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YING KEE TEA HOUSE GROUP LIMITED

英記茶莊集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 8241)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019**

**CHARACTERISTICS OF GEM (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG
LIMITED (THE “STOCK EXCHANGE”)**

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

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

This announcement, for which the directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to Ying Kee Tea House Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”). The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

INTERIM RESULTS

The board of Directors (the “**Board**”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 September 2019, together with the unaudited comparative figures for the corresponding period in 2018, as follows;

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

	<i>Notes</i>	Three months ended 30 September		Six months ended 30 September	
		2019 <i>HK\$'000</i> (unaudited)	2018 <i>HK\$'000</i> (unaudited)	2019 <i>HK\$'000</i> (unaudited)	2018 <i>HK\$'000</i> (unaudited)
Revenue	4	7,473	7,937	15,997	17,022
Cost of sales		<u>(1,736)</u>	<u>(1,844)</u>	<u>(3,814)</u>	<u>(3,751)</u>
Gross profit		5,737	6,093	12,183	13,271
Other income	5	294	122	392	344
Selling and distribution costs		(264)	(178)	(621)	(734)
Administrative expenses		(8,953)	(6,962)	(18,169)	(18,046)
Finance costs	6	<u>(18)</u>	<u>–</u>	<u>(36)</u>	<u>(46)</u>
Loss before income tax	7	(3,204)	(925)	(6,251)	(5,211)
Income tax expenses	8	<u>–</u>	<u>–</u>	<u>–</u>	<u>(8)</u>
Loss for the period and total comprehensive expense for the period		<u>(3,204)</u>	<u>(925)</u>	<u>(6,251)</u>	<u>(5,219)</u>
Loss per share attributable to equity holders of the Company (expressed in HK cents per share)					
Basic and diluted	10	<u>(0.87)</u>	<u>(0.26)</u>	<u>(1.72)</u>	<u>(1.47)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

	Notes	As at 30 September 2019 HK\$'000 (unaudited)	As at 31 March 2019 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	6,655	4,229
Intangible assets		975	1,027
		<u>7,630</u>	<u>5,256</u>
Current assets			
Inventories		8,781	7,383
Trade and other receivables	12	5,507	4,753
Tax refundable		899	899
Time deposits		15,007	16,000
Cash and bank balances		2,788	10,172
		<u>32,982</u>	<u>39,207</u>
Current liabilities			
Trade and other payables	13	1,965	1,486
Lease liabilities	14	980	—
		<u>2,945</u>	<u>1,486</u>
Net current assets		<u>30,037</u>	<u>37,721</u>
Total assets less current liabilities		<u>37,667</u>	<u>42,977</u>
Non-current liabilities			
Lease liabilities	14	1,116	—
Provision for long service payment		476	476
Provision for reinstatement cost		899	1,269
		<u>2,491</u>	<u>1,745</u>
Net assets		<u><u>35,176</u></u>	<u><u>41,232</u></u>
EQUITY			
Share capital	15	41,879	41,879
Reserves	16	(6,703)	(647)
Total equity		<u><u>35,176</u></u>	<u><u>41,232</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2019

	Share capital <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Share options reserve <i>HK\$'000</i>	(Accumulated losses)/ Retained profits <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
As at 1 April 2019 (audited)	41,879	990	–	(1,637)	41,232
Transactions with equity holders of the Company					
– Equity settled share-based payments	–	–	195	–	195
Loss for the period and total comprehensive expense for the period	–	–	–	(6,251)	(6,251)
As at 30 September 2019 (unaudited)	41,879	990	195	(7,888)	35,176
As at 1 April 2018 (audited)	10	990	–	1,115	2,115
Transactions with equity holders of the Company					
– Issue of ordinary shares pursuant to the placing	48,600	–	–	–	48,600
– Expenses incurred in connection with the issue of ordinary shares	(6,731)	–	–	–	(6,731)
Loss for the period and total comprehensive expense for the period	–	–	–	(5,219)	(5,219)
As at 30 September 2018 (unaudited)	41,879	990	–	(4,104)	38,765

