk assessment and risk management process and to monitor the effectiveness of the internal controls system, external communication, formal IT policies and procedures manual; (ii) establish key committees and appointment of independent

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non-executive Directors to the Board; (iii) develop mechanisms to identify and monitor notifiable and connected transactions and independent whistle-blowing mechanism; and (iv) enhance the general computer controls, including security, user access, change management, backup and retention of data and disaster recovery plan;

- **Financial Reporting and Disclosure Controls**, including recommendations to, among others, (i) establish comprehensive policies and procedures for the financial reporting and disclosure processes and related checklists, period-end accrual procedures and maintenance of chart of accounts; (ii) employ accounting personnel with appropriate qualifications; (iii) conduct independent review of journal vouchers; and (iv) establish formal corporate planning and budgetary control process;
- **Revenue Management**, including recommendations to, among others, (i) establish comprehensive policies and procedures for revenue management, consignment sales management process, proper recording, the background and credibility check on credit customers; (ii) develop sales contract register; and (iii) conduct independent review of the price list;
- **Expenditure Management**, including recommendations to, among others, (i) establish comprehensive policies and procedures for expenditure management, timely recording for receipt of products; (ii) maintain proper documentation and evaluation mechanism for the assessment performed for vendor selection and maintenance of vendor master file; (iii) develop monitoring mechanism to monitor vendor performance, deposits paid to vendors; and (iv) enhance approval controls for payments and establish authorisation thresholds;
- **Inventory Management**, including recommendations to, among others, (i) establish comprehensive policies and procedures for the inventory management processes; (ii) conduct independent review of inventory movements; (iii) adopt various measures to enhance security at the warehouse in Hung Hom; and (iv) establish formal mechanism to assess the net realisable value of inventory balance;
- **Fixed Assets Management**, including recommendations to, among others, (i) establish comprehensive policies and procedures for the fixed assets management processes; (ii) proper documentation and recording for acquisition of fixed assets, formal purchase requisition documentation and fixed asset count results; and (iii) preparation of depreciation schedule on regular basis;
- **Human Resources and Payroll Management**, including recommendations to, among others, (i) establish comprehensive policies and procedures for human resources and payroll management process; (ii) proper documentation through hiring process; (iii) maintenance of employee master file; and (iv) enter into formal agreements with part-time employees;
- **Treasury Management**, including recommendations to, among others, (i) establish comprehensive policies and procedures for treasury management, (ii) proper documentation

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of approvals for bank account opening and bank loan arrangements; (iii) conduct regular reviews of cash liquidity; (iv) enter into formal loan agreements in respect of directors’ loans; and (v) appointment of additional authorised bank signatory and impose thresholds;

- **Taxation Management**, including recommendations to establish comprehensive policies and procedures for taxation management process;
- **Business Continuity Plan**, including recommendations to establish formal business continuity plan;
- **Directors’ Loan Management**, including recommendations to, among others, (i) establish comprehensive policies and procedures for the directors’ loan management, and (ii) proper documentation of loan arrangements;
- **Insurance Management**, including recommendations to, among others, (i) establish comprehensive policies and procedures for insurance management processes, and (ii) proper documentation of insurance management processes;
- **Product Quality Control and Product Recall**, including recommendations to, among others, (i) proper daily recording of storage temperatures and humidity levels, and (ii) establish comprehensive policies and procedures for product recall plans;

We set out below a summary of the key issues identified by our independent internal control advisers and the results of the follow-up assessment:

- **Corporate Controls Mechanism:** In relation to our corporate controls mechanism, it was noted that (i) we lacked on-going monitoring mechanism on the effectiveness of internal control system to ensure internal controls breakdowns can be timely detected and remediated; (ii) we lacked a formal risk assessment and management mechanism to, among others, identify risks that hinder the achievement of our business objectives and to assess the likelihood of such risks and their potential impact; and (iii) we lacked policies and procedures for handling certain [REDACTED] requirements. Based on the results of the follow-up assessment conducted by our independent internal control advisers in September 2013, policies and procedures had been established by our Company regarding the deficiencies in our corporate controls mechanism.
- **Financial Reporting and Operational Processes:** In relation to our financial reporting and operational processes, it was noted that we lacked written policies and procedures for financial reporting and operational processes. Based on the results of the follow-up assessment conducted by our independent internal control advisers in September 2013, policies and procedures had been established regarding key operations of our Company in relation to, among others, financial reporting and disclosure, revenue management, expenditure management, inventory management, fixed assets management, save for wine futures management which we would not engage in.

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- **Evidence of Performance of Controls:** In relation to evidence of performance of controls, it was noted that there was a need to strengthen the documentation of monitoring controls performed such as reviews and approvals. Based on the results of the follow-up assessment conducted by our independent internal control advisers in September 2013, we had strengthened the documentation of monitoring controls performed.
- **Information Technology:** In relation to evidence of performance of controls, it was noted that we did not establish certain general computer controls. Based on the results of the follow-up assessment conducted by our independent internal control advisers in September 2013, policies and procedures had been established by our Company regarding the deficiencies in our information technology and most of the security controls had been strengthened.

Save for the internal policies and procedures for the evaluation of reliability and timeliness of external information used for decisions making in relation to the control environment of our Group, which our Directors did not consider relevant for our operations and certain policies and procedures to take effect from [REDACTED], we had implemented or we are in the progress of implementing the recommendations from our independent internal control advisers. Save for certain remediation works to be conducted by our Company upon the occurrence of specified events, it is currently contemplated that the internal control measures recommended by the independent internal control advisers will be fully implemented before [REDACTED].

Subject to the full implementation of the internal control measures recommended by the independent internal control advisers, our Directors and [REDACTED] are of the view that our Group’s enhanced internal control measures are adequate and effective.

TAXATION

As advised by our legal advisers as to Hong Kong laws, there are no tax benefits or special tax arrangements in Hong Kong in respect of our business operations.

LICENCES & PERMITS

As advised by our Company’s legal advisers as to Hong Kong laws, we have complied with all applicable laws and regulations in Hong Kong, and have obtained all material permits, certificates, licences and approvals necessary for us to conduct our business in Hong Kong during the Track Record Period and up to the Latest Practicable Date.

NO SIGNIFICANT INTERRUPTION

There have been no material interruption in our business that may have or have had a significant effect on our financial position in the twelve months preceding the date of this document.