Hang Chi Holdings Limited
恒智控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8405

2018

Annual Report

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Yik Tak Chi *(Chairman)*
Mr. Chung Kin Man
Ms. Chung Wai Man
Mr. Lui Chi Tat (appointed on 27 February 2019)

Non-executive Director

Mr. Lau Joseph Wan Pui

Independent non-executive Directors

Mr. Kwok Chi Shing
Mr. Lau Tai Chim
Mr. Wong Wai Ho

Board Committees

Audit Committee

Mr. Kwok Chi Shing *(Chairman)*
Mr. Lau Tai Chim
Mr. Wong Wai Ho

Nomination Committee

Mr. Yik Tak Chi *(Chairman)*
Mr. Lau Tai Chim
Mr. Wong Wai Ho

Remuneration Committee

Mr. Lau Joseph Wan Pui *(Chairman)*
Mr. Kwok Chi Shing
Mr. Lau Tai Chim

Company Secretary

Ms. Leung Pui Shan *(HKICPA)*

Authorised Representatives

Mr. Chung Kin Man
Ms. Leung Pui Shan

Compliance Officer

Mr. Chung Kin Man

Compliance Adviser

Guotai Junan Capital Limited

Registered Office

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Headquarters and Principal Place of Business in Hong Kong

Room D, 35/F., T G Place
10 Shing Yip Street
Kwun Tong
Kowloon
Hong Kong

Auditor

Ernst & Young
Certified Public Accountants

Principal Banker

Hang Seng Bank Limited
Wing Lung Bank Limited
Bank of China (Hong Kong) Limited

Principal Share Registrar and Transfer Office in the Cayman Islands

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Branch Share Registrar and Transfer Office in Hong Kong

Boardroom Share Registrars (HK) Limited
Room 2103B, 21/F.
148 Electric Road
North Point
Hong Kong

Stock Code

8405

Company's Website

www.shuionnc.com

Contact Information

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FINANCIAL HIGHLIGHTS

	2018 HK$'000	2017 HK$'000	Change % (approximate)
Consolidated statement of profit or loss and other comprehensive income			
Revenue	**135,516**	97,148	39.49%
EBITDA	**35,600**	11,836	200.78%
Adjusted EBITDA *(Note 1)*	**35,600**	24,060	47.96%
Profit for the year	**23,709**	3,166	648.86%
Adjusted profit for the year *(Note 2)*	**23,709**	15,390	54.05%
Consolidated statement of financial position			
Cash and bank balances	**59,283**	47,567	24.63%
Trade receivables	**204**	270	–24.44%
Net assets value	**146,990**	137,781	6.68%

Notes:

1. Adjusted EBITDA represented by the EBITDA before deducting Listing expenses.

2. Adjusted profit for the year represented by the Profit for the year before deducting Listing expenses.

CHAIRMAN'S STATEMENT

Dear Shareholders,

Greetings. I am pleased to present this annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018.

Business Review

In 2018, we witnessed exhilaration amid difficult challenges, as we managed to balance the interests of our shareholders and the demands of our customers, as well as to enable stable business growth despite the fact that we encountered difficulties in recruiting frontline staff due to the overall social environment in Hong Kong. In the past year, although the number of elderly residential care homes under our management did not increase, we achieved a significant growth in our revenue as we benefited from (i) the acquisition of the elderly residential care home in Yau Tong at the end of 2017; and (ii) the proceeds from the listing of our shares on GEM (the "Listing") that effectively facilitated the enhancement of the hardware and software in our elderly residential care homes to upgrade our equipment, improve our service quality and increase the number of beds.

Future Development

Looking into 2019, we also anticipate a more challenging business environment. In addition to the potential increase in rents of certain elderly residential care homes due to expiration of relevant tenancies, we will be facing more vigorous competition from elderly residential care homes subsidised by the Government for skilled and experienced labour. It is expected that some small and medium-sized elderly residential care homes in the market will be closed due to rising rents and salaries in the future. As challenges bring opportunities, however, we will strive harder to prepare ourselves and actively develop our own elderly residential care homes. Besides attracting the aging elderly in the districts where we operate, we will also target elderly residents who were previous customers of closed elderly residential care homes as our customer source. Furthermore, we aim to achieve stable business development by continuously identifying suitable elderly residential care homes for acquisition.

Appreciation

At last, I would like to take this opportunity to express my sincere gratitude to all employees of the Group. Without your dedication, we would not have achieved these highlights to date. I look forwards to the future, where we will continue to join hands to tackle challenges. By making efforts to overcome difficulties, we will then share our achievements and delight.

Yik Tak Chi
Chairman and Executive Director

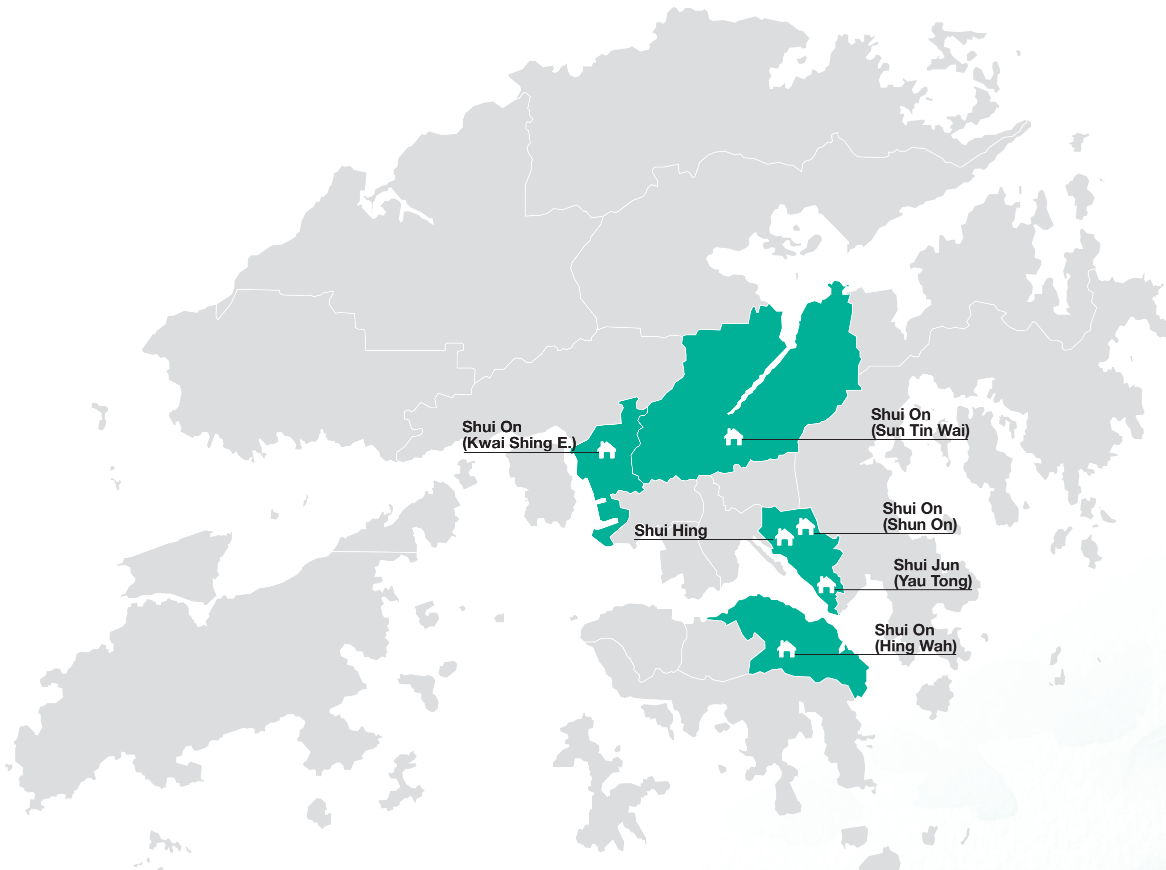
Hong Kong, 27 February 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operational Review

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: (i) 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 (ii) 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", one "Shui Hing 瑞興" and one "Shui Jun 瑞臻" branded elderly residential care homes across four districts in Hong Kong.

The Directors are of the view that the enormous demand for residential care home services is the key driver for the growth of the elderly residential care home industry in Hong Kong. With the Group's experienced management team and reputation in the market, the Group will continue to expand its network of elderly residential care homes in strategic locations in Hong Kong to serve more elderly residents.



Elderly residential care home	Location	Year of commencement of operation by the Group	Total number of residential care places	Number of residential care places under the EPBS	Classification under the EPBS
Shui On (Shun On)	Kwun Tong	2007	118	61	EA1
Shui On (Hing Wah)	Eastern	2008	72	N/A	N/A
Shui Hing	Kwun Tong	2011	90	N/A	N/A
Shui On (Sun Tin Wai)	Shatin	2016	91	N/A	N/A
Shui On (Kwai Shing E.)	Kwai Tsing	2016	238	136	EA1
Shui Jun (Yau Tong)	Kwun Tong	2017	207	42	EA2

Operating Performance

Revenue

The breakdown of revenue by types of services provided by the Group for the year ended 31 December 2018 (the "Reporting Year") and 31 December 2017 are set out as follows:

	2018		2017	
	Revenue HK$'000	Percentage of segment revenue approximate%	Revenue HK$'000	Percentage of segment revenue approximate%
Rendering of elderly home care services				
– residential care places leased by the Social Welfare Department (the "SWD") under the Enhanced Bought Place Scheme (the "EBPS")	30,109	22.22%	24,758	25.48%
– residential care places leased by individual customers	73,775	54.44%	53,144	54.71%
– residential care places leased by non-governmental organisations	443	0.33%	205	0.21%
	104,327	76.99%	78,107	80.40%
Sales of elderly related goods and provision of healthcare services	31,189	23.01%	19,041	19.60%
Total	135,516	100.00%	97,148	100.00%

During the Reporting Year, the Group's revenue increased from approximately HK$97,148,000 for the last year to approximately HK$135,516,000, representing an approximately 39.49% increase.

Operating Performance *(Continued)*

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 increased from approximately HK$78,107,000 for the last year to approximately HK$104,327,000 for the Reporting Year, representing an approximately 33.57% increase.

- *Residential care places leased by the SWD under the EBPS*

  During the Reporting Year, the revenue derived from the SWD, which leased a fixed number of residential care places at the Group's elderly residential care homes under the EBPS, increased from approximately HK$24,758,000 for the last year to approximately HK$30,109,000, representing an approximately 21.61% increase.

  The increment was mainly due to the acquisition of Shui Jun Nursing Centre (Yau Tong) Company Limited ("Shui Jun (Yau Tong)") in November 2017 which is an elderly residential care home classified as EA2 under the EBPS.

- *Residential care places leased by individual customers*

  The revenue derived from rendering of elderly home care services for individual customers, together with the unsubsidised portions paid by individual customers under the EBPS increased from approximately HK$53,144,000 for the last year to approximately HK$73,775,000 for the Reporting Year, representing an approximately 38.82% increase.

  The increment was mainly attributed by the increase in the total number of residential care places. During the Reporting Year, the Group owned and operated six elderly residential care homes with a total of 816 residential care places, while there were only five elderly residential care homes with a total of 589 residential care places for most of the last year. With the stabilised occupancy rate of all elderly residential care homes recorded for both the Reporting Year and last year, the revenue amount increased.

- *Residential care places leased by non-governmental organisations*

  The revenue derived from the non-governmental organisations which leased residential care places from the Group's elderly residential care homes increased from approximately HK$205,000 for the last year to approximately HK$443,000 for the Reporting Year, representing an approximately 116.10% increase.

Operating Performance *(Continued)*

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 increased from approximately HK$19,041,000 for the last year to approximately HK$31,189,000 for the Reporting Year, representing an approximately 63.80% increase.

Average occupancy rates of the elderly residential care homes

The average occupancy rates of the Group's elderly residential care homes for the Reporting Year and last year are set out as follows:

	2018 approximate %	2017 approximate %
Average occupancy rates		
– elderly residential care homes under the EBPS	**97.03%**	95.61%
– non-EBPS elderly residential care homes	**93.95%**	95.65%

Staff costs

Staff costs are the largest component of the operating expenses, which comprised of wages, salaries, bonuses, long service payments, retirement benefit costs and other allowances and benefits payable to employees. Due to the increase in the number of elderly residential care homes operated by the Group, in turn, an increase in total number of staff, the amount of staff costs increased from approximately HK$41,042,000 for the last year to approximately HK$54,511,000 for the Reporting Year, representing an approximately 32.82% increase.

Property rental and related expenses

Property rental and related expenses mainly represented by the rental and ancillary office payments under operating leases related to the elderly residential care homes. With the increase in the number of residential care homes, the amount of property rental and related expenses increased from approximately HK$17,175,000 for the last year to approximately HK$27,209,000 for the Reporting Year, representing an approximately 58.42% increase.

Profit for the year

During the Reporting Year, the Group recorded a profit of approximately HK$23,709,000 and approximately HK$3,166,000 was noted for the last year. The significant increase in profit for the Reporting Year was mainly due to the acquisition of Shui Jun (Yau Tong) near the year end of 2017 and no Listing expense was recorded during the Reporting year.

Adjusted profit for the year

The Group calculated the adjusted profit for the year by adding back Listing expenses to profit or loss for the year.

The Group presented this financial measure as it is useful to evaluate the financial performance by excluding the impact of the above items, in which these items were not indicative of the Group's ordinary operating performance and will no longer be outstanding subsequently to the Listing.

During the Reporting Year, the Group's adjusted profit for the year increased by approximately 54.05% to approximately HK$23,709,000 as compared to approximately HK$15,390,000 for the last year.

Liquidity, Financial Resources, Gearing and Capital Structure

Liquidity

As at 31 December 2018, current assets amounted to approximately HK$69,280,000 (2017: approximately HK$55,898,000). Current liabilities were approximately HK$18,469,000 (2017: approximately HK$18,029,000).

Financial Resources

As at 31 December 2018, the Group had total cash and bank balances of approximately HK$59,283,000 (2017: approximately HK$47,567,000).

As at 31 December 2018, the Group had trade receivables of approximately HK$204,000 (2017: approximately HK$270,000).

Gearing

The gearing ratio of the Group as at 31 December 2018 was nil (2017: nil) as the Group was not in need of any material debt financing during the Reporting Year.

The approach of the board of Directors of the Company (the "Board") to manage the Group's working capital is to ensure sufficient liquid assets to meet its matured liabilities so as to avoid any unacceptable losses or damage to the Group's reputation.

Capital Structure

The Shares were successfully listed on GEM of the Stock Exchange on 12 July 2017. There has been no change in the capital structure of the Company since then. The capital of the Company only comprises of ordinary shares.

As at 31 December 2018, the total equity of the Group was approximately HK$146,990,000 (2017: approximately HK$137,781,000).

Dividend

The Board does not recommend the payment of a final dividend for the Reporting Year (2017: HK$12,000,000).

Significant Investments Held by the Group

As at 31 December 2018, there was no significant investment held by the Group.

Future Plans for Material Investment and Capital Assets

Save as disclosed above and in the prospectus of the Company dated 28 June 2017 (the "Prospectus") and the announcement of the Company dated 26 October 2018, the Group does not have other plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the Reporting Year.

Foreign Exchange Exposure

The Group's sales and purchases were denominated in HK$. As such, the Group has limited exposure to any significant foreign currency exchange risks. The Board does not expect any material impact on the Group's operations caused by any foreign currency fluctuations. No financial instruments were employed by the Group for hedging purpose during the Reporting Year.

Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liabilities (2017: nil).

Capital Expenditure

During the Reporting Year, the Group's capital expenditure amounted to approximately HK$3,175,000 (2017: approximately HK$8,632,000) which was used for the acquisition of plant and equipment in the elderly residential care homes.

