THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Ying Kee Tea House Group Limited, you should at once hand this circular together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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英記茶莊
YING KEE TEA HOUSE

YING KEE TEA HOUSE GROUP LIMITED
英記茶莊集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 8241)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS AND NOTICE OF EGM

Financial adviser to the Company

KGI CHINA DEVELOPMENT FINANCIAL

KGI Capital Asia Limited

Independent financial adviser to the Independent Board Committee and Independent Shareholders

中毅資本有限公司
Grand Moore Capital Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 5 to 15 of this circular. A notice convening the EGM to be held at 8th Floor, Wah Shing Centre, 5 Fung Yip Street, Siu Sai Wan, Hong Kong on Thursday, 19 March 2020 at 3:00 p.m. or any adjourned meeting hereof to approve matters referred to in this circular is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use by the Shareholders at the EGM is also enclosed with this circular. Such form of proxy is also published on the GEM website at www.hkgem.com and the Company's website at www.yingkeetea.com.

Whether or not you are able or intend to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned thereof should you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of publication and on the Company's website at www. yingkeetea.com.

28 February 2020

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 investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, 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.

CONTENTS

			Page
Characteristics of GEM			i
Definitions			1
Letter from the Board			5
Letter from the Independent Board Committee			16
Letter from the Independent Financial Adviser			17
Appendix I	–	**Financial Information of the Group**	I-1
Appendix II	–	**Unaudited Financial Information of the Properties**	II-1
Appendix III	–	**Unaudited Pro Forma Financial Information of the Group**	III-1
Appendix IV	–	**Valuation report of the Properties**	IV-1
Appendix V	–	**General Information**	V-1
Notice of EGM			EGM-1

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

"Acquisition"	the acquisition of Properties by the Purchasers from the Vendor pursuant to the terms and conditions of the Sale and Purchase Agreements
"associate(s)"	has the meaning as defined under the GEM Listing Rules
"Board"	the board of Directors
"Business Day(s)"	any day on which the Stock Exchange is open for the business of securities dealing
"Company"	Ying Kee Tea House Group Limited (英記茶莊集團有限公司), a company incorporated in Hong Kong with limited liability on 14 September 2017 and its issued Shares are listed on GEM of the Stock Exchange
"Completion"	the completion of the Acquisition pursuant to the terms and conditions of the Sale and Purchase Agreements, which are inter-conditional and shall take place simultaneously
"Completion Date"	the date of Completion
"connected person(s)"	has the meaning as defined under the GEM Listing Rules
"Controlling Shareholder(s)"	has the meaning as defined under the GEM Listing Rules
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened to approve, among other things, the Sale and Purchase Agreements and the transactions contemplated thereunder
"four Chans"	collectively, Mr. Chan Tat Yuen, Mr. Chan Shu Yuen, Mr. Chan Kun Yuen and Mr. Chan Kwong Yuen
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM of the Stock Exchange, as amended, supplemented or otherwise modified from time to time

"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	an independent committee of the Board, formed by the Company, comprising all the independent non-executive Directors, established to consider and review the terms of the Acquisition and the transactions contemplated thereunder, and to advise the Independent Shareholders as to whether the Acquisition is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole
"Independent Financial Adviser"	Grand Moore Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Board to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition and the transactions contemplated thereunder
"Independent Shareholder(s)"	Shareholder(s) other than the four Chans and their respective associates who are not required to abstain from voting at the EGM to approve the Sale and Purchase Agreements and the transactions contemplated thereunder
"iTea"	iTea. Ying Kee Limited (愛茶。英記有限公司) (formerly known as All Profit Enterprise Limited (滿利企業有限公司) until it changed its name on 19 October 2018), a limited liability company incorporated in Hong Kong on 11 May 2018, a direct wholly-owned subsidiary of the Company
"Latest Practicable Date"	20 February 2020, being the latest practicable date for purpose of ascertaining certain information contained in this circular
"Listing"	the listing of the Shares on GEM of the Stock Exchange

"Long Stop Date"	31 March 2020 or such later date as may be agreed in writing between the Vendor and the Purchaser(s)
"Promissory Note 1"	the promissory note in the principal amount of HK$25.0 million, to be issued by the Company in favour of the Vendor to satisfy part of the consideration for the acquisition of Property 1
"Promissory Note 2"	the promissory note in the principal amount of HK$25.5 million, to be issued by the Company in favour of the Vendor to satisfy part of the consideration for the acquisition of Property 2
"Promissory Notes"	Promissory Note 1 and Promissory Note 2
"Properties"	collectively, Property 1 and Property 2
"Property 1"	Shop B on Ground Floor, Siu Ying Commercial Building, Nos. 151-155 Queen's Road Central, Hong Kong
"Property 2"	Ground Floor, Mei Wah Building, No. 170 Johnston Road, Wan Chai, Hong Kong
"Purchaser(s)"	Sing Hoi Properties and/or Union Lucky
"Sale and Purchase Agreement(s)"	the respective sale and purchase agreements dated 4 February 2020 entered into between (i) the Vendor and Sing Hoi Properties for the acquisition of Property 1 and (ii) the Vendor and Union Lucky for the acquisition of Property 2, and each a Sale and Purchase Agreement
"SFO"	the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Sing Hoi Properties"	Sing Hoi Properties Limited (星海置業有限公司), a company incorporated in Hong Kong with limited liability on 12 June 2018, which is directly wholly-owned by the Company

"sq.ft."	square feet
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tenancy Agreements"	the tenancy agreements entered into between Ying Kee and the Vendor on 29 March 2019 for the leasing of the Properties
"Union Lucky"	Union Lucky Limited (英聯有限公司), a company incorporated in Hong Kong with limited liability on 22 February 2019, which is directly wholly-owned by the Company
"Vendor"	Chan Sing Hoi Enterprises Limited (陳星海企業有限公司), a company incorporated in Hong Kong with limited liability on 30 August 1972, which is owned by the following individuals in the proportions indicated in the parenthesis: Mr. Chan Kun Yuen (25%), Mr. Chan Kwong Yuen (25%), Mr. Chan Shu Yuen (25%) and Mr. Chan Tat Yuen (25%)
"Ying Kee"	Ying Kee Tea Company Limited (英記茶莊有限公司) (formerly known as International Sunnyside Tradings Limited until it changed its name on 22 May 1990), a company incorporated in Hong Kong with limited liability on 13 December 1983, which is a direct wholly-owned subsidiary of the Company
"%"	per cent

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)

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

Independent Non-executive Directors:
Mr. Siu Chi Ming
Mr. Lee Wai Ho
Mr. Wong Chee Chung

Registered Office:
Suites 1106-08, 11th Floor
The Chinese Bank Building
61-65 Des Voeux Road Central
Hong Kong

Head Office and Principal Place of Business:
8/F., Wah Shing Centre
5 Fung Yip Street
Siu Sai Wan, Hong Kong

28 February 2020

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS AND NOTICE OF EGM

1. INTRODUCTION

Reference is made to the announcement of the Company dated 4 February 2020 regarding the Acquisition.

On 4 February 2020 (after trading hours), the Vendor entered into the Sale and Purchase Agreements with Sing Hoi Properties and Union Lucky respectively, pursuant to which, (i) the Vendor has conditionally agreed to sell and Sing Hoi Properties has conditionally agreed to acquire Property 1 at the consideration of HK$50.0 million, and (ii) the Vendor has conditionally agreed to sell and Union Lucky has conditionally agreed to acquire Property 2 at the consideration of HK$45.5 million.

This circular provides you with, among other things, (i) further information on the Sale and Purchase Agreements and the transactions contemplated thereunder; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) financial information of the Group; (v) unaudited financial information of the Properties; (vi) unaudited pro forma financial information of the Group; (vii) the valuation report of the Property; and (viii) the notice convening the EGM and a proxy form.

2. THE ACQUISITION

Date

4 February 2020 (after trading hours of the Stock Exchange)

Parties

Vendor: Chan Sing Hoi Enterprises Limited

Purchasers: Property 1 – Sing Hoi Properties
Property 2 – Union Lucky

Each of Sing Hoi Properties and Union Lucky is a direct wholly-owned subsidiary of the Company. Chan Sing Hoi Enterprises Limited is a limited liability company incorporated in Hong Kong which is principally engaged in property investments and is owned by the four Chans as to 25%, 25%, 25% and 25% respectively as at the date of this circular. The four Chans are the Controlling Shareholders of the Company and among them, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen are also the executive Directors. Therefore, the Vendor is a connected person of the Company.

Information of the Properties

The Group has rented the Properties from the Vendor pursuant to the Tenancy Agreements as retail shops. The following table sets out details of the Properties:

	Location	Area	Existing tenancy	Security deposit held by the Vendor (the "Rental Deposits")
Property 1	Shop B, Ground Floor, Siu Ying Commercial Building, Nos. 151-155 Queen's Road Central, Hong Kong	409 sq.ft.	Occupied by Ying Kee as retail shop. The term of the existing tenancy is one year from 1 April 2019 to 31 March 2020	HK$318,000
Property 2	Ground Floor, Mei Wah Building, No. 170 Johnston Road, Wan Chai, Hong Kong	555 sq.ft.	Occupied by Ying Kee as retail shop. The term of the existing tenancy is one year from 1 April 2019 to 31 March 2020	HK$396,000

The Vendor shall on the Completion account to the Purchasers for the Rental Deposits (without deduction).

The monthly rentals (excluding rates and building management fees) paid/to be paid to the Vendor for each of the Property 1 and Property 2 were as follows:

	Monthly rental	
	Property 1	**Property 2**
Years ended 31 March 2018 and 2019	HK$81,000	HK$93,000
1 April 2019 to 31 March 2020 (pursuant to the Tenancy Agreements)	HK$106,000	HK$132,000

It is the Directors' intention that after the Completion, the Group will continue using the Properties as retail shops for business operation. Each of the Properties is and will be sold to the relevant Purchasers on an "*as is*" basis and in the physical state and condition as it stands.

The historical investment costs made by the Vendor for the Property 1 and Property 2 were approximately HK$0.5 million as at 13 October 1984 and approximately HK$10.5 million as at 29 September 2000 respectively based on the best knowledge of the Directors.

Consideration

Property 1

The consideration shall be HK$50.0 million payable by Sing Hoi Properties to the Vendor in the following manner:

(a) HK$2.5 million, representing 5% of the consideration, shall be paid as deposit upon signing of the relevant Sale and Purchase Agreement; and

(b) HK$47.5 million, representing 95% of the consideration, shall be paid on the Completion Date and to be satisfied by way of: (i) cash for the sum of HK$22.5 million; and (ii) issuance of Promissory Note 1 in the sum of HK$25.0 million.

Property 2

The consideration shall be HK$45.5 million payable by Union Lucky to the Vendor in the following manner:

(a) HK$2.0 million, representing approximately 4.4% of the consideration, shall be paid as deposit upon signing of the relevant Sale and Purchase Agreement; and

(b) HK$43.5 million, representing approximately 95.6% of the consideration, shall be paid on the Completion Date and to be satisfied by way of: (i) cash for the sum of HK$18.0 million; and (ii) issuance of Promissory Note 2 in the sum of HK$25.5 million.

The Acquisition will not be financed by the net proceeds from the Listing of the Company. The deposits will be financed by the internal resources of the Group; and cash payments portion of the consideration will be financed by bank mortgage loans.

As at the date of this circular, the Group has obtained banking facilities which include term loan facilities in aggregate amount of HK$45.0 million, a revolving loan facility in amount of HK$20.0 million and a bank guarantee facility in amount of HK$1.5 million. The banking facilities are secured against the Properties, corporate guarantees from the Company and several undertakings from the Group; and are subject to approval of titles of the Properties by solicitors designated by the bank.

Basis of the consideration

The consideration was determined after arm's length negotiation between the Vendor and the respective Purchasers under normal commercial terms with reference to, among others, the preliminary valuation of the Property 1 at HK$50.0 million as at 30 November 2019 and Property 2 at HK$45.5 million as at 30 November 2019, as carried out by an independent professional valuer, namely Knight Frank Petty Limited. In valuing the Properties, the valuer adopted market approaches with reference to sales evidence as available on the market.

Conditions precedent of the Sale and Purchase Agreements

Completion of each of the Sale and Purchase Agreements with Sing Hoi Properties and Union Lucky respectively, is conditional upon the fulfillment (or, if applicable, the waiver) of the following conditions:

(a) the passing of the ordinary resolution(s) by the Independent Shareholders at the EGM to approve, among others, the entering into the Sale and Purchase Agreements and the transactions contemplated thereunder in accordance with the requirements of the GEM Listing Rules;

(b) all other relevant requirements under the GEM Listing Rules and/or all necessary approvals and processes of the relevant authorities which may be required for the entering into and implementation of the relevant Sale and Purchase Agreements for the transactions contemplated thereunder having been fulfilled, obtained and/or completed by the relevant Purchaser and/or the Company;

(c) the Vendor having shown and proven a good title to the Properties;

(d) all the warranties provided by the Vendor remain true, complete and accurate, and not misleading, in all material respects as at the Completion Date; and

(e) the Sale and Purchase Agreements in relation to the acquisition of Property 1 and Property 2 having become unconditional except for any condition requiring each of the respective Sale and Purchase Agreements to become unconditional.

The Vendor shall use all reasonable endeavours to fulfill all the conditions (other than the conditions in (a) and (b) above). The Purchasers may at absolute discretion at any time waive any of above conditions precedent (other than those in (a) and (b)) by notice in writing to the Vendor. As at the date of this circular, the Purchasers have no present intention to waive any of the conditions and will only exercise their right to waive such conditions if it is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

When any of the conditions have been fulfilled, the Vendor as to (d) and (e) and the Purchaser as to (a), (b) and (c) shall notify the other party as soon as reasonably practicable (but in any event within two (2) Business Days) in writing.

If the conditions precedent have not been fulfilled to the satisfaction of the relevant party (or waived) on or before the Long Stop Date, the party shall have the right to terminate and rescind the relevant Sale and Purchase Agreement(s) by written notice to the other party. In such event, the deposits payable by the Purchaser(s) under each of the relevant Sale and Purchase Agreement(s) shall be refunded to such Purchaser(s) and all right and obligations of the parties under the relevant Sale and Purchase Agreement(s) shall be released where upon no party shall have any claim under the relevant Sale and Purchase Agreement(s) of any nature whatsoever against the other party.

