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 Hang Chi Holdings Limited ("**Company**"), you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Hang Chi Holdings Limited
恒智控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8405)

MAJOR TRANSACTION RELATING TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY

A letter from the Board is set out on pages 4 to 11 of this circular.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and will also be published on the Company's website at www.shuionnc.com.

5 December 2017

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to 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

Unless otherwise specified, the following terms have the following meanings in this circular:

"Acquisition"	the acquisition of the entire issued share capital of the Target Company upon and subject to the terms and conditions of the Sale and Purchase Agreement
"Announcement"	the announcement of the Company dated 9 October 2017 in relation to the Acquisition
"Board"	the board of Directors
"Business Day(s)"	a day (excluding Saturday, Sunday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business
"Company"	Hang Chi Holdings Limited (恒智控股有限公司), a company incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on GEM (stock code: 8405)
"Completion"	completion of the Acquisition
"Consideration"	consideration of the Acquisition, being an aggregate amount of HK$45,000,000
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group immediately after Completion and "member of the Enlarged Group" means any of such companies
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
"Group"	the Company and its subsidiaries

"Independent Third Party(ies)"	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons of the Company in accordance with the GEM Listing Rules
"Independent Valuer"	Royson Valuation Advisory Limited, an independent valuer engaged by the Company to prepare the valuation report of the Target Company, which is included in Appendix V to this circular
"Latest Practicable Date"	5 December 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Prospectus"	the prospectus of the Company dated 28 June 2017
"Purchaser"	Shui On Nursing Home Holdings Limited (瑞安護老院集團有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
"Sale and Purchase Agreement"	the sale and purchase agreement dated 9 October 2017 entered into between the Vendors and the Purchaser in relation to the Acquisition
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Shui Wah"	Shui Wah Limited (瑞樺有限公司), a company incorporated in the British Virgin Islands with limited liability and a controlling Shareholder (as defined under the GEM Listing Rules) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Shui Jun Nursing Centre (Yau Tong) Company Limited (瑞臻護老中心(油塘)有限公司), a company incorporated in Hong Kong with limited liability

"Vendors"	Mr. Hui Lung (許龍) and Mr. Chui Sai Ming (徐世明)
"%"	per cent

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

Hang Chi Holdings Limited
恒智控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8405)

Executive Directors:
Mr. Yik Tak Chi
(Chairman and Chief Executive Officer)
Mr. Chung Kin Man
Ms. Chung Wai Man

Non-executive Director:
Mr. Lau Joseph Wan Pui

Independent non-executive Directors:
Mr. Kwok Chi Shing
Mr. Lau Tai Chim
Mr. Wong Wai Ho

Registered office:
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Hutchins Drive
PO Box 2681
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Cayman Islands

Headquarters and principal place of business in Hong Kong:
Room D, 35/F.
TG Place
10 Shing Yip Street
Kwun Tong, Kowloon
Hong Kong

5 December 2017

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION RELATING TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY

INTRODUCTION

Reference is made to the Announcement in relation to, among others, the Sale and Purchase Agreement and the Acquisition.

On 9 October 2017 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company, and the Vendors entered into the Sale and Purchase Agreement in relation to the acquisition of the entire issued share capital of the Target Company at the aggregate consideration of HK$45,000,000 in cash.

The Acquisition constitutes a major transaction for the Company under the GEM Listing Rules. The purpose of this circular is to provide you with, among other things, (a) further information in relation to the Acquisition; (b) an accountant's report of the Target Company; (c) management discussion and analysis on the Target Company; and (d) unaudited pro forma financial information of the Enlarged Group.

SALE AND PURCHASE AGREEMENT

Principal terms of the Sale and Purchase Agreement are set out below.

Date

9 October 2017 (after trading hours)

Parties

(a) Vendors: Mr. Hui Lung (許龍) and Mr. Chui Sai Ming (徐世明)

(b) Purchaser: Shui On Nursing Home Holdings Limited (瑞安護老院集團有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company

Each of the Vendors is an individual investor. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Vendors are Independent Third Parties.

Asset to be acquired

Pursuant to the Sale and Purchase Agreement, the Vendors have conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the entire issued share capital of the Target Company.

Consideration

The aggregate Consideration is HK$45,000,000 which shall be settled by the Purchaser in cash in the following manner:

(a) an amount of HK$10,000,000, being the refundable deposit (the "**Deposit**") and the part payment towards the Consideration, shall be paid by the Purchaser to the Vendors within five (5) Business Days from the date of the Sale and Purchase Agreement; and

(b) an amount of HK$35,000,000, being the remaining balance of the Consideration, shall be paid by the Purchaser to the Vendors upon Completion.

The Consideration was determined after arm's length negotiations between the Vendors and the Purchaser by taking into account the following factors:

(a) the valuation report of the Target Company on the valuation of the entire equity interest in the Target Company as at 31 July 2017 prepared by the Independent Valuer (the "**Valuation Report**"), as set out in Appendix V to this circular;

(b) the ability to accommodate the estimated number of residential care places. It is noted that the elderly residential care home currently operated by the Target Company (the

"**Target Elderly Home**") is a class EA2 home with 207 residential care places and the Directors believe that it has the potential to be upgraded to a class EA1 under the Enhanced Bought Place Scheme (the "**EBPS**") and the potential to increase the number of residential care places purchased by the Social Welfare Department (the "**SWD**"). The class EA1 home has a higher quality requirement than class EA2 home under the EBPS in terms of staffing and spacing requirements. The minimum net floor area per resident for class EA1 home and class EA2 home are 9.5 m^2 and 8 m^2 respectively, and more staff shall be employed by a class EA1 home to provide services for its residents. The Directors consider that the Target Elderly Home will be eligible to be upgraded to a class EA1 home on the following basis: (i) after completion of the renovation works at the Target Elderly Home in December 2016, the net floor area per resident of the Target Elderly Home has reached 9.5 m^2; and (ii) the Target Elderly Home will employ an additional of five staff members to meet the requirements as a class EA1 home for its residents. The Target Company will make an application to the SWD to upgrade the Target Elderly Home from class EA2 to class EA1 and increase the number of residential care places available for purchase under the EBPS when the next round of application is open, the exact time of which is subject to the decision of the SWD. The Directors are of the view that if the SWD approves the Target Elderly Home's application to upgrade to class EA1 home, more residential places will be purchased under the EBPS agreement to be entered into between the Hong Kong Government and the Target Company. As such, a more stable revenue will be generated from the EBPS Agreement, which will give a positive impact on our revenue and profit on the Target Company;

(c) the location, accessibility and availability of market with potential demand for residential care home services of the Target Elderly Home. The Target Elderly Home is currently located in Yau Tong Centre, Yau Tong, Kowloon, which the Directors believe is a convenient and easily accessible location with a high density of potential customers nearby as well as shopping malls and public transport and other public facilities. To the best of the Directors' knowledge and information, the competition faced by the Target Company in its neighbourhood is relatively less intense as there is only one private elderly residential care home within Lam Tin and Yau Tong districts;

(d) term of tenancy. The Target Company has already entered into the First Tenancy Agreement and the Second Tenancy Agreement, both of which have a term expiring on 30 June 2019;

(e) whether licensing requirements of the SWD Licensing Office of Residential Care Homes for the Elderly (the "**LORCHE**") can be met. The Target Company, current holds a licence of residential care home for the elderly and fulfils the licensing requirements of the SWD LORCHE. It is managed by experienced health care professionals and participates in the EBPS and is classified as class EA2 under the EBPS;

(f) the compliance record of the Target Elderly Home. Based on the Directors' preliminary due diligence, the Target Company and the Target Elderly Home had not been involved in any material non-compliance incidents during the two years ended 31 December 2016 and the six months ended 30 June 2017;

(g) the existing customer base and the profitability and the fact that the Target Elderly Home participates in the EBPS and is classified as a EA2 home. A class EA2 home has a higher staffing and spacing standards than a non-EBPS participating private elderly residential care home. Based on the Directors' preliminary understanding of the business of the Target Company, the Target Elderly Home had an average monthly occupancy rate of over 90% for the six months ended 30 June 2017 and the Target Company was profitable for each of the two years ended 31 December 2016 and the six months ended 30 June 2017. The Target Company made a net profit of approximately HK$2.6 million for the six months ended 30 June 2017. Given that it is an EBPS home where a certain number of its residential care places are purchased by the SWD, the Directors expect that its source of income could be relatively stable;

(h) the physical conditions and the facilities of the Target Elderly Home. Based on the Directors' preliminary due diligence, the Target Elderly Home is in good conditions as renovation works were completed in December 2016; and

(i) the previous acquisitions of elderly homes by the Group during the Track Record Period. As disclosed in the Prospectus, the acquisition cost per residential care place in relation to the Group's acquisition of the entire interest in Shui On Nursing Centre (Sun Tin Wai) Company Limited ("**Shui On (Sun Tin Wai)**"), a non-EBPS participating private elderly residential care home with 89 residential care places in August 2016 was approximately HK$138,000 while the acquisition cost per residential care place in relation to the Group's acquisition of approximately 66.7% interest in Shui On Nursing Centre (Kwai Shing E.) Co. Limited ("**Shui On (Kwai Shing E.)**"), an EA1 private elderly residential care home with 220 residential care places) in August 2016 was approximately HK$259,000. The Directors have compared the acquisition cost per residential care place of approximately HK$217,400 in relation to the Acquisition to those acquisition costs as stated) above and found it to be higher than the acquisition cost for a non-EBPS participating private elderly residential care home but slightly lower than that for an EA1 private elderly residential care home. The Directors consider it to be reasonable as the Target Elderly Home is a class EA2 home which has to comply with lower staffing and spacing standards than a class EA1 home such as Shui On (Kwai Shing E.) as required under the EBPS but a higher staffing and spacing standards than a non-EBPS participating private elderly residential care home such as Shui On (Sun Tin Wai).

Based on the above factors in relation to the existing operation of the Target Elderly Home with reference to the Valuation Report, the profitability of the Target Elderly Home as stipulated in paragraph (g) and the previous acquisition of elderly homes by the Group as stipulated in paragraph (i) above, the Directors (including the independent non-executive Directors) consider the terms and conditions of the Acquisition, including the Consideration, to be fair and reasonable and on normal commercial terms and are in the interest of the Company and the Shareholders as a whole.

Conditions precedent and Completion

Completion is conditional upon fulfillment of the following conditions:

(a) the Company having published the announcement and despatched the circular in relation to the Acquisition to the Shareholders, and the Sale and Purchase Agreement and the transactions contemplated thereunder having been approved in accordance with the GEM Listing Rules;

(b) the Purchaser having completed the due diligence review in relation to the Target Company (including but not limited to legal, financial and commercial aspects) and having been satisfied with the results thereof;

(c) the Vendors having provided the documents to prove that all necessary licenses, approvals and permits to carry on the business of the Target Company have been obtained; and

(d) the warranties provided by the Vendors under the Sale and Purchase Agreement remaining true, accurate and not misleading in all respects as at the date of Completion as if they were as of the date of the Sale and Purchase Agreement.

In the event that the conditions precedent mentioned above cannot be fulfilled or has not been waived by the parties on or before 30 November 2017 or such later date as the Vendors and the Purchaser may agree in writing, the Sale and Purchase Agreement shall be terminated and neither party to the Sale and Purchase Agreement shall have any further obligations towards the other thereunder except for antecedent breaches (if any). The Vendors shall refund the Deposit in full to the Purchaser within five (5) Business Days after the termination of the Sale and Purchase Agreement.

As at the Latest Practicable Date, Shui Wah held 248,700,000 Shares, representing approximately 62.18% of the issued share capital of the Company, and has approved the Acquisition and the transactions contemplated thereunder by giving an irrevocably and unconditional written approval according to the GEM Listing Rules. Details of the above written approval please refer to the paragraph headed "Letter from the Board – Written Shareholder's Approval" of this circular.

As such, Completion has taken place on 13 November 2017 and the Target Company has become a wholly-owned subsidiary of the Purchaser and the financial results of the Target Company will be consolidated into the accounts of the Group.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company incorporated in Hong Kong with limited liability and it is an operator of an elderly residential care home in Yau Tong, Hong Kong with 207 residential care places. The Target Company, holding a licence of residential care home for the elderly, is managed by experienced health care professionals and provides 24-hour comprehensive care for the elderly residents. The Target Company participates in the EBPS of the SWD and is classified as class EA2 under the EBPS, the second highest classification rated by the SWD under the EBPS.

The following sets forth the audited financial information of the Target Company for the each of two financial years ended 31 December 2016, and financial information of the Target Company for the six months ended 30 June 2017:

	Year ended 31 December		**Six months ended 30 June**
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Profit before tax	28	3,642	3,087
Profit and total comprehensive income for the year/period	22	3,061	2,577

The audited net asset value of the Target Company as at 30 June 2017 was approximately HK$4,127,000.