Human Resources and Remuneration Policy

As at 31 December 2018, the Group had 277 employees (2017: 293 employees). The Group offered competitive remuneration package, discretionary bonuses and social insurance benefits to its employees. In addition, a share option scheme (the "Scheme") has been adopted on 21 June 2017 for, among others, the employees of the Group.

The remuneration of the members of the senior management by band for the Reporting Year is set out below:

	Number of persons
Less than HK$500,000	–
HK$500,001 to HK$1,000,000	6
Over HK$1,000,001	–

Use of Proceeds

The net proceeds from the Listing (the "Net Proceeds") received by the Company, after deducting underwriting fees and related expenses in connection with the Listing, was approximately HK$45.5 million instead of HK$49.2 million as expected and disclosed in the Prospectus.

As at 31 December 2018, (i) approximately HK$25.0 million of the Net Proceeds had been applied towards the acquisition of an operating elderly residential care home; (ii) approximately HK$2.0 million of the Net Proceeds had been applied to establish the Group's headquarters and on-the-job training centre; (iii) approximately HK$2.0 million of the Net Proceeds had been applied to renew and upgrade the facilities at the Group's elderly residential care homes; (iv) approximately HK$2.6 million of the Net Proceeds had been applied to upgrade the Group's information technology infrastructure; and (v) approximately HK$0.1 million of the Net Proceeds had been used as the Group's general working capital. The amount of the Net Proceeds which remained unutilised was approximately HK$13.8 million, which was deposited in the bank account of the Group in Hong Kong.

As disclosed in the announcement of the Company dated 26 October 2018, the Board had resolved to adjust the allocation of the use of the Net Proceeds and change the use of the unutilised Net Proceeds of approximately HK$13.8 million to acquiring another operating residential care home in Hong Kong.

Subsequent Events

On 18 January 2019, the Board has approved and adopted a dividend policy and a nomination policy. The summary of the dividend policy and the nomination policy are set out in page 21 and page 18 in this report.

On 27 February 2019, Mr. Lui Chi Tat has been appointed as an executive Director. For details, please refer to the announcement of the Company dated 27 February 2019.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Yik Tak Chi (易德智先生) ("Mr. Yik"), aged 66, was appointed as a Director on 16 February 2016, and was redesignated as the Chairman and an executive Director, and appointed as the chief executive officer of the Company (the "CEO") on 7 February 2017. Mr. Yik stepped down as the CEO with effect from 22 January 2018. He is also the chairman of the Nomination Committee. Mr. Yik is the founder of the Group, who also serves as a director of all of the subsidiaries of the Company. Mr. Yik is responsible for the overall management, strategic planning, business development and major decision-making of the Group.

After Mr. Yik received approximately six years of primary education in the PRC in the 1960s, he moved to Hong Kong in 1979 to start working as an apprentice in the renovation industry. After gaining experience in the renovation industry for approximately six years, Mr. Yik worked in a construction company which mainly engaged in the building maintenance works during the period between 1982 and 1985. In 1985, he set up his own company to undertake projects in the field of building maintenance until 1992. During such period, he had started gaining relevant knowledge and experience in elderly residential care home business in Hong Kong when he was involved in renovation projects for elderly residential care homes and assisted in the design of two elderly residential care homes, namely Shui On Aged Home and Kowloon Tong Shui On Convalescent Home, established by his sister to meet the relevant requirements for obtaining the operating licence.

In 1993, Mr. Yik and his sister co-founded Shui On Aged Home (Prince Edward Road), a private elderly residential care home located in Kowloon. Since then, he has been actively involved in the planning and establishment, the daily management and operation of elderly residential care homes and has accumulated more than 24 years of experience in the operation and management of elderly residential care homes. Other than the elderly residential care homes of the Group, Mr. Yik also assisted in management and operation of three other elderly residential care homes before the establishment of the Group.

Mr. Yik is the brother-in-law of Mr. Chung Kin Man and Ms. Chung Wai Man, the other two executive Directors, and also the uncle of Mr. Lui Chi Tat, the CEO.

Mr. Chung Kin Man (鍾建民先生) ("Mr. Chung"), aged 55, was appointed as an executive Director and the compliance officer of the Company on 7 February 2017. Mr. Chung also serves as a director of the Group companies, namely, Shui On Nursing Centre (Shun On) Company Limited ("Shui On (Shun On)"), Shui Hing Nursing Centre Limited and Shui On Nursing Home Holdings Limited ("Shui On Holdings (HK)"). Mr. Chung is currently responsible for human resource management, staff training and daily operation of the Group. He also assists Mr. Yik in affairs such as corporate strategic planning and business development of the Group.

Mr. Chung obtained a degree of Bachelor of Computer Technology from La Trobe University in Australia in May 1999, a degree of Master of Information Technology from Monash University in Australia in November 2001, and a degree of Associate of Social Science in Social Work from The City University of Hong Kong in July 2009. Mr. Chung also completed the Health Worker Training Course from Management Society for Healthcare Professionals in Hong Kong in 2003 and has been registered as a health worker by the SWD since October 2003. He has also been a social worker registered with the Social Workers Registration Board in Hong Kong since October 2009.

Mr. Chung has over 15 years of work experience in elderly residential care homes. Prior to joining the Group, Mr. Chung worked as a health worker in other elderly residential care homes, and primarily assisted the nurses and physiotherapists in taking care of the elderly residents and handling administrative duties. Mr. Chung first joined the Group as the director of Shui On (Shun On) in March 2006 and became the home manager of Shui On (Shun On) in September 2007. He was responsible for the daily management and operation of Shui On (Shun On). In June 2011, Mr. Chung was further appointed as the director of Shui Hing and was responsible for staff training and daily operation of the Group in view of the Group's expansion.

Mr. Chung is the brother-in-law of Mr. Yik, an executive Director and the Chairman, and is the brother of Ms. Chung Wai Man, an executive Director.

Executive Directors *(Continued)*

Ms. Chung Wai Man (鍾慧敏女士) ("Ms. Chung"), aged 53, was appointed as an executive Director on 7 February 2017. Ms. Chung also serves as a director of the Group companies, namely, Shui On Nursing Centre (Hing Wah) Company Limited ("Shui On (Hing Wah)") and a director of medical service of Shui On (Shun On). Ms. Chung is currently responsible for making healthcare policies, procedures, training programs for the medical staff at all levels in the Group, and also responsible for allocating, distributing and supervising the medical and nursing work, and evaluating the work efficiency from time to time. She also assists Mr. Yik in recruiting, supervising and managing the medical staff at all levels in the Group.

Ms. Chung obtained a degree of Bachelor of Nursing from The University of Newcastle in Australia in April 1996 and a Post-Experience Diploma in Nursing Management from The Hong Kong Polytechnic University in November 1998. She has been a registered nurse registered with the Nursing Council of Hong Kong since December 1990. Ms. Chung has approximately 26 years of experience as a registered nurse in Hong Kong specialising in geriatrics. Ms. Chung received nursing training in Kwong Wah Hospital from 1987 to 1990, and was employed as a registered nurse in Geriatrics of Caritas Medical Centre from 1991 to 1993. She then worked in Geriatrics and Hospice division in Tung Wah Group of Hospitals Wong Tai Sin Hospital from 1996 to 2006. Ms. Chung was subsequently employed as a registered nurse in Shui On Nursing Centre (Shatin) Limited. She joined the Group as a director of Shui On (Hing Wah) in November 2007.

Ms. Chung is the sister-in-law of Mr. Yik, an executive Director and the Chairman, and is the sister of Mr. Chung, an executive Director.

Mr. Lui Chi Tat (雷志達先生) ("Mr. Lui"), aged 45, was appointed as the CEO on 22 January 2018. He has been appointed as an executive Director on 27 February 2019. Mr. Lui also serves as a director of Shui On Nursing Centre (Kwai Shing E.) Co. Limited ("Shui On (Kwai Shing E.)"), an indirect non wholly-owned subsidiary of the Company. He is currently responsible for the daily operation and management of the Group.

Mr. Lui started working as an apprentice in the renovation industry after his graduation from secondary school in 1991. He then joined the industry of elderly residential care homes by working in Jun Pak Limited (formerly known as Shui On Nursing Centre Limited), which operated an elderly residential care home in Yau Tong district, as a general clerk in 1994. Mr. Lui subsequently became the deputy home manager of the aforesaid elderly residential care home from 2001 to 2004 and the home manager of an elderly residential care home in Shatin district, from 2004 to 2010. Since 2010, Mr. Lui has been appointed as a director and the home manager of Shui On (Kwai Shing E.). As a home manager, Mr. Lui has been responsible for daily operation, management and administration of the above elderly residential care homes during the relevant period. Mr. Lui has accumulated more than 19 years of experience in the management and operation of elderly residential care homes.

Mr. Lui is the nephew of Mr. Yik, an executive Director and the Chairman, and the son of Ms. Yik Wai Hang, one of the controlling shareholders (as defined under the GEM Listing Rules) of the Company.

Non-Executive Director

Mr. Lau Joseph Wan Pui (劉允培先生) ("Mr. Joseph Lau"), aged 67, was appointed as a non-executive Director on 7 February 2017. He is also the chairman of the Remuneration Committee. Mr. Joseph Lau is currently responsible for providing advice on the business strategies of the Group.

Mr. Joseph Lau obtained a degree of Bachelor of Science from Concordia University in May 1975 and a degree of Master of Business Administration from The University of Ottawa in Canada in May 1997. He was a Dean's Advisory Board Member of Telfer School of Management of The University of Ottawa. Mr. Joseph Lau has extensive experience in finance and planning, marketing and international business. He is currently chairman and co-founder of Rockhound Limited, a mineral professional firm. Mr. Joseph Lau was appointed as a non-executive director of Wealth Glory Holdings Limited (stock code: 8269) from September 2013 to October 2016, the shares of which are listed on GEM. He also served as a director of the Shui On (Kwai Shing E.) from January 2008 to March 2011.

From 2002 to 2004, Mr. Joseph Lau was appointed as an executive director and chief executive officer of WLS Holdings Limited (stock code: 8021), the shares of which are listed on GEM. From 1997 to 1999, he was appointed as an executive director of Tse Sui Luen Jewellery (International) Limited (stock code: 0417), the shares of which are listed on the Main Board. From 1995 to 1996, he was appointed as an executive director of Build King Holdings Limited (formerly known as Seapower International Holdings Limited) (stock code: 0240), the shares of which are listed on the Main Board. He also served as an independent non-executive director of Larry Jewelry International Company Limited (stock code: 8351) from 10 November 2012 to 1 June 2013, the shares of which are listed on GEM, and re-designated as its non-executive director from 1 June 2013 to 3 December 2013.

Independent Non-Executive Directors

Mr. Kwok Chi Shing (郭志成先生) ("Mr. Kwok"), aged 57, was appointed as an independent non-executive Director on 21 June 2017. He is also the chairman of the Audit Committee and a member of the Remuneration Committee.

Mr. Kwok 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 is currently a director of BTC Management Consultants Limited (formerly known as Sun Sing Auto Company Limited and Wilson C. Kwok Management Consultants Limited). From 1992 to 1998, Mr. Kwok was a director of Wong Lam Leung & Kwok CPA Limited. From 1999 to 2010, he was a director of Lam, Kwok, Kwan & Cheng C.P.A. Limited. Since 2007, Mr. Kwok has been a director of LKKC CPA Limited.

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 January 2006, a company whose shares were listed on GEM until 19 June 2009 (stock code: 8112), and whose listing was transferred to the Main Board thereafter (stock code: 65). Mr. Kwok has also served as an independent non-executive director of Speed Apparel Holding Limited (尚捷集團控股有限公司) since January 2017, the shares of which are listed on GEM (stock code: 8183); and an independent non-executive director of Huakang Biomedical Holdings Company Limited (華康生物醫學控股有限公司) since November 2018, the shares of which are listed on GEM (stock code: 8622).

Moreover, Mr. Kwok has been a director of Pok Oi Hospital since 2015, a director of Yan Oi Tong in 2016 and the founding second vice president of the Lion Club of Hong Kong New Territories West.

Independent Non-Executive Directors *(Continued)*

Mr. Lau Tai Chim (劉大潛先生) ("Mr. Lau"), aged 67, was appointed as an independent non-executive Director on 21 June 2017. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee.

Mr. Lau 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 served as an independent non-executive director of Future Bright Mining Holdings Limited (高鵬礦業控股有限公司) from December 2014 to September 2018, 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).

Mr. Wong Wai Ho (黃偉豪先生) ("Mr. Wong"), aged 69, joined the Group and was appointed as an independent non-executive Director on 21 June 2017. He is also a member of the Audit Committee and the Nomination Committee.

Mr. Wong 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 as 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) since 2014, a company whose shares are listed on the Main Board (stock code: 1098). 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) from 2000 to 2006, a company whose shares are listed on GEM (stock code: 8089).

Mr. Wong has also been actively involved and participated in the public services. He was a director of executive committee of The Canadian Chamber of Commerce in Hong Kong (香港加拿大商會) from 2013 to 2016. He was also a member of the board of trustees of Chung Chi College (崇基學院) in The Chinese University of Hong Kong, and he worked for Hong Kong Trade Development Council (香港貿易發展局) from 1976 to 1987 and from 1989 to 1992. As a director of Canada of the Hong Kong Trade Development Council, Mr. Wong provided secretarial supporting services to Hong Kong Canada Business Association (港加商會) from 1989 to 1992.

Senior Management

Ms. Leung Pui Shan (梁佩珊女士) ("Ms. Leung"), aged 38, joined the Group as the chief financial officer in Shui On Holdings (HK) in December 2015 and was appointed as the chief financial officer and company secretary of the Company on 7 February 2017. She is currently responsible for accounting, financial management and company secretarial matters of the Group.

Ms. Leung obtained a degree of Bachelor of Accountancy and Management Information Systems from The City University of Hong Kong in November 2004, and a degree of master of Accountancy from The Hong Kong Polytechnic University in October 2011. She has been a member of the Hong Kong Institute of Certified Public Accountants since 2011. Ms. Leung has over 12 years of experience in auditing, advisory accounting and financial management. For the period from May 2012 to April 2015, Ms. Leung served as a financial controller and company secretary of Manwell (China) Limited (萬華（中國）有限公司), a subsidiary of China Tianyi Holdings Limited (中國天溢控股有限公司) (stock code: 0756) (currently known as Tianyi (Summi) Holdings Limited (天溢（森美）控股有限公司)), a company whose shares are currently listed on the Main Board. Ms. Leung had worked in the field of audit in Ernst & Young from 2011 to 2012, Deloitte Touche Tohmatsu from 2006 to 2009 and K.W. Tam & Co. from 2004 to 2005.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Company places high value on the corporate governance practice and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of the Shareholders.

During the Reporting Year, the Company has adopted and complied with, where applicable, the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules, except for the deviation from the code provision A.2.1 of the CG Code prior to the resignation of Mr. Yik as the CEO on 22 January 2018.

Code of Conduct of Directors' Securities Transactions

The Company has adopted the required standard of dealings (the "Required Standard of Dealings") as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for dealing in securities of the Company by the Directors. In response to the specific enquiry made by the Company, all Directors confirmed that they fully complied with the Required Standard of Dealings throughout the Reporting Year.

Board of Directors

The Board has a balance of skills and experience required of the Group's business. As at the date of this report, the Board comprised four executive Directors, one non-executive Director and three independent non-executive Directors, whose biographies are set out in the section headed "Board of Directors and Senior Management" on pages 11 to 14 of this report. Save as disclosed under the section headed "Board of Directors and Senior Management", there is no other financial, business, family or other material or relevant relationships between the Board members, and in particular, between the Chairman and the CEO.

During the Reporting Year, the Board maintained a high level of independence, with more than one-third of the Board comprised of independent non-executive Directors, who had exercised independent judgement. The independent non-executive Directors are expressly identified in all corporate communications whenever the names of Directors are disclosed. The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to the independence guidelines set out in Rule 5.09 of the GEM Listing Rules. The Company considers all independent non-executive Directors satisfied the GEM Listing Rules requirement of independence for the Reporting Year.