3. COMPLETION

The completion of the sale and purchase for Property 1 shall be simultaneous with the completion of the sale and purchase for Property 2. On Completion, against the payment of the remaining consideration in manner mentioned under paragraphs headed "The Acquisition – Consideration" above, the Vendor and all other necessary parties (if any) will execute a proper assignment or other assurance of the Properties to the Purchasers or the Purchasers' nominee(s) free from encumbrances. Completion shall take place at or before 5:00 p.m. on the third (3rd) Business Day after the fulfilment (or waiver) of the last of the conditions precedent or on or before the Long Stop Date, whichever is earlier.

4. PRINCIPAL TERMS OF THE PROMISSORY NOTES

The principal terms of the Promissory Notes are summarised below:

Issuer:	the Company
Payee:	the Vendor
Principal amount:	Promissory Note 1 of HK$25.0 million; and Promissory Note 2 of HK$25.5 million
Interest:	Interest-free

Maturity:	the date falling on the third (3rd) anniversary from the date of issue (the "**Effective Date**") or such other date as suggested by the Company, whichever date is earlier (the "**Maturity Date**"). The Company may, at its sole and absolute discretion, further extend the Maturity Date for another three (3) years to the date falling on the sixth (6th) anniversary of the Effective Date or such other date as suggested by the Company, whichever date is earlier
Early Repayment:	in whole or in part in amounts of a minimum of HK$1,000,000 and an integral multiple of HK$100,000 by the Company at its absolute discretion at any time prior to the Maturity Date
Transferability:	freely transferable to a third party independent of and not connected with the Company and its connected persons provided that no less than three (3) Business Days' written notice is given to the Company before such transfer
Early redemption:	in the event that the Group desires to sell Property 1 and/or Property 2 before full payment of the relevant Promissory Note(s), the Company shall be obliged to repay in full the outstanding amount of the principal of the relevant Promissory Note(s) within five (5) Business Days upon completion of such sale.

5. FINANCIAL EFFECTS OF THE ACQUISITION

As disclosed under paragraphs headed "The Acquisition – Consideration" above, the Company has obtained a term loan facility of HK$45.0 million for facilitating the Acquisition and a revolving loan facility of HK$20.0 million partially for settlement of a bridging loan in form of unauthorised overdraft for facilitating the Incidental Costs (as defined below) to the Acquisition (including the stamp duty and legal professional fee) and for the Group's working capital. The banking facilities are secured against the Properties, corporate guarantees from the Company and several undertakings from the Group; and are subject to approval of titles of the Properties by solicitors designated by the bank.

It is expected that upon Completion, there will be an increase in total assets of approximately HK$115.5 million, comprising an increase in property, plant and equipment of HK$104.5 million (being the total consideration of HK$95.5 million together with other directly attributable costs of the Acquisition of approximately HK$9.0 million (the "**Incidental Costs**"), comprising stamp duty of approximately HK$8.1 million and legal and professional fee of approximately HK$0.9 million), and an increase in cash and bank balances of approximately HK$11.2 million. The increase in cash and bank balances will be mainly attributable to the obtain of bank financing of HK$65.0 million netting off by the cash payments of HK$54.0 million (including the deposits for the Acquisition and the Incidental Costs). On the other hand, it is expected that there will be an increase in total liabilities of approximately HK$110.5 million, being the amortised Promissory Notes of approximately HK$45.5 million and the bank financing of HK$65.0 million.

As mentioned under note 2 of the unaudited pro forma financial information of the Group as set out in Appendix II to this circular, the Group will issue the non-interest bearing Promissory Notes at a discounted value which is calculated by the Company's average borrowing rate of 3.5% p.a. to discount the value of the Promissory Notes into their present value amount to approximately HK$45.6 million with three years maturity time with a discount value of approximately HK$5.0 million.

It is expected that upon Completion, the profit and loss position of the Group will not experience material change. There will be additional other income of approximately HK$5.0 million which represents the imputed interest element that would be amortised to interest expenses over the three years term of the Promissory Notes and tax effect of approximately HK$0.3 million arising from the increase of deductible interest expenses netting off by (i) expected increase in finance costs of approximately HK$3.8 million, and (ii) increase in administrative expenses of approximately HK$1.5 million comprising yearly depreciation of approximately HK$3.6 million set off by reduction in rental expenses of approximately HK$2.1 million.

For more details, please refer to the unaudited pro forma financial information of the Group as set out in Appendix II to this circular.

6. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is a Chinese tea leaves retailer in Hong Kong. It operates retail shops and concession counters for selling tea products including Chinese tea leaves, tea wares and tea gift sets, to retail customers (the "**Tea Products Retail Business**") under Ying Kee. In April 2019, it diversified its business to food and beverage in Hong Kong under iTea serving products such as Hong Kong style coffee, fruit and bubble tea made from Chinese tea leaves.

Apart from the Properties, none of the existing retail shops of the Group is currently owned by the Vendor. As advised by the Directors, the Group has rented the Properties from the Vendor as retail shops for Tea Products Retail Business for over 35 years. Terms of the Tenancy Agreements will expire on 31 March 2020. The Vendor recently informed the Company about its intention to sell the Properties and offered to sell them to the Company before it will offer the same to the public market.

Having considered the substantial renovation costs for turning new premises ready for business operation; and the Group has been given the opportunity by the Vendor to acquire the Properties (which are important retail presences occupied by the Group for over 35 years and are well-recognised by loyal customers), the Company opted not choosing the lease of other properties in nearby area. Please also refer to (i) to (iv) under the sub-paragraph headed "Benefits of the Acquisition to the Group" below for details of the benefits of the Acquisition to the Group. Based on the Group's experience in refurbishing new shops, it is estimated that renovation costs for new locations of similar area sizes as the Properties in aggregate could be around HK$2.0 million.

The Company conducted searches on the website of a property agent and noted that properties on Queen's Road Central recently available for lease in general, carried area sizes larger than that of Property 1. The Directors consider that larger shop size would incur higher lump sum of rentals; thus, renting of such properties is not suitable. As for properties on Johnston Road recently available for lease with area sizes that would be considered by the Group, the rentals per sq.ft. were either similar to or much higher than that of Property 2. However, even if the rental per sq.ft. and the area sizes are similar to that of Property 2, it is expected that relocation of shop will incur substantial renovation costs. Properties on other streets in Central and Wan Chai may ask for lower rental per sq.ft. than Property 1 and Property 2 respectively; however, the Directors are of the view that they are not suitable after taking into consideration of pedestrian flow.

The Company's decision to own instead of rent the Properties was mainly a result of discussions with the Vendor on its offer to sell the Properties. The Board considered that making the Acquisition around this point of time is in the best interest of the Company and Shareholders because opportunity for the Acquisition is not available all the times. It mainly comes from a recent decision of the Vendor on selling shareholding interests to a potential buyer. The Vendor was approached by the potential buyer who is interested in the five commercial properties on the same Percival Street, Causeway Bay rather than other properties held by the Vendor. As confirmed by the Directors, apart from the said five commercial properties, the Vendor holds the Properties, a basement in Sai Ying Pun and a parking space in Causeway Bay. According to the Directors, the potential buyer intends to acquire shareholding interests in the Vendor instead of acquiring property titles in order to save stamp duties. Therefore, the Vendor offered to sell the Properties; and might also sell the basement and the parking space before the transfer of shareholding interest to the potential buyer. If the Company chooses not to proceed with the Acquisition, it will face the risk of losing two important retail presences which may adversely affect its business performance. It will also forego the opportunity to enhance its fixed asset bases while support of funding can be obtained from the bank and the Vendor on satisfactory terms.

The Vendor has accepted counter-offer from the Company on the financial arrangement for the Acquisition, which involves issue of Promissory Notes to satisfy substantial portion of the consideration. After further discussion, the Vendor also agreed that the Promissory Notes will be interest-free and extendable at the sole and absolute discretion of the Company (for details, please refer to "Maturity" under "Principal terms of the Promissory Notes" above). The Directors consider that such settlement arrangement is largely favourable to the Purchasers. The Acquisition would provide an opportunity for the Group to enhance its asset bases without tightening cash flow in short term given (i) the settlement arrangement with the Vendor mentioned above; and (ii) indication from a bank on the financing amount that could be available to the Company and/or the Purchasers.

The Group will not repay any of the Promissory Notes prior to the Maturity Date unless it has retained sufficient working capital for business operation based on its assessment on cashflow requirements from time to time. To the best knowledge of the Directors after making reasonable enquiries, the Vendor is willing to consider further extension of the Maturity Date, if necessary. The Group may also consider settlement of the whole or part of the outstanding Promissory Notes upon Maturity Date through re-financing of the Properties and/or other external financing when opportunities arise and if it is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Benefits of the Acquisition to the Group

The Directors believe that the Acquisition will benefit the Group in the following aspects, among others: (i) to retain important retail presences. The Group's revenue from the retail points at Property 1 and Property 2 represented approximately 19.5% and 14.2% of total revenue of the Group for the year ended 31 March 2019. The Directors are of the view that it is crucial to secure the using of the Properties as the Group's benchmark retail shops; (ii) to avoid possible disruption to the Group's business operation or loss of loyal customers as the Group may face the risk of relocation upon expiry of the Tenancy Agreements. New landlord may or may not be willing to continue leasing out the Properties to Ying Kee; (iii) to strengthen the Group's fixed asset base; and (iv) to save rental costs and to prevent burden from rental increment that may happen in future.

As informed by the bank, based on verbal indication from an independent property valuer designated by the bank for assessment before loan drawdown, valuation on the Properties as at 13 February 2020 would remain unchanged since the preliminary valuation assessment for processing bank mortgage loans application, which is close to the valuation as at 30 November 2019 as assessed by Knight Frank Petty Limited. As property valuation as at 13 February 2020 should have already reflected the general market expectation on business environment and property market brought by various factors including the novel coronavirus outbreak, the social unrest and the global economic downturn, the Board is of the view that consideration for the Acquisition is fair and reasonable. Having considered the aforesaid and the expected monthly interest expenses ranging from approximately HK$150,000 to HK$190,000 to be incurred from bank financing will be lower than the existing monthly rental expenses for the Properties, the Board considers that the Acquisition is fair and reasonable and in the interest of the Company.

7. IMPLICATIONS UNDER THE GEM LISTING RULES

As certain applicable percentage ratios (as defined under Chapter 19 of the GEM Listing Rules) in respect of the Acquisition exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to reporting, announcement and Shareholders' approval requirements.

Each of Sing Hoi Properties and Union Lucky is a direct wholly-owned subsidiary of the Company. As of the date of this circular, the Vendor is an entity controlled by the four Chans. The four Chans are the Controlling Shareholders of the Company and among them, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen are also the executive Directors. Therefore, the Vendor is a connected person of the Company. The Acquisition and the receipt of financial assistance with the issuance of the Promissory Notes to the Vendor constitute connected transactions of the Company. The issue of the Promissory Notes is fully exempt under Rule 20.88 of the GEM Listing Rules as it is conducted on normal commercial terms or better and is not secured by the assets of the Group. The Acquisition is subject to the reporting, announcement and the approval requirements of the Independent Shareholders at the EGM under Chapter 20 of the GEM Listing Rules.

8. THE EGM

Set out on pages EGM-1 to EGM-3 of this circular is a notice convening the EGM to be held at 8th Floor, Wah Shing Centre, 5 Fung Yip Street, Siu Sai Wan, Hong Kong on Thursday, 19 March 2020 at 3:00 p.m. at which an ordinary resolution will be proposed to the Independent Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreements and the transactions contemplated thereunder. As each of Mr. Chan Kwong Yuen, Mr. Chan Kun Yuen and Mr. Chan Shu Yuen has a material interest in the Acquisition, they have abstained from voting on the board resolution in approving the Acquisition. As the four Chans will be deemed as having material interests in the Acquisition, they and their respective associates will be required to abstain from voting on proposed resolution(s) to approve the Sale and Purchase Agreements and the transactions contemplated thereunder at the EGM. Save as aforesaid and to the best knowledge of the Company, as at the date of this circular, no other Shareholder is required to abstain from voting on the proposed resolution(s) to approve the Sale and Purchase Agreements and the transactions contemplated thereunder at the EGM.

A form of proxy of the EGM is enclosed with this circular. Whether or not you are able to attend and vote at the EGM, you are requested to complete and return the same to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting at EGM or any adjournment thereof if you so wish.

9. RECOMMENDATION

The Independent Board Committee, comprising three independent non-executive Directors, namely Mr. Wong Chee Chung, Mr. Siu Chi Ming and Mr. Lee Wai Ho, has been established to advise the Independent Shareholders as to whether (i) the terms of the Sale and Purchase Agreements are on normal commercial terms or better and are fair and reasonable so far as the Independent Shareholders are concerned and (ii) the Acquisition is in the interests

of the Company and the Shareholders as a whole, and to advise the Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser. None of the members of the Independent Board Committee has any direct or indirect interest in the Acquisition.

The text of the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 35 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on page 16 of this circular.

The Board considers that the terms of the Sale and Purchase Agreements are on normal commercial terms or better, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution approving the Sale and Purchase Agreements and the transactions contemplated thereunder at the EGM.

Completion of the Acquisition is subject to the fulfilment or waiver (as the case may be) of the conditions precedent to the Sale and Purchase Agreements and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

10. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

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

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)

28 February 2020

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS AND NOTICE OF EGM

We refer to the circular of the Company dated 28 February 2020 to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you on whether (i) the terms of the Sale and Purchase Agreements are on normal commercial terms or better and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisition is in the interests of the Company and the Shareholders as a whole, and to advise you on how to vote, taking into account the recommendations of the Independent Financial Adviser.

Details of the advice of the Independent Financial Adviser, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 17 to 35 of the circular. Your attention is also drawn to the letter from the Board set out on pages 5 to 15 of the circular and the additional information set out in the appendices of the circular.

Having considered the advice and recommendation of the Independent Financial Adviser, we are of the opinion that although the Acquisition is not in the ordinary and usual course of business of the Group, it is on normal commercial terms or better and is in the interests of the Company and the Shareholders as a whole; and the Sale and Purchase Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM in respect of the Sale and Purchase Agreements and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee

Mr. Wong Chee Chung	**Mr. Siu Chi Ming**	**Mr. Lee Wai Ho**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, and prepared for the purpose of incorporation into this circular.