Please refer to the accountants' report in Appendix II to this circular which sets out the audited financial information on the Target Company for each of the three financial years ended 31 December 2016 and the six months ended 30 June 2017.

INFORMATION ON THE VENDORS

Each of the Vendors is an individual investor and each of them owned 50% of the entire issued share capital of the Target Company prior to the Acquisition. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors are Independent Third Parties.

INFORMATION ON THE GROUP

The Group is an established operator of elderly residential care homes in Hong Kong providing comprehensive residential care home services to the elderly residents including: (a) the provision of accommodation with dietician-managed meal plans, 24-hour nursing and caretaking assistance and professional services such as regular medical consultation, physiotherapy, occupational therapy, psychological and social care services; and (b) the sale of healthcare and medical consumable products and the provision of customisable add-on healthcare services to the elderly residents. The Group derived its revenue from its self-owned and self-operated four "Shui On 瑞安" and one "Shui Hing 瑞興" branded elderly residential care homes across four districts in Hong Kong.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The principal business of the Group is to provide residential care home services to elderly residents. In order to maintain the competitiveness of the Group in the elderly residential care home market in Hong Kong and strengthen the position of the Group by capturing a larger market shares in Hong Kong, the Group intends to expand the network of the elderly residential care homes in strategic locations in Hong Kong. Having considered, *inter alias*, the location of the Target Company, the number of the residential care places available for operation and potential of the Target Company, with reference to the Prospectus in relation to the listing of the Shares on GEM (the "**Listing**"), the Directors hold positive view of the prospects of the Target Company and consider that the Acquisition would allow the Company to expand the network of the elderly residential care homes in strategic locations in Hong Kong, and the Acquisition is in line with the intention of the Company to apply the net proceeds from the Listing.

The Directors (including the independent non-executive Directors) are of the view that the Sale and Purchase Agreement was entered into after arm's length negotiations between the Vendors and the Purchaser on normal commercial terms and the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE ACQUISITION

After the Acquisition, the Target Company has become a wholly-owned subsidiary of the Purchaser and the financial results of the Target Company will be consolidated into the accounts of the Group.

1. Earnings

Upon Completion, it is expected that the Acquisition will likely contribute positively to the Group. Nevertheless, the actual effect on earnings of the Group will depend on the future financial performance of the Target Company.

2. Assets and liabilities

Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix II to this circular and the bases and assumptions taken into account in preparing such unaudited pro forma financial information, the Group's total assets and total liabilities would be increased by approximately HK$52,742,000 and HK$53,342,000 respectively as a result of the

Acquisition. The details of the financial effect of the Acquisition on the financial position of the Group together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information of the Enlarged Group are set out, for illustration purpose only, in Appendix IV to this circular.

IMPLICATIONS UNDER THE GEM LISTING RULES

General

As one or more of the applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the Acquisition are more than 25% but less than 100%, the Acquisition will constitute a major transaction of the Company under the GEM Listing Rules and is subject to notification, announcement, circular and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

Written Shareholder's Approval

Pursuant to Rule 19.44 of the GEM Listing Rules, Shareholders' approval of the Acquisition may be given by way of written Shareholders' approval in lieu of holding a general meeting if (a) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition; and (b) the written Shareholder's approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% in nominal value of the issued share capital of the Company giving the right to attend and vote at that general meeting to approve the Acquisition.

To the best of the Directors' knowledge, information and belief, after making all reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition.

As at the Latest Practicable Date, Shui Wah held 248,700,000 Shares, representing approximately 62.18% of the issued share capital of the Company, and has given an irrevocable and unconditional written approval of the Acquisition and the transactions contemplated thereunder. The written approval granted by Shui Wah can be accepted in lieu of holding a general meeting for approving the Acquisition pursuant to Rule 19.44 of the GEM Listing Rules. Accordingly, no extraordinary general meeting of the Company will be convened for the purpose of the approval of the Acquisition and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

By order of the Board
Hang Chi Holdings Limited
Yik Tak Chi
Chairman and Executive Director

(A) THE GROUP

Financial Information of the Group

Financial information of the Company (i) for each of the years ended 31 December 2015 and 2016 is disclosed on pages I-1 to I-66 of appendix I of the Prospectus and (ii) for the six months ended 30 June 2017 is disclosed on pages 19 to 34 of the 2017 interim report of the Company published on 11 August 2017, all of which have been published on the website of the Stock Exchange (**www.hkexnews.hk**) and on the website of the Company at the following links:

Prospectus	https://www.shuionnc.com/site/assets/files/1484/ewf08405.pdf
2017 Interim Report	https://www.shuionnc.com/site/assets/files/1503/ew08405_ir.pdf

Indebtedness Statement

As at the close of business on 31 October 2017, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group, apart from intra-group liabilities, did not have any debt securities issued and outstanding or agreed to be issued, bank borrowings or other similar indebtedness, mortgages and charges, guarantees or other material contingent liabilities.

Working Capital

The Directors are of the opinion that, after taking into account of the Group's internal resources, cash flow from operations, the present facilities available and also the effect of the Acquisition, the Enlarged Group will have sufficient working capital to satisfy its present requirements, that is, for at least the next twelve months from the date of this circular.

Financial and Trading Prospects of the Group

With the sizeable and ageing population and the increase in the life expectancy of people in Hong Kong, the Group has experienced a strong and growing demand for the residential care home services. The Hong Kong government has devised policies to address the strong demand and shortage of supply of residential care homes and to encourage the development of the elderly residential care home market. The Directors expect that this trend will continue and will become one of the main drivers for the growth in the elderly residential care home industry.

The Group intends to expand the network of its elderly residential care homes in strategic locations in Hong Kong to provide the services to more people in Hong Kong and leverage its industry experience and proven track record in the management of its elderly residential care homes by (i) acquiring existing elderly residential care homes; and (ii) establishing new elderly residential care homes in suitable location.

Material Adverse Change

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited consolidated accounts of the Group were made up.

(B) THE ENLARGED GROUP

Financial Information of the Enlarged Group

Financial information of the Target Company for the three years ended 31 December 2016 and the six months ended 30 June 2017 and the unaudited pro forma financial information of the Enlarged Group as at 30 June 2017 are disclosed in Appendix II and Appendix IV to this circular, respectively.

Indebtedness Statement

As at the close of business on 31 October 2017, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group, apart from intra-group liabilities, did not have any debt securities issued and outstanding or agreed to be issued, bank borrowings or other similar indebtedness, mortgages and charges, guarantees or other material contingent liabilities.

Financial and Trading Prospects of the Enlarged Group

With the sizeable and ageing population and the increase in the life expectancy of people in Hong Kong, the Enlarged Group has experienced a strong and growing demand for the residential care home services. The Hong Kong government has devised policies to address the strong demand and shortage of supply of residential care homes and to encourage the development of the elderly residential care home market. The Directors expect that this trend will continue and will become one of the main drivers for the growth in the elderly residential care home industry.

The Enlarged Group intends to expand the network of its elderly residential care homes in strategic locations in Hong Kong to provide the services to more people in Hong Kong and leverage its industry experience and proven track record in the management of its elderly residential care homes by (i) acquiring existing elderly residential care homes; and (ii) establishing new elderly residential care homes in suitable location.

EY 安永

22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

The Directors
Hang Chi Holdings Limited

Dear Sirs,

We report on the historical financial information of Shui Jun Nursing Centre (Yau Tong) Company Limited (the "**Target Company**") set out on pages II-4 to II-34, which comprises the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Company for each of the years ended 31 December 2014, 2015 and 2016, and the six months ended 30 June 2017 (the "**Relevant Periods**"), and the statements of financial position of the Target Company as at 31 December 2014, 2015 and 2016 and 30 June 2017 and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-34 forms an integral part of this report, which has been prepared for inclusion in the circular of Hang Chi Holdings Limited (the "**Company**") dated 5 December 2017 (the "**Circular**") in connection with the proposed acquisition of the Target Company by the Company.

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Target Company as at 31 December 2014, 2015 and 2016 and 30 June 2017 and of the financial performance and cash flows of the Target Company for each of the Relevant Periods in accordance with the basis of preparation set out in note 2 to the Historical Financial Information.

REVIEW OF INTERIM COMPARATIVE FINANCIAL INFORMATION

We have reviewed the interim comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2016 and other explanatory information (the "**Interim Comparative Financial Information**"). The directors of the Target Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of preparation set out in note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

ADJUSTMENTS

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

DIVIDENDS

We refer to note 11 to the Historical Financial Information which contains information about the dividends paid by the Target Company in respect of the Relevant Periods.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong
5 December 2017

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Statements of profit or loss and other comprehensive income

		Year ended 31 December			Six months ended 30 June	
		2014	2015	2016	2016	2017
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
REVENUE	6	31,758	30,213	29,177	14,253	15,364
Other income and gains	6	60	397	595	383	355
Staff costs		(12,724)	(12,452)	(10,235)	(5,007)	(5,787)
Property rental and related expenses		(9,437)	(9,116)	(8,902)	(4,195)	(4,712)
Management fee		–	(3,600)	(3,200)	(2,400)	–
Depreciation		(152)	(91)	(566)	(151)	(604)
Food and beverage costs		(1,463)	(1,489)	(1,010)	(535)	(457)
Medical fee		(3,103)	(2,153)	(942)	(452)	(444)
Professional and legal fee		(23)	(38)	(167)	(2)	(68)
Utility expenses		(1,148)	(917)	(697)	(320)	(293)
Consumables		(176)	(161)	(70)	(33)	(30)
Other operating expense		(989)	(565)	(341)	(154)	(237)
PROFIT BEFORE TAX	7	2,603	28	3,642	1,387	3,087
Income tax expense	10	(429)	(6)	(581)	(229)	(510)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		2,174	22	3,061	1,158	2,577

Statements of financial position

		As at 31 December			As at 30 June
		2014	**2015**	**2016**	**2017**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS					
Plant and equipment	13	82	544	8,355	7,775
Prepayments	16	–	2,764	–	–
Deferred tax assets	14	6	–	–	–
		88	3,308	8,355	7,775
CURRENT ASSETS					
Trade receivables	15	–	71	97	183
Prepayments, deposits and other receivables	16	2,989	2,743	2,943	2,951
Tax recoverable		–	265	–	–
Cash and cash equivalents	17	1,454	133	2	1,560
		4,443	3,212	3,042	4,694
CURRENT LIABILITIES					
Trade payables	18	–	224	151	147
Other payables and accruals	19	3,666	3,074	4,275	3,873
Amount due to the then holding company	20	–	2,700	–	–
Amount due to a related company	20	–	–	4,400	3,600
Tax payable		365	–	112	673
		4,031	5,998	8,938	8,293
NET CURRENT ASSETS/(LIABILITIES)		412	(2,786)	(5,896)	(3,599)
TOTAL ASSETS LESS CURRENT LIABILITIES		500	522	2,459	4,176

		As at 31 December			As at 30 June
		2014	2015	2016	2017
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT LIABILITIES					
Deferred tax liabilities	14	–	–	100	49
Net assets		500	522	2,359	4,127
EQUITY					
Issued capital	21	6	6	6	6
Reserves	22	494	516	2,353	4,121
Total equity		500	522	2,359	4,127

Statements of changes in equity

	Notes	Share capital HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2014		4	(58)	(54)
Profit for the year		–	2,174	2,174
Issue of shares	21	2	–	2
Dividend declared	11	–	(1,622)	(1,622)
At 31 December 2014 and 1 January 2015		6	494	500
Profit for the year		–	22	22
At 31 December 2015 and 1 January 2016		6	516	522
Profit for the year		–	3,061	3,061
Dividend declared	11	–	(1,224)	(1,224)
At 31 December 2016 and 1 January 2017		6	2,353	2,359
Profit for the period		–	2,577	2,577
Dividend declared	11	–	(809)	(809)
At 30 June 2017		6	4,121	4,127
At 1 January 2016		6	516	522
Profit for the period (unaudited)		–	1,158	1,158
At 30 June 2016 (unaudited)		6	1,674	1,680

Statements of cash flows

		Year ended 31 December			Six months ended 30 June	
		2014	2015	2016	2016	2017
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		2,603	28	3,642	1,387	3,087
Adjustment for:						
Depreciation	7	152	91	566	151	604
		2,755	119	4,208	1,538	3,691
Decrease/(increase) in trade receivables		510	(71)	(26)	(46)	(86)
Decrease/(increase) in prepayments, deposits and other receivables		(566)	246	(182)	(1,047)	(8)
Increase/(decrease) in trade payables		–	224	(73)	(224)	(4)
Increase/(decrease) in other payables and accruals		(1,060)	(592)	1,201	246	(402)
Increase/(decrease) in an amount due to the then holding company		–	2,700	(2,700)	1,700	–
Increase/(decrease) in an amount due to a related company		–	–	4,400	700	(800)
Cash generated from operations		1,639	2,626	6,828	2,867	2,391
Income tax paid		–	(630)	(104)	(104)	–
Net cash flows from operating activities		1,639	1,996	6,724	2,763	2,391
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of plant and equipment		–	(3,317)	(5,631)	(1,430)	(24)
Net cash flows used in investing activities		–	(3,317)	(5,631)	(1,430)	(24)

	Year ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares	2	–	–	–	–
Dividends paid	(1,622)	–	(1,224)	–	(809)
Net cash flows used in financing activities	(1,620)	–	(1,224)	–	(809)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	19	(1,321)	(131)	1,333	1,558
Cash and cash equivalents at beginning of year/period	1,435	1,454	133	133	2
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	1,454	133	2	1,466	1,560

II. NOTES TO HISTORICAL FINANCIAL INFORMATION

1. INFORMATION OF THE TARGET COMPANY

Shui Jun Nursing Centre (Yau Tong) Company Limited (the "**Target Company**"), previously known as Shui On Nursing Centre (Yau Tong) Company Limited, was incorporated on 4 February 2006 with limited liability in Hong Kong. The address of its registered office is Shop 67, G/F & Unit B, 101–5, 127–142, 158–165, 1/F, Block T5–T9, Yau Tong Centre, 9–11 Ka Wing Street, Kowloon, Hong Kong, which is also the principal place of business of the Target Company.