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2019

	Six months ended 30 September	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Cash flows from operating activities		
Loss before income tax	(6,251)	(5,211)
Adjustments for:		
– Depreciation	1,143	236
– Amortisation of reinstatement cost	285	173
– Amortisation of intangible assets	52	–
– Gain on termination of the lease contract	(12)	–
– Interest income	(180)	(199)
– Interest expenses	36	46
– Equity settled share-based payment expenses	195	–
– Gain on disposal of property, plant and equipment	(195)	–
Operating loss before working capital changes	(4,927)	(4,955)
Changes in working capital:		
– Inventories	(1,398)	(2,116)
– Trade and other receivables	(754)	2,180
– Trade and other payables	479	(3,735)
<i>Net cash used in operating activities</i>	<u>(6,600)</u>	<u>(8,626)</u>
Cash flows from investing activities		
Interest received	180	199
Purchases of property, plant and equipment	(1,066)	(1,206)
Payment of reinstatement cost	(182)	–
Increase in time deposits	993	(21,000)
<i>Net cash used in investing activities</i>	<u>(75)</u>	<u>(22,007)</u>
Cash flows from financing activities		
Proceeds from issuance of share capital	–	48,600
Share issue expenses	–	(6,731)
Interest paid	–	(46)
Payment of lease liabilities	(709)	–
Repayment of bank borrowings	–	(10,000)
<i>Net cash (used in)/from financing activities</i>	<u>(709)</u>	<u>31,823</u>
Net (decrease)/increase in cash and cash equivalents	(7,384)	1,190
Cash and cash equivalents at the beginning of the period	<u>10,172</u>	<u>2,894</u>
Cash and cash equivalents at the end of the period, represented by cash and bank balances	<u>2,788</u>	<u>4,084</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2019

1. GENERAL INFORMATION

Ying Kee Tea House Group Limited (the “**Company**”) was incorporated in Hong Kong with limited liability. The address of its registered office was Suites 1106-08, 11th Floor, The Chinese Bank Building, 61-65 Des Voeux Road, Central, Hong Kong and its principal place of business is 8/F., Wah Shing Centre, 5 Fung Yip Street, Siu Sai Wan, Hong Kong.

The Company’s shares were listed on the GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 16 April 2018.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the retail trading of tea products. The Company’s immediate holding company is Profit Ocean Enterprises Limited, a company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2019 (“**Interim Period**”) have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM (the “**GEM Listing Rules**”).

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis. The unaudited condensed consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), which is also the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousand (“**HK\$’000**”) except when otherwise indicated.

The unaudited condensed consolidated interim financial statements for the six months ended 30 September 2019 have been prepared in accordance with the accounting policies adopted in the Group’s annual financial statements for the year ended 31 March 2019, except for the adoption of the new and amended HKFRSs effective as of 1 April 2019.

The unaudited condensed consolidated financial statements for the Interim Period have not been audited by the Company’s independent auditor but have been reviewed by the Company’s audit committee.

The preparation of the unaudited condensed consolidated financial statements of the Group for the Interim Period is in conformity with the HKFRSs requirements in the use of certain critical accounting estimates. The HKFRSs also require the management to exercise their judgements in the process of applying the Group’s accounting policies.

3. ADOPTION OF NEW AND AMENDED HKFRSs

In the current period, the Group has applied for the first time the new and amended HKFRSs issued by the HKICPA, which are relevant to the Group’s operation and effective for the Group’s unaudited condensed consolidated financial statements for the period beginning on 1 April 2019.

The adoption of these new HKFRSs, except for HKFRS 16, the details of which are explained below, had no material impact on how the results and financial positions for the current and prior periods have been prepared and presented.

The Group has not early adopted the new or revised standards and interpretations that have been issued but are not yet effective. The directors anticipate that the application of these new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

HKFRS 16 “Leases”

HKFRS 16 “Leases” replaces HKAS 17 “Leases” along with three Interpretations (HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease”, HK(SIC) Int-15 “Operating Leases-Incentives” and HK(SIC) Int-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”). HKFRS 16 has been applied using the modified retrospective approach, with the cumulative effect of adopting HKFRS 16 being recognised in equity as an adjustment to the opening balance of retained profits for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from HKAS 17 and HK(IFRIC)-Int 4 and has not applied HKFRS 16 to arrangements that were previously not identified as lease under HKAS 17 and HK(IFRIC)-Int 4.

As at April 2019, the Group has elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of HKFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term. On transition to HKFRS 16, the Group has applied the practical expedient for applying a single discount rate to a portfolio of leases with reasonably similar characteristics. The Group has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating lease commitments as at 31 March 2019 to the lease liabilities recognised as at 1 April 2019:

	<i>HK\$'000</i>
Total operating lease commitments disclosed as at 31 March 2019	4,590
Recognition exemption – Leases with remaining lease term of 12 months or less	<u>(2,638)</u>
Operating leases liabilities before discounting	1,952
Discounting using incremental borrowing rate as at 1 April 2019	<u>(56)</u>
Total lease liabilities recognised under HKFRS 16 as at 1 April 2019	<u><u>1,896</u></u>
Classified as:	
Current lease liabilities	<u><u>1,896</u></u>

4. REVENUE AND SEGMENT REPORTING

4.1 Revenue

	Three months ended 30 September		Six months ended 30 September	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales of tea products	7,209	7,937	15,508	17,022
Food and beverage retails	264	–	489	–
	<u>7,473</u>	<u>7,937</u>	<u>15,997</u>	<u>17,022</u>

4.2 Segment information

The Group has determined the operating segments based on the information reported to the executive directors, the chief operating decision maker. During the year, the chief operating decision maker regards the Group's sales of tea products business as a single operating segment and assesses the operating performance and allocates the resources of the Group as a whole. Accordingly, no segment information is presented.