Meetings

The Board meets regularly at least four times each year. In addition to regular meetings, it meets as and when warranted by particular circumstances. The Directors attend the meetings in person or by telephone in accordance with the articles of association of the Company (the "Articles of Association").

The composition of the Board and their respective attendance in the general meeting, the Board meetings and other committee meetings during the Reporting Year are as follows:

	Number of meetings attended/held during the respective tenure				
	General meeting	Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee meetings
Chairman and Executive Director					
Mr. Yik Tak Chi	1/1	6/6	n/a	2/2	n/a
Executive Directors					
Mr. Chung Kin Man	1/1	5/6	n/a	n/a	n/a
Ms. Chung Wai Man	1/1	6/6	n/a	n/a	n/a
Non-executive Director					
Mr. Lau Joseph Wan Pui	1/1	6/6	n/a	n/a	2/2
Independent non-executive Directors					
Mr. Kwok Chi Shing	0/1	5/6	3/4	n/a	2/2
Mr. Lau Tai Chim	0/1	6/6	4/4	2/2	2/2
Mr. Wong Wai Ho	0/1	4/6	2/4	1/2	n/a

The company secretary is responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes will normally be circulated to the Directors for comment within a reasonable time after each meeting and the final version is open for the Directors' inspection.

Responsibilities and Delegation

The Board is vested with the key roles of formulating the Group's corporate strategies and policies, monitoring the financial and operating performance, reviewing the effectiveness of internal control system and overseeing the performance of management, who is delegated with the responsibilities of executing the Board's decision and in-charging day-to-day operation. In discharging its responsibilities, the Board meets regularly and acts in good faith, with due diligence and care.

Meetings *(Continued)*

Induction and Continuous Professional Development

Every newly appointed Director will receive a comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has proper understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the GEM Listing Rules and relevant regulatory requirements.

The Directors confirmed that they have complied with the code provision A.6.5 of the CG Code on Directors' training. To ensure their contributions to the Board remains informed and relevant, all the Directors have participated in continuous professional development to develop and refresh their knowledge and skill. During the Reporting Year, all the Directors were provided with regular updates and presentations on changes and developments of the Group's business and the latest developments in laws, rules and regulations relating to director's duties and responsibilities.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Yik has been the chairman of the Board and had been the CEO up to 22 January 2018. As such, this had deviated from the code provision A.2.1 of the CG Code.

As Mr. Yik had been providing strong and consistent leadership to the Group, the Board believed that having him performing both functions would provide a more effective strategic planning and overall management to the Group. Besides, considering that Mr. Yik has more than 24 years of experience in the operation and management of elderly residential care homes, and had a good understanding of the trends and policy changes in the elderly residential care home industry, the Board believed that it was in the best interest of the Group to have Mr. Yik taking up both roles for effective management and business development for the Group.

In order to enhance the Company's corporate governance practices and enable the Company to better comply with the CG Code, Mr. Yik has resigned as the CEO and Mr. Lui has been appointed as the CEO with effect from 22 January 2018.

Appointment and Re-election of Directors

Each of the non-executive Director and independent non-executive Directors has entered into a service contract with the Company for a term of three years. Furthermore, in accordance with the Articles of Association, one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years.

According to the Articles of Association, Directors appointed to fill casual vacancies shall hold office until the next following general meeting and can be eligible for re-appointment at that time.

Insurance of the Directors and Officers

The Company has bought liability insurance for Directors and officers in respect of legal action against the Directors and officers which is in compliance with the CG Code.

Board Diversity Policy

The Board adopted a board diversity policy (the "Board Diversity Policy") on 20 March 2018. With the objective of enhancing the Board effectiveness and corporate governance, the Company recognises increasing diversity at Board level as an essential element in maintaining a competitive advantage. The Company endorses and recognises the benefits of having a diversified Board. Selections on the Board for appointments are based on an appropriate range of diversity of perspectives, including but not limited to skills, knowledge, gender, age, ethnicity, cultural and educational background, and professional experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Nomination Policy

The Board adopted a nomination policy (the "Nomination Policy") on 18 January 2019. The purpose is to identify and evaluate a candidate for nomination to the Board for appointment or to the Shareholders for election as a Director. The nomination committee of the Company (the "Nomination Committee") shall consider, among others, the following criteria in evaluating and selecting candidates for directorships:

(a) diversity in all its aspects, including but not limited to skills, knowledge, gender, age, ethnicity, cultural and educational background, professional experience and other personal qualities of the candidate;

(b) ability to exercise sound business judgment and possess proven achievement and experience in directorship including effective oversight of and guidance to management;

(c) commitment of the candidate to devote sufficient time for the proper discharge of the duties of a Director. In this regard, the number and nature of offices held by the candidate in public companies or organisations, and other executive appointments or significant commitments will be considered;

(d) potential/actual conflicts of interest that may arise if the candidate is selected;

(e) independence of the independent non-executive director candidates must satisfy the independence requirements under the GEM Listing Rules; and

(f) in the case of a proposed re-appointment of an independent non-executive director, the number of years he/she has already served.

Each proposed new appointment, election or re-election of a director shall be assessed and/or considered against the criteria and qualifications set out in the Nomination Policy by the Nomination Committee which shall recommend its views to the Board and/or the Shareholders for consideration and determination.

The Board will from time to time review the Nomination Policy and monitor its implementation to ensure its continued effectiveness and compliance with regulatory requirements and good corporate governance practice.

Board Committees

The Board has established three Board committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee to oversee particular aspects of the Company's affairs.

Audit Committee

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; and oversee the risk management and internal control systems the Company. The terms of reference of the Audit Committee are available and accessible at the websites of the Company (www.shuionnc.com) and the Stock Exchange (www.hkexnews.hk).

Currently, the Audit Committee comprises three members who are all independent non-executive Directors, namely Mr. Kwok (as chairman of the committee), Mr. Lau and Mr. Wong.

During the Reporting Year, the Audit Committee held four meetings. Details of the committee members' attendance at these meetings are set out in the section "Meetings" above. A summary of work performed by the Audit Committee during the Reporting Year is set out as follows:

(a) reviewed with the management and the external auditor the effectiveness of audit process and the accounting principles and practices adopted by the Group, the accuracy and fairness of the annual results of the Company for the year ended 31 December 2017, the first quarterly results of the Company for the three months ended 31 March 2018, the interim results of the Company for the six months ended 30 June 2018, and the third quarterly results of the Company for the nine months ended 30 September 2018;

(b) met with the external auditor to discuss the accounting and audit issues of the Group and reviewed their findings, recommendations and representations;

(c) reviewed with the management the risk management and internal control system of the Group;

(d) conducted annual review on the exempt continuing connected transactions of the Group;

(e) recommended the Board on the re-appointment of external auditor at the 2018 annual general meeting; and

(f) reviewed the independence of external auditor and approved its engagement.

The Company's annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee.

Board Committees *(Continued)*

Nomination Committee

The Nomination Committee was established with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to review the structure, size, composition and diversity of the Board on regular basis; identify individuals suitably qualified to become members of the Board; assess the independence of the independent non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the CEO. The terms of reference of the Nomination Committee are available and accessible at the websites of the Company (www.shuionnc.com) and the Stock Exchange (www.hkexnews.hk).

The Nomination Committee comprises three members, being one executive Director, namely Mr. Yik (as chairman of the committee), and two independent non-executive Directors, namely Mr. Lau and Mr. Wong.

During the Reporting Year, the Nomination Committee held two meetings. Details of the committee members' attendance at these meetings are set out in the section "Meetings" above. A summary of work performed by the Nomination Committee during the Reporting Year is set out as follows:

(a) reviewed the existing structure, size, composition and diversity of the Board;

(b) assessed the independence of the independent non-executive Directors and reviewing the independent non-executive Directors' annual confirmations on their independence;

(c) made recommendation to the Board on the re-election of Directors at the 2018 annual general meeting; and

(d) considered the appointment of proposed CEO and made recommendation to the Board on the proposed CEO.

The Company recognises increasing diversity at Board level as an essential element in maintaining a competitive advantage in order to enhance effectiveness of the Board and corporate governance of the Company. Selections of candidates for appointment as the Board members are based on an appropriate range of diversity of perspectives and the ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee will review the Board Diversity Policy regularly to ensure the effectiveness of the Board Diversity Policy. The Nomination Committee will discuss any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

The Nomination Committee, having reviewed the Board's composition, nominated Mr. Lui Chi Tat, the CEO, as an executive Director on 27 February 2019. The nomination was made in accordance with the Nomination Policy having taken into account the objective criteria (including but not limited to skills, knowledge, gender, age, ethnicity, cultural and educational background, and professional experience) therein and with due regard of the benefits of diversity of the Board.

Board Committees *(Continued)*

Remuneration Committee

A remuneration committee (the "Remuneration Committee") was established with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; review performance based remuneration; and ensure none of the Directors determine their own remuneration. The terms of reference of the Remuneration Committee are available and accessible at the websites of the Company (www.shuionnc.com) and the Stock Exchange (www.hkexnews.hk).

The Remuneration Committee comprised three members, being one non-executive Director, namely Mr. Joseph Lau (chairman of the committee), and two independent non-executive Directors, namely Mr. Kwok and Mr. Lau.

During the Reporting Year, the Remuneration Committee held two meetings. Details of the committee member's attendance of these meetings are set out in the section "Meetings" above. A summary of work performed by the Remuneration Committee during the Reporting Year is set out as follows:

(a) recommended to the Board on the remuneration package regarding the newly appointed CEO; and

(b) considered and reviewed the executive Directors' remuneration.

Risk Management and Internal Controls

The Board is responsible for establishing a risk management and internal control policies and systems and monitoring their effectiveness. The Board has adopted procedures for developing and maintaining the risk management and internal control systems on a continuous basis in accordance with the applicable laws and regulations. The risk management and internal control systems cover operations, management, legal matters, corporate governance, finance and audit, in accordance with the needs of the Group. The Board is of the view that the risk management and internal control procedures and systems are sufficient in terms of comprehensiveness, practicability and effectiveness.

During the Reporting Year, the Board considered the risk management and internal control systems of the Group as adequate and effective and that the Company has complied with the code provisions of the CG Code on internal control.

Dividend Policy

The Board has approved and adopted a dividend policy (the "Dividend Policy") on 18 January 2019 in compliance with code provision E.1.5 of the CG Code. It is the policy of the Board, in considering the payment of dividends, to allow shareholders of the Company to participate in the Company's profits whilst preserving the Company's liquidity to capture future growth opportunities.

When considering whether to declare any dividends and determining the dividend amount, the Board will take into consideration, inter alia, the following factors:

(a) the actual and expected financial performance of the Group;

(b) the capital and debt level of the Group;

(c) the general market conditions;

(d) any working capital requirements, capital expenditure requirements and future development plans of the Group;

Dividend Policy *(Continued)*

(e) retained earnings and distributable reserves of the Company and each of the members of the Group;

(f) the liquidity position of the Group;

(g) any restrictions on dividend payouts imposed by any of the Group's lenders;

(h) the statutory and regulatory restrictions which the Group is subject to from time to time; and

(i) any other relevant factors that the Board may deem appropriate.

The payment of the dividends by the Company will also be subject to any restrictions imposed by the applicable laws, rules and regulations as well as the Articles of Association.

The Board will from time to time review the Dividend Policy and may exercise at its absolute and sole discretion to update, amend and/or modify the Dividend Policy at any time as the Board deems fit and necessary. There is no assurance that dividends will be paid in any particular amount for any specific reporting period.

Auditor's Remuneration

During the Reporting Year, remuneration in respect of audit service provided by the auditor of the Company to the Group was approximately HK$1,500,000.

Directors and Auditor's Responsibilities for Financial Statement

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the Reporting Year. The auditor of the Company acknowledges its reporting responsibilities in the auditor's report on the financial statement during the year. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as going concern. The statement made by the auditor of the Company regarding their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 51 to 54 of this report.

Company Secretary

The company secretary is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The company secretary reports to the Chairman and is responsible for advising the Board on corporate governance matters and facilitating communication between the Board members, the Shareholders and the management of the Company. During the Reporting Year, the company secretary undertook more than 15 hours of relevant professional training. The biography of the company secretary is set out in the section headed "Board of Directors and Senior Management" on pages 11 to 14 of this report.

Investor Relations

Constitutional Documents

During the Reporting Year, the Company did not make any changes to the constitutional documents of the Company, and the current version of which are available on the websites of the Stock Exchange and the Company.

Shareholders' Rights

Set out below is a summary of certain rights of the Shareholders.

Way to Convene an Extraordinary General Meeting

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right to require an extraordinary general meeting to be called by the Board. The requisition shall be in writing stating the purposes of the meeting, signed by the requisitionists, addressed to the Board or the company secretary and deposited at the principal place of business in Hong Kong of the Company and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Putting Enquiries to the Board

Shareholders may at any time put their enquires to the Board in writing by sending to the principal place of business in Hong Kong of the Company at Room D, 35/F., T G Place, 10 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong or to the email address ir@shuionnc.com for the attention of the Board or the company secretary.

Procedures for Putting Forward Proposals at Shareholders' Meeting

Shareholders are welcomed to put forward proposals relating to the operations and management of the Group to be discussed at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Way to Convene an Extraordinary General Meeting".

Procedures for Shareholders to Propose a Person for Election as a Director

With respect to the Shareholders' right in proposing persons for election as Directors, please refer to the procedures available on the website of the Company.

Communication with Shareholders

Information of the Group is delivered to the Shareholders through a number of channels at the Company's website at www.shuionnc.com. The latest information of the Group together with the published documents are also available on the Company's website.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Introduction, Environmental, Social and Governance Policies

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: (i) 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 (ii) the sale of healthcare and medical consumable products and the provision of customizable add-on healthcare services to the elderly residents. As a company based and serves in Hong Kong, the Company is fully committed to environment protection, socially responsible and equipped with the strictest corporate governance. The Group is committed to handling the Group's environmental, social and governance affairs effectively and responsibly, which is integrated as one of the core components of its business strategy as the Group believes this is the key to its continuous success in the future.

The ESG Governance Structure

The Group has established the ESG Taskforce (the "Taskforce"). The Taskforce comprises core members from different departments and is responsible for collecting relevant information on the Group's ESG aspects for preparing the ESG Report. The Taskforce reports to the Board of Directors (the "Board"), assists in identifying and evaluating the Group's ESG risks and the effectiveness of the internal control mechanisms. The Taskforce also examines and evaluates the Group's performances in different aspects such as environment, health and safety, labour standards and product responsibilities in the ESG aspects. The Board sets up a general direction for the Group's ESG strategies, ensuring the effectiveness in the control of ESG risks and internal control mechanisms.

Scope of Reporting

The ESG Report covers the Group's only operational segment, which is the operation of elderly residential care homes. The reporting boundary shall cover the operation activities throughout the Group, including the Hong Kong head office as well as its self-owned and self-operated four "Shui On 瑞安", one "Shui Hing 瑞興" and one "Shui Jun 瑞臻" branded elderly residential care homes across four districts in Hong Kong.

Reporting Framework

The ESG Report has prepared in compliance with all applicable provisions set out in the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") contained in Appendix 20 to the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited.

Reporting Period

The ESG Report describes the ESG activities, challenges and measures taken by the Group during the year ended 31 December 2018 (the "Reporting Period").

Stakeholder Engagement

Stakeholder engagement is crucial to the continuous improvement of the Group's sustainability. Therefore, the Group values its stakeholders and their views related to its business and ESG issues. In order to understand and address stakeholders' concerns, the Group communicates with its key stakeholders, including but not limited to its shareholders/investors, customers, suppliers, employees, the government/regulatory bodies, and communities, NGOs and media through different communication channels. The Group will integrate the expectations of stakeholders into the Company's ESG strategy through the participation of stakeholders and different communication channels.