The Target Company is principally engaged in the operation of residential care home for the elderly in Kowloon, Hong Kong.

In the opinion of the directors of the Target Company, the controlling shareholders of the Target Company as at 30 June 2017 and as at the date of this report are Mr. Chui Sai Ming and Mr. Hui Lung.

2. BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which comprise all standards and interpretations approved by the International Accounting Standards Board (the "**IASB**"). All IFRSs effective for the accounting period commencing from 1 January 2017, together with the relevant transitional provisions, have been early adopted by the Target Company in the preparation of the Historical Financial Information throughout the Relevant Periods and in the period covered by the Interim Comparative Financial Information.

The Historical Financial Information has been prepared under the historical cost convention.

The net current liabilities of the Target Company as at 30 June 2017 amounted to HK$3,599,000. The directors of the Target Company have prepared the Historical Financial Information on a going concern basis notwithstanding the net current liabilities of the Target Company because the then shareholders, Mr. Chui Sai Ming and Mr. Hui Lung, have undertaken to provide continuing financial support to enable the Target Company to meet its financial obligations as and when they fall due.

3. ISSUED BUT NOT YET EFFECTIVE IFRSs

The Target Company has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to IFRS 1 included in *Annual Improvements 2014–2016 Cycle*	*First-time Adoption of International Financial Reporting Standards*[1]
Amendments to IAS 28 included in *Annual Improvements 2014–2016 Cycle*	*Investments in Associates and Joint Ventures*[1]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after 1 January 2021
[4] No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Target Company is as follows:

The Target Company is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the directors of the Target Company anticipate that the new and revised IFRSs, excluding IFRS 9, IFRS 15 and IFRS 16, may result in changes in accounting policies but are unlikely to have any material impact on the Target Company's results of operations and financial position upon application.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Target Company expects to adopt IFRS 9 from 1 January 2018. The Target Company has performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Target Company in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Target Company does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Target Company expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Target Company will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

The Target Company does not expect that the adoption of IFRS 9 will have a significant impact on the Target Company's financial performance and financial position, including the measurement of financial assets and disclosures.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Target Company expects to adopt IFRS 15 on 1 January 2018.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. More prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Target Company has performed a preliminary assessment of the potential impact of the adoption of IFRS 15 on the Target Company. Based on the preliminary assessment, the Target Company anticipates that the adoption of IFRS 15 in the future is unlikely to have a significant impact on the revenue recognition from the provision of elderly home care services and healthcare services, and the sale of elderly related goods.

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 Determining whether an Agreement contains a lease, SIC-15 Operating leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the legal Form of a lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Target Company expects to adopt IFRS 16 on 1 January 2019.

As set out in note 23 to the Historical Financial Information, the total operating lease commitments of the Target Company as at 30 June 2017 amounted to HK$14,069,000. The directors do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in a significant impact on the Target Company's results but it is expected that a certain portion of these lease commitments will be required to be recognised in the statement of financial position as right-of-use assets and lease liabilities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Target Company measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Target Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Target Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Target Company if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of the key management personnel of the Target Company or of a parent of the Target Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Company are members of the same Target Company;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Company are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a Target Company of which it is a part, provides key management personnel services to the Target Company or to the parent of the Target Company.

Plant and equipment and depreciation

Plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of plant and equipment are required to be replaced at intervals, the Target Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture and fixtures	20%
Leasehold improvements	Over the shorter of the lease terms and 20%

Where parts of an item of plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss and other comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Target Company is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loss and loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Target Company's financial assets include cash and cash equivalents, trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a Target Company of similar financial assets) is primarily derecognised (i.e. removed from the Target Company's statement of financial position) when:

(a) the rights to receive cash flows from the asset have expired; or

(b) the Target Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Company has transferred substantially all the risks and rewards of the asset, or (b) the Target Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Company continues to recognise the transferred asset to the extent of the Target Company's continuing involvement. In that case, the Target Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Company could be required to repay.

Impairment of financial assets

The Target Company assesses at the end of each of the Relevant Periods whether there is objective evidence that a financial asset or a Target Company of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the Target Company of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a Target Company of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Target Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Target Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Target Company of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Target Company.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Target Company's financial liabilities include trade payables, other payables and accruals, an amount due to the then holding company and an amount due to a related company.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each of the Relevant Periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Target Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(a) when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

(a) when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Target Company and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Target Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the relevant services have been rendered and it is probable that economic benefits will flow to the Target Company and the relevant fees can be measured reliably; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

Pension scheme

The Target Company operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Target Company in an independently administered fund. The Target Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Target Company's Historical Financial Information requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets (other than goodwill)

The Target Company assesses whether there are any indicators of impairment for all non-financial assets at the end of each of the Relevant Periods. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision policy for impairment of trade receivables

The provision policy for impairment of trade receivables is based on ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Target Company were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

Useful lives and residual value of plant and equipment

The Target Company determines the estimated useful lives, residual value and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual value of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, and carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

6. REVENUE, OTHER INCOME AND GAINS

Revenue represents the value of services rendered and the net invoiced value of goods sold during the Relevant Periods.

An analysis of revenue, other income and gains is as follows:

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Revenue					
Rendering of elderly home care services	23,249	22,995	21,313	10,307	11,676
Sale of elderly related goods and provision of healthcare services	8,509	7,218	7,864	3,946	3,688
	31,758	30,213	29,177	14,253	15,364
Other income and gains					
Government grants	60	397	456	261	308
Others	–	–	139	122	47
	60	397	595	383	355

7. PROFIT BEFORE TAX

The Target Company's profit before tax is arrived at after charging:

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Cost of inventories sold	4,742	3,803	2,022	1,020	931
Employee benefit expense (including directors' and chief executive's remuneration *(note 8)*):					
Wages and salaries	11,426	11,074	9,660	4,732	5,242
Social security contributions	453	409	319	162	159
	11,879	11,483	9,979	4,894	5,401
Auditors' remuneration	8	23	13	7	7
Minimum lease payments under operating leases	9,437	9,116	8,902	4,195	4,712
Depreciation *(note 13)*	152	91	566	151	604

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the Relevant Periods, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	480	391	444	208	30
Pension scheme contributions	16	15	13	9	–
	496	406	457	217	30

	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31 December 2014:			
Executive Director:			
Chan Yuk Choi, Peter	480	16	496
Year ended 31 December 2015:			
Executive Directors:			
Hui Lung	170	7	177
Wu Qiying	221	8	229
	391	15	406
Year ended 31 December 2016:			
Executive Directors:			
Chui Sai Ming	80	–	80
Hui Lung	230	8	238
Wu Qiying	134	5	139
	444	13	457

	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*
Six months ended 30 June 2016 (unaudited):			
Executive Directors:			
Hui Lung	110	5	115
Wu Qiying	98	4	102
	208	9	217
Six months ended 30 June 2017:			
Executive Director:			
Hui Lung	30	–	30

There was no chief executive appointed for the Relevant Periods. There was no arrangement under which the directors waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees did not include any director for each of the Relevant Periods. Details of the remuneration of the five highest paid employees for each of the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries, allowances and benefits in kind	1,598	1,732	1,424	730	925
Pension scheme contributions	73	75	75	35	38
	1,671	1,807	1,499	765	963

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees				
	Year ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
Nil to HK$1,000,000	5	5	5	5	5

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Relevant Periods.

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Current tax	435	–	481	206	561
Deferred tax *(note 14)*	(6)	6	100	23	(51)
Total tax charge for the year/period	429	6	581	229	510

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in which the Target Company is domiciled to the tax expense at the effective tax rate is as follows:

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Profit before tax	2,603	28	3,642	1,387	3,087
Tax at the statutory tax rate	429	5	601	229	509
Expenses not deductible for tax	5	1	–	–	1
Income not subject to tax	(5)	–	–	–	–
Others	–	–	(20)	–	–
Total tax charge for the year/period	429	6	581	229	510

11. DIVIDENDS

The distribution amounts set out in the statement of changes in equity of HK$1,622,000, HK$1,224,000 and HK$809,000 for each of the years ended 31 December 2014 and 2015 and the six months ended 30 June 2017, respectively, represented the dividends declared by the Target Company to its then shareholders.

12. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purposes of this report, is not considered meaningful.

13. PLANT AND EQUIPMENT

	Furniture and fixtures *HK$'000*	Leasehold improvements *HK$'000*	Total *HK$'000*
Cost:			
At 1 January 2014, 31 December 2014, and at 1 January 2015,	956	76	1,032
Additions	88	465	553
At 31 December 2015, and at 1 January 2016,	1,044	541	1,585
Additions	1,007	7,370	8,377
At 31 December 2016, and at 1 January 2017,	2,051	7,911	9,962
Additions	24	–	24
At 30 June 2017	2,075	7,911	9,986
Accumulated depreciation:			
At 1 January 2014,	768	30	798
Depreciation provided during the year	140	12	152
At 31 December 2014, and at 1 January 2015,	908	42	950
Depreciation provided during the year	59	32	91
At 31 December 2015, and at 1 January 2016,	967	74	1,041
Depreciation provided during the year	105	461	566
At 31 December 2016, and at 1 January 2017,	1,072	535	1,607
Depreciation provided during the period	110	494	604
At 30 June 2017	1,182	1,029	2,211
Net book value:			
At 31 December 2014	48	34	82
At 31 December 2015	77	467	544
At 31 December 2016	979	7,376	8,355
At 30 June 2017	893	6,882	7,775

14. DEFERRED TAX

The movements in deferred tax assets during the Relevant Periods are as follows:

Deferred tax assets

	Depreciation in excess of related depreciation allowance *HK$'000*
Gross deferred tax assets at 1 January 2014	–
Deferred tax credited to profit or loss during the year	6
Gross deferred tax assets at 31 December 2014 and 1 January 2015	6
Deferred tax charged to profit or loss during the year	(6)
Gross deferred tax assets at 31 December 2015 and 2016 and 30 June 2017	–

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation *HK$'000*
Gross deferred tax liabilities at 1 January 2016,	–
Deferred tax charged to profit or loss during the year	100
Gross deferred tax liabilities at 31 December 2016 and 1 January 2017	100
Deferred tax credited to profit or loss during the period	(51)
Gross deferred tax liabilities at 30 June 2017	49

15. TRADE RECEIVABLES

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	–	71	97	183
Impairment	–	–	–	–
	–	71	97	183

The Target Company's trading terms with its customers are mainly payment in advance. The Target Company seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk. The Target Company does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date and net of provisions, is as follows:

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 90 days	–	71	97	183

None of the receivables is either past due or impaired. Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there were no recent history of default.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current portion:				
Prepayments for plant and equipment	–	2,764	–	–
Current portion:				
Prepayments	88	90	126	152
Deposits	2,901	2,653	2,817	2,799
	2,989	2,743	2,943	2,951
Total	2,989	5,507	2,943	2,951

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there were no recent history of default.

17. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	1,454	133	2	1,560

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

18. TRADE PAYABLES

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	–	224	151	147

An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 90 days	–	224	151	147

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

19. OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Customer deposits	1,991	1,652	1,639	1,941
Payroll payable	1,147	856	872	892
Receipt in advance	–	55	9	121
Other payables	528	511	1,755	919
	3,666	3,074	4,275	3,873

Other payables are non-interest-bearing and repayable on demand.