中毅資本有限公司
Grand Moore Capital Limited

Unit 1607, 16/F,
Silvercord Tower 1,
30 Canton Road
Tsim Sha Tsui,
Kowloon,
Hong Kong

28 February 2020

To the Independent Board Committee and
the Independent Shareholders of
Ying Kee Tea House Group Limited

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreements and the transactions contemplated thereunder, the particulars of which have been set out in a circular to the Shareholders dated 28 February 2020 (the "**Circular**") and in which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

Grand Moore Capital Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders to (i) give our recommendation as to whether the terms of the Acquisition are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms and in the ordinary and usual course of business of the Group; (ii) give our recommendation as to whether the Acquisition is in the interest of the Company and the Shareholders as a whole; and (iii) advise the Independent Shareholders on how to vote at the EGM. Details of the reasons for entering into the Acquisition are set out in the section headed "Letter from the Board" in the Circular (the "**Board Letter**").

On 4 February 2020 (after trading hours), the Vendor entered into the Sale and Purchase Agreements with Sing Hoi Properties and Union Lucky respectively, pursuant to which (i) the Vendor has conditionally agreed to sell and Sing Hoi Properties has conditionally agreed to acquire Property 1 at the consideration of HK$50.0 million (the "**Property 1 Consideration**"); and (ii) the Vendor has conditionally agreed to sell and Union Lucky has conditionally agreed to acquire Property 2 at the consideration of HK$45.5 million (the "**Property 2 Consideration**" and together with the Property 1 Consideration, the "**Considerations**").

The Considerations shall be payable to the Vendor in the following manner: (i) cash deposits paid upon signing of the Sale and Purchase Agreements; (ii) cash payment portion to be financed by bank mortgage loans on the Completion Date; and (iii) issuance of Promissory Notes on the Completion Date.

As certain applicable percentage ratios (as defined under Chapter 19 of the GEM Listing Rules) in respect of the Acquisition exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to reporting, announcement and Shareholders' approval requirements.

As at the date of the Circular, the Vendor is an entity controlled by the four Chans. The four Chans are the Controlling Shareholders of the Company and among them, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen are also executive Directors. Therefore, the Vendor is a connected person of the Company. The Acquisition and the receipt of financial assistance with the issue of the Promissory Notes to the Vendor constitute connected transactions of the Company. The issue of the Promissory Notes is fully exempt under Rule 20.88 of the GEM Listing Rules as it is conducted on normal commercial terms or better and is not secured by the assets of the Group. The Acquisition is subject to the reporting, announcement and the approval requirements of the Independent Shareholders at the EGM under Chapter 20 of the GEM Listing Rules.

As the four Chans will be deemed as having material interests in the Acquisition, they and their respective associates will be required to abstain from voting on the proposed resolution(s) to approve the Sale and Purchase Agreements and the transactions contemplated thereunder at the EGM. Save as aforesaid and to the best knowledge of the Company, as at the date of the Circular, no other Shareholder is required to abstain from voting on the proposed resolution(s) to approve the Sale and Purchase Agreements and the transactions contemplated thereunder at the EGM.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company or any of its respective substantial Shareholders, Directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. In the last two years, we have not acted as any financial adviser role to the Company. Apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries or their respective controlling Shareholders that could reasonably be regarded as relevant to our independence. Also, the aggregate professional fees paid/to be paid to us do not make up a significant portion of our revenue during the relevant period which would affect our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Acquisition.

BASIS OF ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the Company's annual report for the year ended 31 March 2019 (the "**2019 Annual Report**") and interim report for the six months ended 30 September 2019 (the "**2019**

Interim Report"); (iii) other information provided by the Directors and the management of the Company (the "**Management**"); (iv) the opinions expressed by and the representations of the Management; and (v) the property valuation report on the Properties (the "**Valuation Report**") as set out in the section headed "Valuation report of the Properties" in Appendix IV to the Circular. We have assumed that all information and representations that have been provided by the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, the Management (where applicable), which have been provided to us. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied to us and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Chapters 17 and 20 of the GEM Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular 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 the Circular misleading.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company and the Valuation Report, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, the Properties, their respective subsidiaries or associates (if applicable) or any of the other parties involved in the Acquisition, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition. The Company has been separately advised by its own professional advisers with respect to the Acquisition and the preparation of the Circular (other than this letter).

We have assumed that the Acquisition will be consummated in accordance with the terms and conditions set forth in the Circular without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the

necessary governmental, regulatory or other approvals and consents as required for the Acquisition, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Acquisition. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion in relation to the Acquisition, we have taken into consideration the following factors:

1. Information on the Group

As stated in the Board Letter, the Group is a Chinese tea leaves retailer in Hong Kong. It operates the Tea Products Retail Business under Ying Kee. In April 2019, it diversified its business to food and beverage in Hong Kong under iTea serving products such as Hong Kong style coffee, fruit and bubble tea made from Chinese tea leaves. Certain summary financial information of the Group as extracted from the Company's 2019 Interim Report is set out below.

	For the six months ended 30 September	
	2019	**2018**
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Revenue	15,997	17,022
Sales of tea products	15,508	17,022
Food and beverage retails	489	–
(Loss) for the period	(6,251)	(5,219)

	As at	
	30 September 2019	**31 March 2019**
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Total assets	40,612	44,463
Total liabilities	5,436	3,231
Net assets	35,176	41,232
Cash and bank balances	2,788	10,172

During the six months ended 30 September 2019, the Company recorded unaudited consolidated revenue of approximately HK$15,997,000, representing a decrease of approximately 6.0% when compared to the unaudited consolidated revenue of approximately HK$17,022,000 recorded during the six months ended 30 September 2018. The 2019 Interim Report attributes such decease of the revenue to the mass protests followed by hostile encounter between the Hong Kong Government and the protesters since June 2019 which had ignited violent and militant actions throughout various districts in Hong Kong. The Company further recorded unaudited consolidated loss of approximately HK$6,251,000 for the six months ended 30 September 2019, representing an increase by approximately 19.8% from the unaudited consolidated loss of approximately HK$5,219,000 recorded during the six months ended 30 September 2018. As per the 2019 Interim Report, such deterioration was mainly due to (1) current continuous social incidents as mentioned above causing turnover to shrink; and (2) the increase of administrative expenses including (i) increased staff salaries; (ii) accrued share option expenses; (iii) increased rent; and (iv) new adoption of Hong Kong Financial Reporting Standard ("**HKFRS**") 16 Leases gave rise to the new addition of amortisation of right of use and finance cost.

The cash and bank balances of the Group decreased from approximately HK$10,172,000 as at 31 March 2019 by approximately 72.6% to approximately HK$2,788,000 as at 30 September 2019 which was mainly due to the utilisation and application of proceeds from the Listing in accordance with the proposed application set out in the Company's prospectus dated 23 March 2018. Such a situation further caused the decrease in unaudited consolidated total assets of the Group from approximately HK$44,463,000 as at 31 March 2019 by approximately 8.7% to approximately HK$40,612,000 as at 30 September 2019. The unaudited consolidated total liabilities of the Group increased from approximately HK$3,231,000 as at 31 March 2019 by approximately 68.2% to approximately HK$5,436,000 as at 30 September 2019, which was mainly due to the recognition of lease liabilities recognised under HKFRS 16 since 1 April 2019. As a result of loss for the period of approximately HK$6,251,000 during the six months ended 30 September 2019, the unaudited consolidated net assets decreased from approximately HK$41,232,000 as at 31 March 2019 by approximately 14.7% to approximately HK$35,176,000 as at 30 September 2019.

2. Information of the Purchasers

Each of Sing Hoi Properties and Union Lucky is a direct wholly-owned subsidiary of the Company and is principally engaged in property investment.

3. Information of the Vendor

The Vendor is a limited liability company incorporated in Hong Kong which is principally engaged in property investments and is owned by the four Chans as to 25%, 25%, 25% and 25% respectively as at the date of the Circular. The four Chans are the Controlling Shareholders of the Company and among them, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen are also the executive Directors. Therefore, the Vendor is a connected person of the Company.

4. Information of the Properties

4.1 The Properties

The Group has rented the Properties from the Vendor pursuant to the Tenancy Agreements as retail shops. The following table sets out details of the Properties:

	Location	Area	Existing tenancy	The Rental Deposits
Property 1	Shop B, Ground Floor, Siu Ying Commercial Building, Nos. 151-155 Queen's Road Central, Hong Kong	409 sq.ft.	Occupied by Ying Kee as retail shop. The term of the existing tenancy is one year from 1 April 2019 to 31 March 2020	HK$318,000
Property 2	Ground Floor, Mei Wah Building, No. 170 Johnston Road, Wan Chai, Hong Kong	555 sq.ft.	Occupied by Ying Kee as retail shop. The term of the existing tenancy is one year from 1 April 2019 to 31 March 2020	HK$396,000

The Vendor shall on the Completion account to the Purchasers for the Rental Deposits (without deduction).

The monthly rentals (excluding rates and building management fees) paid/to be paid to the Vendor for each of the Property 1 and Property 2 were as follows:

	Monthly rental	
	Property 1	Property 2
Years ended 31 March 2018 and 2019	HK$81,000	HK$93,000
1 April 2019 to 31 March 2020 (pursuant to the Tenancy Agreements)	HK$106,000	HK$132,000

It is the Directors' intention that after the Completion, the Group will continue using the Properties as retail shops for business operation. Each of the Properties is and will be sold to the relevant Purchasers on an "*as is*" basis and in the physical state and condition as it stands.

The historical investment costs made by the Vendor for the Property 1 and Property 2 were approximately HK$0.5 million as at 13 October 1984 and approximately HK$10.5 million as at 29 September 2000 respectively based on the best knowledge of the Directors.

4.2. The Valuation Report

Knight Frank Petty Limited (the "**Valuer**") has been appointed by the Company as an independent professional valuer to assess the market value of the Properties as at 30 November 2019, the details of which are set out in the Valuation Report. According to the Valuation Report, the market values of the Property 1 and the Property 2 are HK$50.0 million and HK$45.5 million respectively as at 30 November 2019.

In assessing the fairness and the reasonableness of the Valuation Report, we have considered the following factors:

4.2.1 Independence, qualification and scope of work of the Valuer

We have reviewed and enquired into the qualifications and experience of the Valuer in relation to the preparation of the Valuation Report, and noted that it is a well-established firm with global presence which possesses extensive experience in, among others, property valuations. In particular, their Hong Kong business was established in 1972 and they have 48 years of local property valuation experience. Based on information provided by the Valuer, the responsible persons in charge of the Valuation Report, namely Mr. Thomas Lam and Ms. Catherine Cheung, are professional surveyors with about 20 years and over 20 years of experience respectively in valuation in the PRC, Hong Kong, Macau and Asia Pacific region.

We have also reviewed the Valuer's terms of engagement with the Company in relation to the Valuation Report and in particular, the scope of work, and noted that it is appropriate to the opinion required to be given and there is no limitation on the scope of work which might adversely impact on the degree of assurance given by the Valuer in the Valuation Report.

Besides, the Valuer also confirmed that it is independent of and not connected with the Group, the Vendor and their respective associates.

4.2.2 Valuation approach

According to our discussion with the Valuer, in conducting the valuation of the Properties, the Valuer has adopted the market approach making reference to sales evidence as available on the market to arrive at the market value of the Properties. We understand from the Valuer that the Valuation Report was prepared in compliance with HKIS Valuation Standards 2017 published by The Hong Kong Institute of Surveyors ("**HKIS**"), and where appropriate, the relevant HKIS or jurisdictional supplement, and the provisions of Chapter 8 of the GEM Listing Rules.

Under the market approach, the value of the Properties is derived by multiplying the adjusted average unit market price (per sq.ft.) of the comparable properties by the respective saleable area (in sq.ft.) of the Properties. We have reviewed the selection basis of the comparables and note that the comparable properties are (i) the recent transactions as at the valuation date; (ii) in the same region of each of the Properties (as to Property 1, within Central district or close to the fringe of the Central district; as to Property 2, within walking distance from Wanchai MTR station); (iii) on the same floor (i.e. ground floor on street level) as each of the Properties; and (iv) of a similar size to the Properties (shop size not greater than 3 times of the Properties, which are shops of normal size rather than extreme size). We are also advised by the Valuer that all agreements for sale and purchases of the quoted comparables were followed by proper assignment documents which mean that these comparables had been properly transferred to new purchasers without default. Therefore, the Valuer considered that the selected comparables are fair and representative. Having conducted the aforementioned works, we are of the view that the market comparables selected by the Valuer are indeed comparable to the Properties and are therefore fair, representative and reasonable samples for comparison purpose. Furthermore, to determine the average unit market price (per sq.ft.) of each comparable for the purpose of valuation, the Valuer has taken into account of heterogeneous characteristics of those comparables including date of transaction, location of the property, size of the property and layout of the property and made adjustment in accordance with their professional judgement and experience to arrive at the adjusted average unit market price (per sq.ft.).

Taking into account the factors as discussed above, we are of the view that the bases and assumptions adopted by the Valuer are fair and reasonable.

We are also advised by the Valuer that, having considered that market approach is the most common method of valuation for assessing the market value of properties similar to the Properties and there are appropriate sales transaction available in the market, no secondary method has been adopted for cross-checking against the market value of the Properties derived by market approach.

Taken into consideration of the factors discussed above, we concur with the Valuer that the market approach as adopted in the Valuation Report is fair and reasonable, and in line with market practice.

Having considered (i) the Valuer is a well-established firm with global presence and has 48 years of local property valuation experience; (ii) market approach is the most common method of valuation for assessing the market value of properties similar to the Properties and there are indeed appropriate sales transaction available in the market; and (iii) other valuation approach, for instance, income approach, involves certain degree of assumptions on rental growth rate and capitalisation rate, which is considered less reliable and accurate compared to the market approach, we consider the Valuer's Valuation Report a fair and reasonable representation in assessing the market value of the Properties.

4.2.3 Conclusion on the Valuation Report

Based on our review of the Valuation Report and discussions with the Valuer as mentioned above, including but not limited to the valuation methodologies and assumptions in preparing the Valuation Report and the qualifications and experience of the Valuer in valuations, nothing has come to our attention that causes us to doubt the fairness and reasonableness of the Valuation Report.

The valuation of the Properties as set out in the Valuation Report is therefore considered indicative to the Considerations. As such, we concur with the Directors that the valuation of the Properties is a fair reference for the Considerations.

5. Reasons for and benefits of the Acquisition

As stated in the Board Letter, apart from the Properties, none of the existing retail shops of the Group is currently owned by the Vendor. As advised by the Directors, the Group has rented the Properties from the Vendor as retail shops for Tea Products Retail Business for over 35 years. Terms of the Tenancy Agreements will expire on 31 March 2020. The Vendor recently informed the Company about its intention to sell the Properties and offered to sell them to the Company before it will offer the same to the public market.