Geographical information

No separate analysis of segment information by geographical segment is presented as all the Group's revenue are derived from Hong Kong based on the location of customers and the Group's property, plant and equipment are all located in Hong Kong.

Information about major customers

During the Interim Period, none of the Group's customers contributed over 10% of the Group's revenue.

5. OTHER INCOME

	Three months ended 30 September		Six months ended 30 September	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Bank interest income	87	119	180	199
Exchange gains, net	–	–	–	2
Sundry income	207	3	212	143
	<u>294</u>	<u>122</u>	<u>392</u>	<u>344</u>

6. FINANCE COSTS

	Three months ended 30 September		Six months ended 30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest on bank borrowings	–	–	–	46
Finance charges on lease liabilities	18	–	36	–

7. LOSS BEFORE INCOME TAX

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

	Three months ended 30 September		Six months ended 30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Auditor's remuneration	100	23	200	143
Cost of inventories recognised as an expense	1,424	1,544	3,188	3,081
Depreciation of property, plant and equipment	219	118	413	236
Depreciation of right of use assets	380	–	730	–
Amortisation of reinstatement cost	144	86	285	173
Amortisation of Intangible assets	25	–	51	–
Operating lease charges in respect of premises				
– minimum lease payments	–	2,261	–	4,329
– contingent rentals (<i>note</i>)	–	33	–	69
– short term leases and leases with lease term short than 12 months as at initial application of HKFRS 16	2,706	–	5,580	–
– variable lease payment	26	–	55	–
Exchange gains, net	–	–	–	(2)
Listing expenses	–	–	–	4,000

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

8. INCOME TAX EXPENSES

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits for the six months ended 30 September 2019 (six months ended 30 September 2018: 16.5%).

	Three months ended 30 September		Six months ended 30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Current tax				
Hong Kong profits tax				
– Current period	<u>–</u>	<u>–</u>	<u>–</u>	<u>8</u>

As at 31 March 2019 and 30 September 2019, the Group did not have significant unrecognised deferred tax assets and liabilities.

9. DIVIDEND

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 September 2019 (six months ended 30 September 2018: nil).

10. LOSS PER SHARE

	Three months ended 30 September		Six months ended 30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Loss				
Loss for the period attributable to equity holders of the Company	<u>(3,204)</u>	<u>(925)</u>	<u>(6,251)</u>	<u>(5,219)</u>
Number of shares				
Weighted average number of ordinary shares (in thousands)	360,000	360,000	360,000	354,098
Effect of dilutive potential shares on exercise of share options (in thousands)	<u>8,075</u>	<u>–</u>	<u>4,060</u>	<u>–</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share (in thousands)	<u>368,075</u>	<u>360,000</u>	<u>364,060</u>	<u>354,098</u>

For the six months ended 30 September 2018, the weighted average number of ordinary shares used to calculate the basis loss per share include 90,000,000 new ordinary shares issued pursuant to the placing. There were no dilutive potential ordinary shares during the six months ended 30 September 2018 and therefore, diluted loss per share equals to basic loss per share.

For the six months ended 30 September 2019, the weighted average number of ordinary shares used to calculate the diluted loss per share include the effects of dilutive potential shares on exercise of share options.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2019, the Group acquired property, plant and equipment valued at approximately HK\$1,250,000 (six months ended 30 September 2018: HK\$1,206,000). On lease commencement, the Group recognised right-of-use assets and lease liabilities amounting to HK\$3,308,000.

As at 30 September 2019, the carrying amount of the Group's right-of-use assets in relation to properties is HK\$2,051,000.

12. TRADE AND OTHER RECEIVABLES

	As at 30 September 2019 <i>HK\$'000</i> (unaudited)	As at 31 March 2019 <i>HK\$'000</i> (audited)
Trade receivables	704	1,429
Less: ECL allowance	—	—
	704	1,429
Deposits, prepayments and other receivables		
Rental and other deposits	3,853	2,548
Other receivables	87	109
Prepayments	863	667
Less: ECL Allowance	—	—
	4,803	3,324
	5,507	4,753

The directors of the Group consider that the fair values of trade and other receivables are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

The Group's sales to customers are mainly on cash basis. The Group also grants credit terms of 0 to 75 days to certain corporate customers. The ageing analysis of trade receivables based on the invoice dates was as follows:

	As at 30 September 2019 <i>HK\$'000</i> (unaudited)	As at 31 March 2019 <i>HK\$'000</i> (audited)
0 – 30 days	537	1,062
31 – 60 days	112	269
61 – 90 days	55	98
	704	1,429