20. BALANCES WITH RELATED PARTIES

		As at 31 December			As at 30 June
		2014	2015	2016	2017
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amount due to the then holding company Jumbo Sino Investment Limited ("**Jumbo Sino**")	(a)	–	2,700	–	–
Amount due to a related company Jumbo Sino	(a)	–	–	4,400	3,600

Note:

(a) The balance due to the then holding company/a related company is trade in nature, unsecured, interest-free and repayable on demand.

21. ISSUED CAPITAL

Shares

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Issued and fully paid:				
6,000 ordinary shares	6	6	6	6

A summary of movements in the Target Company's issued share capital during the Relevant Periods is as follows:

	Number of shares in issue	Share capital
		HK$'000
At 1 January 2014	4,000	4
Shares issued during the year	2,000	2
At 31 December 2014, 2015 and 2016 and 30 June 2017	6,000	6

22. RESERVES

The Target Company's reserves and the movements therein for the Relevant Periods are presented in the statements of changes in equity of the Historical Financial Information.

23. OPERATING LEASE ARRANGEMENTS

The Target Company leases certain of its office properties under operating lease arrangements. Lease for office properties are negotiated for terms ranging from one to five years. The Target Company has total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	10,096	9,248	9,399	9,402
In the second to fifth years, inclusive	12,312	2,536	14,016	4,667
	22,408	11,784	23,415	14,069

24. CONTINGENT LIABILITIES

The Target Company had no significant contingent liabilities at the end of each of the Relevant Periods.

25. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the Historical Financial Information, the Target Company had the following transactions with related parties during the Relevant Periods:

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Management fees paid to the then holding company Jumbo Sino	–	3,600	3,200	2,400	–
Rental paid to a related company Roymark Limited	7,892	7,757	7,230	3,510	3,720

In the opinion of the directors, the above related party transactions were carried out in the ordinary course of business and in accordance with the terms mutually agreed by the respective parties.

(b) Outstanding balances with related parties:

Details of the Target Company's balances with its related parties at the end of each of the Relevant Periods are disclosed in note 20 to the Historical Financial Information.

(c) Compensation of key management personnel of the Target Company:

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Short term employee benefits	480	391	444	208	30
Post-employment benefits	16	15	13	9	–
	496	406	457	217	30

Further details of directors' emoluments are included in note 8 to the Historical Financial Information.

26. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Financial assets

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	–	71	97	183
Financial assets included in prepayments, deposits and other receivables	2,901	2,653	2,817	2,799
Cash and cash equivalents	1,454	133	2	1,560
	4,355	2,857	2,916	4,542

Financial liabilities

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	–	224	151	147
Financial liabilities included in other payables and accruals	2,519	2,163	3,394	2,860
Amount due to the then holding company	–	2,700	–	–
Amount due to a related company	–	–	4,400	3,600
	2,519	5,087	7,945	6,607

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at the end of each of the Relevant Periods, the fair values of the Target Company's financial assets or financial liabilities approximate to their respective carrying amounts.

Management has assessed that the fair values of cash and cash equivalents, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, an amount due to the then holding company and an amount due to a related company approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Target Company's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The directors review the results of the fair value measurement of financial instruments periodically for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair value hierarchy

At the end of each of the Relevant Periods, the Target Company has no material financial asset or liability measured at fair value.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Company's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Target Company's operations. The Target Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been during the Relevant Periods, the Target Company's policy that no trading in financial instruments should be undertaken.

The main risks arising from the Target Company's financial instruments are credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Credit risk

The Target Company's trading terms with its customers are mainly payment in advance. In addition, receivable balances are monitored on an ongoing basis and the Target Company's exposure to bad debts is not significant.

The credit risk of the Target Company's other financial assets, which comprise cash and cash equivalents and financial assets included in prepayments, deposits and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

The maturity profile of the Target Company's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

31 December 2014

	On demand	Less than 3 months	Total
	HK$'000	*HK$'000*	*HK$'000*
Financial liabilities included in other payables and accruals	2,519	–	2,519

31 December 2015

	On demand	Less than 3 months	Total
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	224	–	224
Financial liabilities included in other payables and accruals	2,163	–	2,163
Amount due to the then holding company	2,700	–	2,700
	5,087	–	5,087

31 December 2016

	On demand	Less than 3 months	Total
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	151	–	151
Financial liabilities included in other payables and accruals	3,394	–	3,394
Amount due to a related company	4,400	–	4,400
	7,945	–	7,945

30 June 2017

	On demand	Less than 3 months	Total
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	147	–	147
Financial liabilities included in other payables and accruals	2,860	–	2,860
Amount due to a related company	3,600	–	3,600
	6,607	–	6,607

Capital management

The primary objectives of the Target Company's capital management are to safeguard the Target Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

29. EVENTS AFTER THE RELEVANT PERIODS

There has been no significant event since the end of the Relevant Periods.

30. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 30 June 2017.

Set out below is the management discussion and analysis of the Target Company for the financial years ended 31 December 2014, 2015 and 2016, and the six months ended 30 June 2017. The following discussion and analysis should be read in conjunction with the accountants' report of the Target Company as set out in Appendix II to this circular. Certain numerical figures included in this management discussion and analysis of the Target Company have been rounded. Therefore, discrepancies in tables between totals and the sums of the amounts listed may occur due to such rounding.

BUSINESS REVIEW

The Target Company is a company incorporated in Hong Kong with limited liability, and is an operator of an elderly residential care home in Yau Tong, Hong Kong which provides comprehensive residential care home services to the elderly residents. As at the Latest Practicable Date, the Target Company participated in the EBPS, a publicly funded welfare programme of the SWD pursuant to which leased residential care places are offered at subsidised rate to eligible elderly citizens in Hong Kong. The Target Company was classified as class EA2 under the EBPS, which is the second highest classification rated by the SWD under the EBPS.

FINANCIAL REVIEW

Revenue

The breakdown of revenue by types of services provided by the Target Company for the years ended 31 December 2014, 2015 and 2016, and the six months ended 30 June 2016 and 2017, respectively is set out below:

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Rendering of elderly home care services	23,249	22,995	21,313	10,307	11,676
Sales of elderly related goods and provision of healthcare services	8,509	7,218	7,864	3,946	3,688
Total	31,758	30,213	29,177	14,253	15,364

Rendering of elderly home care services

The revenue from rendering of elderly home care services was derived from the provision of, among others, residence, nursing and caretaking services, health and medical services, rehabilitation services, meal preparation services and social care services in Hong Kong. The revenue from rendering of elderly home care services of the Target Company decreased by 1.09% from approximately HK$23,249,000 in 2014 to HK$22,995,000 in 2015 and subsequently decreased by 7.31% from HK$22,995,000 in 2015 to HK$21,313,000 in 2016, primarily due to the decrease in the number of residential care places from 274 places in the year 2014 to 207 places in the first quarter of 2016.

Sales of elderly related goods and provision of healthcare services

The revenue from sales of elderly related goods and provision of healthcare services was derived from the sales of adult nappies, nutritional milk, other medical consumable products, daily supplies and provision of additional healthcare services to the residents. The revenue decreased by 15.17% from approximately HK$8,509,000 in 2014 to HK$7,218,000 in 2015 and subsequently increased by 8.95% from HK$7,218,000 in 2015 to HK$7,864,000 in 2016.

Profit for the year/period

The Target Company's profit for the year/period were approximately HK$2,174,000, HK$22,000, HK$3,061,000, HK$1,158,000 and HK$2,577,000, respectively for each of the three years ended 31 December 2014, 2015 and 2016 and the six months 30 June 2016 and 2017.

The profit of the Target Company was significantly decreased from HK$2,174,000 in year 2014 to HK$22,000 in year 2015, primarily due to (i) the decreased in revenue during the year 2015; and (ii) maintenance of high level of expenses in the year 2015, including staff costs, management fee, medical fee and utility expenses.

With better cost control policy applied, the profit of the Target Company increased to HK$3,061,000 in the year 2016.

The profit for the period of the Target Company increased by 122.54% from HK$1,158,000 for the six months ended 30 June 2016 to HK$2,577,000 for the six months ended 30 June 2017, primarily due to expiration of the management contract with previous holding company. As such, no management fee was noted during the six months ended 30 June 2017.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL STRUCTURE

Liquidity

As at 31 December 2014, current assets and current liabilities of the Target Company amounted to approximately HK$4,443,000 and HK$4,031,000 respectively.

As at 31 December 2015, current assets and current liabilities of the Target Company amounted to approximately HK$3,212,000 and HK$5,998,000 respectively.

As at 31 December 2016, current assets and current liabilities of the Target Company amounted to approximately HK$3,042,000 and HK$8,938,000 respectively.

As at 30 June 2017, current assets and current liabilities of the Target Company amounted to approximately HK$4,694,000 and HK$8,293,000 respectively.

Financial Resources

As at 31 December 2014, the Target Company had total cash and bank balances of approximately HK$1,454,000 and no trade receivables.

As at 31 December 2015, the Target Company had total cash and bank balances of approximately HK$133,000 and trade receivables of approximately HK$71,000.

As at 31 December 2016, the Target Company had total cash and bank balances of approximately HK$2,000 and trade receivables of approximately HK$97,000.

As at 30 June 2017, the Target Company had total cash and bank balances of approximately HK$1,560,000 and trade receivables of approximately HK$183,000.

Gearing

The gearing ratio of the Target Company as at 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017 were nil as it was not in need of any material debt financing during those periods.

As at 30 June 2017, the Target Company had no borrowing from financial institution and no pledge of assets.

Capital Structure

As at 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017, the total equity of the Group was approximately HK$500,000, HK$522,000, HK$2,359,000 and HK$4,127,000 respectively.

SIGNIFICANT INVESTMENTS HELD BY THE TARGET COMPANY

As at 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017, there was no significant investment held by the Target Company.

FOREIGN EXCHANGE EXPOSURE

The sales and purchases of the Target Company were denominated in HK$. As such, the Target Company has limited exposure to any significant foreign currency exchange risks. The Board does not expect any material impact on the Target Company's operations caused by any foreign currency fluctuations. No financial instruments were employed by the Target Company for hedging purpose during each of the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017.

CONTINGENT LIABILITIES

As at 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017, the Target Company had no material contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, the Target Company employed 77 employees. The Target Company offered competitive remuneration package, discretionary bonuses and social insurance benefits to its employees. For each of the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, the Target Company's staff cost were approximately HK$12,724,000, HK$12,452,000, HK$10,235,000 and HK$5,787,000 respectively.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(i) Basis of preparation of the unaudited pro forma financial information of the Enlarged Group

To provide additional financial information, the unaudited pro forma statement of assets and liabilities (the "**Unaudited Pro Forma Financial Information**") of the Enlarged Group (being the Group together with the Target Company) as at 30 June 2017 has been prepared based on:

(a) the unaudited consolidated financial statements of the Group as at 30 June 2017 as published in the Group's 2017 interim report;

(b) the statement of financial position of the Target Company at 30 June 2017 which has been extracted from Appendix II to this circular; and

(c) after taking into account of the unaudited pro forma adjustments as described in the notes thereto to demonstrate how the Acquisition might have affected the historical financial information in respect of the Group as if the Acquisition had been completed on 30 June 2017.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information contained in this circular and the accountants' report on the Target Company set out in Appendix II to this circular.

The Unaudited Pro Forma Financial Information of the Enlarged Group is for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 30 June 2017 or at any future date.

(ii) Unaudited Pro Forma Financial Information of the Enlarged Group

	The Group as at 30 June 2017	The Target Company as at 30 June 2017	Unaudited Pro Forma Adjustments			Unaudited Pro Forma Enlarged Group as at 30 June 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	*(note 5)*	
NON-CURRENT ASSETS						
Property, plant and equipment	5,918	7,775				13,693
Intangible assets	5,812	–				5,812
Goodwill	43,724	–			40,873	84,597
Investment in subsidiaries	–	–	45,000		(45,000)	–
Deferred tax assets	743	–				743
Total non-current assets	56,197	7,775				104,845
CURRENT ASSETS						
Trade receivables	59	183				242
Prepayments, deposits and other receivables	9,141	2,951				12,092
Cash and bank balances	27,125	1,560		(600)		28,085
Total current assets	36,325	4,694				40,419
CURRENT LIABILITIES						
Trade payables	818	147				965
Other payables and accruals	12,737	3,873	45,000			61,610
Due to a related company	187	3,600				187
Due to directors	87	–				87
Tax payables	2,267	673				2,940
Total current liabilities	16,096	8,293				69,389
NON-CURRENT LIABILITIES						
Deferred tax liabilities	926	49				975
Total non-current liabilities	926	49				975
Net assets	75,500	4,127				74,900

	The Group as at 30 June 2017	The Target Company as at 30 June 2017	Unaudited Pro Forma Adjustments			Unaudited Pro Forma Enlarged Group as at 30 June 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	*(note 5)*	
EQUITY						
Equity attributable to the equity holder of the parent						
Issued capital	–	6			(6)	–
Reserves	73,477	4,121		(600)	(4,121)	72,877
	73,477	4,127				72,877
Non-controlling interests	2,023	–				2,023
Total equity	75,500	4,127				74,900

(iii) Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

(1) The balances were extracted from the interim report for the six-month period ended 30 June 2017 of the Group.