The following table is the summary of types of stakeholders and their respective communication channels:

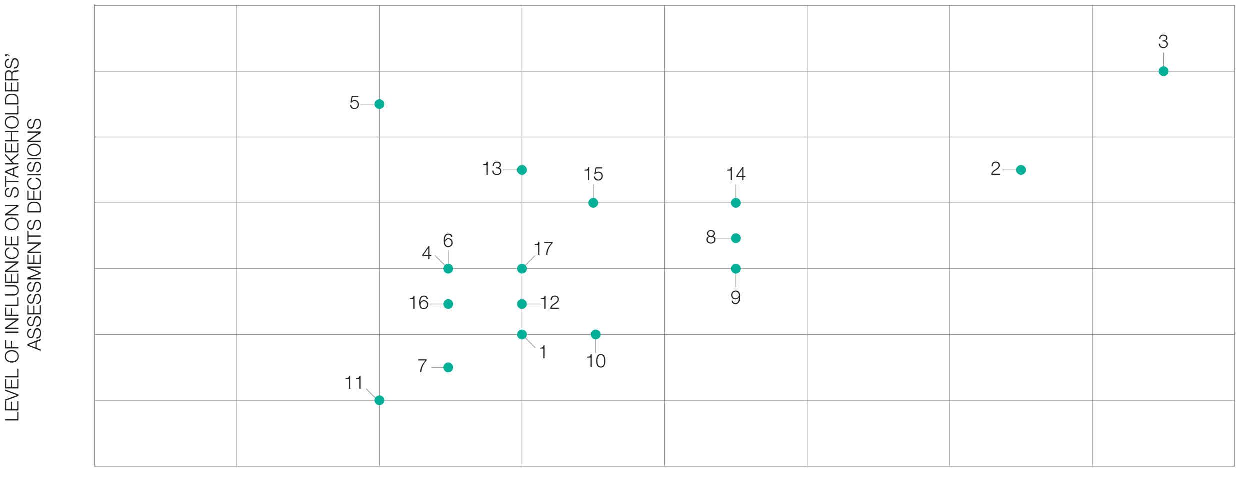
Stakeholder type	Communication Channels
Shareholders/Investors	Annual general meeting
	Annual, interim and quarterly report
	Announcements and circulars
Customers	Customer satisfaction survey
	Customer service center
	Customer service manager & opinion form
	Complaints revision meetings
Suppliers	Supplier management meetings and events
Employees	Employee satisfaction survey
	Means for employees to express opinions (forms, opinion collection box, etc.)
	Regular management communication and performance reviews
	Employee communication channel and broadcast
	Intranet
Government/Regulatory Bodies	Regular meetings
	Written response to public enquiries
	Site visits
Communities, NGOs, and media	Community activities and partner programs
	Community investment plans
	ESG Report

In formulating operational strategies and ESG measures, the Group takes into account stakeholders' expectations and strives to improve its performance through mutual cooperation to create greater value for the society.

Materiality Assessment

The management and staff of the Group's respective major operations have participated in the preparation of the ESG Report to assist the Group in reviewing the Company's operations and identifying relevant ESG issues and assess the importance of related matters to the Group's businesses and stakeholders. Based on the assessed significant ESG issues, a data collection questionnaire was prepared to collect information from relevant departments and business units of the Group.

The following matrix is a summary of the Group's material ESG issues included in the Reporting Period:



1	Emission Control	10	Training and Development
2	Non-Hazardous Waste Management – Food Waste & Others	11	Prevent Child Labour and Forced Labour
3	Hazardous Waste Management – Clinical Waste & Others	12	Environmental and Social Risk Management of Suppliers
4	Resource Consumption	13	Food Safety
5	Remuneration and Benefits of Employees	14	Collection, Storage and Dispensation of Chemicals
6	Recruitment, Promotion and Dismissal	15	Customer Service and Privacy Protection
7	Equal Opportunities, Diversity and Anti-discrimination	16	Anti-corruption
8	Internal Safety Control	17	Corporate Social Responsibility
9	Kitchen Safety		

As at the year ended 31 December 2018, the Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues and confirmed that the disclosed contents are in compliance with the requirements of the ESG Reporting Guide.

Contact Us

The Group welcome stakeholders to provide their opinions and suggestions. You can provide valuable advices in respect of the ESG report or the Group's performances in sustainable development by email ir@shuionnc.com.

A. Environmental

A1. Emissions

General Disclosure and Key Performance Indicators ("KPIs")

The Group recognises the potential impacts that may cause to the natural environment due to daily operation. Therefore the Group has been recognizing the importance of environmental management, and striving to protect the environment in order to fulfil the Group's commitment on social responsibility.

The Group has established the Environmental Policy and Waste Management Measures and various environmental policies to control the by-products (pharmaceutical products) from the daily operation of the elderly residential care homes, and to manage waste accordingly, while striving to minimise the impacts. The Group emphasises on best managing the Group's environmental impacts according to different parts of the operations. The Group will also monitor the implementation status of the environmental initiatives adopted, carry out effective environmental monitoring system and achieve the Group's environmental targets and indicators.

During the Reporting Period, the Group did not violate relevant local environmental laws and regulations including but not limited to the Air Pollution Control Ordinance (Cap.311 of the Laws of Hong Kong), the Waste Disposal Ordinance (Cap. 354 of the Laws of Hong Kong), and the Environmental Impact Assessment Ordinance (Cap. 499 of the Laws of Hong Kong) in relation to exhaust gas and GHG emissions, water and land discharge, and the generation of hazardous and non-hazardous wastes that have a significant impact on the Group.

Air Emission

The Group took the initiative to examine the issue of air emission across all operations, and the result indicated that no significant impact could be reported. Due to its business nature, the Group did not involve any combustion process, industrial or heavy transportation activities that could lead to direct emission to the atmosphere. Thus, the Group posed no major impact in the air emission aspect.

Despite the Group poses no major impact to air emission, the Group has implemented different initiatives to reduce air emission and GHG emission. These initiatives include but not limited to the use of electrical kitchen appliance. Since the use of Towngas in cooking facilities will produce large amount of heat and carbon dioxide, under the circumstances of sufficient power load, all elderly residential care homes should use electrical kitchenware. The use of electrical kitchenware has helped employees in delivering a habit on using alternatives to cook, thereby increasing employees' awareness on air emission reduction.

GHG Emissions

Besides the efforts in monitoring air pollutant emission, the Group is also exploring measures in reducing carbon emission, and particularly in reducing the overall carbon footprint. The Group estimated the carbon footprint based on the electricity consumption and the emission factor provided by the electricity providers in this Reporting Period (data on electricity consumption and the carbon intensity factor are available on the electricity bills and the Sustainability Report from the electricity provider respectively). The Group then looks to further investigate and work with the employees, along with external stakeholders, on enhancing the Group's overall performance and minimizing carbon footprint.

The major sources of the Group's GHG emissions are direct emissions from combustion of gasoline for transportation (Scope 1), and indirect emissions from Towngas cooking and purchased electricity (Scope 2). The carbon footprint for the Group in this Reporting Period was about 1,458.95 tCO_2e, and the intensity was approximately 5.27 tCO_2e per employee.

A. Environmental *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and Key Performance Indicators ("KPIs") (Continued)

Domestic Sewage

The Group continues to monitor the sewage generated in its operation to abide by related laws. The Group actively reviews all operations' sewage discharge problems, and the results showed no significant issues to be reported. Due to its business nature, the Group's major sources of wastewater are flushing sewage and cleansing water. Domestic sewage is discharged to public wastewater collection sewer and processed centrally by the public wastewater sewerage system.

Non-Hazardous Waste Management – Food Waste and Others

Food Waste

The Group is also involved with food processing in its operations. To support the Environmental Protection Department's Food Wise Charter and waste reduction, the Group has developed tips on food preparation, food storage guidelines and Food and Environmental Hygiene Guideline in controlling food processing for the kitchen, hoping to reduce food waste at source. The Group also implemented various measures to reduce food waste, such as making better use of the food ingredients.

Others

The Group has kept a close working relationship with partners and employees, and has been promoting waste reduction to staff. To avoid wastage in its operation, measures such as paper recycling, and the appropriate use of recycled paper was encouraged in workplaces. In addition, the Group has taken the initiative further by driving for a paper-less working environment. Staff was encouraged to work and communicate through emails and e-format documents instead of hard copies. The effort was well received, supported by staff, and are able to raise employees' awareness on waste reduction.

As a summary, the Group had generated approximately 892.1 tonnes of non-hazardous waste, and the intensity was 3.22 tonnes per employee. In addition, the Group had consumed a total of approximately 237,918 pieces of paper during the Reporting Period.

Hazardous Waste Management – Clinical Waste and Others

Clinical Waste

The main business of the Group involves elderly residential care homes services and management, and with the needs on handling various types of medical related products, part of the operation includes the managing and disposing hazardous wastes. The Group is cautious about the management of generated wastes, and with clear guidelines and measures to ensure the safety of employees. The Group complies with relevant laws and regulations on waste treatment, which include the Waste Disposal Ordinance (Cap. 354 of the Laws of Hong Kong) ("WDO"), the Waste Disposal (Chemical Waste) (General) Regulation (Cap. 354C of the Laws of Hong Kong), and the Waste Disposal (Clinical Waste) (General) Regulation (Cap. 354O of the Laws of Hong Kong).

As services provided by the elderly residential care homes of the Group may produce used or contaminated sharp objects, such as syringes, needles, dressings as well as the medicine and drugs left by the elderly residents, the operation is subject to the WDO, the Waste Disposal (Chemical Waste) (General) Regulation and the "Clinical Waste Code of Practice" in respect of the production, storage, collection and disposal of clinical waste. The In-House Manual provides the appropriate management measures according to the Waste Disposal (Clinical Waste) (General) Regulation, providing the employees the guidance on handling daily clinical waste from the operation, and increasing employees' awareness in managing hazardous waste.

The Group was not subjected to any actual or threatened proceedings brought under, or received any written complaints or warnings in relation to the production, storage, collection and disposal of clinical waste under the WDO and the Waste Disposal (Clinical Waste) (General) Regulation. In addition, the Group had generated a total of approximately 0.19 tonnes of hazardous waste, and the intensity was 0.0007 tonnes per employee in the Reporting Period.

A. Environmental *(Continued)*

A1. Emissions *(Continued)*

General Disclosure and Key Performance Indicators ("KPIs") (Continued)

Hazardous Waste Management – Clinical Waste and Others (Continued)

Chemical Waste

Chemical waste generated in the Group's operation includes the disposal of unused or expired drugs for the elderly residents, and as defined under the WDO and the Waste Disposal (Clinical Waste) (General) Regulation, which also involves the production, storage, collection, and the disposal of chemical waste. Employees were trained, in particularly on the proper handling on chemical waste, according to the In-House Manual before transferring to licensed waste handling company for further treatment.

A2. Use of Resources

General Disclosure and KPIs

The Group upholds and promotes the principle of effective use of resources, aiming to minimise the environmental impacts in the Group's operations through monitoring the potential impact of business operations on the environment, and promoting green operating environment. The Group has actively promoted the culture of "Smart Usage" of natural resources. The Group consumes a fair amount of natural resources during the operation, and with this in mind, the Group is cautious about the consumption habit, and especially on electricity and water use, and trying to conserve and minimise the consumption footprint.

Initiatives such as adopting to an energy conservation and efficiency policy and practices in offices were successfully implemented during the Reporting Period. Some of the measures include upgrading equipment on lighting and air-conditioning systems, promotional programme on efficient use of water, and paper recycling were successfully implemented, and received the full support by the employees. Employees' awareness on the reduction of energy and water consumption has also been increased through these initiatives.

Resource Consumption

The Group has worked with staff by promoting the "Smart Usage" concept, reminding them to take-action throughout their daily operation. For example, notices were posted around office areas, reminding staff on turning off lights and photocopiers after use. Staff were also reminded to maintain a good practice on utilising the electronic devices, such as creating a comfortable working environment by setting the air-conditioner to 25.5°C. In addition, the Group has implemented different energy conservation measures for different aspects. The relevant measures are as follows:

Power Management

Lighting facilities

- The LED lighting system is currently known to be the least expensive and safest lighting system, so all lighting equipment is gradually replaced with an LED lighting system where feasible.

Air Conditioning and Ventilation

- A lot of energy will be consumed, and the load of the air conditioner by taking indoor cold air out of the room will increase if the ventilation equipment is turned on for a long period of time. Therefore, the relevant equipment is equipped with a timer to control the start-up time. According to the actual needs, setting the start and stop time can reduce the damages of equipment and waste of electricity; and

- During some time of the day (midnight to early morning), the amount of air conditioning required by elderly residential care homes are smaller than usual. The use of time switch to locally control each air conditioner can also save a lot of energy.

A. Environmental *(Continued)*

A2. Use of Resources *(Continued)*

General Disclosure and KPIs (Continued)

Resource Consumption (Continued)

Water Management

The Group's water use is mainly domestic water. In order to enhance the water efficiency of the Group, the following measures have been taken in the elderly residential care homes:

- Using water saving appliances as much as possible;
- Faucet should be closed in time after use of water to prevent water long-flowing, running, dripping and leaking; and
- If abnormal conditions are found, the relevant departments should be notified in time to prevent the waste of water resources.

The Group has also been promoting water conservation, posting water-saving slogans, and guiding employees to use water reasonably. Based on the geographical location of the Group's operations, the Group did not face any problems in obtaining applicable water sources.

The Group reported a total of approximately 2,599,668 kWh of electricity consumption, and approximately 38,820m^3 of water consumption, and the intensities were approximately 9,385.08 kWh per employee and approximately 140.14m^3 per employee during the Reporting Period respectively.

Use of Packaging Material

Due to its business nature, the Group does not consume and use packaging materials during daily operations.

A3. The Environmental and Natural Resources

General Disclosure and KPIs

The Group pursues best practices with the environment and focuses on the impacts of the business on the environment and natural resources. Apart from complying with related environmental laws and regulations as well as international standards for proper natural environment preservation, the Group has also integrated the concept of environmental protection and natural resource conservation into its internal management and daily operations in order to achieve environmental sustainability.

Indoor Air Quality

Since elderlies and employees are required to stay in the elderly residential care homes for a long period of time, therefore the Group specifically value the importance of indoor air quality. In order to ensure a healthy and comfortable environment is provided for the elderlies and employees in the elderly residential care homes, the Group has formulated the Guideline for Cleanliness of Residential Care Homes, and has established relevant measures to maintain air quality. Such measures include regular cleaning of air-conditioners and air filters to ensure the air intake spot is kept away from the pollution source; the use of furniture that are free from volatile compound; the consideration of installing air fresheners or other devices to remove odours, and encouraging and teaching elderlies to open windows to maintain air ventilation.

B. Social

B1. Employment

General Disclosure

Employees are the most valuable assets of the Group and serve as core competitive advantage, while providing the Group with driving force for continuous innovation. The Company respects and protects the rights and interests of every employee, regulates employment management, protects employees' occupational health and safety, strengthens democratic management, safeguard employees' interest, fully respect and values employees' enthusiasm, initiative and creativity, and strives to build a harmony labour relationship. The Company has formulated operating mechanisms for administrative and human resource systems such as the Employee Handbook to provide employees a healthy, sunshine and upward working atmosphere, and to provide employees with a health and positive working atmosphere, and guide employees to actively integrate their personal pursuit into the long-term development of the Group.

The Group complied with labour laws and regulations, including but not limited to the Employment Ordinance (Cap. 57 of the Laws of Hong Kong), the Employees' Compensation Ordinance (Cap. 282 of the Laws of Hong Kong), and the Minimum Wage Ordinance (Cap. 608 of the Laws of Hong Kong). During the Reporting Period, the Group was not aware of any material non-compliance with employment related laws and regulations.