13. TRADE AND OTHER PAYABLES

	As at 30 September 2019 <i>HK\$'000</i> (unaudited)	As at 31 March 2019 <i>HK\$'000</i> (audited)
Trade payables	1,053	660
Accrued charges and other payables	<u>912</u>	<u>826</u>
	<u>1,965</u>	<u>1,486</u>

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

	As at 30 September 2019 <i>HK\$'000</i> (unaudited)	As at 31 March 2019 <i>HK\$'000</i> (audited)
0 – 30 days	583	629
31 – 60 days	<u>470</u>	<u>31</u>
	<u>1,053</u>	<u>660</u>

All amounts are short term and hence the carrying values of trade and other payables are considered to be reasonable approximation of fair values.

14. LEASE LIABILITIES

	As at 30 September 2019 <i>HK\$'000</i> (unaudited)	As at 31 March 2019 <i>HK\$'000</i> (audited)
Total minimum lease payments:		
Due within one year	1,043	–
Due in the second to fifth years	<u>1,185</u>	<u>–</u>
	<u>2,228</u>	<u>–</u>
Future finance charges on leases liabilities	<u>(132)</u>	<u>–</u>
Present value of leases liabilities	<u>2,096</u>	<u>–</u>

	As at 30 September 2019 <i>HK\$'000</i> (unaudited)	As at 31 March 2019 <i>HK\$'000</i> (audited)
Present value of minimum lease payments:		
Due within one year	980	–
Due in the second to fifth years	1,116	–
	<u>2,096</u>	<u>–</u>
Less: Portion due within one year included under current liabilities	(980)	–
Portion due after one year included under non-current liabilities	<u>1,087</u>	<u>–</u>

During the six months ended 30 September 2019, the Group recognised right-of-use assets included in property, plant and equipment and lease liabilities amounting to HK\$3,308,000. The Group makes fixed payments during the contract period. During the six-months ended 30 September 2019, the total cash outflows for the leases are HK\$709,000.

15. SHARE CAPITAL

	(unaudited) As at 30 September 2019		(audited) As at 31 March 2019	
	Number of shares	<i>HK\$'000</i>	Number of shares	<i>HK\$'000</i>
Issued and fully paid:				
At the beginning of the period/year	360,000,000	41,879	10,000	10
Issue of ordinary shares pursuant to the bonus issue	–	–	269,990,000	–
Issue of ordinary shares pursuant to the placing	–	–	90,000,000	41,869
	<u>360,000,000</u>	<u>41,879</u>	<u>360,000,000</u>	<u>41,879</u>
At the end of the period/year	<u>360,000,000</u>	<u>41,879</u>	<u>360,000,000</u>	<u>41,879</u>

Pursuant to the written resolutions of the shareholders passed on 14 March 2018, the directors were authorised to allot and issue a total of 269,990,000 shares credited as fully paid to Profit Ocean Enterprises Limited (“**Bonus Issue**”). The Bonus Issue was completed on 13 April 2018. The shares allotted and issued rank pari passu in all respects with the then existing issued shares.

Immediately thereafter, 90,000,000 shares credited as fully paid were allotted and issued to public shareholders in relation to the public offer. The shares allotted and issued rank pari passu in all respects with the then existing issued shares.

16. CAPITAL RESERVE

Capital reserve represented the excess of nominal value of shares of Ying Kee Tea Company Limited over the nominal value of shares allotted by the Company arising from reorganisation.

17. COMMITMENTS

(a) Capital commitments

Capital commitments of the Group outstanding at 30 September 2019 and 31 March 2019 not provided for were as follows:

	As at 30 September 2019 <i>HK\$'000</i> (unaudited)	As at 31 March 2019 <i>HK\$'000</i> (audited)
Contracted but not provided for:		
– Leasehold improvement	260	427
– Machinery and equipment	539	499
	<u>799</u>	<u>926</u>

(b) Operating lease commitments

As at 30 September 2019 and 31 March 2019, the total future minimum lease payments payable by the Group under non-cancellable operating leases were as follows:

	As at 30 September 2019 <i>HK\$'000</i> (unaudited)	As at 31 March 2019 <i>HK\$'000</i> (audited)
Within one year	6,694	3,939
In the second to fifth years	–	651
	<u>6,694</u>	<u>4,590</u>

As at 30 September 2019, the Group leases a number of premises which comprises office, warehouses, retail shops and concession counters with a lease period of 12 months, which are qualified to be accounted for under short-term lease exemption under HKFRS 16.