(2) The balances were extracted from Appendix II to this circular.

(3) On 9 October 2017, the Purchaser entered into the Sale and Purchase Agreement with the Vendors, pursuant to which the Purchaser agreed to acquire 100% of the entire equity interests in the Target Company from the Vendors at an aggregate consideration of HK$45 million.

The pro forma adjustment represents the aggregate cash consideration amounted to HK$45 million for the acquisition of the Target Company. All conditions precedent set out in the Sale and Purchase Agreement assumed have not been paid as at 30 June 2017.

(4) For the purpose of the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the total transaction costs of legal, accountancy and other professional services to the Acquisition are estimated to be HK$600,000.

(5) For the purpose of preparation of the Unaudited Pro Forma Financial Information and for illustrative purpose, the recognition of goodwill arising from the Enlarged Group is analyzed as follows:

	HK$'000
Consideration of the Acquisition	45,000
Identifiable net assets acquired	4,127
Goodwill arising from the Acquisition of the Target Company *(note)*	40,873

Note: For illustrative purposes, the Directors had assumed the carrying values of the identifiable assets and liabilities of the Target Company approximated to their fair values. The goodwill is recognized as the amount reached by the Consideration of the Acquisition minus identifiable net assets acquired at 30 June 2017 for the purpose of the illustration of this Unaudited Pro Forma Financial Information.

The Group's accounting policies for goodwill is in accordance with the applicable accounting standards. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests over the identifiable net assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

The Directors confirm that the basis used in the preparation of the Unaudited Pro Forma Financial Information is consistent with the accounting policies of the Group. The Group will adopt accounting policies for goodwill, save for compliance to any new or revised IFRSs that would be issued by the IASB, to perform impairment test of the Enlarged Group's goodwill during the future accounting periods of the Enlarged Group. If the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit will be tested for impairment before the end of the current annual period. The Directors consider that the Group's accounting treatment and principal assumptions used to assess the impairment of such goodwill will be the same as other acquisitions of similar nature. To the best knowledge of the Directors, the Group's independent auditors will conduct the audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants to perform the impairment assessment of the Enlarged Group's goodwill during the future annual audit of the Enlarged Group.

Even though the impairment test will be carried out in the accounting periods in the future, for the purpose of the Unaudited Pro Forma Financial Information, the Group has assessed if there is any impairment indication of the goodwill arising from the proposed acquisition of the Target Company in accordance with the International Accounting Standard 36 "Impairment of Assets" which is consistent with the Group's accounting policy. In view of the date of this circular and the balance sheet date of the first set of the financial statements of the Group after the Completion, any significant changes in the assessment of goodwill impairment is not expected. Accordingly, the Directors are of the view that, after performing the impairment assessment, there is no impairment indication of the goodwill arising from the proposed acquisition of the Target Company asset out in the Unaudited Pro Forma Financial Information.

Upon completion of the Acquisition, the actual goodwill and intangible assets, if any, of the Enlarged Group, for accounting purpose, will need to be recalculated based on the fair value of the net identifiable assets and liabilities of the Target Company at the date of Completion. The actual financial effects are expected to be different from the amounts presented above.

(B) ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 30 JUNE 2017

The following is the text of a report received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

To the Directors of Hang Chi Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Hang Chi Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") and Shui Jun Nursing Centre (Yau Tong) Company Limited (hereinafter referred to as the "**Target Company**") (the Group together with the Target Company are collectively referred to as the "**Enlarged Group**"), by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the pro forma statement of assets and liabilities as at 30 June 2017, and related notes as set out in Section of Appendix IV to the circulate dated 5 December 2017 (the "**Circular**") issued by the Company (the "**Pro Forma Financial Information**") in connection with the acquisition (the "**Acquisition**") of 100% equity interest of the Target Company by the Company. The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Section A of Appendix IV to the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Acquisition on the Group's financial position as at 30 June 2017 as if the Acquisition had taken place at 30 June 2017. As part of this process, information about the Group's financial position has been extracted by the Directors from the Company's published interim report for the six months ended 30 June 2017, and the information about the Target Company's financial position has been extracted by the Directors from the Target Company's financial statements for each of the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017 on which accountants' report have been published in Appendix II to the Circular.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**") and with reference to Accounting Guideline ("**AG**") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* 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*, 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 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 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 Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of the Pro Forma Financial Information included in the 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 transaction would have been as presented.

A reasonable assurance engagement to report on whether the 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 Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the 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 transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the 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 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 purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

5 December 2017

The following is the text of a letter and valuation report, prepared for the purpose of incorporation in this circular received from Royson Valuation Advisory Limited, an independent valuer, in connection with its valuation as at 31 July 2017 of the entire equity interest in the business enterprise of Shui Jun Nursing Centre (Yau Tong) Company Limited.

ROYSON

Royson Valuation Advisory Limited
Unit 1806, 18/F, The L. Plaza
Nos. 367–375 Queen's Road Central
Hong Kong

5 December 2017

The Board of Directors
Hang Chi Holdings Limited
Room D, 35/F.
TG Place
10 Shing Yip Street
Kwun Tong, Kowloon
Hong Kong

Dear Sirs or Madams,

RE: VALUATION OF 100% EQUITY INTEREST IN SHUI JUN NURSING CENTRE (YAU TONG) COMPANY LIMITED

In accordance with your instructions, we, Royson Valuation Advisory Limited ("**Royson**"), have been engaged by Hang Chi Holdings Limited ("**Company**", together with its subsidiaries as the "**Group**") to perform an appraisal of the entire equity interest in the business enterprise of Shui Jun Nursing Centre (Yau Tong) Company Limited ("**Shui Jun YT**") as at 31 July 2017 ("**Appraisal Date**"). Shui Jun YT is principally engaged in the operation of an elderly residential care home in Hong Kong.

The purpose of this appraisal is to provide an independent opinion on the fair value of the entire equity interest in Shui Jun YT for transaction purpose. It is our understanding that this appraisal may be used in connection to the circular of the Company.

This appraisal has been performed on the basis of fair value. As defined in International Valuation Standards, *fair value* is the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties. The fair value of the equity interest in Shui Jun YT is derived by the application of the discounted cash flows method under income approach. The premise of value of this appraisal is going concern.

SCOPE OF ANALYSIS

Our appraisal opinion is based on the assumptions stated herein and on information provided by the management of Shui Jun YT and/or the Company ("**Management**").

During the course of our valuation analyses, we conducted discussions with the Management in relation to Shui Jun YT's history, operations and prospects of the business and were provided with unaudited pro forma and forecasted financial and operational data regarding Shui Jun YT, including the financial projection ("**Projection**") and the underlying assumptions. Without independent verification, we have relied upon these data as accurately reflecting the results of the operations and financial position of Shui Jun YT. We have reviewed for reasonableness these data, in light of the industry and economic data discussed in this report and the results of our interviews of Management, and we have no reason to believe the data are unreasonable. However, as valuation consultants, we have not audited these data and express no opinion or other form of assurance regarding their accuracy or fairness of presentation.

We also have no reason to believe that any material facts have been withheld from us. In arriving at our opinion of value, we have relied to a very considerable extent on the above-mentioned information. Any variation to the assumptions in the Projection could seriously affect the fair value of the appraised business enterprise.

BACKGROUND

On 9 October 2017, Shui On Nursing Home Holdings Limited ("**Purchaser**"), a wholly-owned subsidiary of the Company, and Mr. Hui Lung and Mr. Chui Sai Ming (collectively, the "**Vendors**") entered into a sale and purchase agreement in relation to the acquisition of the entire issued share capital of Shui Jun YT at the aggregate consideration of HK$45,000,000 in cash, subject to certain terms and conditions ("**Acquisition**").

Company

The Company is a public company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (stock code: 8405). The Group is an established operator of elderly residential care homes in Hong Kong providing comprehensive residential care home services to the elderly residents including: (a) the provision of accommodation with dietician-managed meal plans, 24-hour nursing and caretaking assistance and professional services such as regular medical consultation, physiotherapy, occupational therapy, psychological and social care services; and (b) the sale of healthcare and medical consumable products and the provision of customisable add-on healthcare services to the elderly residents. The Group derived its revenue from its self-owned and self-operated four "Shui On 瑞安" and one "Shui Hing 瑞興" branded elderly residential care homes across four districts in Hong Kong.

Vendors

Each of the Vendors is an individual investor who owned 50% of the entire issued share capital of Shui Jun YT prior to the Acquisition. As advised by the Company, the Vendors are independent third parties of the Company.

Shui Jun YT

Shui Jun YT, previously known as Shui On Nursing Centre (Yau Tong) Company Limited, was incorporated on 4 February 2006 with limited liability in Hong Kong. It is an operator of an elderly residential care home with 207 residential care places in Yau Tong, Hong Kong. Shui Jun YT, holding a licence of residential care home for the elderly ("**RCHEs**"), is managed by experienced health care professionals, provides 24-hour comprehensive care for the elderly residents. Shui Jun YT participates in the Enhanced Bought Place Scheme ("**EBPS**") of the Social Welfare Department ("**SWD**") and is classified as class Enhanced A2 or EA2 under the EBPS, the second highest classification rated by the SWD under the EBPS. The average monthly occupancy rate for the trailing past 12 months ended 30 June 2017 was over 90%.

The following table highlights the selected unaudited financial information of Shui Jun YT (figures are expressed in HK dollars thousand):

	For the year ended 31 December 2015	For the year ended 31 December 2016	For the 6 months ended 30 June 2017
Revenue	30,213	29,177	15,364
Government grants income	397	456	308
Staff costs	12,452	10,235	5,787
Rent and rates	9,116	8,902	4,712
Profit before tax	28	3,642	3,087
Profit after tax	22	3,061	2,577

	As at 31 December 2015	As at 31 December 2016	As at 30 June 2017
Cash	133	2	1,560
Net working capital	2,280	(1,386)	(886)
Property, plant and equipment	544	8,355	7,775
Non-operating assets	265	–	–
Non-operating liabilities	–	212	722
Debt	2,700	4,400	3,600
Net assets value	522	2,359	4,127

INDUSTRY OVERVIEW

Overview of Hong Kong Economy

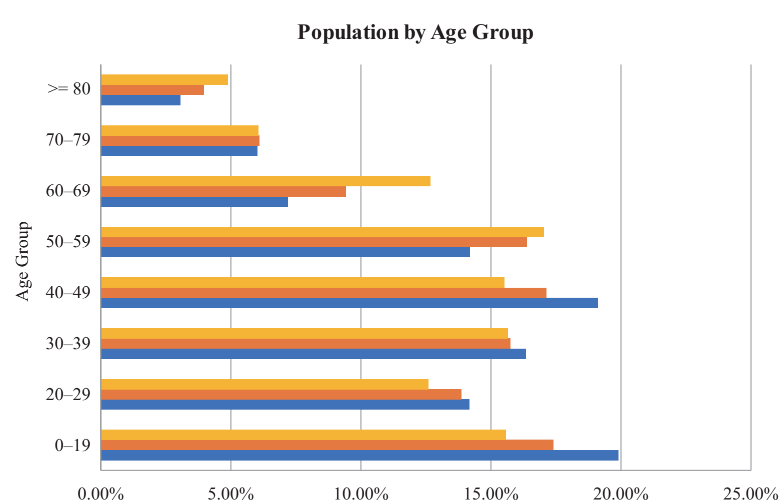
Hong Kong has a population of approximate 7.39 million as at mid-2017 on a total area of about 1,100 square kilometres. The Hong Kong economy with a Gross Domestic Product ("**GDP**") of HK$1,214.2 billion, grew by 4.03% in the first half of 2017 over a year earlier.

Hong Kong's GDP per capita grew from about HK$219,000 in 2006 to about HK$340,000 in 2016, representing a CAGR of about 4.47%. In the same period, Hong Kong's GDP grew from about HK$1,503.35 billion in 2006 to about HK$2,2491.00 billion in 2016, representing a CAGR of about 5.18%. Growth of the Hong Kong population remained mild from 6.87 million in 2006 to 7.34 million in 2016, at a CAGR of 0.68%, which is much lower than the growth in GPD.

According to the World Economic Outlook Database published by International Monetary Fund ("**IMF**") in October 2017, the forecasted annual growth rate in real GDP from 2017 to 2022 ranges from 2.7% to 3.5% while the projected inflation rate for the same period will be 2.0% to 3.0%. Population is projected to grow at a similar historical rate of 0.78% per annum.