Compensation and Benefits

The Group has established a fair, reasonable and competitive remuneration system for salary payments to employees based on fairness, competitiveness, incentives, reasonableness, and legality. The Group offers competitive remuneration package to retain talents, including fixed salaries, performance annual bonuses. To ensure the remuneration scheme stays competitive, the Group had established the Remuneration Committee, and with the written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set in Appendix 15 to the GEM Listing Rules. The principal duties of the committee are making recommendations to the Board on the overall remuneration policy and packages to all executive Directors and senior management; review performance-based remuneration; and ensure none of the Directors determine their own remuneration. Members of the Remuneration Committee will meet regularly to review the policy for the remuneration of Directors and assess the performance of executive Directors and certain senior management of the Group. The emolument of the employees of the Group is determined by the Remuneration Committee, and will be assessed based on merit, qualifications and competence. The offered competitive remuneration package, discretionary bonuses and social insurance benefits to its employees. In addition, salary and benefit levels of the Group's employees are reviewed annually on a performance appraisal related basis by the management team.

The Group respects the rights of employees to rest and holidays, regulates the working hours of employees and the right to various types of rest periods and holidays. All employees of the Group enjoy other benefits such as long service payments, retirement benefit, social and medical insurance, annual leave, sick leave, maternity leave, compensation leaves and other allowances. The Group also implements the MPF system in accordance with the Hong Kong legislations.

In addition, the Group has also implemented a share option scheme ("Scheme"). The Company has conditionally adopted the Scheme on 21 June 2017, which is valid and effective for a period of 10 years from 21 June 2017. The purpose of the Scheme is to enable the Company to grant share options to the eligible persons as incentives or rewards for their contributions to the Group. Eligible persons of the Scheme include any full-time or part-time employee of the Company or any member of the Group, such as executive directors, non-executive directors and independent non-executive directors, suppliers, customers, agents, advisors and consultants of the Group who, in the sole opinion of the Board, whom had contribution toward the Group.

B. Social *(Continued)*

B1. Employment *(Continued)*

General Disclosure (Continued)

Employment, Promotion and Dismissal

The Group has actively implemented the strategy of strengthening talents and continuously established and improved the recruitment system. The Group recruits talents through on-site recruitment, online recruitment, company information release recruitment, social welfare recruitment post, internal transfer, and other recruitment methods. Standardised recruitment process and principles are adopted during the recruitment process, and principles of appointing the suitable candidate for the position of appointment based on merit, knowledge, ability, experience, and physical condition are uphold. Moreover, principles of fairness, equality and openness are adhered to, so as to attract and appoint outstanding talents. The Group's comprehensive Recruitment Procedures has detailed the recruitment applications, recruitment procedures, prohibition and responsibilities.

The Group has established clear basis and procedures for promotion, transfer and downgrade management, as well as standardised post-employment procedures so to protect the interest of both employees and the Group. Relevant processes and terms are listed in the Employee Handbook and Human Resource Management Policy. The Group has implemented a fair and open appraisal system and supervision mechanism to assess the performance of employees in every quarter, and provide opportunities for promotion and development according to the results of employee performance.

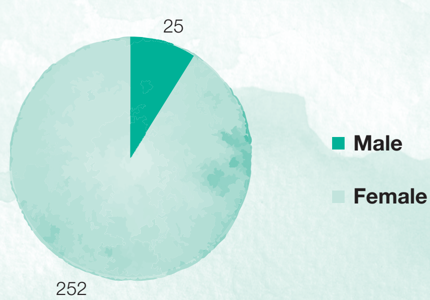
The Group's post-employment is divided into three categories, resignation, voluntary resignation, and dismissal. The definitions of each categories and related procedures are detailed in the Employee Handbook. The employee must notify the Group in seven days, fourteen days or one month in advance or the equivalent notice period in lieu of notice (as the case may be) when deciding to leave the Group.

Equal Opportunities, Diversity and Anti-Discrimination

As an equal opportunity employer, the Group is committed to providing a working environment that is non-discriminated on the basis of race, colour, creed, age, religious belief, sexual orientation, pregnancy, marital and family status, national origin, or disability. The employment practices of the Group were firmly established and implemented in the operation, such as hiring, training and development, promotion, compensation and benefits, in order to ensure employees and job applicants enjoy equal opportunities and fair treatment. Any employee who is intimidated, humiliated, bullied or harassed (including sexual harassment) may report to employee representative, management representative, or directly to the general manager. The Group will handle complaints seriously after complaints are received.

As at 31 December, 2018, the total number of employees was 277, and details on the number of the Group's employees are shown in the table below:

Gender Distribution



B. Social *(Continued)*

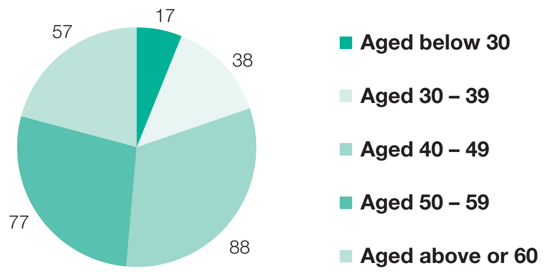
B1. Employment *(Continued)*

General Disclosure (Continued)

Equal Opportunities, Diversity and Anti-Discrimination (Continued)

As at 31 December 2018, the breakdowns of the number of the Group's employees with respect to their age groups are shown in the table below:

Age Distribution



B2. Health and Safety

General Disclosure

Safety has always been one of the Group's priorities, and the Group is dedicated to maintain a high occupational safety and health standard, provide a safe and comfortable working environment to staff and the elderly residents. The Group has implemented related policies and mechanisms on workplace safety operation guidelines to raise the safety awareness in operation, and rules on recording and managing accidents and compliance. To minimise work-related injuries, the Group invested various aiding tools, instruments, and the staff (nurse and health workers) were trained and recommended to utilise aiding equipment, such as body-lifting equipment during operation.

Directors, senior management and home manager are responsible to ensure professional staff and employees strictly comply with relevant laws, regulations, industrial standards and protocols while serving its elderly residents. The Quality Control Manuals, Employee Handbooks and Guidelines are provided to staff at all levels whilst the management supervises the execution.

During the Reporting Period, the Group did not record any accidents that resulted in death or serious physical injury and no claims or compensation were paid to its employees due to such events. No material non-compliance of laws and regulations relevant to health and safety including but not limited to, the Occupational Safety and Health Ordinance (Cap. 509 of the Laws of Hong Kong) of employees were found.

Internal Safety Management

The Group's Internal Control Policies and Procedures, enforced and led by the home manager, ensures the elderly residents living in a risk-free environment. The elderly residential care homes have adopted a set of Stringent Security Protocols and Fire and Explosive Protection Procedures in case of emergencies. The Group has installed electronic security and surveillance systems at the elderly residential care homes, which is monitored by clerical staff, to monitor the premises and record emergency events and incidents, which may be used as evidence in case of disputes or investigations.

The maintenance division is in charge of responding to water, electricity and gas emergency situations, such as power outage or water leakage at the elderly residential care homes. The Group has installed emergency lighting systems in the elderly residential care homes in accordance with the Fire Service Ordinance (Cap. 95 of the Laws of Hong Kong) for safety and compliance. The medical and cleaning division is responsible for cleaning and disinfection of the elderly residential care homes, and ensures that the Cleaning Protocols are properly followed by the staff.

B. Social *(Continued)*

B2. Health and Safety *(Continued)*

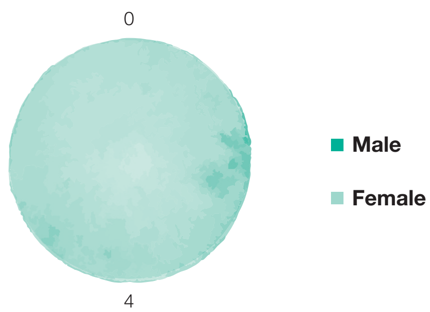
General Disclosure (Continued)

Kitchen Safety

As the elderly residential care homes operated by the Group have kitchens and provide catering services, the Group has developed a Kitchen Operation Manual with clear guidelines on the safety of kitchen staff. Employees are required to strictly follow the guidelines during their daily operations, and any violations will be recorded and reviewed as part of the employee performance assessment at the end of the year. The Group believes that the measures can enhance employees' awareness on workplace safety, thus reducing work injuries and reducing the severity of related injuries (if any), and effectively prevent serious work injuries.

During the reporting period, as a result of the comprehensive safety management and internal control procedure, the Group only encountered 4 work-related injuries at the elderly residential care homes in the year, which were considered minor and did not cause a material adverse effect on the business, financial condition or result operations.

Total Employee Operational Injury Case



B3. Development and Training

General Disclosure

The Group highly values the quality of product and services offered, and thus comprehensive professional trainings are regularly arranged for employees on issues that may arise in daily operations and to keep the service quality up to standard. This also helps the Group to develop sustainably, and its employees to grow and develop personally.

Training Management

The Group has established relevant training objectives, requirements and content in the Staff Training Guidelines. The management is responsible for the design and implementation of continuing education programmes that best meet the training needs of the directors and staff to enhance their knowledge of the industry, skills and professional conduct. When developing a training plan, management takes into account the size of the organisation, the organisational structure, the risk management system, the scope of business activities, and the development at that time. Training programs are reviewed at least once per year and training activities are arranged for employees in the required priority order. At each training, the Group monitors whether employees have complied with the continuous training requirements. The home managers/supervisors keep a record and sign it with the staff to record the training that the relevant personnel have attended. The home managers/supervisors are responsible for maintaining records of continuing training. Failure to produce the required training records may result in disciplinary actions.

B. Social *(Continued)*

B3. Development and Training *(Continued)*

General Disclosure (Continued)

Training Management (Continued)

Training Programmes

Training programmes are categorised as basic elderly and nursing care trainings, as well as technical trainings. Basic elderly and nursing care trainings are targeted for health and care workers. Training content includes tooth care, proper use of wheelchair, prevention of flu and Skills Upgrading Scheme of practical techniques in lifting and transfer, feeding skills, skin and incontinence care, knowledge on elderly care with cognitive disorders, diabetes, herpes zoster. Technical trainings are targeted for nurses to improve, update and refresh their knowledge on drug management, resistance issue, vaccination and constraints training.

Newly recruited employees are required to receive on-the-job training, and each home manager/supervisor provides induction guidance for new recruits. Each elderly residential care home also needs to provide continuous training to staff. There should be no less than two trainings per year for each staff level, which is the responsibility of all home managers/supervisors.

The Group considers continuous improvement as the key element in maintaining the professionalism of the staff, and as the key factor for the business growth and sustainable development. The training scheme also considers other factors, such as employees' career development, personal health and growth into consideration. The Group encourages the employees to participate seminars on occupational safety and health, solution of stress in work, workers pressure sharing to expand their knowledge, and thus widening their career path.

During the Reporting Period, the Group's recorded a total of 2,474 training hours participated by employees.

B4. Labour Standards

General Disclosure

Prevention of Child and Forced Labour

The Group complies with the Employment Ordinance, and prohibits the employment of child and forced labour. The Group clearly stipulates in job advertisements and leaflets that only employees aged 18 or above would be employed. New employees are required to provide true and accurate personal information when they join the company. Recruitment staff will stringently verify their information including academic certificates and ID cards, etc..

The Group has established a comprehensive recruitment process that checks the candidate's background, and the Human Resources Management Policy to deal with any exceptional situations. Inspections will also be conducted regularly to prevent any child labour or forced labour in any of the operating elderly residential care homes. In addition, the Group's Employee Handbook stipulates that employees should acquire permission from the Group to work overtime, and the Group must arrange breaks and salary for the overtime work. Personnel in any department of the company shall not detain the ID card, deposit or salary for reasons. The Group also does not allow corporal punishment, mental abuse and fines, and prohibits punitive measures such as abusive, corporal punishment, violence, mental stress, sexual harassment (including inappropriate language, posture and physical contact) and sexual abuse for any reason in management methods and behaviors.

During the Reporting Period, the Group was not aware of any material non-compliance with any laws and regulations in relation to the prevention of child or forced labour including but not limited to, the Employment Ordinance.

B. Social *(Continued)*

B5. Supply Chain Management

General Disclosure

The Group highly values the importance of potential environmental and social risks management in its supply chain. The Group has established a stringent and standardised procurement system and a systematic selection process for suppliers, and requiring suppliers to control their environmental and social risks.

Supply Chain Environment and Social Risk Management

The Group has a well-managed procurement system and a strict supplier selection process, including qualification, production inspection, and annual review and re-evaluation to ensure supplier's product responsibility and quality of raw materials. The Group believes that good supply chain management is the key to success of products. Therefore, the Group will take measures to ensure suppliers to meet the compliance on quality, environment, safety and social aspects, so to meet the standards required by the Group. During the food procurement process, the Group will ensure the source of food supply are safe; suppliers or food manufacturers must provide relevant safety documents and comply with the relevant legislation in Hong Kong. If suppliers are not able to provide safety documents, the premises should be purchased from suppliers with good reputation. The Group also requires suppliers to keep the food delivery vehicles and containers clean. Food shall be kept at proper temperature and to be delivered at the appropriate/established time. The Group will also conduct regular supplier performance reviews and assessment, and is committed to establishing good working relationships with suppliers.

In addition to environmental risks, the Group will also take measures to examine suppliers/contractors in meeting relevant laws and regulations and other required standards in terms of health, safety, forced labour and child labour, as well as the supplier's awareness on all the above aspects.

The Group also values the importance of anti-corruption during the procurement process. The Group's procurement process will be conducted in an open, fair and impartial manner while not discriminating against any suppliers. Employees and other individuals who have an interest with relevant suppliers will not be allowed to participate in related procurement activities. The Group also focuses on the integrity of suppliers and partners. The Group will only select suppliers and partners who have a good track record in the past with no serious violations on business ethics. The Group has zero tolerance for bribery and corruption, and strictly prohibits suppliers and partners to obtain procurement contracts or partnerships through any forms of interest transfer.

B6. Product Responsibility

General Disclosure

The Group values the relationship with customers and suppliers, and treats it as an important aspect of the business. Internal monitoring is conducted to ensure products and service quality. The Group has also maintained on-going communication with customers to ensure understanding and satisfaction of their demands and expectations, so to improve the service quality and establishing a closer working relationship with customers.

During the Reporting Period, the Group was not aware of any material non-compliance with any laws and regulations in relation to privacy issues and compensation regarding health and safety, advertisement, labelling and products and service provided.

B. Social *(Continued)*

B6. Product Responsibility *(Continued)*

General Disclosure (Continued)

Food Safety

Food safety is a critical part of the Group's service, and a comprehensive Quality Control Procedure and Guideline on Food and Environmental Hygiene relating to food preparation and storage, maintenance of kitchen facilities and the conduct of kitchen staff is established as the requirement for the staff to follow. The Group’s quality inspection teams, consisting of the chefs and kitchen staff at each of the elderly residential care homes, are responsible for inspecting the food ingredients and supplies, including the quality control of the raw food. In addition, guidelines and trainings are provided for chefs and assistants on food and environmental hygiene.

Food preparation is supervised by chefs and home managers, and it is prepared in accordance with the standard food preparation procedures. Any food that is not prepared in accordance with standard procedures or does not meet the standard shall be disposed. Aside from food preparation, the Quality Control Manual also sets the storage procedures, hygiene standard and guidance on kitchen staff conduct. The Group requires kitchen staff to strictly adhere to the stipulated quality standard and procedures to ensure that ingredients supplied to the elderly residential care homes and kitchens are safe for consumption. The Group will continually provide trainings to the chefs and kitchen staff to ensure the safety of the food supplied and ensure the compliance with the operational procedures and quality standards.