As at 31 March 2019, the Group leases a number of premises which comprises office, warehouses, retail shops and concession counters under operating leases. The leases run for an initial period of one to three years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

18. RELATED PARTY TRANSACTIONS

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

18.1 Names and relationship

Name of related party	Relationship with the Group
Chan Sing Hoi Enterprises Limited	An entity controlled by the Controlling Shareholders
Golden Ocean International Holdings Limited	An entity controlled by the Controlling Shareholders

18.2 Related party transactions

	Six months ended 30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Rental expense, management fee and rates paid:		
Chan Sing Hoi Enterprises Limited	1,428	1,044
Golden Ocean International Holdings Limited	<u>3,036</u>	<u>1,544</u>

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

Purchase of goods made on behalf of the Group by Golden Ocean International Holdings Limited were sold to the Group at cost.

18.3 Key management personnel remunerations

	Six months ended 30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Salaries, allowances and other benefits	1,792	1,268
Bonuses	91	850
Retirement scheme contributions	<u>62</u>	<u>46</u>
	<u>1,945</u>	<u>2,164</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

	For the 6 months Ended 30 September	
	2019	2018
	HK\$	HK\$
Revenue	15,997,000	17,022,000
Gross Profit	12,183,000	13,271,000
Loss before taxation	6,251,000	5,211,000
Taxation		8,000
Loss attributable to shareholders	6,251,000	5,219,000
Loss per share (Basic and Diluted)	HK1.72 cents	HK1.47 cents

Business Review

The Company is an investment company incorporated in Hong Kong. The principal activity of Ying Kee Tea Company Limited (the “**Tea Company**”) is the sale of tea leaves, tea wares and tea gift sets through twelve retail shops and concessionary counters; while the principal activity of iTea. Ying Kee Limited (the “**iTea**”), another subsidiary of the Company, is the sale of beverages of Chinese tea, Italian coffee, fruits and other ingredients through one outlet.

In addition to uncertainties of the United States – China trade war continued, the mass protests followed by hostile encounter between the Hong Kong Government and the protesters since June had ignited violent and militant actions throughout various districts in Hong Kong. The randomness of place of occurrence and the degree of violence intimidated tourists and citizens of Hong Kong from going out in the streets during weekends. As a consequence, many shops and restaurants in the streets and shopping malls were forced to close for business intermittently. This psychological fear hampered the retail business and sales had dropped 11.4%, 23.0% and 18.3% year on year in July, August and September respectively, according to the Census and Statistics Department. The forecast for the whole year of 2019 will see an overall decrease of 8.1% over the year 2018 according to the Hong Kong Business magazine. The emphasis is no one can predict when the ravaging protests will come to an end.

Financial Review

Revenue, gross profit and net profit

The consolidated revenue of the Group for the six months ended 30 September 2019 (the “**Reporting Period**”) reached approximately HK\$16.0 million (six months ended 30 September 2018: approximately HK\$17.0 million), representing a decrease by approximately 6.0%. The gross profit for the period amounted to approximately HK\$12.2 million (six months ended 30 September 2018: approximately HK\$13.3 million), decreasing by approximately 8.2%. Gross profit margin was approximately 76.2% (six months ended 30 September 2018: approximately 78.0%), a slight decrease compared with that of the last corresponding period. Net loss for the Reporting Period was approximately HK\$6.3 million (six months ended 30 September 2018: Net loss of approximately HK\$5.2 million). The substantial loss for the Reporting Period was mainly due to the current continuous social incidents causing turnover to shrink and the increase in administrative expenses as mentioned below.

Selling and distribution costs

Selling and distribution costs reduced by approximately 15.4% to approximately HK\$0.6 million (six months ended 30 September 2018: approximately HK\$0.7 million) primarily because of the reduction of sales commission to staff and entertainment expenses for the six months ended 30 September 2019.

Administrative expenses

The following expenses were substantially increased for the six months ended 30 September 2019 relative to those for the six months ended 30 September 2018 because of the followings:

1. Staff salaries increased for the new recruitment of shop staffs in Shatin and Tsimshatsui;
2. New adoption of HKFRS 16 Lease gave rise to the new addition of amortization of right of use and finance cost effective 1 April 2019;
3. Share option expenses accrued upon grant of share options on 9 September 2019; and
4. Rent increased as a result of escalated rent upon lease renewal and the addition of one concessionary counter in Shatin and one beverage shop in Tsimshatsui.

The increase in administrative expenses was countered by a reduction in listing expenses for the six months ended 30 September 2019 compared with that of the corresponding period in 2018.

Outlook and Prospect

With one tea products concessionary counter and one beverage shop opened in October 2018 and mid-April 2019 respectively, business is not gaining its momentum to grow at the historical rate of 1.6%. The present crisis of wide spread protests will further weaken the economy of Hong Kong. The Group is expecting a negative growth for the rest of 2019.

At present, the Group has sufficient cash on hand to meet current business needs and obligations. Looking into the future, the Group has employed prudent cash management approach should turnover continues to shrink, including but not limited to negotiating for rental reduction, reducing discretionary expenses such as advertising, entertainment and incentive bonuses. The Board believes that by reacting promptly to sudden changes with due care and diligence, the Group will sustain its continuity through this difficult time.