The ageing trend in the population continued and the pace of ageing became faster in the recent years. According to the latest statistics published by Census and Statistics Department of The Government of the Hong Kong Special Administrative Region ("**HK Government**"), the largest age group in 2017 is the one aged between 50 to 59, representing 17.04% or approximate 1.26 million of the population. The populating aged over 60 increased from about 16.28% or approximate 1.12 million in 2006 to about 23.62% or approximate 1.75 million in 2017. In a decade, the median age of the population increased from 39.6 to 43.4 in 2016, reflecting the ageing trend. The elderly dependency ratio (that is the ratio of those aged between 15 and 64 and those aged over 65) rose from 16.78% in 2006 to 21.84% in 2016. As the share of Hong Kong's population over 65 swells, fewer and fewer working-age people need to support more and more old people. The trend is expected to add significantly to health and welfare bills.

Chart 1: Distribution of the Population in 2006, 2011 and mid-2017



	0–19	20–29	30–39	40–49	50–59	60–69	70–79	>= 80
mid-2017	15.57%	12.60%	15.66%	15.51%	17.04%	12.68%	6.06%	4.88%
2011	17.40%	13.87%	15.74%	17.14%	16.39%	9.42%	6.09%	3.96%
2006	19.90%	14.17%	16.35%	19.12%	14.19%	7.20%	6.02%	3.06%

% of Population

Source: Census and Statistics Department, HK Government and Royson Research

Table 1: Selected Statistics on Population and National Income in 2006 and 2016

	2006	2016
Population	6,857,100	7,336,600
*Year-on-year ("**yoy**") change (%)*	*0.60%*	*0.60%*
Elderly dependency ratio	16.78%	21.84%
Median age	39.60	43.40
Expectation of life at birth *(years)*		
Male	79.40	81.30
Female	85.50	87.30
GDP, current market price *(HK$'M)*	1,503,351	2,491,001
yoy %	*6.50%*	*3.9%*
Per capita GDP, current market price *(HK$)*	219,240	339,531
yoy %	*5.8%*	*3.2%*

Source: Hong Kong Annual Digest of Statistics 2017, Census and Statistics Department, HK Government

Overview of the Elderly Residential Care Home Industry in Hong Kong

The residential care home services ("**RCS**") domain in Hong Kong consists of a mix of public and private RCHEs. As Hong Kong was being confronted with an ageing population due to decreased fertility and increased longevity of its population, "Care for the Elderly" was introduced as a strategic policy objective of the HK Government since 1997. The HKSAR also introduced the EBPS in 1998 which aimed to increase the supply of subsidised places for the elderly by leasing or purchasing places from private RCHEs and thereby shortening waiting time for RCHEs.

RCS are provided for those elderly who cannot be adequately taken care of at home. At present, there is a mix of public and private provision of RCS. While RCS are not directly provided within the administrative structure, subsidized RCS places are offered by (a) subvented/contract RCHEs, and (b) private/self-financing RCHEs participating in the Government's bought-place schemes. Alternatively, elders may choose to take up non-subsidized RCS places offered by private/self-financing RCHEs. Applications for subsidized places are assessed under the Standardized Care Need Assessment Mechanism for Elderly Services, whereas for non-subsidized places there are no such standardized admission criteria.

As at 30 September 2017, there were 758 RCHEs in Hong Kong, of which 548 or approximately 72.3%, were private ones and with 142 homes had participated in the EBPS. In aggregate, there are 74,245 places in capacity.

Table 2: Capacity of RCHEs in Hong Kong in 2016 and 2017

	31 December 2016	**30 September 2017**
Subsidised (EBPS)	7,999	8,061
Subsidised places	19,050	19,200
Non-subsidised places in non-profit-making self-financing homes/contract homes	5,287	5,055
Private home	41,655	41,929
Total number of places in Hong Kong	73,991	74,245

Source: SWD, HK Government

Based on the statistics published by *SWD*, as at 30 September 2017, the average waiting time for a place in both a subsidised care and attention home and a subsidised nursing home remain the same as 22 months as compared that in December 2016. However, the waiting time for a private RCHE under the EBPS was increased by 1 month to around 9 months in the same period.

Due to the waiting time, many elderly applicants on the waiting list stay in private RCHEs while waiting for a subsidised place and many applicants passed away before being offered a subsidised place. In 2014, 5,568 applicants passed away while waiting for a subsidised RCHE place.

Like many other economies, Hong Kong is facing the challenges posed by a rapidly ageing population. These include increasing demand for residential care services and community care services by the frail elderly, and the need for a comprehensive active ageing policy catering to the able-bodied elderly. Amid increasing demand for RCS, the number of subsidized RCS places remained virtually unchanged over the last decade. This has resulted in the long waiting list and waiting time for the places. As the ageing population will accelerate in coming years, the demand for RCS remains strong in future.

BASIS AND PREMISE OF VALUATION

We have appraised the business enterprise on the basis of fair value and in conformity with the Uniform Standard of Professional Appraisal Practice. As defined in International Valuation Standards, *fair value* is the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties. The fair value of the equity interest in Shui Jun YT is derived by the application of the discounted cash flows method under income approach. The premise of value of this appraisal is going concern.

VALUATION ASSUMPTIONS

Before arriving at our opinion of the fair value of Shui Jun YT, we have considered the following principal factors:

1. The nature of the business of Shui Jun YT from its inception;
2. The financial condition of Shui Jun YT;
3. The global economic outlook in general and the specific economic and competitive elements affecting the business of Shui Jun YT, its industry and its markets;
4. The nature, the regulatory framework and prospect of the relevant industry;
5. The potential of the target markets to be served;
6. Past operating results;
7. The market-derived investment returns of entities engaged in a similar line of business and returns from other similar types of projects;
8. The current stage of development of Shui Jun YT;
9. The business risks of Shui Jun YT and inherent uncertainties in its operations; and
10. The Projection.

Due to the changing environment in which Shui Jun YT is operating in, a number of assumptions have to be established in order to sufficiently support our opinion of value. The major assumptions adopted in this appraisal are:

1. There will be no major changes in the existing political, legal, fiscal and economic conditions in which Shui Jun YT carries on its business;
2. There will be no major changes in the current taxation law in the country where Shui Jun YT operates, that the rates of tax payable will remain unchanged and that all applicable laws and regulations will be complied with;
3. There will be no material changes in the elderly residential care home industry in which Shui Jun YT involves that would materially affect the revenues, profits, cash flows attributable to Shui Jun YT;
4. Shui Jun YT and/or its partners will obtain the necessary licenses and approvals to provide its service in accordance to the Projection;

5. Exchange rates and interest rates will not differ materially from those presently prevailing;

6. The availability of finance will not be a constraint on the forecasted growth of operations of Shui Jun YT;

7. The Projection has been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration by the Management;

8. Shui Jun YT will successfully maintain its competitiveness and market share through optimizing the utilization of its resources and expanding its marketing network;

9. Shui Jun YT can keep abreast of the latest development of the industry such that its competitiveness and profitability can be sustained;

10. Shui Jun YT will utilize and maintain its current operational, administrative and technical facilities to expand and increase its sales;

11. Shui Jun YT will be able to secure funds to repay its debts when they fall due;

12. Shui Jun YT will retain and have competent management, key personnel, and technical staff to support its ongoing operations;

13. Industry trends and market conditions for related industries will not deviate materially from economic forecasts;

14. The perpetual growth rate adopted is 3.0% in the Projection;

15. Shui Jun YT will take all the reasonable steps to ensure the fulfillment of the criteria of the EBPS under SWD all the time;

16. Shui Jun YT will have the intention to renew the current operating lease upon expiry and the probability of failure to renewal is considered as remote; and

17. There is no material difference in the statement of financial position of Shui Jun YT between 30 June 2017 and the Appraisal Date.

VALUATION METHODOLOGY

In order to arrive at our opinion of value, we will consider the three generally accepted approaches to valuation: market approach; income approach and asset-based approach and adopt the approach or approaches deemed most relevant will then be selected for use.

Market Approach

The market approach references actual transactions in the equity of the enterprise being valued or transactions in similar enterprises that are traded in the public markets. Third-party transactions in the equity of an enterprise generally represent the best estimate of fair market value if they are done at arm's length. In using transactions from similar enterprises, there are two primary methods. The first, often referred to as the ***Guideline Transactions Method***, involves determining valuation multiples from sales of enterprises with similar financial and operating characteristics and applying those multiples to the subject enterprise. The second, often referred to as the ***Guideline Public Company Method***, involves identifying and selecting publicly traded enterprises with financial and operating characteristics similar to the enterprise being valued. Once publicly traded enterprises are identified, valuation multiples can be derived, adjusted for comparability, and then applied to the subject enterprise to estimate the value of its equity or invested capital.

Income Approach

The income approach is based on the premise that the value of a security or asset is the present value of the future earning capacity that is available for distribution to investors in the security or asset. A commonly used methodology under the income approach is a ***discounted cash flow ("DCF") analysis***. A DCF analysis involves forecasting the appropriate cash flow stream over an appropriate period and then discounting it back to a present value at an appropriate discount rate. This discount rate should consider the time value of money, inflation, and the risk inherent in ownership of the asset or security interest being valued.

Asset-based Approach

A third approach to the valuation is the asset-based approach. The discrete valuation of an asset using an asset-based approach is based upon the concept of replacement as an indicator of value. A prudent investor would pay no more for an asset than the amount for which he or she could replace the asset new. The asset-based approach establishes value based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional obsolescence, if present and measurable.

Selected Approach

In arriving at our opinion of value, we relied primarily on the DCF analysis of the income approach, such that the business enterprise value can be estimated based on forecasts of fundamental conditions in the future rather than current data. We consider that asset-based approach to be not applicable to this appraisal because Shui Jun YT has reached the stage where it is generating revenues. Market approach was not used because there was neither closely comparable transaction publicly available nor closely comparable publicly traded entity with financial and operating characteristics similar to that of Shui Jun YT could not be identified. Based on the Projection and relevant supporting documents, such as the historical financial and operating data provided by the Management, we concluded that the most appropriate method for this appraisal is income approach.

DCF Analysis

Performing a discounted cash flow analysis requires the preparation and analysis of a reliable forecast of the expected future financial performance of the subject entity. Forecasting cash flow to all investors requires the projection of revenues, operating expenses, taxes, working capital requirements, and capital expenditures for a future period.

Projected cash flow to all investors must then be discounted to a present value using a discount rate, which appropriately accounts for the market cost of capital as well as the risk and nature of the subject cash flows. Finally, an assumption must be made regarding the sustainable long-term rate of earnings growth at the end of the projection period, and a terminal or residual value of the remaining cash flows must be estimated and discounted to a present value. The sum of the present values of the projected cash flows and the terminal value equals the value of the enterprise.

The cost of equity is the sum of the business enterprise value derived from the DCF analysis, net non-operating assets and excess cash balances after deduction of debts.

The following section presents some of the key assumptions of the financial forecast used in the DCF analysis performed in this appraisal. The Projection was prepared for the period from August 2017 through December 2021 ("**Projection Period**"), after that a 3% terminal growth rate was used in the DCF analysis.

Forecast Net Income

For purposes of our performing this analysis, the Management provided a detailed revenue and expense forecast. The revenue forecast included a projection of revenues by source, including home fee income, other service fees and government grants. The expense forecast included a projection of personnel costs and operating expenses related to revenue. Income taxes had been estimated by applying an effective income tax rate of 16.5%, as estimated by the Management.

Revenue – Revenue of Shui Jun YT mainly includes home fee income, home sundry income and government grants. Given its business nature, historical operating data and latest market condition, the Management expected the occupancy rate and so then the home fee and other relevant income would stay stable in the foreseeable future. Based on the historical financial data and the expected inflation in Hong Kong, it was expected an annual growth of approximately 2.00% to 3.00% in revenue, except for government grants, during the Projection Period. Every year, local authorities offer a broad spectrum of allowances and provision to support those RCHEs with eligible elderly persons in order to enhance the services for those elderly and address their special needs. Based on past experience, the Management expected the aggregate government grants to be recognised as income each year during the Projection Period would be HK$240,000.

Operating expenses – Except rentals, the operating expenses of Shui Jun YT were forecasted to grow at 3.00% annually. Rent and rates were assumed to increase by 3.00% upon renewal of the current lease in mid-2019.

Depreciation and Amortisation Expenses – Depreciation and Amortisation expenses were estimated based on the actual monthly expenses in 2017 for the existing net fixed assets. The annual depreciation rate on fixed assets was 20% per annum. Renovation works had completed in December 2016 and replacement capital expenditure was expected to be incurred in 2021.

Interest Expenses – Shui Jun YT had no plan to raise debt financing and there was no interest expense to be incurred.

Income Taxes – Shui Jun YT assumed the current corporate income tax rate of 16.5% in Hong Kong would be maintained throughout the Projection Period.