Collection, Storage and Dispensation of Chemicals

As confirmed by the Directors, all of Shui On (Shun On), Shui Hing, Shui On (Hing Wah), Shui On (Sun Tin Wai), Shui On (Kwai Shing E.) and Shui Jun (Yan Tong) had been registered with the Environmental Protection Department as chemical waste producers. Therefore, the elderly residential care home has strictly followed the operation procedure, as set out in the In-House manual, on the collection, storage and dispensation of chemicals. Such operational procedure provides guidance, among other things, the preparation, handling and administration of medication. Such procedures include performing verification check, such as medication details and records of the elderly residents; sorting drugs according to their nature and elderly residents, and placed in locked cabinets or other specified places, and with the relevant instructions stated on the package; performing “three checks five rights” (i.e. ensuring (i) right elderly resident; (ii)right drugs; (iii) right time; (iv) right route; and (v) right dosage, for three times); disposing medical wastages into designated containers; and recording and listing disposal drugs separately.

Customer Services and Data Privacy

The Group values relationship with customers and suppliers, and treats it as an important aspect of the business. The Group maintains an open engagement channel with the customers through complaint revision meetings, as it brings insight to the operation performance. It was proven to be effective to understand the latest updates and to better the services. The Group is also dedicated to build a close working relationship with the suppliers, and the Group conducted regular performance revision and appraisal to build a closer working relationship with clients.

The Group has adopted a comprehensive complaining mechanism to handle customer complaints, enabling the senior management to act directly to customer feedbacks, and to resolve issues quickly. When the Group receives complaints raised by the elderly residents or their families, the home managers or personnel in charge will contact the aggrieved customers and offer comfort at the first instance. Depending on the severity, the relevant personnel may report to the home managers, and an investigation will be started. The home managers are required, under the standard procedures, to maintain detailed records of the disputes and report the incidents to the senior management and inform the family of the concerned elderly resident.

B. Social *(Continued)*

B6. Product Responsibility *(Continued)*

General Disclosure (Continued)

Customer Services and Data Privacy (Continued)

As all elderly residential care homes in Hong Kong are monitored externally by the Social Welfare Department ("SWD") for compliance with rules and regulations, the SWD has also adopted its own mechanism for handling complaints on any elderly residential care home in Hong Kong. Complainants may file their complaints directly to the SWD, which will investigate into the complaints and make appropriate enforcement actions against the elderly residential care home if it was found to be in breach of rules and regulations. For complaints reported to the Group through the SWD, the home managers would together with a member of the Group's healthcare professionals investigate whether the complaints are substantiated. The senior management would inspect the complaint records periodically and review and improve the processes when needed. The home managers would then follow up with the SWD to ensure that all concerns have been addressed appropriately and in a timely manner.

Since the operation involves serving lot of the elderly residents and the Group exerts extra cautious in safeguarding their personal data and ensure appropriate measures are implemented. Data Policies on protecting the elderly resident's personal data are adopted, which is in accordance with relevant laws and regulations. To further ensure the elderly residents' right on data privacy, the Group has restricted access to the information systems with designated employees so that certain information is only obtained on an as-needed basis. In addition, the employees and professional staff are required to sign confidentiality agreements with the Group under which they undertake to keep all personal data confidential.

Service Quality

To maintain the overall quality is up to the Group's standard, and maintain the mental and well-being of the elderly residents, the on-site managers and social workers are responsible for the operation control of the center in areas such as Infection Control of the residential care center, Quality Assurance Scheme for elderly residential care homes, and Quality control on elderly care of abusers and deal with suspected cases.

During the reporting period, there was no material complaints lodged directly with the elderly residential care homes. During 2018, SWD does not received complaints on any elderly residential care homes owned by the Group.

Advertising and Labelling

Due to the nature of the business of the Group, the Group only conducts limited publicity activities. Therefore, the business operation of the Group does not involve any advertising and labeling related matters.

B. Social *(Continued)*

B7. Anti-corruption

General Disclosure

Anti-corruption

The Group is strictly complying to all law requirements and fully committed in restricting any of illegal activities, including corruption, without exception. The Group requested staff to understand, prohibit and work to safeguard the Group throughout their daily operation, and also prevent money laundering activities. The Employee Handbook sets out the relevant guidance on work ethics and prevention of fraud, negligence, anti-bribery and corruption. All employees are given an Employee Handbook upon hiring and are required to observe the rules and guidelines throughout the course of his/her employment.

The Group is committed to creating a fair, honest, open, transparent and standardised internal management atmosphere, requiring employees, in particular the management to be honest and trustworthy as the basic code of conduct. Malpractices, corruption, bribery, and concealment are strictly prohibited. If in any case of the above is confirmed, strict disciplinary actions will be implemented immediately.

During the Reporting Period, the Group did not notify any material non-compliance with the relevant laws and regulations of bribery, extortion, fraud and money laundering, including but not limited to the Prevention of Bribery Ordinance (Cap. 201 of the Laws of Hong Kong).

B8. Community Investment

General Disclosure

Corporate Social Responsibility

The Group understands that apart from maintaining profits for stakeholders, bearing social responsibilities to serve and to payback the community when required is as equally important. Therefore, the Group strives to contribute to the society through sustainable community service. The Group has organised various events, such as Museum Visit, Heritage Tours, Natural Park Visit, Festival Dinners, serving the senior citizen in Hong Kong. The rationale is to expand the elderly social life, and to spread the messages in Hong Kong for elderly care. The Group will continuously put effort to serve the community and look for opportunity to serve even further in the future.

Social Caring Pledge

The Group has joined the Social Caring Pledge Scheme held by the Social Enterprise Research Academy. The Group has signed a voluntary agreement about social responsibility and care, and has committed to promote and enforce corporate social responsibility by participating a voluntary set of ethical standards in the areas of human rights, labour, environment and anti-corruption.

The ESG Reporting Guide Content Index of the Stock Exchange of Hong Kong Limited

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1 ("comply or explain")	The types of emissions and respective emissions data.	Emissions
KPI A1.2 ("comply or explain")	GHG emissions in total (in tonnes) and intensity.	Emissions
KPI A1.3 ("comply or explain")	Total hazardous waste produced (in tonnes) and intensity.	Hazardous Waste Management – Clinical Waste and Others
KPI A1.4 ("comply or explain")	Total non-hazardous waste produced (in tonnes) and intensity.	Non-Hazardous Waste Management – Food Waste and Others
KPI A1.5 ("comply or explain")	Description of reduction initiatives and results achieved.	Emissions
KPI A1.6 ("comply or explain")	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Hazardous Waste Management – Clinical Waste and Others; Non-Hazardous Waste Management – Food Waste and Others
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Resource Consumption
KPI A2.1 ("comply or explain")	Direct and/or indirect energy consumption by type in total and intensity.	Resource Consumption
KPI A2.2 ("comply or explain")	Water consumption in total and intensity.	Resource Consumption
KPI A2.3 ("comply or explain")	Description of energy use efficiency initiatives and results achieved.	Resource Consumption
KPI A2.4 ("comply or explain")	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Resource Consumption
KPI A2.5 ("comply or explain")	Total packaging material used for finished products (in tonnes) and with reference to per unit produced.	Resource Consumption (Not applicable – Explained)

The ESG Reporting Guide Content Index of the Stock Exchange of Hong Kong Limited *(Continued)*

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	The Environment and Natural Resources
KPI A3.1 ("comply or explain")	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.	Employment
Aspect B2: Health and Safety		
General Disclosure	Information on: (c) the policies; and (d) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
Recommended Disclosure: KPI B2.1	Number and rate of work-related fatalities	Health and Safety
Recommended Disclosure: KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
Aspect B4: Labour Standards		
General Disclosure	Information on: (e) the policies; and (f) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards

The ESG Reporting Guide Content Index of the Stock Exchange of Hong Kong Limited *(Continued)*

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
Aspect B6: Product Responsibility		
General Disclosure	Information on: (g) the policies; and (h) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
Recommended Disclosure: KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Product Responsibility
Aspect B7: Anti-corruption		
General Disclosure	Information on: (i) the policies; and (j) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements of the Group for the Reporting Year.

Principal Activities

The Company is an investment holding company. The activities of the subsidiaries are set out in note 1 to the consolidated financial statements.

Results and Dividends

The results of the Group for the Reporting Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 55 of this report.

The Directors do not recommend the payment of a final dividend (2017: HK$12,000,000) for the Reporting Year.

Business Review

The business review of the Group for the Reporting Year is set out in the sections headed "Chairman Statement" and "Management Discussion and Analysis" on pages 4 to 10 of this report.

Financial Summary

A summary of the published results and assets and liabilities of the Group for the last four financial years is set out on page 114 of this report.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group during the Reporting Year are set out in note 12 to the consolidated financial statements.

Share Capital

Details of movements during the Reporting Year in the share capital of the Company are set out in note 22 to the consolidated financial statements.

Purchase, Sale or Redemption of Securities

During the Reporting Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

Major Customers and Suppliers

During the Reporting Year. the Group purchased less than 30% of its goods and services from its 5 largest suppliers and sold less then 30% of its goods and services to its largest customer.

Reserves

Details of movements in the reserves of the Group and the Company during the Reporting Year are set out in the consolidated statement of changes in equity on page 57 of this report and note 23 to the consolidated financial statements respectively. As at 31 December 2018, the Company's reserves that were available for distribution to the Shareholders amounted to HK$140,906,000 (2017: HK$131,005,000).

Directors

The Directors during the Reporting Year and up to the date of this report were:

Executive Directors

Mr. Yik Tak Chi *(Chairman)*
Mr. Chung Kin Man
Ms. Chung Wai Man
Mr. Lui Chi Tat (appointed on 27 February 2019)

Non-executive Director

Mr. Lau Joseph Wan Pui

Independent non-executive Directors

Mr. Kwok Chi Shing
Mr. Lau Tai Chim
Mr. Wong Wai Ho

Pursuant to article 83(3) of the Articles of Association, any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. In accordance with article 84 of the Articles of Association, at each AGM, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement at an AGM at least once every three years. In addition, any Director appointed by the Board pursuant to article 83(3) of the Articles of Association shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation. Accordingly, Mr. Chung Kin Man, Ms. Chung Wai Man, Mr. Kwok Chi Shing and Mr. Lui Chi Tat, being eligible, will offer themselves for re-election at the forthcoming AGM.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming AGM has a service contract with the Group which is not determinable within one year without payment of compensation (other than statutory compensation).

Independent Non-Executive Directors

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

Directors' Material Interests in Transactions, Arrangements and Contracts That Are Significant in Relation to the Company's Business

Save as disclosed in the paragraph headed "Continuing Connected Transactions" below, no transactions, arrangements contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Reporting Year.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the Reporting Year.

Competing Business of Directors and Controlling Shareholders

For the Reporting Year, none of the Directors, controlling shareholders or substantial shareholders of the Company or any of their respective close associates (as defined under the GEM Listing Rules) are engaged in any business that competes or may complete, directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group nor are they aware of any other conflicts of interest which any such persons has or may have with the Group.

Emolument Policy

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence. The emoluments of the Directors are decided by the Remuneration Committee, with reference to their respective experience, responsibilities with the Group and general market conditions.

The Company has adopted a share option scheme as an incentive to the Directors and eligible employees, details of the Scheme are set in the section headed "Share Options" below.

Details of the emoluments of the Directors and five individuals with highest remuneration are set out in note 7 and note 8 to the consolidated financial statements.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation

As at 31 December 2018, 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/ Chief executive	Capacity/ Nature of interests	Number of Shares held/ interested in	Approximate percentage of shareholding *(Note 1)*
Mr. Yik Tak Chi ("Mr. Yik")	(i) Interest of controlled corporation *(Note 2)* (ii) Beneficial owner *(Note 2)*	263,980,000	66.00%
Mr. Lui Chi Tat ("Mr. Lui")	(i) Interest of controlled corporation *(Note 3)* (ii) Beneficial owner *(Note 3)*	36,020,000	9.01%

Notes:

1. The approximate percentage of shareholding is calculated based on 400,000,000 Shares in issue as at 31 December 2018.

2. Mr. Yik is interested in 263,980,000 Shares, of which 248,700,000 Shares are held by Shui Wah Limited ("Shui Wah") and 15,280,000 Shares are directly held by him. 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 all the Shares held by Shui Wah.

3. Mr. Lui is interested in 36,020,000 Shares, of which 15,300,000 Shares are held by Jumbo Sino Investment Limited ("Jumbo Sino"), a company incorporated in Hong Kong and wholly owned by Mr. Lui, and 20,720,000 Shares are directly held by him. By virtue of the SFO, Mr. Lui is deemed to be interested in all the Shares held by Jumbo Sino.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation *(Continued)*

Long Positions in the ordinary shares of associated corporation

Name of Directors/ chief executive	Name of associated corporation	Capacity/ Nature of interests	Number of shares held/ interested in	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%
Mr. Lui	Jumbo Sino	Beneficial owner	3	100.00%

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 all the 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 31 December 2018, 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.

Substantial Shareholders' Interest and Short Positions in Shares and Underlying Shares

As at 31 December 2018, 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)*
Shui Wah	Beneficial owner *(Note 2)*	248,700,000	62.18%
Lucky Expert	Interest in controlled corporation *(Note 2)*	248,700,000	62.18%
Multifield	(i) Interest in controlled corporation *(Note 2)* (ii) Interest held jointly with other person *(Note 3)*	263,980,000	66.00%
Hang Chi	(i) Interest in controlled corporation *(Note 2)* (ii) Interest held jointly with other person *(Note 3)*	263,980,000	66.00%
Ms. Yik Wai Hang	Interest held jointly with other person *(Note 3)*	263,980,000	66.00%
Ms. Chung Shuk Man	Interest of spouse *(Note 4)*	263,980,000	66.00%

Notes:

1. The approximate percentage of shareholding is calculated based on 400,000,000 Shares in issue as at 31 December 2018.

2. Shui Wah holds 248,700,000 Shares. 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 disclosed above, Mr. Yik is interested in 263,980,000 Shares. Accordingly, by virtue of the Acting in Concert Agreement, Mr. Yik, Multifield, Hang Chi and Ms. Yik Wai Hang together control approximately 66.00% 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.

Substantial Shareholders' Interest and Short Positions in Shares and Underlying Shares *(Continued)*

Save as disclosed above, as at 31 December 2018, 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.

Arrangements to Acquire Shares and Debentures

Other than the Scheme and as disclosed under the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above, at no time during the Reporting Year, was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) or to acquire benefits by means of acquisitions of shares in, or debentures of, the Company or any other body corporate.

Share Options

The Company has conditionally adopted the Scheme on 21 June 2017 which is valid and effective for a period of 10 years from 21 June 2017. The purpose of the Scheme is to reward eligible persons who have contributed or are expected to contribute to the Group. Details of the Scheme are disclosed in the section headed "Statutory and General Information" of the Prospectus.

No share option was granted, exercised or cancelled by the Company under the Scheme from during the Reporting Year and there was no outstanding share option as at the date of this report.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles of Association or the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float as required under the GEM Listing Rules.

Interests of Compliance Adviser

As confirmed by the Company's compliance adviser, Guotai Junan Capital Limited (the "Compliance Adviser"), as at 31 December 2018, save and except for the compliance adviser's agreement entered into between the Company and the Compliance Adviser dated 14 February 2017, neither the Compliance Adviser nor its directors, employees or close associates (as defined under the GEM Listing Rules) had any interests in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities, if any) which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

CORPORATE GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

DIRECTORS' REPORT

Continuing Connected Transactions

Prior to the date of the sale and purchase agreement dated 9 October 2017 regarding the acquisition (the "Acquisition") of the entire issued share capital of Shui Jun Nursing Centre (Yau Tong), Shui Jun (Yau Tong) as tenant had already entered into two tenancy agreements (the "CCT Agreements") with Ever Primer Limited and Roymark Limited as landlords, respectively. Mr. Yik is the director and one of the ultimate shareholders of both Ever Premier Limited and Roymark Limited. As Ever Premier Limited and Roymark Limited are associates of a connected person of the Company under the GEM Listing Rules. Accordingly, upon the completion of the aforesaid Acquisition on 13 November 2017, the CCT Agreements and the transactions contemplated thereunder constituted continuing connected transactions of the Company under the GEM Listing Rules.