Having considered the substantial renovation costs for turning new premises ready for business operation; and the Group has been given the opportunity by the Vendor to acquire the Properties (which are important retail presences occupied by the Group for over 35 years and are well-recognised by loyal customers), the Company opted not choosing the lease of other properties in nearby area. Please also refer to (i) to (iv) as set out in the section headed "Benefits of the Acquisition to the Group" in the Board Letter for details of the benefits of the Acquisition to the Group. Based on the Group's experience in refurbishing new shops, it is estimated that renovation costs for new locations of similar area sizes as the Properties in aggregate could be around HK$2.0 million.

The Company conducted searches on the website of a property agent and noted that properties on Queen's Road Central recently available for lease in general, carried area sizes larger than that of Property 1. The Directors consider that larger shop size would incur higher lump sum of rentals; thus, renting of such properties is not suitable. As for properties on Johnston Road recently available for lease with area sizes that would be considered by the Group, the rentals per sq.ft. were either similar to or much higher than that of Property 2. However, even if the rental per sq.ft. and the area sizes are similar to that of Property 2, it is expected that relocation of shop will incur substantial renovation costs. Properties on other streets in Central and Wan Chai may ask for lower rental per sq.ft. than Property 1 and Property 2 respectively, however, the Directors are of the view that they are not suitable after taking into consideration of pedestrian flow.

The Company's decision to own instead of rent the Properties was mainly a result of discussions with the Vendor on its offer to sell the Properties. The Board considered that making the Acquisition around this point of time is in the best interest of the Company and Shareholders because opportunity for the Acquisition is not available all the times. It mainly comes from a recent decision of the Vendor on selling shareholding interests to a potential buyer. The Vendor was approached by the potential buyer who is interested in the five commercial properties on the same Percival Street, Causeway Bay rather than other properties held by the Vendor. As confirmed by the Directors, apart from the said five commercial properties, the Vendor holds the Properties, a basement in Sai Ying Pun and a parking space in Causeway Bay. According to the Directors, the potential buyer intends to acquire shareholding interests in the Vendor instead of acquiring property titles in order to save stamp duties. Therefore, the Vendor offered to sell the Properties; and might also sell the basement and the parking space before the transfer of shareholding interest to the potential buyer. If the Company chooses not to proceed with the Acquisition, it will face the risk of losing two important retail presences which may adversely affect its business performance. It will also forego the opportunity to enhance its fixed asset bases while support of funding can be obtained from the bank and the Vendor on satisfactory terms.

The Vendor has accepted counter-offer from the Company on the financial arrangement for the Acquisition, which involves issue of Promissory Notes to satisfy substantial portion of the Considerations. After further discussion, the Vendor also agreed that the Promissory Notes will be interest-free and extendable at the sole and absolute discretion of the Company (for details, please refer to the section headed "Maturity" under "Principal terms of the Promissory Notes" in the Board Letter). The Directors consider that such settlement arrangement is largely favourable to the Purchasers. The Acquisition would provide an opportunity for the Group to enhance its asset bases without tightening cash flow in short term given (i) the settlement arrangement with the Vendor mentioned above; and (ii) indication from a bank on the financing amount that could be available to the Company and/or the Purchasers.

The Group will not repay any of the Promissory Notes prior to the Maturity Date unless it has retained sufficient working capital for business operation based on its assessment on cashflow requirements from time to time. To the best knowledge of the Directors after making reasonable enquiries, the Vendor is willing to consider further extension of the Maturity Date, if necessary. The Group may also consider settlement of the whole or part of the outstanding Promissory Notes upon Maturity Date through re-financing of the Properties and/or other external financing when opportunities arise and if it is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Benefits of the Acquisition to the Group

The Directors believe that the Acquisition will benefit the Group in the following aspects, among others: (i) to retain important retail presences. The Group's revenue from the retail points at Property 1 and Property 2 represented approximately 19.5% and 14.2% of total revenue of the Group for the year ended 31 March 2019. The Directors are of the view that it is crucial to secure the using of the Properties as the Group's benchmark retail shops; (ii) to

avoid possible disruption to the Group's business operation or loss of loyal customers as the Group may face the risk of relocation upon expiry of the Tenancy Agreements. New landlord may or may not be willing to continue leasing out the Properties to Ying Kee; (iii) to strengthen the Group's fixed asset base; and (iv) to save rental costs and to prevent burden from rental increment that may happen in future.

As informed by the bank, based on verbal indication from an independent property valuer, namely Jones Lang LaSalle Limited engaged by the bank, which is also a well-established firm with global presence which possesses extensive experience in, among others, property valuations, for assessment before loan drawdown, valuation on the Properties as at 13 February 2020 (the "**Valuation Update**") would remain unchanged since the preliminary valuation assessment for processing bank mortgage loans application, which is close to the Valuation Report as at 30 November 2019. As the Valuation Update as at 13 February 2020 should have already reflected the general market expectation on business environment and property market brought by various factors including the novel coronavirus outbreak, the social unrests and the global economic downturn, the Board is of the view that the Considerations are fair and reasonable. Having considered the aforesaid and the expected monthly interest expenses ranging from approximately HK$150,000 to HK$190,000 to be incurred from bank financing will be lower than the existing monthly rental expenses from the Properties, the Board considers that the Acquisition is fair and reasonable and in the interest of the Company.

In relation to the above, we further understand that (i) the breakdown of the revenue of each retail point provided by the Management, the revenue generated from the Property 1 and Property 2 represented approximately 19.5% and 14.2% of total revenue of the Group for the year ended 31 March 2019 which were the first and the second highest revenue generating retail points for the year ended 31 March 2019; (ii) the current Tenancy Agreements will expire on 31 March 2020 which is only just over one month from the Latest Practicable Date and the Properties being retail shops for Tea Products Retail Business for over 35 years which can be considered as flagship stores of the Group; (iii) according to the section headed "Unaudited pro forma financial information of the Group" as set out in Appendix III to the Circular (the "**Pro Forma Financial Information**"), the non-current assets will increase from approximately HK$5.3 million for the year ended 31 March 2019 to approximately HK$109.7 million assuming Completion had already taken place on 31 March 2019 or 1 April 2018 (as appropriate); (iv) upon the Completion, both the landlord and the tenant of the Properties will be under the Group, and the rental expenses will be eliminated during consolidation on the Group level which allows the Group to save on the existing annual rental expenses on the Properties of approximately HK$2,856,000 (which is currently payable to the Vendors) in the long run; and (v) the estimated annual interest expenses on the mortgage loans to be obtained by the Group to finance the Acquisition of approximately HK$2,216,000 is approximately HK$640,000 lower than existing annual rental expenses on the Properties as discussed immediately above and is only payable during the term of the mortgage loan (versus perpetual rental expenses in the absence of the Acquisition), which is expected to enhance the future profitability of the Group.

According to Rating and Valuation Department's private retail properties price index published in February 2020, the price index figure (i) decreased from 562.6 in June 2019 to 505.9 in November 2019; and (ii) slightly increased from 505.9 in November 2019 to 509.6 in December 2019. It reflected that prices in the retail properties market (i) decreased from June 2019 up to November 2019 due to, among others, the social unrests; and (ii) remained relatively stable after the Valuation Report as at 30 November 2019. Given the apparent time lag between the aforementioned valuation date of the Valuation Report and the Latest Practicable Date, we have cross-checked the validity of the market value of the Properties as stated in the Valuation Report against the more recent Valuation Update prior to loan drawdown as given by a well-established independent property valuer with global presence as engaged by the bank (which is an independent third party that would surely have stringent credit control policies in place in compliance with relevant rules and regulations applicable to commercial banks), with such Valuation Update indicating that market value of the Properties as at 13 February 2020 would remain unchanged.

Having considered our work done above and in particular:

(i) the Valuation Report is dated 30 November 2019, which has already taken into account the general market expectation on business environment and property market up to 30 November 2019; and

(ii) the Valuation Update should have already reflected the general market expectation on business environment and property market brought up to 13 February 2020 which is only a week or so prior to the Latest Practicable Date,

despite the various factors including (a) the social unrests and the global economic downturn which already existed as at 30 November 2019 but with signs of subsiding as (i) there has been a notable decrease in the intensity of the social unrests since the beginning of 2020 as compared to the second half of 2019; (ii) the signing of a phase 1 trade deal between the People's Republic of China and the United States of America on 15 January 2020 has temporarily eased worries on escalating global trade wars; and (iii) the orderly exit of the United Kingdom from the European Union on 31 January 2020 has for the time being diminished fears of a "no-deal Brexit", and (b) most recently, the novel coronavirus outbreak which has been happening since January 2020, we are not aware of any concrete indications that would materially and adversely impact the valuation of the Properties as stated in the Valuation Report as at the Latest Practicable Date.

Apart from the above, we have conducted additional independent works and noted that based on the Midland Shops Prime Street Shops Price Index In Core Districts ("**MSI**"), the index was 220.2 and 213.3 in December 2019 and January 2020, respectively. Despite (i) the aforementioned slight decrease in MSI in January 2020 as compared against December 2019; and (ii) the Chinese new year public holiday in Hong Kong fell in January instead of February in the year 2020, which may decrease the pedestrian flow in Central and Wanchai, the two business hubs in Hong Kong where Property 1 and Property 2 are situated in, as advised by the Management supported by the revenue breakdown of Properties provided by the Management, revenue generated from Property 1 remained stable in January 2020 as compared against

December 2019, while revenue generated from Property 2 increased by over 20% in January 2020 as compared against December 2019. The Management advised, and we concur, that the retail businesses of the Group in Central and Wanchai have not been materially impacted by the novel coronavirus outbreak in Hong Kong in January 2020 (up to which the latest management accounts of the Group is available as at the Latest Practicable Date). The rental value requested by and agreeable to a landlord depends on numerous factors including, among others, the latest and envisaged future retail business performance generated from such property. A reasonable landlord would not offer concessionary rental deduction given that the business is not undergoing operational difficulty. The inelastic rental value of a retail shop is unlikely to cause a decrease in envisaged sale price (which in turn is largely dependent on the relevant property's rental yield) in an open market.

Having considered (i) the importance of these two flagship retail shops which generate material revenue to the Group; (ii) the significant risks to the Group's existing establishment and loss of loyal customers in the long run in the event the Properties are sold to other third parties and the Group is unable to renew the Tenancy Agreements at reasonable rental rates or any rates at all; (iii) time and resources to be consumed to source new shops in locations as desirable and strategic as the Properties are with significant expenses in renovation and outfitting should such shops be relocated; and (iv) the potential positive financial effects of increasing the Group's fixed asset base such as allowing the Group to obtain debt financings with the Properties used as security after fully repayment of the bank mortgage loans, the savings on rental expenses payable to third party, the avoidance of future rental increment due to changes in market dynamics and the better use of the available financial resources on asset capitalisation instead of expensing off under the arrangements by way of the Tenancy Agreements or future tenancy agreement(s) should the Acquisition do not proceed, we concur with the view of Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

6. The Acquisition

6.1 The Sale and Purchase Agreements

Principal terms of the Acquisition as extracted from the Board Letter are summarised as follows:

Date

4 February 2020 (after trading hours of the Stock Exchange)

Parties

Vendor:	Chan Sing Hoi Enterprises Limited
Purchasers:	Property 1 – Sing Hoi Properties
	Property 2 – Union Lucky

6.1.1 The Considerations

Property 1

The Property 1 Consideration shall be HK$50.0 million payable by Sing Hoi Properties to the Vendor in the following manner:

(a) HK$2.5 million, representing 5% of the consideration, shall be paid as deposit upon signing of the relevant Sale and Purchase Agreement; and

(b) HK$47.5 million, representing 95% of the consideration, shall be paid on the Completion Date and to be satisfied by way of: (i) cash for the sum of HK$22.5 million; and (ii) issuance of Promissory Note 1 in the sum of HK$25.0 million.

Property 2

The Property 2 Consideration shall be HK$45.5 million payable by Union Lucky to the Vendor in the following manner:

(a) HK$2.0 million, representing approximately 4.4% of the consideration, shall be paid as deposit upon signing of the relevant Sale and Purchase Agreement; and

(b) HK$43.5 million, representing approximately 95.6% of the consideration, shall be paid on the Completion Date and to be satisfied by way of: (i) cash for the sum of HK$18.0 million; and (ii) issuance of Promissory Note 2 in the sum of HK$25.5 million.

The Acquisition will not be financed by the net proceeds from the Listing of the Company. The deposits will be financed by the internal resources of the Group; and cash payments portion of the Considerations will be financed by bank mortgage loans.

As at the date of the Circular, the Group has obtained banking facilities which include term loan facilities in aggregate amount of HK$45.0 million, a revolving loan facility in amount of HK$20.0 million and a bank guarantee facility in amount of HK$1.5 million. The banking facilities are secured against the Properties, corporate guarantees from the Company and several undertakings from the Group; and are subject to approval of titles of the Properties by solicitors designated by the bank.

Having considered (i) the expected monthly interest expenses ranging from approximately HK$150,000 to HK$190,000 to be incurred from bank financing will be lower than the existing monthly rental expenses from the Properties; (ii) the fairness and reasonableness of the terms of the Promissory Notes as discussed in section 6.2 of this letter; and (iii) the Group will have sufficient working capital for its present requirements for the next twelve months from the date of publication of the Circular as mentioned in section 7.3 of this letter, we consider that the above payment terms are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

6.1.2 Basis of the Considerations

The Considerations were determined after arm's length negotiation between the Vendor and the respective Purchasers under normal commercial terms with reference to, among others, the preliminary valuation of the Property 1 at HK$50.0 million as at 30 November 2019 and Property 2 at HK$45.5 million as at 30 November 2019, as carried out by an independent professional valuer, namely Knight Frank Petty Limited. In valuing the Properties, the Valuer adopted market approaches with reference to sales evidence as available on the market.

For the further details of the Sale and Purchase Agreements, please refer to the section headed "The Acquisition" in the Board Letter.