Working Capital – Based on the latest management accounts and historical management accounts, actually Shui Jun YT had negative net working capital. Except for deposits received from its residents, Shui Jun YT generally did not give credit period to its clients. On the contrary, Shui Jun YT might be granted credit period by its vendors and suppliers. Rental and staff costs were identified as the major and crucial operating costs. It was assumed that Shui Jun YT would retain a cash balance that was adequate to keep business running for, at least, 3 months as working capital in the Projection.

Capital Expenditure – Given that the capacity remained constant and the premises had been refurbished in 2016, spending on new leasehold improvements, furniture and fixtures by Shui Jun YT was assumed to be minimal during the Projection Period. Given the estimated useful lives of fixed assets are 5 years, replacement capex was expected to take place in 2021.

Cash Flow Adjustments

Because we attempted to arrive at free cash flow to equity in our valuation model, net income had to be adjusted for certain items in order to estimate the cash return on the assets that generate the forecast revenue. First, noncash items, including depreciation, were added back to net income. Second, forecasted capital expenditures, if any, and investment in operating working capital were subtracted. Working capital requirements were forecast across the entire projection period by analyzing growth in operating expenses.

Discount Rate Estimation

The discount rate applied to the forecasted cash flows and terminal value must adequately reflect the nature of the subject investment and the risk of the underlying cash flows. For purposes of our analysis, the appropriate discount rate is a cost of equity. The cost of equity is developed through the application of the Capital Asset Pricing Model ("**CAPM**") with reference to the required rates of return demanded by investors for similar projects. A major requirement in generating the cost of equity is to identify companies that are comparable to Shui Jun YT in terms of business nature and associated risks.

Selection of Comparable Companies

In our valuation model, we have based on the following criteria to select the comparable companies we think fit for this valuation: (1) provision of nursing and residential care services, continuing care services and/or home health care services; (2) income from the major operations as mentioned in previous point shall be over 80% of the respective overall revenue; (3) has operating profits; (4) debt ratio to market value of invested capital shall be less than 70%; and (5) listed in a recognizable exchange for over two years.

To conclude, there are 8 entities which are listed either in Canada, France, Japan and the U.S. selected as comparable companies of Shui Jun YT. A description of the business operation of the comparable companies is summarized below:

Selected Comparable Company	**Principal Business**	**Leveraged Beta***	**Releveraged Beta****
1. Extendicare Inc. *(stock ticker: EXE; listed in Canada)*	Extendicare Inc. provides post-acute and long-term senior care services. It has a network of owned and operated health care centers that provide skilled nursing care, rehabilitative therapies, and home health care services.	0.93	0.62
2. Sienna Senior Living Inc. *(stock ticker: SIA; listed in Canada)*	Sienna Senior Living Inc. provides long-term care services. It offers nursing homes, retirement homes, and independent living facilities. Sienna Senior Living serves senior citizens in the State of Ontario.	0.70	0.48
3. Korian SA *(stock ticker: KORI; listed in France)*	Korian SA operates healthcare facilities, medical establishments. Its facilities include retirement homes and rehabilitation centers. Korian is based in France.	0.85	0.52
4. Le Noble Age *(stock ticker: LNA; listed in France)*	Le Noble Age operates nursing homes. It serves older clients in all stages of dependency through its facilities located throughout France.	0.64	0.43

Selected Comparable Company		Principal Business	Leveraged Beta*	Releveraged Beta**
5.	Charm Care Corporation, K.K *(stock ticker: 6062; listed in Japan)*	Charm Care Corporation, K.K. provides residential and personal care services.	0.96	0.66
6.	Tsukui Corporation *(stock ticker: 2398; listed in Japan)*	Tsukui Corporation provides nursing care services for the elderly and patients. It mainly provides home care services and operates nursing and retirement home. It also offers trainings and lessons for home-helper-to-be and provides staffing services that specialize in nursing.	0.63	0.48
7.	Ensign Group, Inc. *(stock ticker: ENSG; listed in the U.S.)*	Ensign Group, Inc. operates facilities offering nursing and rehabilitative care services in multiple states. It provides a broad spectrum of nursing and assisted living services, physical, occupational and speech therapies, and other rehabilitative and healthcare services, for both long-term residents and short-stay rehabilitation patients.	0.93	0.80
8.	National Healthcare Corporation *(stock ticker: NHC; listed in the U.S.)*	National Healthcare Corporation operates long-term health care centers. It also operates homecare programs, independent living centers, and assisted living centers. Its other services include managed care specialty medical units, Alzheimer's units, and a rehabilitation services company.	0.81	0.74

* Data was as at the Appraisal Date and extracted from Bloomberg

** Beta of the selected comparable companies was first unleveraged for their respective financial leverage and then releveraged with that of Shui Jun YT (i.e. no debt and 100% equity).

CAPM

The CAPM states that an investor requires excess returns to compensate for any risk that is correlated to the risk in the return from the stock market as a whole but requires no excess return for other risks. Risks that are correlated to the risk in the return from the stock market as a whole are referred to as systematic and measured by a parameter called beta, whereas other risks are referred to as non-systematic. The cost of equity for Shui Jun YT is the sum of the risk-free rate return, the equity risk premium required by investors to compensate for the systematic risk assumed with adjustments for increment for risk differentials of versus those of the comparable companies, which include risk adjustments for size and other risk factors in relation to the comparable companies.

The formula of CAPM is defined as follows:

Re = R*f* + β(Rm) + Rc
where:
Re = Return on equity
R*f* = Risk-free rate
β = Beta
Rm = Market risk premium
Rc = Premium for size and other risk factors

A risk-free rate of 1.52% was used, based upon the yields on long-term government bonds in Hong Kong as of the Appraisal Date. A market risk premium of 8.51% was assumed, which represents the average total return of common stocks in excess of the income return of long-term securities in Hong Kong. In order to estimate the appropriate beta for use in our analysis, we researched companies in a similar business as Shui Jun YT. Our sample included 8 listed companies. The equity beta for each company in our sample was researched, and an average of 0.59 was calculated. A small capitalization risk premium of 5.59% and a company specific risk premium of 0.5% were applied in the calculation of the cost of equity.

Small capitalization risk premium is the excess return that an investor would demand in order to compensate for the additional risk over that of the entire stock market when investing in a small capitalization company. This premium reflects the fact that cost of capital increases with decreasing size of a company. A number of studies were conducted in the U.S. which concludes that the risk premium associated with a small company is over and above the amount that would be warranted just as a result of the company's systematic risk derived from the CAPM. Such capitalization risk premium is commonly adopted in the valuation of private companies like Shui Jun YT.

After taking into account of the business scope and size of Shui Jun YT and with reference to the information and data presented in the *2017 Valuation Handbook – U.S Guide to Cost of Capital*, published by John Wiley & Sons, we have applied the small capitalization risk premium in the Decile 10 to smallest (i.e. 5.59%) in the calculation of the cost of equity.

The company specific risk premium is determined mainly based on the qualitative analysis we performed. The financial performance of Shui Jun YT has improved significantly since the completion of renovation works in December 2016 and the qualification and remained strong in 2017. However, the profitable track record was less than 2 full years as at the Appraisal Date and not insufficiently to justify for a prolong and stable profits in future. To reflect such risks, a 0.5% company specific risk premium is added to the cost of equity.

According to our analysis, the cost of equity of Shui Jun YT is 12.5% (rounded to the nearest 0.5%) as at the Appraisal Date.

Terminal Value Calculation

The terminal value was based on a terminal value cash flow multiple of 10.53. The multiple was calculated by subtracting a 3.00% terminal growth rate from a 12.50% cost of equity and taking the inverse, which equals Shui Jun YT's capitalization rate. The terminal growth rate of 3% was determined based upon Shui Jun YT's long-term growth expectations and the forecasted long-term inflation rate in Hong Kong. The capitalization rate was applied to the growth-adjusted terminal year cash flow to determine terminal value.

Given the increasing market demand and Shui Jun YT's continuous effort in expanding the scope of its value-added services and enhancing its operations efficiency through better cost control, the Management holds a positive view in achieving a growth rate of 3% in Shui Jun YT's revenue and cash flows in long-term.

LIMITING CONDITIONS

This appraisal reflects facts and conditions existing at the Appraisal Date. Subsequent events have not been considered and we are not required to update our report for such events and conditions. To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. We assume, without independent verification, the accuracy of all data provided to us. Our report is to be used for the specific purposes stated herein and any other use is invalid. No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document to be prepared or distributed to third parties may be made without our written consent.

OPINION OF VALUE

Based upon the investigation and analysis outlined above and on the appraisal method employed, it is our opinion that the entire equity interest in Shui Jun YT as at **31 July 2017** is reasonably stated by the amount of **HONG KONG DOLLARS FORTY-EIGHT MILLION TWO HUNDRED AND NINETY THOUSAND ONLY (HK$48,290,000)**.

This opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the Group, Shui Jun YT, the Vendors or the value reported.

Respectfully submitted,
For and on behalf of
Royson Valuation Advisory Limited

Ms. Amy Chan, CPA
Executive Director

Ms. Amy Chan is a member of the Hong Kong Institute of Certified Public Accountants. She has gained over 12 years of experience in accounting, auditing, business valuation and derivative valuation.

A. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a report received from Ernst & Young, *Certified Public Accountants*, Hong Kong, the Company's Reporting Accountants, prepared for the purpose of incorporation in this Circular.

EY 安永

22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

ACCOUNTANTS' REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF SHUI JUN NURSING CENTRE (YAU TONG) COMPANY LIMITED (THE "TARGET COMPANY")

The Board of Directors
Hang Chi Holdings Limited (the "**Company**")

We have examined the accounting policies adopted and calculations of (1) the discounted future estimated cash flows on which the valuation prepared by Royson Valuation Advisory Limited dated 5 December 2017 in respect of the Target Company (the "**Valuation**"). The Valuation is in connection with the acquisition of the Target Company, as set out in the Company's circular dated 5 December 2017 (the "**Circular**"). The Valuation based on the discounted future estimated cash flows is regarded by The Stock Exchange of Hong Kong Limited and Securities and Futures Commission of Hong Kong as a profit forecast under Rule 19.61 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**") and Rule 10 of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"), respectively.

Directors' responsibilities for the Discounted Future Estimated Cash Flows

The directors of the Company (the "**Directors**") are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the Directors and set out in the Circular (the "**Assumptions**"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

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 Hong Kong Institute of Certified Public Accountants ("**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*, 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, based on our work on the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rule 19.62(2) of the GEM Listing Rules and Rule 10.3(b) of the Takeover Code, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. We examined the consistency of accounting policies adopted and the arithmetical accuracy of the discounted future estimated cash flows. We comply with ethical requirements and have planned and performed the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the accounting policies and calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work does not constitute any valuation of the Target Company.

The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the accounting policies and calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions as set out in the Circular and is presented on a basis consistent in all material aspects with the accounting policies currently adopted by the Company.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

5 December 2017

B. LETTER FROM THE BOARD

Hang Chi Holdings Limited
恒智控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8405)

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION RELATING TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY

We, the undersigned, being all of the Directors comprising the Board, refer to the above transaction of the Company and write to you pursuant to Rule 19.62(3) of the GEM Listing Rules. Capitalised terms used herein shall have the same meanings as those defined in the draft circular of the Company submitted to you on the even date (the "**Circular**").

We refer to the valuation report (the "**Valuation Report**") dated 5 December 2017 prepared by Royson Valuation Advisory Limited, an independent valuer (the "**Independent Valuer**"), in relation to the value of the equity interest of the Target Company (the "**Valuation**"), the text of the Valuation Report is set out in Appendix V to the Circular. The Valuation is based on the discounted future estimated cash flows of the Target Company (the "**Discounted Cash Flows**"), which is regarded by the Stock Exchange as a profit forecast under Rule 19.61 of the GEM Listing Rules. The Discounted Cash Flows was prepared in accordance with the bases and assumptions (the "**Bases and Assumptions**") determined by us, which are set out in the Circular.

We have reviewed and discussed with the Independent Valuer and the independent accountants of the Company, Ernst & Young ("**Independent Accountants**"), *Certified Public Accountants*, Hong Kong the Bases and Assumptions upon which the Valuation has been carried out. We have also considered the letter from the Independent Accountants dated 5 December 2017 regarding the calculations of the Discounted Cash Flows in the Valuation Report.

Based on the aforesaid, we confirm that the forecasts as contained in the Valuation Report have been made after due and careful enquiry pursuant to Rule 19.62(3) of the GEM Listing Rules.

Yours faithfully,
For and on behalf of the Board
Yik Tak Chi
Chairman and Executive Director

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.

DISCLOSURE OF INTERESTS

(a) Interest of Directors and chief executives

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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**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 and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares

Name of Director	Capacity/ Nature of interests	Number of Shares held/ interested in	Approximate percentage of shareholding *(Note 1)*
Mr. Yik Tak Chi ("**Mr. Yik**")	Interest of controlled corporation *(Note 2)*	248,700,000	62.18%

Notes:

1. The approximate percentage of shareholding is calculated based on 400,000,000 Shares in issue as at the Latest Practicable Date.