The premises under the CCT Agreements are rented by Shui Jun (Yau Tong) for the operation of the elderly residential care home as its ordinary course of business from 1 July 2016 to 30 June 2019 at the monthly rental of HK$150,000 and HK$620,000 per month, respectively.

The aforesaid continuing connected transactions have been reviewed by the independent non-executive Directors, who are of the view that the transactions are on normal commercial terms and in the ordinary and usual course of business of the Group, their terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Pursuant to Rule 20.74 of the GEM Listing Rules, the Company is required to comply with the annual review and disclosure requirements, but is exempt from the circular (including independent financial advice) and shareholders' approval requirements if the Group continues to conduct the transactions under the CCT Agreements.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group on page 108 of this report in accordance with Rule 20.54 of the GEM Listing Rules. A copy of the auditor's letter has been provided by the company to the Stock Exchange.

The Group confirms that it has complied and will continue to comply with the relevant provisions of Chapter 20 of the GEM Listing Rules in relation to the continuing connected transactions of the Company.

Non-Competition Undertakings

Pursuant to the deed of non-competition undertakings (the "Non-competition Deed") dated 21 June 2017, each of the Company's controlling shareholders (i.e. Shui Wah, Lucky Expert, Hang Chi, Multifield, Will Peace Limited, Mr. Yik, Ms. Yik Wai Hang, Mr. Chung Kin Man, Ms. Chung Wai Man, Ms. Wong Kit Yi, Ms. Yi Weiji, Ms. Huang Weiyi, Ms. Zhong Huimei, Mr. Yi Shaoguang, Mr. Yik Siu Tim and Mr. Zheng Xiao Jun) (the "Covenantors") has undertaken to and covenanted with the Company that, each of them would not, and would procure none of their close associates to engage in any business that competes or may compete with the business carried on by the Group or any other business that may be carried on by the Group from time to time in Hong Kong or such other places (the "Restricted Business"). For details of the Non-competition Deed, please refer to the section headed "Relationship with Controlling Shareholders" in the Prospectus. The Covenantors have further undertaken to procure that, if they and/or any of their close associates identify or are offered any business investment or other commercial opportunity relating to the Restricted Business, they will first refer such opportunity to the Company.

Non-Competition Undertakings *(Continued)*

Each of the Covenantors has confirmed and declared to the Company of his/her/its compliance with their undertakings given in the Non-competition Deed. During the period from the date of listing of the Company on the Stock Exchange and up to the date of this report, the Covenantors did not, either on his/her/its own or in conjunction with any third party, take up any opportunity relating to the Restricted Business, or offer or make available such opportunity to the Company.

At a meeting of an independent board committee comprising members of the Audit Committee held on 27 February 2019, all the independent non-executive Directors reviewed the confirmations in respect of the Non-competition Deed submitted to the Company by the Covenantors, which confirmed compliance with the Non-competition Deed by the Covenantors.

Permitted Indemnity Provisions

The Articles of Association of the Company provides that the Directors, secretary and other officers and every auditor for the time being of the Company acting in relation to any of the affairs of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Group during the Reporting Year.

Closure of Register of Members

Entitlement to Attend and Vote at the AGM

For determining the Shareholders' eligibility to attend and vote at the forthcoming AGM to be held on Monday, 29 April 2019 (the "2019 AGM"), the register of members of the Company will be closed from Wednesday, 24 April 2019 to Monday, 29 April 2019, both days inclusive, during which period no transfer of Shares will be registered. The record date will be Monday, 29 April 2019. In order to qualify for attending and voting at the 2019 AGM, all transfer of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong branch share registrar, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 23 April 2019.

Auditor

Ernst & Young shall retire in the forthcoming AGM and being eligible, will offer themselves for re-appointment. A resolution for appointment of Ernst & Young will be proposed at the forthcoming AGM.

On behalf of the Board
Yik Tak Chi
Chairman

Hong Kong, 27 February 2019

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Hang Chi Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Hang Chi Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 55 to 113, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key Audit Matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill The carrying value of goodwill in the consolidated financial statements amounted to HK$79,940,000 as at 31 December 2018, representing 48.2% of the total assets of the Group. In accordance with IFRSs, the Group is required to perform impairment test for goodwill at least annually. In performing the impairment test, goodwill generated from acquisition is allocated to the corresponding subsidiaries acquired as each of these acquired subsidiaries is a separate cash-generating unit. The impairment test is based on the recoverable amount of each of these cash-generating units which is its value in use determined using cash flow projections based on a financial budget covering a five-year period. This matter is significant to our audit because the impairment test process is complex and involves significant judgements and estimates based on assumptions that are affected by expected future market and economic conditions. The Group's disclosures about the impairment of goodwill are included in notes 2.4, 3 and 14 to the consolidated financial statements, which specifically explain the key assumptions management used for the calculation of the recoverable amounts.	Our audit procedures included, among others, evaluating, with the assistance from our internal valuation specialists, the assumptions and methodologies used by the Group, in particular, budgeted gross margin, discount rate and growth rate. We evaluated the assumptions, taking into account the historical accuracy of the Group's cash flow projections, by comparing the forecasts with the historical performance, reviewing the business development plan of each cash-generating unit and comparing with comparable companies. We also assessed the adequacy of disclosures of goodwill impairment in the consolidated financial statements.

Other Information Included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Consolidated Financial Statements

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Siu Fung Terence Ho.

Ernst & Young
Certified Public Accountants
Hong Kong
27 February 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	Year ended 31 December 2018 HK$'000	2017 HK$'000
REVENUE	5	**135,516**	97,148
Other income	5	**5,554**	4,522
Staff costs		**(54,511)**	(41,042)
Property rental and related expenses		**(27,209)**	(17,175)
Depreciation and amortisation		**(7,515)**	(5,400)
Food		**(4,021)**	(2,989)
Medical fees		**(6,931)**	(4,930)
Professional and legal fees		**(3,842)**	(2,534)
Utility expenses		**(3,231)**	(2,377)
Consumables		**(1,335)**	(1,283)
Other operating expenses		**(4,390)**	(5,280)
Listing expenses		**–**	(12,224)
PROFIT BEFORE TAX	6	**28,085**	6,436
Income tax expense	9	**(4,376)**	(3,270)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**23,709**	3,166
Attributable to:			
Owners of the parent		**21,901**	1,491
Non-controlling interests		**1,808**	1,675
		23,709	3,166
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (HK cents)	11	**5.48**	0.43

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
		As at 31 December	
NON-CURRENT ASSETS			
Property, plant and equipment	12	10,603	11,771
Intangible assets	13	5,250	8,636
Goodwill	14	79,940	79,940
Deferred tax assets	21	772	721
Total non-current assets		96,565	101,068
CURRENT ASSETS			
Trade receivables	15	204	270
Prepayments, other receivables and other assets	16	9,587	7,252
Tax recoverable		206	809
Cash and bank balances	17	59,283	47,567
Total current assets		69,280	55,898
CURRENT LIABILITIES			
Trade payables	19	879	868
Other payables and accruals	20	16,267	15,154
Due to a related company	18	274	261
Tax payables		1,049	1,746
Total current liabilities		18,469	18,029
NET CURRENT ASSETS		50,811	37,869
TOTAL ASSETS LESS CURRENT LIABILITIES		147,376	138,937
NON-CURRENT LIABILITIES			
Deferred tax liabilities	21	386	1,156
Total non-current liabilities		386	1,156
Net assets		146,990	137,781
EQUITY			
Equity attributable to the owners of the parent:			
Issued capital	22	4,000	4,000
Reserves	23	140,906	131,005
		144,906	135,005
Non-controlling interests		2,084	2,776
Total equity		146,990	137,781

Yik Tak Chi
Director

Chung Kin Man
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the parent							
	Issued capital HK$'000 (note 22)	Share premium* HK$'000	Merger reserve* HK$'000 (note 23)	Other reserve* HK$'000	Retained profits* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 31 December 2017 and 1 January 2018	4,000	109,298	5	(1,046)	22,748	135,005	2,776	137,781
Profit and total comprehensive income for the year	–	–	–	–	21,901	21,901	1,808	23,709
Final dividend declared	–	–	–	–	(12,000)	(12,000)	(2,500)	(14,500)
At 31 December 2018	4,000	109,298	5	(1,046)	32,649	144,906	2,084	146,990

* These reserve accounts comprise the consolidated reserves of HK$144,906,000 and HK$131,005,000 in the consolidated statement of financial position as at 31 December 2018 and 2017, respectively.

Year ended 31 December 2017

	Attributable to owners of the parent							
	Issued capital HK$'000 (note 22)	Share premium* HK$'000	Merger reserve* HK$'000 (note 23)	Other reserve* HK$'000	Retained profits* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 31 December 2016 and 1 January 2017	–	50,807	5	(1,046)	21,257	71,023	3,101	74,124
Profit and total comprehensive income for the year	–	–	–	–	1,491	1,491	1,675	3,166
Interim dividend declared	–	–	–	–	–	–	(2,000)	(2,000)
Capitalisation issue	3,000	(3,000)	–	–	–	–	–	–
Issue of shares for the Initial Public Offering ("IPO")#	1,000	71,000	–	–	–	72,000	–	72,000
Share issue expenses	–	(9,509)	–	–	–	(9,509)	–	(9,509)
At 31 December 2017	4,000	109,298	5	(1,046)	22,748	135,005	2,776	137,781

The Company's shares have been listed on GEM of The Stock Exchange of Hong Kong Limited from 12 July 2017. Upon the completion of the listing, 100,000,000 ordinary shares were issued at a price of HK$0.72 per share for a total cash consideration, before expenses, of HK$72,000,000.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
		Year ended 31 December	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**28,085**	6,436
Adjustments for:			
Loss on disposal of items of property, plant and equipment		**214**	–
Depreciation	*6*	**4,129**	3,116
Amortisation of intangible assets	*6*	**3,386**	2,284
		35,814	11,836
Decrease/(increase) in trade receivables		**66**	(134)
Increase in prepayments, other receivables and other assets		**(2,335)**	(721)
Decrease in an amount due from a related company		**–**	5
Increase in trade payables		**11**	145
Increase in other payables and accruals		**1,113**	573
Increase in an amount due to a related company		**13**	57
Cash generated from operations		**34,682**	11,761
Income tax paid		**(5,291)**	(4,023)
Net cash flows from operating activities		**29,391**	7,738

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Year ended 31 December	
	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of subsidiaries	–	(43,942)
Purchases of items of property, plant and equipment	(3,175)	(1,792)
Net cash flows used in investing activities	(3,175)	(45,734)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	–	72,000
Share issue expenses	–	(6,763)
Dividend paid	(14,500)	(2,000)
Net cash flows (used in)/from financing activities	(14,500)	63,237
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,716	25,241
Cash and cash equivalents at beginning of year	47,567	22,326
CASH AND CASH EQUIVALENTS AT END OF YEAR	59,283	47,567
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances as stated in the consolidated statement of financial position	59,283	47,567
Cash and cash equivalents as stated in the consolidated statement of cash flows	59,283	47,567

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. Corporate Information

Hang Chi Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at the office of Conyers Trust Company (Cayman) Limited, with the registered address of Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. In the opinion of the directors, the holding company of the Company is Shui Wah Limited ("Shui Wah"), which was incorporated in the British Virgin Islands ("BVI"). The Company's ultimate holding company is Multifield Investment Development Limited, a company incorporated in BVI with limited liability on 8 January 2010, which is wholly owned by Mr. Yik Tak Chi.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the operation of elderly residential care homes in Hong Kong.

Pursuant to a group reorganisation (the "Reorganisation") which was completed on 31 August 2016, the Company became the holding company of the other subsidiaries comprising the Group.

The Company's shares were listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 July 2017.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Shui On Nursing Home Holdings (BVI) Limited ("Shui On (BVI)")	BVI 25 June 2015	US$62,353	100%	–	Investment holding
Shui On Nursing Home Holdings Limited ("Shui On Holdings (HK)")	Hong Kong 11 September 2009	HK$5,300	–	100%	Investment holding and provision of management services
Shui On Nursing Centre (Shun On) Company Limited ("Shui On (Shun On)")	Hong Kong 2 March 2006	HK$10,000	–	100%	Operation of an elderly residential care home
Shui Hing Nursing Centre Limited ("Shui Hing")	Hong Kong 14 November 2008	HK$10,000	–	100%	Operation of an elderly residential care home

1. Corporate Information *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's subsidiaries are as follows: *(continued)*

Name	Place and date of incorporation/ registration and place of business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shui On Nursing Centre (Hing Wah) Company Limited ("Shui On (Hing Wah)")	Hong Kong 13 November 2007	HK$10,000	–	100%	Operation of an elderly residential care home
Shui On Nursing Centre (Sun Tin Wai) Company Limited ("Shui On (Sun Tin Wai)")	Hong Kong 2 November 2006	HK$15,000	–	100%	Operation of an elderly residential care home
Shui On Nursing Centre (Kwai Shing E.) Co. Limited ("Shui On (Kwai Shing E.)")	Hong Kong 12 December 2006	HK$3,760,000	–	66.67%	Operation of an elderly residential care home
Shui Jun Nursing Centre (Yau Tong) Company Limited ("Shui Jun (Yau Tong)")*	Hong Kong 4 February 2006	HK$6,000	–	100%	Operation of an elderly residential care home

* The Group acquired the 100% equity interest in Shui Jun (Yau Tong) at a cash consideration of HK$45,000,000 on 13 November 2017 and thereafter Shui Jun (Yau Tong) became a wholly-owned subsidiary of the Group.

2.1 Basis of Preparation

These financial statements have 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") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IAS 40	*Transfers of Investment Property*
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 2, amendments to IFRS 4, amendments to IAS 40 and *Annual Improvements 2014–2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

There was no significant impact on the Group's financial position and financial results upon initial application at 1 January 2018.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

Classification and measurement

IFRS 9 classifies financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Under IFRS 9, the classification for all of the Group's financial assets and financial liabilities measured at amortised cost remain the same. The carrying amounts for all financial assets and financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

2.2 Changes in Accounting Policies and Disclosures *(Continued)*

(a) *(Continued)*

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 Group applied the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group applied the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. Further details of the Group's accounting policy for impairment of financial assets are disclosed in note 2.4.

(b) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for 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 disclosures are included in note 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

There was no significant impact on the Group's financial position and financial results upon initial application at 1 January 2018. Comparative information continues to be reported under IAS 11 and IAS 18.

2.3 Issued But Not Yet Effective IFRSs

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in the financial statements:

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

2.3 Issued But Not Yet Effective IFRSs *(Continued)*

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Except for IFRS 16 as described below, the directors of the Group considered that the application of the other new and revised IFRSs will not have a material impact on the Group's consolidated financial results.

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 elective 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, or relates to a class of property, plant and equipment to which the revaluation model is applied. 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. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019.

The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application.

The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of HK$12,056,000 and lease liabilities of HK$12,056,000 will be recognised at 1 January 2019.

2.4 Summary of Significant Accounting Policies

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

Upon loss of significant influence over the associates, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associates upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 Summary of Significant Accounting Policies *(Continued)*

Business combinations and goodwill *(Continued)*

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.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

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 Group. 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 Group 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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Fair value measurement *(Continued)*

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 Group 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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Related parties

A party is considered to be related to the Group if:

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

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

or

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

(i) the entity and the Group are members of the same group;

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, 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 property, 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 property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 Summary of Significant Accounting Policies *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

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

Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture and equipment	20%
Motor vehicles	25%

Where parts of an item of property, 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 property, 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 profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Customer relationships

Customer relationships are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives ranging from 2 to 4 years.