6.1.3 Conclusion on the Considerations

Based on our work done on the Valuation Report as discussed in section 4.2 of this letter, we are of the view that the Considerations, which have been determined based on the valuation of the Properties under the Valuation Report and are exactly the same as the respective market values of the Properties as stated therein, are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

6.2 Principal terms of the Promissory Notes

The principal terms of the Promissory Notes are summarised below:

Issuer:	the Company
Payee:	the Vendor
Principal amount:	Promissory Note 1 of HK$25.0 million; and
	Promissory Note 2 of HK$25.5 million

Interest:	Interest-free
Maturity:	the maturity date falling on the third (3rd) anniversary from the Effective Date or such other date as suggested by the Company, whichever date is earlier. The Company may, at its sole and absolute discretion, further extend the Maturity Date for another three (3) years to the date falling on the sixth (6th) anniversary of the Effective Date or such other date as suggested by the Company, whichever date is earlier
Early Repayment:	in whole or in part in amounts of a minimum of HK$1,000,000 and an integral multiple of HK$100,000 by the Company at its absolute discretion at any time prior to the Maturity Date
Transferability:	freely transferable to a third party independent of and not connected with the Company and its connected persons provided that no less than three (3) Business Days' written notice is given to the Company before such transfer
Early redemption:	in the event that the Group desires to sell Property 1 and/or Property 2 before full payment of the relevant Promissory Note(s), the Company shall be obliged to repay in full the outstanding amount of the principal of the relevant Promissory Note(s) within five (5) Business Days upon completion of such sale.

Having considered the Promissory Notes (i) will be interest-free which compares favorably against the variable interest rates of 2.30% to 3.13% per annum arising out of the Group's then unsecured bank loans as explained under note 19 to the financial statements set out in the Company's 2019 Annual Report; and (ii) are extendable for another three years after the third anniversary from the Effective Date years bringing the total term to maturity to a maximum of six years from the Effective Date at the sole and absolute discretion of the Company which is expected to provide additional flexibility to the Group in terms of cash flow management and repayment of the Promissory Notes, we consider that the terms of the Promissory Notes are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

7. Financial effects of the Acquisition

7.1 Effect on net assets

According to the Pro Forma Financial Information, assuming Completion had already taken place on 31 March 2019 or 1 April 2018 (as appropriate), (i) non-current assets of the Group (being the asset value of the Properties) and current assets of the Group (mainly being the cash and bank balances) will increase as a result of the Acquisition; and (ii) there will be increase in both current liabilities and non-current liabilities of the Group (being issue of Promissory Notes and bank borrowings associated with the Acquisition). The net current assets of the Group will increase from approximately HK$37,721,000 to approximately HK$46,512,000 mainly due to proceeds from the bank loans partly offset by cash portion of the Considerations and the current portion of the bank borrowings. The net assets value of the Group would increase from approximately HK$41,232,000 as at 31 March 2019 to approximately HK$46,184,000 assuming Completion had already taken place on 31 March 2019 or 1 April 2018 (as appropriate) which is mainly due to the increase in property, plant and equipment (being the estimated total acquisition costs of the Acquisition including incidental expenses) partly offset by the cash portion of the Considerations and the issuance of Promissory Notes.

7.2 Effect on profitability

According to the Pro Forma Financial Information, the other income will increase from approximately HK$608,000 for the year ended 31 March 2019 to approximately HK$5,560,000 assuming Completion had already taken place on 31 March 2019 or 1 April 2018 (as appropriate) which is mainly caused by the discount value of the Promissory Notes. With the increase of administrative expenses (being the depreciation expenses partly offset by the total rental expenses for the year ended 31 March 2019) and finance costs (being the interest expenses for bank loans), the Acquisition is expected to result in a minor expansion of the loss for the year ended 31 March 2019 of approximately HK$2,752,000 to approximately HK$2,788,000 assuming Completion had already taken place on 31 March 2019 or 1 April 2018 (as appropriate).

As advised by the Directors, the Group will continue to use the Properties for its retail shops upon Completion. It is expected that the Group will achieve savings in future rental expenses in respect of the use of the Properties. Since the expected monthly mortgage interest expenses are less than the existing monthly rental expenses from the Properties after the Acquisition as discussed in section 5 of this letter, it is expected to bring along a long-term advantageous effect on the Group's operating profit and cash flow.

7.3 Effect on working capital

As mentioned in the Board Letter, the Considerations will be mainly financed by way of bank mortgage loans and the Promissory Notes. The Directors, after due and careful considerations, are of the opinion that, taking into account the expected completion of the Acquisition and the internal resources available, including cash balances and bank borrowing of the Group, and that the Promissory Notes will mature on the 3rd anniversary from the Effective Date or such other date as suggested by the Company, whichever date is earlier, extendable for another three years at the sole and absolute discretion of the Company, the Group will have sufficient working capital for its present requirements for the next twelve months from the date of publication of the Circular in the absence of unforeseen circumstances.

7.4 Effect on gearing

According to the Pro Forma Financial Information, the Group had nil total debts and total equity of approximately HK$41,232,000 as at 31 March 2019, translating into a gearing ratio (total debts/total equity x 100%) of nil. Furthermore, the Group would have unaudited pro forma total debts of approximately HK$110,548,000 (comprised of (i) bank borrowings (current portion) of approximately HK$2,250,000; (ii) bank borrowings (non-current portion) of approximately HK$62,750,000; and (iii) Promissory Notes of approximately HK$45,548,000) assuming Completion had already taken place on 31 March 2019 or 1 April 2018 (as appropriate). In addition, it would have unaudited pro forma total equity of approximately HK$46,184,000 assuming Completion had already taken place on 31 March 2019 or 1 April 2018 (as appropriate), translating into a gearing ratio of approximately 239.4%. Based on the above, the gearing ratio of the Group is expected to increase from nil to 239.4% as a result of the Acquisition. Although the Group's gearing position is expected to increase significantly as a result of the Acquisition, we consider that it is still in a healthy situation as the Group would still have unaudited pro forma net current assets of approximately HK$46,512,000 indicating that the Group is expected to be able to fulfill its obligations arising out of its short-term liabilities post Completion.

It should be noted that the above-mentioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon the Completion.

CONCLUSION

Having considered the above principal factors, we are of the opinion that (1) the Acquisition is, although not in the ordinary and usual course of business of the Group, on normal commercial terms; and (2) the terms of the Sale and Purchase Agreements and the transactions contemplated thereunder (including the Acquisition, the Considerations and the Promissory Notes) are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, we would recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favor of the ordinary resolution(s) to approve the Sale and Purchase Agreements (and the transactions contemplated thereunder) at the EGM.

Yours faithfully,
For and on behalf of
Grand Moore Capital Limited
Kevin So
Director – Investment Banking Department

Note: Mr. Kevin So is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore's type 6 regulated activity (advising on corporate finance). Mr. So has over 16 years of experience in the corporate finance industry in Hong Kong.

1. THREE YEAR FINANCIAL INFORMATION

Financial information of the Group (i) for the year ended 31 March 2016 is disclosed in the prospectus dated 23 March 2018, from pages I-1 to I-36; (ii) for the year ended 31 March 2018 is disclosed in the annual report of the Company for the year ended 31 March 2018 on 29 June 2018, from pages 53 to 106; and (iii) for the year ended 31 March 2019 is disclosed in the annual report of the Company for the year ended 31 March 2019 on 20 June 2019, from pages 63 to 118, which were published on both the Stock Exchange website (www.hkexnews.hk) and the Company's website (www.yingkeetea.com).

2. INDEBTEDNESS STATEMENT

As at the close of business on 10 January 2020, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this Circular, the Group, as a lessee, has lease liabilities amounting to HK$1.8 million in aggregate. The lease liabilities are secured by rental deposits.

Apart from normal trade payables and lease liabilities, the Group did not have, as at 10 January 2020, any other debt securities issued and outstanding, or authorized or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, any other mortgages and charges or any guarantees or any finance lease commitments or material contingent liabilities.

Since 10 January 2020 and up to the Latest Practicable Date, the Group has had the following bank borrowing and contingent liabilities:

Bank borrowing

(i) unauthorized overdraft of HK$5.6 million which is guaranteed by the Company;

Contingent liabilities

(ii) Promissory Notes in aggregate amount of HK$50.5 million will be issued by the Company to the Vendor;

(iii) bank loans of HK$25.0 million and HK$20.0 million which are guaranteed by group entities and secured by a legal charge on the Properties; and

(iv) revolving loan of HK$20.0 million which is guaranteed by the Company.

Save as disclosed above, the Directors were not aware of any material changes in the indebtedness of the Group after 10 January 2020 and up to the Latest Practicable Date.

3. FINANCIAL AND TRADING PROSPECT OF THE GROUP

During the nine months ended 31 December 2019, the Group generated revenue of approximately HK$30.6 million, which dropped by approximately 11.7% as compare with revenue of approximately HK$34.7 million for the corresponding period of 2018. Of which, approximately HK$30.0 million represented sales of tea products from the Tea Products Retail Business and approximately HK$0.6 million was derived from food and beverage retails opening under iTea in April 2019. Despite the new income stream from iTea, revenue of the Group still recorded a decrease mainly due to the continuous uncertainties of the United States-China trade war and the social incidents in Hong Kong since June 2019. According to the Census and Statistics Department, the value of total retail sales in 2019 had dropped by 11.5%, 22.9%, 18.2%, 24.4% and 23.7% year on year in July, August, September, October and November respectively.

Looking into the future, the Group has employed prudent cash management approach should revenue continues to decrease, including but not limited to negotiating for rental reduction on retail premises and/or reducing discretionary expenses such as advertising, entertainment and incentive bonuses.

Except the opening of shops and concession counters (which the Directors consider the hardship of the retail industry ahead), up to the Latest Practicable Date, all proceeds derived from the Listing at a total of approximately HK$25.2 million after deducting commission and relative expenses, were mostly utilized in accordance with the disclosures in the prospectus. Currently, the Company has no intention to change the use of the remaining net proceeds from the plans stated in the prospectus.

4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the expected completion of the Acquisition, the financial resources, the banking facilities presently available and the possible additional bank financing, the Group will have sufficient working capital for its present requirements and for the next twelve months from the date of this circular in the absence of unforeseeable circumstances.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is a discussion and analysis of the Group's results of operation for each of the three years ended 31 March 2017, 2018 and 2019 and the nine months ended 31 December 2019. The information set out below is principally extracted from the prospectus of the Company dated 23 March 2018, the annual reports of the Company for the two years ended 31 March 2018 and 2019, the interim report of the Group for the six months ended 30 September 2019 and the third quarterly report of the Group for the nine months ended 31 December 2019 respectively, in order to provide further information relating to the financial condition and results of operations of the Group during the periods stated.

Business review

For the year ended 31 March 2017

Revenue of the Group increased by approximately 4.1% to approximately HK$44.5 million for the year ended 31 March 2017 mainly because of the increase in revenue generated from Pu-erh tea. Gross profit margin of the Group was approximately 79.8% remaining relatively consistent with that of last year. The Group recorded other income of approximately HK$0.2 million for the year ended 31 March 2017 as there was a gain on disposal of property, plant and equipment of approximately HK$71,000 due to the sale of a motor vehicle by the Group and bank interest income of approximately HK$22,000. In addition, there was royal income of approximately HK$0.1 million from a licensee for the right to use certain of the Group's trademarks registered in Japan and to distribute and sell certain products manufactured by the Group using the signboard "EIKI CHASO".

The net profit of the Group increased by approximately 55.8% to approximately HK$12.5 million for the year ended 31 March 2017 mainly due to increase in revenue and the decrease in rent and licence fee due to the close down of a retail shop in Yau Tong and the reduction of monthly rent of certain properties. Net profit margin increased from approximately 18.4% for the year ended 31 March 2016 to approximately 27.6% for the year ended 31 March 2017.

For the year ended 31 March 2018

The consolidated revenue of the Group for the year ended 31 March 2018 reached approximately HK$45.4 million, representing an increase by 2.0%. Tea leaves were still the predominant products sold with a percentage of approximately 94.8% of total revenue for the year ended 31 March 2018. Pu-erh remained the most sellable products among the other items followed by oolong tea and fragrant tea. Their percentage of sales relative to total sales were approximately 45.2%, 20.9% and 11.8% respectively. Gross profit margin of the Group was approximately 79.5% remaining relatively consistent with that of last year. The Group did not receive any royalty income for the year ended 31 March 2018 as under the existing trademark agreement, the licensee will not pay any royalty to the Group unless new product is launched with the use of its trademark in Japan.

The Group turned to a net loss of approximately HK$3.2 million for the year ended 31 March 2018 mainly due to (i) the additional promotion activities and (ii) the increase in administrative expenses (including the non-recurring Listing expenses). The Group would have recorded net profit of approximately HK$9.5 million for the year ended 31 March 2018 if excluding the Listing expenses.

Four special sale events took place in June, July 2017 and March 2018, along with additional advertisements in mass media, resulting in an incurrence of selling and distribution costs on top of the normal activities at approximately HK$3.1 million, an increase of 19.2% as compared to that of the year ended 31 March 2017. The opening of a new shop at Telford Plaza II in Kowloon Bay on 17 October 2017 and corresponding promotion activities, which were intended to boost sales and obtain public recognition augmented the selling and distribution costs. Promoters were hired and special pop-up counters were employed in these activities. On the other hand, approximately HK$12.7 million of the Listing expenses was charged to profit and loss of the Group for the year ended 31 March 2018; and there were increases in audit fees, building management fees and rates, consultancy fee for hiring of assistant to the Chief Financial Officer (the "**CFO**") during the pre-listing processes, legal and professional fees as well as staff salaries and benefits for the newly recruited CFO.

For the year ended 31 March 2019

The consolidated revenue of the Group for the year ended 31 March 2019 reached approximately HK$44.9 million, representing a decrease by 1.1% primarily due to the stagnant economy caused by the United States-China trade war. During the year, the Group opened two new concessionary counters, one at APM in Kwun Tong in April 2018 and another one at YATA supermarket in Shatin in October 2018. Gross profit margin of the Group was approximately 78.0%, slightly lower than that of last year. Other income increased by approximately HK$0.6 million mainly due to increase in bank interest income by approximately HK$0.4 million because of the increase in time deposit from receipt of net proceeds from the Listing during the year.

The Group recorded net loss of approximately HK$2.8 million for the year ended 31 March 2019 mainly due to the increase in administrative expenses (including the non-recurring Listing expenses). The Group would have recorded net profit of approximately HK$1.2 million for the year ended 31 March 2019 if excluding the Listing expenses. Approximately HK$4.0 million of the Listing expenses was charged to profit and loss of the Group for the year ended 31 March 2019; and there were increases in rent, building management fees with opening of the new concessionary counters, consultancy fee for engaging consultants to assist the development of the new iTea operation, inception of listing maintenance cost, recruitment expenses for the new retail premises, staff salaries, trade mark expenses and directorship fee after listing.