2. These 248,700,000 Shares are held by Shui Wah, a company incorporated in the British Virgin Islands. Shui Wah is owned as to 89.11% by Lucky Expert Investment Limited ("**Lucky Expert**"), which is in turn owned as to 59.88% by Hang Chi Development & Investment Limited ("**Hang Chi**"). Mr. Yik indirectly owns the entire issued share capital of Hang Chi through Multifield Investment Development Limited ("**Multifield**"). By virtue of the SFO, Mr. Yik is deemed to be interested in the same number of shares in Lucky Expert held by Hang Chi, same number of shares in Shui Wah held by Lucky Expert, and same number of Shares held by Shui Wah.

Long positions in the ordinary shares of associated corporation

Name of Directors	Name of associated corporation	Capacity/Nature of interests	Number of shares held/ interested in	Approximate percentage of shareholding
Mr. Yik	Multified	Beneficial owner *(Note)*	1	100.00%
	Hang Chi	Interest of controlled corporation *(Note)*	20,000	100.00%
	Lucky Expert	Interest of controlled corporation *(Note)*	5,988	59.88%
	Shui Wah	Interest of controlled corporation *(Note)*	8,911	89.11%
Mr. Chung Kin Man	Lucky Expert	Beneficial owner	493	4.93%
Ms. Chung Wai Man	Lucky Expert	Beneficial owner	602	6.02%

Note: The Company is owned as to approximately 62.18% by Shui Wah. Shui Wah is owned as to 89.11% by Lucky Expert, which is in turn owned as to 59.88% by Hang Chi. Mr. Yik indirectly owns the entire issued share capital of Hang Chi through Multifield. By virtue of the SFO, Mr. Yik is deemed to be interested in the same number of shares in Lucky Expert held by Hang Chi, same number of shares in Shui Wah held by Lucky Expert and same number of Shares held by Shui Wah; and Multifield, Hang Chi, Lucky Expert and Shui Wah are associated corporations of the Company.

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 debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which was required to be notified the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or otherwise to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

(b) Interest of substantial Shareholders

As at the Latest Practicable Date, as far as known to the Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had the interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in the Shares

Name of Shareholder	**Capacity/Nature of interests**	**Number of Shares held/ interested in**	**Approximate percentage of shareholding** *(Note 1)*
Multifield	Interest in controlled corporation *(Note 2)*	248,700,000	62.18%
Hang Chi	Interest in controlled corporation *(Note 2)*	248,700,000	62.18%
Lucky Expert	Interest in controlled corporation *(Note 2)*	248,700,000	62.18%
Shui Wah	Beneficial owner *(Note 2)*	248,700,000	62.18%
Ms. Yik Wai Hang	Interest held jointly with other person *(Note 3)*	248,700,000	62.18%
Ms. Chung Shuk Man	Interest of spouse *(Note 4)*	248,700,000	62.18%
Top Champ Ventures Limited	Beneficial owner *(Note 5)*	36,000,000	9.00%
Mr. Mok Pui Yin Terry	(i) Beneficial owner *(Note 5)* (ii) Interest in controlled corporation *(Note 5)*	37,000,000	9.25%

Notes:

1. The approximate percentage of shareholding is calculated based on 400,000,000 Shares in issue as at the Latest Practicable Date.

2. These 248,700,000 Shares are held by Shui Wah. Shui Wah is owned as to 89.11% by Lucky Expert, which is in turn owned as to 59.88% by Hang Chi. Mr. Yik indirectly owns the entire issued share capital of Hang Chi through Multifield. By virtue of the SFO, each of Mr. Yik, Multifield, Hang Chi and Lucky Expert is deemed to be interested in all the Shares held by Shui Wah.

3. On 13 December 2016, Mr. Yik, Multifield, Hang Chi and Ms. Yik Wai Hang entered into an acting in concert agreement (the "**Acting In Concert Agreement**") to acknowledge and confirm, among other things, that they are parties acting in concert (having the meaning as ascribed thereto in The Codes on Takeovers and Mergers and Share Buy-backs) in respect of each of the members of the Group from the date of which both Mr. Yik and Ms. Yik Wai Hang became the shareholders of Shui On Nursing Home Holdings Limited (i.e. 31 July 2013) and will continue to be parties acting in concert until such arrangement is terminated in writing by them pursuant to the Acting In Concert Agreement. As such, they are deemed to be interested in the Shares held by the others. As at the Latest Practicable Date, Mr. Yik, Multifield, Hang Chi and Ms. Yik Wai Hang were controlling approximately 62.18% of the issued share capital of the Company.

4. Ms. Chung Shuk Man is the spouse of Mr. Yik. By virtue of the SFO, Ms. Chung Shuk Man is deemed to be interested in all the Shares in which Mr. Yik is interested.

5. Mr. Mok Pui Yin Terry is interested in 37,000,000 Shares, of which 36,000,000 Shares are held by Top Champ Ventures Limited ("**Top Champ**") and 1,000,000 Shares are directly held by him. As Mr. Mok Pui Yin Terry owns the entire issued share capital of Top Champ by virtue of the SFO, he is deemed to be interested in all the Shares held by Top Champ.

Save as disclosed above, and as at the Latest Practicable Date, the Directors were not aware of any persons (other than the Directors and chief executive of the Company) who had any interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

OTHER INTERESTS OF THE DIRECTORS

Save as disclosed in this circular, the Announcement and the Prospectus, and as at the Latest Practicable Date:

(a) Interests in service contracts

None of the Directors had entered into or proposed to enter into any service contract with any member of the Enlarged Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)).

(b) Interests in assets

None of the Directors has or had any interest, direct or indirect, in any asset which have been acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to member of the Enlarged Group since 31 December 2016, being the date to which the latest published audited financial statements of the Group were made up.

(c) Interests in contracts or arrangements

Save as the possible continuing connected transactions as disclosed in the Announcement, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into with any member of the Enlarged Group, which contract or arrangement is subsisting as at the Latest Practicable Date and which is significant in relation to the business of the Enlarged Group taken as a whole.

(d) Interest in competing business

None of the Directors, the Company's compliance adviser, Guotai Junan Capital Limited, and their respective close associates (as defined in the GEM Listing Rules) has any interest in a business that compete or may compete with the business of the Group.

LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation or claims of material importance nor, to the best of the Directors' knowledge, is any litigation or claim of material importance pending or threatened against any member of the Enlarged Group.

MATERIAL CONTRACTS

Within the two years immediately preceding the date of this circular, the following agreements, being contracts not entered into in the ordinary course of business, have been entered into by members of the Enlarged Group and is or may be material:

(a) the Sale and Purchase Agreement; and

(b) the material contracts referred to in the paragraphs headed "Statutory and general information – B. Further information about the business of Our Group – 1. Summary of material contracts" in appendix IV to the Prospectus.

EXPERTS AND CONSENTS

The following is the qualification of the expert who has been named in this circular or has given opinions or letters contained in this circular:

Name	Qualification
Ernst & Young	Certified Public Accountants
Royson Valuation Advisory Limited	Independent Valuer

As of the Latest Practicable Date, each of Ernst & Young and Royson Valuation Advisory Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and/or references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, each of Ernst & Young and Royson Valuation Advisory Limited was not beneficially interested in the share capital of any member of the Enlarged Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Enlarged Group nor did it have any interest, either direct or indirect, in any assets which have been, since 31 December 2016, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

MISCELLANEOUS

(a) The company secretary of the Company is Ms. Leung Pui Shan, who is a member of The Hong Kong Institute of Certified Public Accountants.

(b) The compliance officer of the Company is Mr. Chung Kin Man, who obtained a degree of Bachelor of Computer Technology from La Trobe University in Australia, a degree of Master of Information Technology from Monash University in Australia, and a degree of Associate of Social Science in Social Work from The City University of Hong Kong. He also completed the Health Worker Training Course from Management Society for Healthcare Professionals in Hong Kong and has been registered as a health worker by the SWD. He has also been a social worker registered with the Social Workers Registration Board in Hong Kong.

(c) The registered office of the Company is situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

(d) The headquarters and principal place of business of the Company in Hong Kong is situated at Room D, 35/F., TG Place, 10 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.

(e) The principal share register of the Company is Conyers Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(f) The Hong Kong branch share registrar and transfer office of the Company is Boardroom Share Registrars (HK) Limited, Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong.

(g) The Company's audit committee ("**Audit Committee**") comprises three independent non-executive Directors, namely Mr. Kwok Chi Shing, Mr. Lau Tai Chim and Mr. Wong Wai Ho. Mr. Kowk Chi Shing is the chairman of the Audit Committee. The main role and functions of the Audit Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting, risk management and internal control systems. A summary of the biography of the members of the Audit Committee are set out below:

(i) Mr. Kwok Chi Shing obtained a degree of Master of Arts in Economics with Accountancy from The University of Aberdeen in U.K. in July 1986. Mr. Kwok is a certified public accountant in Hong Kong. He has been a fellow member of the Hong Kong Institute of Certified Public Accountants since January 1991 and a member of the Institute of Chartered Accountants of Scotland since November 1989. Mr. Kwok has also been a certified financial planner granted by The Institute of Financial Planners of Hong Kong since October 2001.

Mr. Kwok has extensive experience in corporate and financial management work especially for the real estate development and property management industries.

Mr. Kwok has served as an independent non-executive director of Grand Ocean Advanced Resources Company Limited (弘海高新資源有限公司) (formerly known as DeTeam Company Limited and Angels Technology Company Limited) since 2006, a company whose shares were listed on the GEM until 19 June 2009 (stock code: 8112), and whose listing was transferred to the Main Board thereafter (stock code: 65). In addition, Mr. Kwok has served as an independent non-executive director of Speed Apparel Holding Limited (stock code: 8183) the shares of which have been listed on the GEM since 31 May 2017.

(ii) Mr. Lau Tai Chim is a solicitor practising law in Hong Kong. Mr. Lau has cultivated over 30 years of law practising experience. He has been a partner of the firm Messrs. T.C. Lau & Co. since 1986. He obtained a degree of Bachelor of Laws from The University of Buckingham in England in February 1981. Apart from practising as a solicitor in Hong Kong, Mr. Lau has also been a solicitor in England and Wales since May 1988 as well as in the Republic of Singapore since February 1995. Mr. Lau is also a notary public and an attesting officer appointed by the Ministry of Justice in Beijing, PRC.

Mr. Lau has been appointed as an independent non-executive director of Future Bright Mining Holdings Limited (高鵬礦業控股有限公司) since December 2014, the shares of which are listed on the Main Board (stock code: 2212). Mr. Lau also served as an independent non-executive director of Warderly International Holdings Limited (匯多利國際控股有限公司) (currently known as Fullshare International Holdings Limited (豐盛控股有限公司)) from April 2002 to September 2010, the shares of which are listed on the Main Board (stock code: 0607), and was appointed as a non-executive director of Kingboard Chemical Holdings Limited (建滔化工集團有限公司) from March 2001 to September 2004, the shares of which are listed on the Main Board (stock code: 0148).

(iii) Mr. Wong Wai Ho obtained a degree of Bachelor of Business Administration from The Chinese University of Hong Kong in October 1971 and a degree of Master of Law from The People's University of China (Beijing) (also known as Renmin University of China 中國人民大學) in June 2004.

Mr. Wong has served an independent non-executive director as well as a member of the audit committee and nomination committee of Road King Infrastructure Limited (路勁基建有限公司), a company whose shares are currently listed on the Main Board (stock code: 1098) since 2014. Mr. Wong was an executive director of Proactive Technology Holdings Limited (currently known as Chinese Strategic Holdings Limited 華人策略控股有限公司) (stock code: 8089), a company whose shares are currently listed on GEM, from 2000 to 2006.

(h) The English text of this circular shall prevail over the Chinese text in the event of any inconsistency.

DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Room D, 35/F., TG Place, 10 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong during normal business hours from the date of this circular up to and including the 14th day following the date of this circular:

(a) the memorandum and articles of association of the Company;

(b) the interim report of the Company for the six months ended 30 June 2017;

(c) the accountants' report on the financial information of the Target Company as set out in Appendix II to this circular;

(d) the accountants' report on unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;

(e) the letter from Royson Valuation Advisory Limited in respect of the valuation on the entire equity interest of the Target Company, the text of which is set out in Appendix V to this circular;

(f) the report from Ernst & Young on calculations of discounted future estimated cash flows in connection with the valuation of the Target Company; the text of which is set out in Appendix VI to this circular;

(g) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(h) the written consents from Ernst & Young and Royson Valuation Advisory Limited referred to in the paragraph headed "Expert and Consent" in this Appendix;

(i) the Prospectus;

(j) the written approval given by Shui Wah dated 9 October 2017; and

(k) this circular.