Up to the date of the report, all proceeds derived from the Initial Public Offer and Share Placement, at a total of HK\$25.0 million after deducting commission and relative expenses, were mostly utilized in accordance with the proposed applications set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus except the opening of shops and concession counters when the Directors consider the hardship of the retail industry ahead. The remaining net proceeds will be utilized with no material difference between the disclosure in the listing document and actual business progress.

Liquidity and Cash Flow Management

The Group has funded the liquidity and capital requirements principally from cash generated from operations and proceeds from listing.

As at 30 September 2019, the Group's net current assets amounted to approximately HK\$30.0 million (31 March 2019: approximately HK\$37.7 million) which decreased by approximately HK\$7.7 million or 20.4% due to decrease in cash and time deposits. Cash and bank balances amounted to approximately HK\$2.8 million (31 March 2019: approximately HK\$10.2 million), a decrease of approximately HK\$7.4 million or 72.6%. Time deposits amounted to approximately HK\$15.0 million (31 March 2019: HK\$16.0 million), with a slight decrease of HK\$1.0 million, or 6.2%. All are consequence of application of proceeds in accordance with description under the section "Future Plans and Use of Proceeds" in the Prospectus. As at 30 September 2019, current assets amounted to approximately HK\$33.0 million (31 March 2019: approximately HK\$39.2 million) and current liabilities amounted to approximately HK\$2.9 million (31 March 2019: approximately HK\$1.5 million). Current ratio was approximately 11.2 as at 30 September 2019 (31 March 2019: approximately 26.4).

Gearing Ratio

Gearing ratio is calculated as total debts divided by the total equity as at the respective reporting date.

The gearing ratio as at 30 September 2019 was approximately 15.5% (31 March 2019: approximately 7.8%) because of higher accruals and payables and decrease in retained earnings.

Capital Expenditure

For the six months ended 30 September 2019, the Group's capital expenditure amounted to approximately HK\$0.9 million (six months ended 30 September 2018: approximately HK\$1.2 million), mainly for furniture and fixtures of the newly opened beverage shop and concessionary counter.

Foreign Exchange Exposure

Since all of the assets and liabilities are situated in Hong Kong and denominated in Hong Kong dollars; and almost all of the revenue is generated from Hong Kong, the functional and reporting currency is Hong Kong dollar. There was no hedging instrument for payment of purchases in Renminbi as the Directors considered the payments in Renminbi were minor portion of total purchases and settlement within 60 days would not cause material foreign exchange risk.

Principal Risks and Uncertainties

Credit risk

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

Interest rate risk

As at 30 September 2019, the Group had no bank borrowings and interest rate risk is not present. The interest rate risk of time deposits was low as the interest rate fluctuations during the six months ended 30 September 2019 was slight.

Liquidity risk

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

Employees and Remuneration Policies

As at 30 September 2019, the Group had 69 employees (30 September 2018: 57) working in Hong Kong. Employees are remunerated based on their qualifications, position and performance. The remuneration offered to employees generally includes salaries, allowances and discretionally bonus. Various training was provided to the employees. The total staff costs (including remuneration of Directors and mandatory provident funds contributions) for the six months ended 30 September 2019 amounted to approximately HK\$7.1 million (six months ended 30 September 2018: approximately HK\$6.7 million).

Dividend

The Board does not declare the payment of any dividend for the six months ended 30 September 2019 (six months ended 30 September 2018: Nil).

Contingent Liabilities

The Group had no significant contingent liabilities as at 30 September 2019.

Charge on the Group's Assets

As at 30 September 2019, the Group has no charges on the Group's assets.

Events After the Reporting Period

There were no material events after the Reporting Period that would affect the result of the Group for the six months ended 30 September 2019.

Corporate Governance Practices and Compliance

During the six months ended 30 September 2019, the Group was committed to maintain a high standard of corporate governance, and to comply to the extent practicable with the Code of Corporate Governance Practices. The Company has applied the code provisions and recommended best practices in the Corporate Governance Code (the “CG Code”) as set out in Appendix 15 to the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”). During the six months ended 30 September 2019, the Company has complied with the relevant provisions of the CG Code. The Board is responsible for the leadership and control of, and promoting the success of the Group. This is achieved by the setting up of corporate strategic objectives and policies, and the monitoring and evaluations of operating activities and financial performance of the Group.

Securities Transactions of Directors

The Group has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard of dealings and its code of conduct regarding directors’ securities transactions during the period from the date of listing to 30 September 2019.