For the nine months ended 31 December 2019

The consolidated revenue of the Group for the nine months ended 31 December 2019 reached approximately HK$30.6 million, representing a decrease by approximately 11.7% as compared with the corresponding period of 2018. Despite the new income stream from iTea, revenue of the Group still recorded a decrease mainly due to the continuous uncertainties of the United States-China trade war and the social incidents in Hong Kong since June 2019. Gross profit margin of the Group was approximately 78.0%, slightly lower than that of last corresponding period.

The Group's net loss deteriorated from approximately HK$1.4 million for the nine months ended 31 December 2018 to approximately HK$5.2 million for the nine months ended 31 December 2019. The deterioration of net loss was mainly attributable to decrease in revenue as discussed above; and the increase in administrative expenses (countered by the listing expenses incurred for the corresponding period of 2018) in view of increase in staff salaries newly recruited for shops in Shatin and Tsimshatsui, new adoption of HKFRS 16 Lease in 2019 gave rise to the addition of depreciation on right of use expenses, share option expenses accrued upon grant of share options and rental increase upon lease renewals and addition of one concessionary counter in Shatin in October 2018 and beverage shop in Tsimshatsui in April 2019.

Capital structure

As at the Latest Practicable Date, the Company has 360,000,000 ordinary shares in issue. There has been no material change in the capital structure of the Group since the Listing.

Cash position

The Group had cash and bank balances of approximately HK$2.1 million, HK$2.9 million, HK$10.2 million and HK$2.8 million and time deposits of approximately HK$0.6 million, HK$16.0 million, HK$15.0 million and HK$16.0 million, as at 31 March 2017, 2018 and 2019 and 30 September 2019, respectively.

Gearing ratio

The gearing ratio, in terms of total debt divided by the total equity as at the end of the respectively/period multiplied by 100%, was approximately 68.6% as at 31 March 2017 which was largely increased from approximately 8.5% as at 31 March 2016. The increase was mainly due to the substantial increase in bank borrowings from HK$1.3 million as at 31 March 2016 to HK$5.0 million as at 31 March 2017; and the lower total equity mainly due to the dividend of HK$20.0 million paid by Ying Kee during the year.

The gearing ratio increased substantially to approximately 760.7% as at 31 March 2018 was approximately 472.8% mainly due to the increase in bank borrowings and the reduction in reserves after payment of an interim dividend.

The Group recorded no debt as at 31 March 2019 and 30 September 2019 due to settlement of bank loans.

Borrowings

The Group recorded bank borrowings of approximately HK$5.0 million as at 31 March 2017 and approximately HK$10.0 million as at 31 March 2018, bearing variable rates of 2.73% to 3.25% and 2.30% to 3.13%, respectively.

Pledge of assets

As at 31 March 2017 and 2018, the bank revolving-loan and banker's guarantee were guaranteed jointly and severally by the four Chans, together with a corporate guarantee by the Vendor.

As at 31 March 2019 and 31 December 2019, there was no charge on the Group's assets.

Contingent liabilities

As at 31 March 2017, 2018 and 2019 and 31 December 2019, the Group had no material contingent liabilities.

Commitments

The contract commitments mainly involve rental payable by the Group in respect of certain shops, concessionary counters, office and warehouse premises under operating lease arrangements. As at 31 March 2017, 2018 and 2019, the Group's operating lease commitments were approximately HK$0.7 million, HK$4.6 million and HK$4.6 million respectively. Capital commitment as at 31 March 2017, 2018 and 2019 amounted to nil, nil and HK$0.9 million, respectively.

Significant investment

Save as disclosed, there was no significant investment during the year ended 31 March 2017, 2018 and 2019 and as at the end of the respective year, there was no significant investment held by the Group.

Foreign exchange exposure

Since 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.

4. MATERIAL ADVERSE CHANGE

Save as and except for the disclosures in this circular (including those under "Management Discussion and Analysis of the Group" in Appendix 1), as at the Latest Practicable Date, the Directors confirmed that there had been no material adverse change in the financial or trading position or prospects of the Group since 31 March 2019, the date to which the latest published audited financial statements of the Group were made up.

PROFIT AND LOSS STATEMENT OF THE PROPERTIES

Pursuant to Rule 19.69(4)(b)(i) of the GEM Listing Rules, a profit and loss statement for the three preceding financial years on the identifiable net income stream ("**Profit and Loss Statement**") in relation to the Properties, which must be reviewed by the reporting accountants to ensure that such information has been properly compiled and derived from the underlying books and records, is required to be included in this circular.

The vendor is Chan Sing Hoi Enterprises Limited ("**Vendor**"), a limited liability company incorporated in Hong Kong, which is principally engaged in property investments and is owned by the four Chans as to 25%, 25%, 25% and 25% respectively as at the date of this circular. The four Chans are the controlling shareholders of the Company and among them, Mr. Chan Kun Yuen, Mr. Chan Shu Yuen and Mr. Chan Kwong Yuen are also the executive directors. Therefore, the preparation of a Profit and Loss Statement of the Properties by the directors comply with the requirement under Rule 19.69(4)(b)(i) of the GEM Listing Rules.

The Profit and Loss Statement of the Properties for each of the three years ended 31 March 2017, 2018 and 2019 and the period from 1 April 2019 to 30 September 2019 ("**Relevant Financial Period**") as set out in this appendix has been prepared by the directors based on the financial information of the Vendor for the Relevant Financial Period.

The Profit and Loss Statement of the Properties during the Relevant Financial Period is set out below:

		Year ended 31 March			Six months ended 30 September	
	Note	**2017**	**2018**	**2019**	**2018**	**2019**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	*1*	2,088	2,088	2,088	1,044	1,428
Administrative expenses	*2*	–	–	–	–	–
Profit before income tax		2,088	2,088	2,088	1,044	1,428
Income tax expenses	*3*	(345)	(345)	(345)	(172)	(236)
Profit and other comprehensive income for the year/period		1,743	1,743	1,743	872	1,192

Note 1: Revenue of the Properties during the Relevant Financial Period is set out below:

	Year ended 31 March			Six months ended 30 September	
	2017	**2018**	**2019**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(note)	*(note)*
Rental income					
Property 1	972	972	972	486	636
Property 2	1,116	1,116	1,116	558	792
	2,088	2,088	2,088	1,044	1,428

Note: Being pro-rata rental income based on the lease agreements in respect of the Properties ("***Lease Agreements***").

Property 1 is currently let to Ying Kee Tea Company Limited ("**Ying Kee**") on a lease for a term of 1 year from 1 April 2019 to 31 March 2020. The rent has been reference to the valuation report issued by an independent valuer, the monthly rental (excluding rates and building management fees) paid/to be paid to the Vendor of the Property 1 for the years ended 31 March 2017, 2018 and 2019 was HK$81,000. The current monthly rental (excluding rates and building management fees), started from 1 April 2019, paid/to be paid to the Vendor of the Property 1 is HK$106,000.

Property 2 is currently let to Ying Kee on a lease for a term of 1 year from 1 April 2019 to 31 March 2020. The rent has been reference to the valuation report issued by an independent valuer, the monthly rental (excluding rates and building management fees) paid/to be paid to the Vendor of the Property 2 for the years ended 31 March 2017, 2018 and 2019 was HK$93,000. The current monthly rentals (excluding rates and building management fees), started from 1 April 2019, paid/to be paid to the Vendor of the Property 2 is HK$132,000.

Note 2: Pursuant to the Lease Agreements, Ying Kee is responsible for building management fee and Government rent and rates in respect of the Properties. Other outgoings of any type charged, assessed or imposed on or in respect of the Properties (including any of a capital or non-recurring nature), all utilities (data transmission, drainage, electricity, energy of any other type, gas, telephone, water and all other services) have been borne by Ying Kee during the Relevant Financial Period. As such, such expenses have not been included in the Profit and Loss Statement of the Properties set out in this appendix.

Note 3: The Vendor is subject to Hong Kong Profits Tax of 16.5% in relation to profit arising from the leasing of the Properties.

The Company has engaged Grant Thornton Hong Kong Limited, the auditor of the Company, to perform certain factual finding procedures on the compilation of the Profit and Loss Statement of the Properties in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). The auditor has agreed the Profit and Loss Statement of the Properties for the Relevant Financial Period in accordance with the agreed-upon procedures set out in the relevant engagement letter between the Company and the auditor and reported its factual findings based on the agreed-upon procedures to the directors. Pursuant to the terms of the relevant engagement letter between the Company and the auditor, the reported factual findings should not be used or relied upon by any other parties for any purposes.

In the opinion of the directors, the Profit and Loss Statement of the Properties has been properly compiled with Rule 19.69(4)(b)(i) of the GEM Listing Rules. The work performed by Grant Thornton Hong Kong Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, Hong Kong Standards on Assurance Engagements or Hong Kong Standards on Investment Circular Reporting Engagements issued by the HKICPA and consequently no assurance is provided by the auditor of the Company on the unaudited Profit and Loss Statement of the Properties.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The unaudited pro forma financial information (the "**Unaudited Pro Forma Financial Information**"), presented below is prepared to illustrate the financial position of the Group as if the acquisition of the Properties (the acquisition of the Properties referred to as the "**Acquisition**") as defined in the Circular, had been completed on 31 March 2019 or 1 April 2018, as appropriate.

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purpose only and because of its hypothetical nature, it may not purport to present the true picture of the financial effect of the Group upon the completion of the Acquisition as at 31 March 2019 or at any future date.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 19.69 of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited, for the purpose of illustrating the financial effect of Acquisition as if the Acquisition had been completed on 31 March 2019 or 1 April 2018.

The Unaudited Pro Forma Financial Information is prepared based on the audited consolidated statement of profit or loss of the Group for year ended 31 March 2019 and the audited consolidated statement of financial position of the Group as at 31 March 2019 extracted from the published annual report of the Group for the year ended 31 March 2019, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition and (ii) factually supportable, as if the Acquisition had been completed on 1 April 2018 or 31 March 2019, as appropriate.

The unaudited pro forma financial information of the Group after Acquisition should be read in conjunction with the historical financial information of the Group as set out in Appendix I to this Circular, and the financial information of the Properties as set out in Appendix II to this Circular and other financial information included elsewhere in this Circular.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2019

	The Group	Pro forma adjustments			The Group upon Acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
Revenue	44,915	–	–	–	44,915
Cost of sales	(9,900)	–	–	–	(9,900)
Gross profit	35,015	–	–	–	35,015
Other income	608	4,952	–	–	5,560
Selling and distribution costs	(2,055)	–	–	–	(2,055)
Administrative expenses	(35,422)	–	(1,514)	–	(36,936)
Finance costs	(46)	(1,594)	–	(2,216)	(3,856)
Loss before income tax	(1,900)	3,358	(1,514)	(2,216)	(2,272)
Income tax expense	(852)	–	(30)	366	(516)
Loss for the year	(2,752)	3,358	(1,544)	(1,850)	(2,788)

C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019

	The Group	Pro forma adjustments			The Group upon Acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	4,229	104,459	–	–	108,688
Intangible assets	1,027	–	–	–	1,027
	5,256	104,459	–	–	109,715
Current assets					
Inventories	7,383	–	–	–	7,383
Trade and other receivables	4,753	–	(174)	–	4,579
Tax refundable	899	–	–	–	899
Time deposits	16,000	–	–	–	16,000
Cash and bank balances	10,172	(53,959)	174	65,000	21,387
	39,207	(53,959)	–	65,000	50,248
Current liabilities					
Trade and other payables	1,486	–	–	–	1,486
Bank borrowings	–	–	–	2,250	2,250
	1,486	–	–	2,250	3,736
Net current assets	37,721	(53,959)	–	62,750	46,512
Total assets less current liabilities	42,977	50,500	–	62,750	156,227

	The Group	Pro forma adjustments			The Group upon Acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
Non-current liabilities					
Provision for long service payment	476	–	–	–	476
Provision for reinstatement cost	1,269	–	–	–	1,269
Bank borrowings	–	–	–	62,750	62,750
Promissory note	–	45,548	–	–	45,548
	1,745	45,548	–	62,750	110,043
Net assets	41,232	4,952	–	–	46,184
EQUITY					
Share capital	41,879	–	–	–	41,879
Reserves	(647)	4,952	–	–	4,305
Total equity	41,232	4,952	–	–	46,184

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

1. The audited consolidated statement of profit or loss for the year ended 31 March 2019 and the audited consolidated statement of financial position as at 31 March 2019 were extracted from the published annual report of the Group for the year ended 31 March 2019.

2. The adjustment is to reflect (i) the Acquisition at a fixed purchase price of HK$95,500,000 determined on the basis as set out on page 8 to this Circular and (ii) the incidental costs amounting to HK$8,959,000, which are directly attributable costs of the Acquisition, including stamp duty of HK$8,118,000 and legal and professional fee of HK$841,000. The estimated total acquisition cost is HK$104,459,000.

   The Group intends to finance the Acquisition through issuance of a non-interest bearing promissory note of HK$50,500,000 with three years maturity time (the "**Promissory Note**") and obtained new financing through a term loan facility of HK$45,000,000 (the "**Term Loan Facility**").

   The Company will issue the non-interest bearing Promissory Note at a discounted value which is calculated by the Company's average borrowing rate of 3.5% p.a. to discount the value of the Promissory Note into their present value amounting to HK$45,548,000. The imputed interest element of HK$4,952,000 will be amortised to interest expenses over the three years term of the Promissory Note.

   The interest expenses of HK$1,594,000 is recognised in the unaudited pro forma consolidated statement of profit or loss of the Group for the year ended 31 March 2019 as if the Acquisition had been completed on 1 April 2018.

3. The Properties are to be held by the Group for own use and hence are classified as property, plant and equipment, which is initially measured at cost using cost model. The remaining lease period up to year of 2047 is 29 years if the Acquisition had been completed on 1 April 2018. An annual depreciation expenses of HK$3,602,000 is recognised in the unaudited pro forma consolidated statement of profit or loss of the Group for the year ended 31 March 2019 as if the Acquisition had been completed on 1 April 2018.

   The Property are currently leased by the Group under an operating lease with rental expenses of total HK$2,088,000 being recognised in administrative expenses in the audited consolidated statement of profit or loss for the year ended 31 March 2019. Had the Acquisition be completed as at 1 April 2018, the Group would have not to incur the rental expenses of HK$2,088,000.