Purchase, Sale or Redemption of the Company’s Listed Securities

During the six months ended 30 September 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares or Debentures of the Company and its Associated Corporation

So far as the Directors are aware, as at 30 September 2019, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the “SFO”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares and underlying shares of the Company

Name of Director/ Chief Executive	Capacity/Nature of interest	Number of shares held/ interested	Approximate percentage of shareholding
Chan Kwong Yuen	Interested in a controlled corporation	270,000,000 (Note 1)	75%
	Beneficial owner	3,200,000 (Note 2)	0.89%
Chan Kun Yuen	Interested in a controlled corporation	270,000,000 (Note 1)	75%
	Beneficial owner	3,200,000 (Note 2)	0.89%
Chan Shu Yuen	Interested in a controlled corporation	270,000,000 (Note 1)	75%
	Beneficial owner	3,200,000 (Note 2)	0.89%
Siu Chi Ming	Beneficial owner	200,000 (Note 2)	0.06%
Lee Wai Ho	Beneficial owner	200,000 (Note 2)	0.06%
Wong Chee Chung	Beneficial owner	200,000 (Note 2)	0.06%

Notes:

- These 270,000,000 shares are held by Profit Ocean Enterprises Limited (“Profit Ocean”), a company owned by Tri-Luck Investments Limited (“Tri-Luck”), Wealth City Global Limited (“Wealth City”), Sky King Global Limited (“Sky King”) and Coastal Lion Limited (“Coastal Lion”) in equal shares, i.e., 25%. Each of Tri-Luck, Wealth City, Sky King and Coastal Lion is wholly owned by Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen respectively.

Under the acting in concert arrangement between Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Tat Yuen, each of Coastal Lion, Wealth City, Sky King, Tri-Luck, Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Tat Yuen is deemed to be interested in all the shares of the Company held by Profit Ocean for purposes of the SFO.

- These shares are derived from the interests in share options granted by the Company pursuant to the Share Option Scheme adopted by the Company on 14 March 2018.

Long positions in ordinary shares of associated corporations

Name of Director/Chief Executive	Name of associated corporation	Capacity/nature of interest	Number of shares held/interested	Percentage of shareholding
Chan Kwong Yuen	Profit Ocean	Interest in a controlled corporation	250	25%
	Coastal Lion	Interest in a controlled corporation	100	100%
Chan Kun Yuen	Profit Ocean	Interest in a controlled corporation	250	25%
	Wealth City	Interest in a controlled corporation	100	100%
Chan Shu Yuen	Profit Ocean	Interest in a controlled corporation	250	25%
	Sky King	Interest in a controlled corporation	100	100%

Save as disclosed above, none of the Directors and chief executive of the Company nor their associates had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules as at 30 September 2019.

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

So far as known to the Directors or chief executive of the Company, as at 30 September 2019, the following persons/entities (other than the Directors and chief executives of the Company) had or were deemed to have an interest or a short position in the shares or the underlying shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or which were directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group:

Long positions in ordinary shares and underlying shares of the Company

Name of Shareholder	Nature of interest and capacity	Number of Shares held or interested	Percentage of the total issued shares
Profit Ocean	Beneficial owner	270,000,000	75%
Tri-Luck (Note 1)	Interest in a controlled corporation	270,000,000	75%
Wealth City (Note 1)	Interest in a controlled corporation	270,000,000	75%
Sky King (Note 1)	Interest in a controlled corporation	270,000,000	75%
Coastal Lion (Note 1)	Interest in a controlled corporation	270,000,000	75%
Mr. Chan Tat Yuen (Note 1)	Interest in a controlled corporation	270,000,000	75%
Ms. Chu Min (Note 2)	Interest of spouse	270,000,000	75%
Ms. Chan King Chi (Note 3)	Interest of spouse	270,000,000	75%
Ms. Po Miu Kuen Tammy (Note 4)	Interest of spouse	270,000,000	75%
Ms. Ng Wai Lam Lana Zoe (Note 5)	Interest of spouse	270,000,000	75%

Notes:

1. The total issued capital of Profit Ocean is owned by Tri-Luck, Wealth City, Sky King and Coastal Lion in equal shares, i.e., 25%, while the total issued share capital of each of Tri-Luck, Wealth City, Sky King and Coastal Lion is wholly owned by Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen, respectively.

Under the acting in concert arrangement between Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen, each of Tri-Luck, Wealth City, Sky King and Coastal Lion, Mr. Chan Tat Yuen, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen is deemed to be interested in all the shares held by Profit Ocean for purposes of the SFO.

2. Ms. Chu Min is the spouse of Mr. Chan Tat Yuen. For purposes of the SFO, Ms. Chu Min is deemed to be interested in the shares held by Mr. Chan Tat Yuen.
3. Ms. Chan King Chi is the spouse of Mr. Chan Kun Yuen. For purposes of the SFO, Ms. Chan King Chi is deemed to be interested in the shares held by Mr. Chan Kun Yuen.
4. Ms. Po Miu Kuen Tammy is the spouse of Mr. Chan Shu Yuen. For purposes of the SFO, Ms. Po Miu Kuen Tammy is deemed to be interested in the shares held by Mr. Chan Shu Yuen.
5. Ms. Ng Wai Lam Lana Zoe is the spouse of Mr. Chan Kwong Yuen. For purposes of the SFO, Ms. Ng Wai Lam Lana Zoe is deemed to be interested in the shares held by Mr. Chan Kwong Yuen.

Save as disclosed above, as at 30 September 2019, no person, other than the Directors of the Company whose interests are set out in the section “Directors’ and Chief Executive’s Interests and Short Positions in Shares, Underlying Shares or Debentures of the Company and its Associated Corporation” above, had or was deemed to have an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

As at 30 September 2019, the controlling shareholders did not pledge any of the shares to any party. There were no covenants restricting any specific performance leading to breach of loan agreement.

Share Option Scheme

The Company has adopted the share option scheme on 14 March 2018 (the “Share Option Scheme”) under which certain participants (including, among others, full time employee, consultant, adviser and directors, and any distributor, contractor, supplier, agent, customer, business partner and service provider of any member of our Group) may be granted options to subscribe for the shares. The principal terms of the Scheme are summarised in the paragraph headed “Share Option Scheme” in appendix IV to the prospectus of the Company dated 23 March 2018.

Details of the movement in the share options granted under the Scheme for the six months ended 30 September 2019 are as follows:

Name or category of participants	Date of grant of share options	Exercisable period	Exercise price of share options (HKD)	Outstanding at 1 April 2019	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding at 30 September 2019
Directors									
Mr. Chan Kwong Yuen	9 September 2019	1 June 2020 to 31 May 2023	0.189	-	3,200,000	-	-	-	3,200,000
Mr. Chan Kun Yuen	9 September 2019	1 June 2020 to 31 May 2023	0.189	-	3,200,000	-	-	-	3,200,000
Mr. Chan Shu Yuen	9 September 2019	1 June 2020 to 31 May 2023	0.189	-	3,200,000	-	-	-	3,200,000
Mr. Siu Chi Ming	9 September 2019	1 June 2020 to 31 May 2023	0.189	-	200,000	-	-	-	200,000
Mr. Lee Wai Ho	9 September 2019	1 June 2020 to 31 May 2023	0.189	-	200,000	-	-	-	200,000
Mr. Wong Chee Chung	9 September 2019	1 June 2020 to 31 May 2023	0.189	-	200,000	-	-	-	200,000
Sub-total				-	10,200,000	-	-	-	10,200,000
Substantial Shareholder									
Mr. Chan Tat Yuen	9 September 2019	1 June 2020 to 31 May 2023	0.189	-	3,200,000	-	-	-	3,200,000
Other Employees	9 September 2019	1 June 2020 to 31 May 2023	0.189	-	18,900,000	-	-	-	18,900,000
Total				-	32,300,000	-	-	-	32,300,000

A total of 32,300,000 share options were granted under the Share Option Scheme on 9 September 2019. During the six months ended 30 September 2019, there were no share options exercised, cancelled or lapsed under the Share Option Scheme.

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholders of the Company (as defined in the GEM Listing Rules) nor any of their respective close associates that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the six months ended 30 September 2019.

AUDIT COMMITTEE

The Audit Committee of the Company (the “Audit Committee”) was established on 14 March 2018 with written terms of reference in compliance with the requirements as set out in Rule 5.28 of the GEM Listing Rules and the CG Code. The Audit Committee currently comprises of all three independence non-executive Directors. The chairman of the Audit Committee is Mr. Siu Chi Ming, and the other members are Mr. Lee Wai Ho and Mr. Wong Chee Chung.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting process, risk management and internal control systems, and review of the Group's financial information.

The Audit Committee has reviewed the unaudited condensed consolidated results of the Company for the six months ended 30 September 2019 and is of the opinion that such results complied with the applicable accounting standards and the requirements under the GEM Listing Rules, and that adequate disclosures have been made.

Interests of Compliance Adviser

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed KGI Capital Asia Limited as its compliance adviser (the "Compliance Adviser"). As confirmed by the Compliance Adviser as of 30 September 2019, none of the Compliance Adviser or its directors, employees or close associates had any interests in the share capital of the Company or any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules as at the date of this report.

By Order of the Board
Ying Kee Tea House Group Limited
Chan Kwong Yuen
Chairman

Hong Kong, 12 November 2019

As at the date of this announcement, the Board comprises Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen and Mr. Chan Shu Yuen as executive Directors; and Mr. Wong Chee Chung, Mr. Siu Chi Ming and Mr. Lee Wai Ho as independent non-executive Directors.

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at www.yingkeetea.com.