The net effect of HK$1,514,000 of the annual depreciation expenses of HK$3,602,000 and the rental expenses of HK$2,088,000 is presented as the pro forma adjustments.

The net tax effect of approximately HK$30,000 is arising from approximately of the deductible annual commercial building allowance of HK$315,000, calculated on the eligible cost of the Properties according to the relevant Inland Revenue Ordinances, and tax effect of HK$345,000 arising from the decrease of deductible rental expenses of HK$2,088,000 for the year ended 31 March 2019 as if the Acquisition had been completed on 1 April 2018.

A total rental deposit of HK$174,000 would be refunded after the termination of operating lease as if the completion of the Acquisition on 1 April 2018.

4. The adjustment represents the Term Loan Facility, including term loan 1 and term loan 2 as set out on page 10 to this Circular amounting to HK$25,000,000 and HK$20,000,000 respectively, and the revolving loan of HK$20,000,000. According to the banking facilities letter of the Term Loan Facility and the revolving loan, borrowings are repayable as follows:

	HK$'000
Carrying amount repayable	
Within one year	2,250
In the second to fifth year	9,000
After the fifth year	53,750
	65,000

Total annual interest expenses amounting to HK$2,216,000 and the tax effect of HK$366,000, arising from the increase of deductible interest expenses, is recognised in the unaudited pro forma consolidated statement of profit or loss of the Group for the year ended 31 March 2019 if the Acquisition had been completed on 1 April 2018.

5. No adjustment have been made to reflect any operating results or other transactions of the Group entered into subsequent to 31 March 2019.

E. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants of the Company, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong.

Independent Reporting Accountants' Assurance Report on the Compilation of Unaudited Pro Forma Financial Information

28 February 2020

To the Directors of Ying Kee Tea House Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Ying Kee Tea House Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 March 2019 and the unaudited pro forma consolidated statement of profit or loss for the year ended 31 March 2019 and related notes as set out on pages III-5 to III-6 of the Company's circular date 28 February 2020 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages III-7 to III-8.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the acquisition of Properties (the "**Acquisition**") on the Group's financial position as at 31 March 2019 and the Group's financial performance for the year ended 31 March 2019 as if the Acquisition had taken place at 31 March 2019 and 1 April 2018, respectively. As part of this process, information about the Group's financial position and financial performance has been extracted by the Directors from the consolidated financial statements of the Company for the year ended 31 March 2019, on which an auditor's report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 19.69 of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2019 or 1 April 2018 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

Chiu Wing Ning
Practising Certificate No.: P04920

4/F., Shui On Centre
6-8 Harbour Road
Wan Chai
Hong Kong

The Directors
Ying Kee Tea House Group Limited (the "Company")
8/F, Wah Shing Centre
5 Fung Yip Street
Siu Sai Wan
Hong Kong

28 February 2020

Dear Sirs

Valuation of (i) Shop B on Ground Floor, Siu Ying Commercial Building, Nos 151-155 Queen's Road Central and Nos 1-1B Wing Kut Street, Sheung Wan, Hong Kong and (ii) Ground Floor, Mei Wah Building, No 170 Johnston Road, Wan Chai, Hong Kong (known as the "property interests")

Instructions

In accordance with the instructions for us as an independent valuer to value the property interests held by a connected party of Ying Kee Tea House Group Limited (the "Company") in Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 30 November 2019 ("Valuation Date") for the purpose of public disclosure in a connected transaction.

Basis of Valuation

In arriving at our opinion of market value, we followed "The HKIS Valuation Standards 2017" issued by The Hong Kong Institute of Surveyors ("HKIS"). Under the said standards, market value is defined as:

"the estimated amount for which an asset or liability should exchange on the Valuation Date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

The market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction), and without offset for any associated taxes or potential taxes.

Market value is also the best price reasonably obtainable in the market on the Valuation Date by the seller and the most advantageous price reasonably obtainable in the market on the Valuation Date by the buyer. This estimate specially excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

Our valuation complies with the requirements set out in "The HKIS Valuation Standards 2017" issued by HKIS and the provisions of Chapter 8 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited.

Valuation Methodology

We have valued the property interests by "Market Approach" by making reference to sales evidence as available on the market. As advised by the Company, the property interests were leased to the Company by a connected party of the Company as at the Valuation Date.

Valuation Assumptions and Conditions

Our valuation is subject to the following assumptions and conditions.

Title Documents and Encumbrances

We have taken reasonable care to investigate the title of the property interests by obtaining land search record from the Land Registry. We have not, however, search the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We however do not accept a liability for any interpretation which we have placed on such information that is more properly the sphere of the Company's legal advisers. We have also assumed in our valuation that each of the property interests was free from encumbrances, restrictions, title defects and outgoings of an onerous nature that could affect its value, unless stated otherwise as at the Valuation Date.

Disposal Costs and Liabilities

No allowance has been made in our report for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxations which may be incurred in effecting a sale.

Source of Information

We have relied to a very considerable extent on information given by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupancies, lettings, incomes, expenditures, floor area and all other relevant matters. We have not verified the correctness of any information, including their translation supplied to us concerning the property interest, whether in writing or verbally by the Company, the Company's representatives or by the Company's legal or professional advisers or by any (or any apparent) occupier of the property interest or contained on the register of title. We assume that this information is complete and correct. We were also advised by the Company that no material facts have been omitted from the information provided. We take no responsibility for the accuracy of the data provided to us and subsequent conclusions derived from such data.

Inspection

As the internal inspection is not available to us, we have conducted an external inspection of the property interests in November 2019. The inspection was carried out by Ms Janet Yeung under the supervision of Ms Catherine Cheung MRICS MHKIS RPS(GP) RICS Registered Valuer, Director, Valuation & Advisory. As such, we are unable to comment the interior condition of the property interests. We have assumed in our valuation that the property interests were in satisfactory exterior and interior decorative order without any unauthorised extension or structural alterations as at the Valuation Date, unless otherwise stated.

Identity of Property Interest to be valued

We have exercised reasonable care and skill (but will not have an absolute obligation to you) to ensure that the property interests, identified by the property addresses in your instructions, are the property interests inspected by us and contained within our valuation report. If there is ambiguity as to the property addresses, or the extent of the property interests to be valued, this should be drawn to our attention in your instructions or immediately upon receipt of our report.

Property Insurance

We have valued the property interests on the assumption that, in all respects, it is insurable against all usual risks including terrorism, flooding and rising water table at normal, commercially acceptable premiums.

Areas and Age

As instructed, we have relied upon the measurement on the registered floor plan for the saleable areas of the property interests. For the age of the building where the property interests situate, we have relied upon the occupation permit of the building.

Structural and Services Condition

We were not instructed to undertake any structural surveys, test the services or arrange for any investigations to be carried out to determine whether any deleterious materials have been used in the construction of the property interests. Our valuation has therefore been undertaken on the assumption that the property interests were in satisfactory repair and condition and contain no deleterious materials and that services function satisfactorily.

Ground Condition

We have assumed there to be no unidentified adverse ground or soil conditions and that the load bearing qualities of the site of the property interests are sufficient to support the building constructed or to be constructed thereon; and that the services are suitable for any existing or future development. Our valuation is therefore prepared on the basis that no extraordinary expenses or delays will be incurred in this respect.

Environmental Issues

We are not environmental specialists and therefore we have not carried out any scientific investigations of sites or buildings to establish the existence or otherwise of any environmental contamination, nor have we undertaken searches of public archives to seek evidence of past activities that might identify potential for contamination. In the absence of appropriate investigations and where there is no apparent reason to suspect potential for contamination, our valuation is prepared on the assumption that the property interests are unaffected. Where contamination is suspected or confirmed, but adequate investigation has not been carried out and made available to us, then the valuation will be qualified.

Compliance with Relevant Ordinances and Regulations

We have assumed that the property interests valued had been constructed, occupied and used in full compliance with, and without contravention of any Ordinances, statutory requirement and notices except only where otherwise stated. We have further assumed that, for any use of the property interest upon which this report is based, any and all required licences, permits, certificates, consents, approvals and authorization have been obtained, except only where otherwise stated.

Remarks

In our valuations, Knight Frank has prepared the valuation based on information and data available to us as at the Valuation Date. While current market is influenced by various policies and regulations, increased complexity in social movements and international trade tensions geopolitics, has also resulted in more fluctuations in real estate market. It must be recognised changes in policy direction, mortgage requirements, social and international tensions could be immediate and have sweeping impact on the real estate market apart from typical market variations. It should therefore be noted that any market violation, policy, geopolitical and social changes or other unexpected incidents after the Valuation Date may affect the values of the property interests.

Currency

Unless otherwise stated, all monetary amounts stated in our valuation report are in Hong Kong Dollars (HK$).

Our valuation report is herein attached.

Yours faithfully
For and on behalf of
Knight Frank Petty Limited

Thomas Lam
FRICS FHKIS RPS(GP) RICS Registered Valuer
Executive Director, Head of Valuation & Advisory

Yours faithfully
For and on behalf of
Knight Frank Petty Limited

Catherine Cheung
MRICS MHKIS RPS(GP) RICS Registered Valuer
Director, Valuation & Advisory

Notes :

Thomas Lam is a qualified valuer who has about 20 years of extensive experiences in market research, valuation and advisory in the People's Republic of China, Hong Kong, Macau and Asia Pacific region.

Catherine Cheung is a qualified valuer who has over 20 years of extensive valuation experiences in Hong Kong, the People's Republic of China, Macau and Asia Pacific region.

Summary of Values

	Property	Market value in existing state as at 30 November 2019
1.	Shop B on Ground Floor, Siu Ying Commercial Building, Nos 151-155 Queen's Road Central and Nos 1-1B Wing Kut Street, Sheung Wan, Hong Kong	HK$50,000,000
2.	Ground Floor, Mei Wah Building, No 170 Johnston Road, Wan Chai, Hong Kong	HK$45,500,000
	Total	**HK$95,500,000 (Hong Kong Dollars Ninety Five Million and Five Hundred Thousand)**

Valuation

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 November 2019
1.	Shop B on Ground Floor, Siu Ying Commercial Building, Nos 151-155 Queen's Road Central and Nos 1-1B Wing Kut Street, Sheung Wan, Hong Kong 9/260th shares of and in The Remaining Portion of Inland Lot No 5334, The Remaining Portion of Inland Lot No 5333, The Remaining Portion of Inland Lot No 5332 and Inland Lot No 5336	Siu Ying Commercial Building is a 24-storey office building (including lower ground floor) completed in 1984. It is located at the southern section of Wing Kut Street, at its junction with Queen's Road Central. Developments in the vicinity comprise mainly commercial composite buildings with retail shops on street levels. The property interest comprises a retail unit on Ground Floor of Siu Ying Commercial Building. As measured from registered floor plans, the saleable area of the property interest is 409 sq ft (38.00 sq m) or thereabouts. The Remaining Portion of Inland Lot No 5334, The Remaining Portion of Inland Lot No 5333, The Remaining Portion of Inland Lot No 5332 and Inland Lot No 5336 are all held under Government leases each for a term of 999 years commencing from 26 June 1843. The total annual Government rent for the subject whole lots is HK$76.	The property interest was leased to the Company by Chan Sing Hoi Enterprises Limited, a connected party of the Company, for a term of one year from 1 April 2019 to 31 March 2020 at a monthly rent of about HK$106,000 exclusive of rates and management fees as at the Valuation Date.	HK$50,000,000 (Hong Kong Dollars Fifty Million)

Notes :

(1) The registered owner of the property interest was Chan Sing Hoi Enterprises Limited as at the Valuation Date.

(2) As at the Valuation Date, the property interest was subject to the following encumbrances:

i. Deed of Mutual Covenant with plan in favour of Chan Sing Hoi Enterprises Limited vide memorial no UB2663730 dated 13 October 1984;

ii. Certified copy of Deed of Mutual Covenant and Grant (previously registered by memorial no UB2388230 and UB2660904) vide memorial no UB7366926 dated 31 January 1983; and

iii. Legal charge in favour of Wing Hang Bank Limited for all monies vide memorial no 08020502170067 dated 25 January 2008.

(3) The property interest lay within an area zoned for "Commercial" use under the Draft Sai Ying Pun and Sheung Wan Outline Zoning Plan No S/H3/33 exhibited on 9 August 2019 as at the Valuation Date.

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 November 2019
2.	Ground Floor, Mei Wah Building, No 170 Johnston Road, Wan Chai, Hong Kong 1/106th share of and in The Remaining Portion of Marine Lot No 119	Mei Wah Building is a 14-storey (excluding roof) composite building with completed in 1963. It is bounded by Johnston Road to its north, Wan Chai Road to its east and Triangle Street to its west. The district is a traditional residential and commercial district with retail shops on street levels. The property interest comprises a retail unit on Ground Floor of Mei Wah Building. As measured from registered floor plans, the saleable area of the property interest is 555 sq ft (51.56 sq m) or thereabouts. The Remaining Portion of Marine Lot No 119 is held under a Government lease for a term of 999 years commencing from 15 May 1855 at an annual Government rent of HK$206.58 for the whole lot.	The property interest was leased to the Company by Chan Sing Hoi Enterprises Limited, a connected party of the Company, for a term of one year from 1 April 2019 to 31 March 2020 at a monthly rent of about HK$132,000 exclusive of rates and management fees as at the Valuation Date.	HK$45,500,000 (Hong Kong Dollars Forty Five Million and Five Hundred Thousand)

Notes :

(1) The registered owner of the property interest was Chan Sing Hoi Enterprises Limited as at the Valuation Date.

(2) As at the Valuation Date, the property interest was subject to the following encumbrances:

i. Deed of Mutual Covenant vide memorial no UB424221 dated 8 January 1964; and

ii. Legal charge in favour of Wing Hang Bank Limited for all moneys vide memorial no 10032402520026 dated 22 March 2010.

(3) The property interest lay within an area zoned for "Residential (Group A)" uses under the Draft Wan Chai Outline Zoning Plan No S/H5/28 exhibited on 4 May 2018 as at the Valuation Date.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular 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 circular misleading.

2. DISCLOSURE OF INTERESTS

Directors and chief executive

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive 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 the SFO which were required (a) to be 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 (b) which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Securities Transactions by the Directors as required under Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(i) Interest in the Company

Name of Director/ Chief Executive	Capacity/ Nature of interest	Number of Shares/ underlying 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%

Name of Director/ Chief Executive	Capacity/ Nature of interest	Number of Shares/ underlying shares held/interested	Approximate percentage of shareholding
Lee Wai Ho	Beneficial owner	200,000(Note 2)	0.06%
Wong Chee Chung	Beneficial owner	200,000(Note 2)	0.06%

Notes:

1. 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 held by Profit Ocean for purposes of the SFO.

2. These shares are derived from the interests in share options granted (but not yet exercised) by the Company pursuant to the share option scheme adopted by the Company on 14 March 2018.

(ii) Interests in associated corporations (within the meaning of Part XV of the SFO) of the Company

Name of Director	Name of associated corporation	Nature of interest and capacity	Number of shares held/interested	Percentage of shareholding
Mr. Chan Kun Yuen	Profit Ocean	Interest in a controlled corporation	250	25%
	Wealth City	Beneficial owner	100	100%
Mr. Chan Shu Yuen	Profit Ocean	Interest in a controlled corporation	250	25%
	Sky King	Beneficial owner	100	100%
Mr. Chan Kwong Yuen	Profit Ocean	Interest in a controlled corporation	250	25%
	Coastal Lion	Beneficial owner	100	100%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be entered in the register required to be kept by the Company under section 352 of the SFO; or (b) to be notified to the Company and the Stock Exchange pursuant to the Securities Transactions by the Directors as required under Rules 5.46 to 5.67 of the GEM Listing Rules and none of the Directors or their associates or their spouse or children under the age of 18, had any right to subscribe for the securities of the Company or associated corporations, or had exercised any such right.

Substantial Shareholders

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 5% or more of the total number of issued shares carrying rights to vote in all circumstances at general meetings of any other member of the Company were as follows:

Name of Person/Corporation	Nature of interests and capacity	Number of Shares/ underlying shares held/interested	Approximate percentage of shareholding
Profit Ocean	Beneficial owner	270,000,000	75%
Tri-Luck	Interest in a controlled corporation	270,000,000*(Note 1)*	75%
Wealth City	Interest in a controlled corporation	270,000,000*(Note 1)*	75%
Sky King	Interest in a controlled corporation	270,000,000*(Note 1)*	75%
Coastal Lion	Interest in a controlled corporation	270,000,000*(Note 1)*	75%
Mr. Chan Tat Yuen	Interest in a controlled corporation	270,000,000*(Note 1)*	75%
	Beneficial owner	3,200,000*(Note 2)*	0.89%

Name of Person/Corporation	Nature of interests and capacity	Number of Shares/ underlying shares held/interested	Approximate percentage of shareholding
Ms. Chu Min	Interest of spouse	270,000,000(Note 3)	75%
		3,200,000(Note 3)	0.89%
Ms. Chan King Chi	Interest of spouse	270,000,000(Note 4)	75%
		3,200,000(Note 4)	0.89%
Ms. Po Miu Kuen Tammy	Interest of spouse	270,000,000(Note 5)	75%
		3,200,000(Note 5)	0.89%
Ms. Ng Wai Lam Lana Zoe	Interest of spouse	270,000,000(Note 6)	75%
		3,200,000(Note 6)	0.89%

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. These 3,200,000 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.

3. Ms. Chu Min is the spouse of Mr. Chan Tat Yuen. For purposes of the SFO, Ms. Chu Min is deemed to be interested in (i) the shares held by Mr. Chan Tat Yuen; and (ii) share options granted to Mr. Chan Tat Yuen by the Company pursuant to the share option scheme adopted by the Company on 14 March 2018.

4. Ms. Chan King Chi is the spouse of Mr. Chan Kun Yuen. For purposes of the SFO, Ms. Chan King Chi is deemed to be interested in (i) the shares held by Mr. Chan Kun Yuen; and (ii) share options granted to Mr. Chan Kun Yuen by the Company pursuant to the share option scheme adopted by the Company on 14 March 2018.

5. Ms. Po Miu Kuen Tammy is the spouse of Mr. Chan Shu Yuen. For purposes of the SFO, Ms. Po Miu Kuen Tammy is deemed to be interested in (i) the shares held by Mr. Chan Shu Yuen; and (ii) share options granted to Mr. Chan Shu Yuen by the Company pursuant to the share option scheme adopted by the Company on 14 March 2018.

6. Ms. Ng Wai Lam Lana Zoe is the spouse of Mr. Chan Kwong Yuen. For purposes of the SFO, Ms. Ng Wai Lam Lana Zoe is deemed to be interested in (i) the shares held by Mr. Chan Kwong Yuen; and (ii) share options granted to Mr. Chan Kwong Yuen by the Company pursuant to the share option scheme adopted by the Company on 14 March 2018.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares, debentures or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 5% or more of the total number of issued shares carrying rights to vote in all circumstances at general meetings of any other members of the Company or had any options in respect of such Shares.

3. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, none of the Directors had any interests, either directly or indirectly, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2019, being the date to which the latest published audited consolidated accounts of the Group were made up.

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group since 31 March 2019, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or proposed Directors had any existing service contract or proposed service contract with any member of the Group which will not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

5. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or the Controlling Shareholder of the Company or their respective close associates were considered to have an interests in a business which competes or may compete with the business of the Group or have any other conflict of interest, either directly or indirectly, which any such person has or may have with the Group.

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

7. EXPERTS AND CONSENTS

The followings are the qualification of the experts who have given opinions or advice contained in this circular:

Name	Qualification
Grand Moore Capital Limited ("**Grand Moore**")	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Grant Thornton Hong Kong Limited ("**Grant Thornton**")	Certified Public Accountants
Knight Frank Petty Limited ("**Knight Frank**")	Property Valuer

Each of Grand Moore, Grant Thornton and Knight Frank has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its advice or report, as the case may be, and reference to its name in the form and context in which they are respectively included.

As at the Latest Practicable Date, each of Grand Moore, Grant Thornton and Knight Frank was not beneficially interested in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of Grand Moore, Grant Thornton and Knight Frank did not have any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 March 2019 (being, the date to which the latest published audited financial statements of the Company were made up).

8. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the Latest Practicable Date and are or may be material:

(i) the conditional underwriting agreement dated 22 March 2018 relating to the offer by the Company of the 9,000,000 new Shares initially offered for subscription pursuant to the public offer in relation to the Listing entered into, among others, the Company, the Controlling Shareholders, the executive Directors, the sole sponsor, the sole global coordinator, the sole bookrunner, the sole lead manager and the public offer underwriters; and

(ii) the Sale and Purchase Agreements.

9. AUDIT COMMITTEE

As at the Latest Practicable Date, the audit committee of the Company (the "**Audit Committee**") comprises three members, Mr. Siu Chi Ming, Mr. Lee Wai Ho and Mr. Wong Chee Chung, being all the independent non-executive Directors. The primary duties of the audit committee are, among others, to review the Company's financial reporting process, risk management and internal control system, to consider any significant or unusual items that may need to be reflected in the report and accounts, to report to the Board, identifying and making recommendation on any matters where action or improvement is needed and to act as the key representative body for overseeing relationship with the Company's external auditor.

Mr. Siu Chi Ming ("**Mr. Siu**"), aged 39, joined the Board as an independent non-executive Director in March 2018. He is also the chairman of the Audit Committee and a member of the remuneration committee (the "**Remuneration Committee**") and the nomination committee (the "**Nomination Committee**") of the Company. Mr. Siu is primarily responsible for providing independent advices to the Board.

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

Mr. Lee Wai Ho ("**Mr. Lee**"), aged 43, joined the Board as an independent non-executive Director in March 2018. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee and Audit Committee. Mr. Lee is primarily responsible for providing independent advices to the Board.

Mr. Lee has been serving as a director of Capital Partners CPA Limited since 2004, specializing in advisory, audit and assurance services. He has 21 years of accounting and finance experience.

Mr. Lee received a Bachelor of Business Administration from The Chinese University of Hong Kong in December 1998. He is a practising certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Mr. Wong Chee Chung ("**Mr. Wong**"), aged 43, joined the Board as an independent non-executive director in March 2018. He is also the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. Mr. Wong is primarily responsible for providing independent advice to the Board.

Mr. Wong had been working in PricewaterhouseCoopers (now known as PwC) in its Hong Kong office for about nine years and in its London office for about two years. He is currently serving as an executive director at each of Agenda Corp Limited which engaged in the business of providing corporate services and Double U Limited which engaged in the business of providing corporate services such as accounting and other related services. He is also an audit director at a CPA firm called Willy Wong & Co.

Mr. Wong received a Bachelor of Business Administration in Accounting and Finance from the University of Hong Kong in December 1998 and a Master of Science in Financial Analysis from the Hong Kong University of Science and Technology in June 2015. He has been a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, since July 2014 and October 2009, respectively.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong from 9:00 a.m. to 6:00 p.m. on any Business Day from the date of this circular up to and including the closing date of the EGM:

(i) the articles and association of the Company;

(ii) the prospectus of the Company dated 23 March 2018;

(iii) the annual reports of the Company for the two financial years ended 31 March 2018 and 2019;

(iv) the third quarterly report of the Company for the nine months ended 31 December 2019;

(v) the unaudited pro forma financial information of the Group set out in Appendix III to this circular;

(vi) the valuation report prepared by Knight Frank Petty Limited, the text of which is set out in Appendix IV to this circular;

(vii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 17 to 35 of this circular;

(viii) the letter from the Independent Board Committee, the text of which is set out on page 16 of this circular;

(ix) the letter of consent referred to under the paragraph headed "EXPERT AND CONSENTS" in Appendix V to this circular;

(x) the material contracts referred to under the paragraph headed "MATERIAL CONTRACTS" in Appendix V to this circular; and

(xi) this circular.

12. MISCELLANEOUS

(i) The registered office of the Company is situated at Suites 1106-8, 11th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong and the head office and principal place of business of the Company is situated at 8/F., Wah Shing Centre, 5 Fung Yip Street, Siu Sai Wan, Hong Kong.

(ii) The share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(iii) The company secretary of the Company is Mr. So Stephen Hon Cheung who is a fellow member of the Hong Kong Institute of Certified Public Accountants (Practising), a member of the Chartered Professional Accountants of Canada and a member of the Society of Certified Management Accountants of Canada.

(iv) The compliance officer of the Company is Mr. Chan Kun Yuen.

(v) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the "**Meeting**") of Ying Kee Tea House Group Limited (the "**Company**") will be held at 8th Floor, Wah Shing Centre, 5 Fung Yip Street, Siu Sai Wan, Hong Kong on Thursday, 19 March 2020 at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following resolution with or without amendments as ordinary resolution:

ORDINARY RESOLUTION

"**THAT**

1 (a) the respective agreements dated 4 February 2020 (the "**Sale and Purchase Agreements**") and entered into between (i) Chan Sing Hoi Enterprises Limited (陳星海企業有限公司) as the vendor (the "**Vendor**") and Sing Hoi Properties Limited (星海置業有限公司) as the purchaser in relation to the sale and purchase of the property at Shop B, Ground Floor, Siu Ying Commercial Building, Nos. 151-155 Queen's Road Central, Hong Kong ("**Property 1**") for the consideration of HK$50.0 million; and (ii) the Vendor and Union Lucky Limited (英聯有限公司) as the purchaser in relation to the sale and purchase of the property at Ground Floor, Mei Wah Building, No. 170 Johnston Road, Wan Chai, Hong Kong ("**Property 2**") for the consideration of HK$45.5 million, (subject to adjustments according to the terms of the Sale and Purchase Agreements) (copies of the Sale and Purchase Agreements are marked "A" and produced to the Meeting and signed by the chairman of the Meeting for identification purpose), and the transactions contemplated thereunder be and are hereby ratified, confirmed and approved;

(b) the issuance of the respective promissory notes (the "**Promissory Notes**") in the principal sum of HK$25.0 million and HK$25.5 million by the Company to the Vendor (or their respective nominee) as part of the consideration for the acquisition of Property 1 and Property 2 pursuant to the terms and conditions of the Sale and Purchase Agreements be and is hereby approved; and

(c) any one or more of the director(s) of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents (including under seal) which he/she/they consider necessary or expedient to give effect to the Sale and Purchase Agreements and the transactions contemplated thereunder including but not limited to the issuance of the Promissory Notes, for and on behalf of the Company."

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

Hong Kong, 28 February 2020

Registered Office:
Suites 1106-08, 11th Floor
The Chinese Bank Building
61-65 Des Voeux Road, Central
Hong Kong

Head Office and Principal Place of Business:
8/F., Wah Shing Centre
5 Fung Yip Street
Siu Sai Wan
Hong Kong

Notes:

1. All resolution at the Meeting will be taken by poll (except where the chairman decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands) pursuant to the GEM Listing Rules. The results of the poll will be published on the GEM website at www.hkgem.com and the Company's website at www.yingkeetea.com in accordance with the GEM Listing Rules.

2. Any shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint another person (who must be an individual) as his/her proxy to attend and, subject to the provisions of the Amended and Restated Articles of Association of the Company, to vote on his/her behalf, and a proxy so appointed shall have the same right as the shareholder to speak at the meeting. A proxy need not be a shareholder of the Company but must be present in person at the Meeting to represent the shareholder. A shareholder of the Company who is the holder of two or more shares may appoint more than one proxy to represent him/her and vote on his/her behalf at the meeting. If more than one proxy is so appointed, the number and class of shares in respect of which each such proxy so appointed must be specified in the relevant form of proxy.

3. A form of proxy for use at the Meeting is enclosed. Whether or not you intend to attend the Meeting in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and delivery of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the Meeting or any adjournment thereof should he so wish, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

4. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority must be deposited at the Company's share registrar and transfer office, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

5. Where there are joint holders of any shares, any one of such joint holder may vote, either in person or by proxy, in respect of such shares as if he/she were solely entitled to vote, but if more than one of such joint holders are present at the Meeting, the most senior holder shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names of the joint holders stand on the register of members of the Company in respect of the joint holding.

6. For determining the entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from Monday, 16 March 2020 to Thursday, 19 March 2020, both dates inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the Meeting, unregistered holders of the shares of the Company should ensure that all transfer forms accompanied by the relevant share certificate(s) must be lodged with the Company's share registrar and transfer office, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 13 March 2020.

7. If typhoon signal no. 8 or above, "extreme conditions" caused by super typhoons or a "black" rainstorm warning is hoisted or remains hoisted at 7:00 a.m. on the date of the Meeting, the Meeting will be postponed. The Company will post an announcement on the GEM website at www.hkgem.com and the Company's website at www.yingkeetea.com to notify shareholders of the Company of the date, time and place of the rescheduled meeting.