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 Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group 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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group 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.

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

– The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

– The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as 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 Group 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.

Subsequent measurement

The subsequent measurement of financial assets is 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 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 (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

– the rights to receive cash flows from the asset have expired; or

– the Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 Summary of Significant Accounting Policies *(Continued)*

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) *(Continued)*

When the Group 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group 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 Group 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 Group could be required to repay.

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.4 Summary of Significant Accounting Policies *(Continued)*

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) *(Continued)*

General approach (Continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group 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 group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group 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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) *(Continued)*

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group 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 Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group 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 profit or loss. 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 Group.

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 (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

The Group's financial liabilities include trade payables, an amount due to a related company, financial liabilities included in other payables and accruals.

2.4 Summary of Significant Accounting Policies *(Continued)*

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) *(Continued)*

Subsequent measurement

The subsequent measurement of financial liabilities is as follows:

Loans and borrowings

After initial recognition, interest-bearing 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 (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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 (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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 consolidated 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 which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and bank balances 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 the reporting period 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 profit or loss.

2.4 Summary of Significant Accounting Policies *(Continued)*

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 the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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:

– 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

– in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, 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:

– 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

– 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 reporting period 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 reporting period 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 the reporting period.

2.4 Summary of Significant Accounting Policies *(Continued)*

Income tax *(Continued)*

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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 (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

(a) Rendering of services

Revenue from the rendering of services is recognised over time or at a point in time with reference to the detailed terms of transactions as stipulated in the contracts entered into with its customers and counterparties.

(b) Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

2.4 Summary of Significant Accounting Policies *(Continued)*

Revenue recognition (applicable from 1 January 2018)*(Continued)*

Other income

Interest income is recognised 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.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group 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 Group 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;

(c) rental income, on a time proportion basis over the lease terms;

(d) 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; and

(e) dividend income, when the shareholders' right to receive payment has been established.

2.4 Summary of Significant Accounting Policies *(Continued)*

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Employee benefits

Pension scheme

The Group 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 Group in an independently administered fund. The Group'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. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, 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 reporting period, 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.

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences 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.

Useful lives of property, plant and equipment and intangible assets

The Group determines the estimated useful lives and related depreciation/amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation/amortisation charge where useful lives are less than previously estimated lives.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. 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.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units based on assumptions that are affected by expected future market and economic conditions and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was HK$79,940,000 (2017: HK$79,940,000). Further details are given in note 14 to the financial statements.

4. Operating Segment Information

For management purposes, the Group has only one reportable operating segment, which is the operation of residential care homes. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

Geographical information

Geographical information is not presented since all of the Group's revenue from external customers is generated in Hong Kong and all of the non-current assets of the Group are located in Hong Kong. The non-current asset information is based on the locations of assets and excludes financial instruments and deferred tax assets.

Information about a major customer

Revenue of approximately HK$30,109,000 for the year ended 31 December 2018 (year ended 31 December 2017: HK$24,758,000), which amounted to more than 10% of the Group's revenue, was derived from the Hong Kong Government under the Enhanced Bought Place Scheme ("EBPS").

5. Revenue and Other Income

An analysis of revenue is as follows:

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Revenue from contracts with customers		
Rendering of elderly home care services	**104,327**	78,107
Sale of elderly related goods and provision of healthcare services	**31,189**	19,041
	135,516	97,148

5. Revenue and Other Income *(Continued)*

Revenue from contracts with customers

(i) Disaggregated revenue information

	Year ended 31 December 2018 HK$'000
Timing of revenue recognition	
Services transferred over time	119,035
Goods transferred at a point in time	16,481
Total revenue from contracts with customers	135,516

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	Year ended 31 December 2018 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Rendering of elderly home care services	93
Sale of elderly related goods and provision of healthcare services	29
	121

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Rendering of services

The performance obligation is satisfied over time as services are rendered and advance payments are normally required for home care services and certain healthcare services. For other healthcare services, payment is generally due within 30 days.

Sale of goods

The performance obligation is satisfied upon delivery of the goods and advance payments are generally required. For other goods where advance payment is not required, payment is generally due within 30 days from delivery.

5. Revenue and Other Income *(Continued)*

Revenue from contracts with customers *(Continued)*

(ii) Performance obligations (Continued)

Sale of goods (Continued)

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	HK$'000
Within one year	162

	Year ended 31 December	
	2018 **HK$'000**	2017 HK$'000
Other income		
Government grants	**3,149**	2,748
Sundry income	**1,186**	399
Rental income	**888**	565
Bank interest income	**211**	366
Others	**120**	444
	5,554	4,522

6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	Year ended 31 December	
	2018 HK$'000	2017 HK$'000
Cost of inventories sold	**8,343**	7,234
Depreciation	**4,129**	3,116
Amortisation of intangible assets	**3,386**	2,284
Auditors' remuneration	**1,500**	1,300
Employee benefit expense (excluding directors' and chief executive's remuneration as set out in note 7):		
– Wages and salaries	**47,862**	36,361
– Pension scheme contributions	**1,655**	1,289
	49,517	37,650
Minimum lease payments under operating leases of land and buildings	**27,209**	17,175
Bank interest income*	**(211)**	(366)
Government grants*	**(3,149)**	(2,748)

* Included in "Other income" in the consolidated statement of profit or loss and other comprehensive income.

7. Directors' and Chief Executive's Remuneration

Directors' and chief executive's remuneration for the year, 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	
	2018 HK$'000	2017 HK$'000
Fees	**1,713**	1,536
Other emoluments:		
Salaries, allowances and benefits in kind	**2,452**	1,551
Pension scheme contributions	**86**	59
	4,251	3,146

During the year, no remuneration was paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

7. Directors' and Chief Executive's Remuneration *(Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Mr. Wong Wai Ho *(i)*	**180**	90
Mr. Lau Tai Chim *(i)*	**180**	90
Mr. Kwok Chi Shing *(i)*	**180**	90
	540	270

Note:

(i) Mr. Wong Wai Ho, Mr. Lau Tai Chim and Mr. Kwok Chi Shing were appointed as independent non-executive directors of the Company on 21 June 2017.

There were no other emoluments payable to the independent non-executive directors during the reporting period (year ended 31 December 2017: Nil).

7. Directors' and Chief Executive's Remuneration *(Continued)*

(b) Executive directors, a non-executive director and the chief executive

The remuneration of each of the executive directors, a non-executive director and a chief executive for the year ended 31 December 2018 is set out below:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2018				
Executive directors:				
Mr. Yik Tak Chi *(ii)/(iii)*	375	384	–	759
Mr. Chung Kin Man *(ii)*	309	622	36	967
Ms. Chung Wai Man *(ii)*	309	640	36	985
	993	1,646	72	2,711
Non-executive director:				
Mr. Lau Joseph Wan Pui *(ii)*	180	–	–	180
Chief executive:				
Mr. Lui Chi Tat *(iii)*	–	806	14	820
	1,173	2,452	86	3,711

7. Directors' and Chief Executive's Remuneration *(Continued)*

(b) Executive directors, a non-executive director and the chief executive *(Continued)*

The remuneration of each of the executive directors and a non-executive director for the year ended 31 December 2017 is set out below:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2017				
Executive directors:				
Mr. Yik Tak Chi *(ii)/(iii)*	480	384	8	872
Mr. Chung Kin Man *(ii)*	348	552	26	926
Ms. Chung Wai Man *(ii)*	348	615	25	988
	1,176	1,551	59	2,786
Non-executive director:				
Mr. Lau Joseph Wan Pui *(ii)*	90	–	–	90
	1,266	1,551	59	2,876

Notes:

(ii) Mr. Yik Tak Chi was appointed as the sole director of the Company on 16 February 2016 upon its incorporation. Mr. Chung Kin Man and Ms. Chung Wai Man were appointed as executive directors of the Company on 7 February 2017. Mr. Lau Joseph Wan Pui was appointed as a non-executive director of the Company on 7 February 2017.

(iii) Mr. Yik Tak Chi was appointed as the chief executive of the Group on 7 February 2017 and resigned on 22 January 2018. Mr. Yik Tak Chi remained as the chairman of the Board, an executive director and the chairman of the nomination committee of the Group. Immediately after the resignation of Mr. Yik, Mr. Lui Chi Tat was appointed as the chief executive of the Group with effect from 22 January 2018.

There was no arrangement under which the directors waived or agreed to waive any remuneration during the reporting period (year ended 31 December 2017: Nil).

8. Five Highest Paid Employees

The five highest paid employees during the reporting period included three directors and the chief executive (year ended 31 December 2017: three directors), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining one highest paid employee (year ended 31 December 2017: two) who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**774**	1,486
Pension scheme contributions	**18**	36
	792	1,522

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

	Year ended 31 December	
	2018	2017
Nil to HK$1,000,000	**1**	2

During the year, no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (year ended 31 December 2017: Nil).

9. Income Tax Expense

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the reporting period (year ended 31 December 2017: 16.5%).

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**5,465**	3,846
Overprovision in prior years	**(268)**	–
Deferred *(note 21)*	**(821)**	(576)
Total tax charge for the year	**4,376**	3,270

9. Income Tax Expense *(Continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

Hong Kong

	Year ended 31 December			
	2018		2017	
	HK$'000	**%**	HK$'000	%
Profit before tax	**28,085**		6,436	
Tax at the statutory rate	**4,634**	**16.5**	1,062	16.5
Adjustment in respect of current tax of previous periods	**(268)**	**(1.0)**	–	–
Income not subject to tax*	**(35)**	**(0.1)**	(60)	(0.9)
Expenses not deductible for tax**	**45**	**0.2**	2,268	35.2
Tax charge at the Group's effective rate	**4,376**	**15.6**	3,270	50.8

* Income not subject to tax mainly represented the bank interest income during the years ended 31 December 2018 and 2017, which were not taxable in Hong Kong.

** Expenses not deductible for tax mainly represented the listing expenses incurred during the year ended 31 December 2017, which were not deductible for tax in Hong Kong.

10. Dividends

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Proposed final – Nil (2017: HK3.00 cents) per ordinary share	**–**	12,000

No final dividend has been proposed by the Group for the year ended 31 December 2018.

The distribution amounts set out in the consolidated statements of changes in equity of HK$2,500,000 and HK$2,000,000 for the years ended 31 December 2018 and 2017, respectively, represented the dividends declared by Shui On (Kwai Shing E.), a non wholly-owned subsidiary of the Company, to its non-controlling shareholders.

11. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic earnings per share amount is based on the profit for the year ended 31 December 2018 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 400,000,000 (year ended 31 December 2017: 347,123,288) in issue during the year, as adjusted to reflect the rights issue during the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share amount for the year ended 31 December 2017 includes the 100,000,000 ordinary shares issued in connection with the listing of the Company's ordinary shares on the Stock Exchange on 12 July 2017.

The calculation of basic earnings per share is based on:

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**21,901**	1,491
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation*	**400,000,000**	347,123,288

* Arrived out that assumption that the capitalisation issue of 299,933,450 shares (note22(i)) had been effective since 1 January 2017.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2018 and 2017 as the Group had no potentially dilutive ordinary shares in issue during these years.

12. Property, Plant and Equipment

	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2018				
At 1 January 2018:				
Cost	11,956	6,254	3,516	21,726
Accumulated depreciation	(3,858)	(3,939)	(2,158)	(9,955)
Net carrying amount	8,098	2,315	1,358	11,771
At 1 January 2018, net of accumulated depreciation	8,098	2,315	1,358	11,771
Additions	2,610	565	–	3,175
Depreciation provided during the year *(note 6)*	(2,668)	(1,002)	(459)	(4,129)
Disposals	(214)	–	–	(214)
At 31 December 2018, net of accumulated depreciation	7,826	1,878	899	10,603
At 31 December 2018:				
Cost	14,352	6,819	3,516	24,687
Accumulated depreciation	(6,526)	(4,941)	(2,617)	(14,084)
Net carrying amount	7,826	1,878	899	10,603

12. Property, Plant and Equipment *(Continued)*

	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2017				
At 1 January 2017:				
Cost	5,612	4,887	2,595	13,094
Accumulated depreciation	(2,336)	(3,186)	(1,317)	(6,839)
Net carrying amount	3,276	1,701	1,278	6,255
At 1 January 2017, net of accumulated depreciation	3,276	1,701	1,278	6,255
Additions	333	538	921	1,792
Acquisition of a subsidiary	6,011	829	–	6,840
Depreciation provided during the year *(note 6)*	(1,522)	(753)	(841)	(3,116)
At 31 December 2017, net of accumulated depreciation	8,098	2,315	1,358	11,771
At 31 December 2017:				
Cost	11,956	6,254	3,516	21,726
Accumulated depreciation	(3,858)	(3,939)	(2,158)	(9,955)
Net carrying amount	8,098	2,315	1,358	11,771

13. Intangible Assets

	Trademarks HK$'000	Customer relationships HK$'000	Total HK$'000
31 December 2018			
At 1 January 2018:			
Cost	2	16,765	16,767
Accumulated amortisation	–	(8,131)	(8,131)
Net carrying amount	2	8,634	8,636
At 1 January 2018, net of accumulated amortisation	2	8,634	8,636
Amortisation provided during the year *(note 6)*	–	(3,386)	(3,386)
At 31 December 2018, net of accumulated amortisation	2	5,248	5,250
At 31 December 2018:			
Cost	2	16,765	16,767
Accumulated amortisation	–	(11,517)	(11,517)
Net carrying amount	2	5,248	5,250

13. Intangible Assets *(Continued)*

	Trademarks HK$'000	Customer relationships HK$'000	Total HK$'000
31 December 2017			
At 1 January 2017:			
Cost	2	12,709	12,711
Accumulated amortisation	–	(5,847)	(5,847)
Net carrying amount	2	6,862	6,864
At 1 January 2017, net of accumulated amortisation	2	6,862	6,864
Acquisition of a subsidiary	–	4,056	4,056
Amortisation provided during the year *(note 6)*	–	(2,284)	(2,284)
At 31 December 2017, net of accumulated amortisation	2	8,634	8,636
At 31 December 2017:			
Cost	2	16,765	16,767
Accumulated amortisation	–	(8,131)	(8,131)
Net carrying amount	2	8,634	8,636

14. Goodwill

	HK$'000
Cost and net carrying amount at 1 January 2017	43,724
Acquisition of subsidiaries	36,216
Cost and net carrying amount at 31 December 2017 and 31 December 2018	**79,940**

14. Goodwill *(Continued)*

The carrying amounts of goodwill allocated to the cash-generating units are as follows:

	Shui Jun (Yau Tong)	Shui On (Kwai Shing E.)	Shui On (Sun Tin Wai)	Total
Carrying amount of goodwill as at 31 December 2017 and 2018	**36,216**	**33,494**	**10,230**	**79,940**

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to three cash-generating units of elderly residential care homes for impairment testing.

The recoverable amounts of the cash-generating units of elderly residential care homes have been determined based on a value in use calculation using cash flow projections covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 13.9% (2017: 14.1%). The cash flows of the three cash-generating units are projected using annual growth rates ranging from 3% to 5% (2017: 3% to 5%) during the five-year period, which was based on historical growth rates and business development plan. The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2017: 3%), which was based on their historical growth rates and the long term average growth rate of the industry. The recoverable amounts of the cash-generating units estimated from the cash flow forecasts exceed the carrying amounts.

Assumptions were used in the value in use calculation of the cash-generating units for 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant units.

The values assigned to the key assumptions are consistent with external information sources.

In the opinion of the directors, there is no reasonably possible change in the key assumptions on which the recoverable amount is based that would cause the cash-generating units' carrying amounts to exceed the recoverable amounts.

14. Goodwill *(Continued)*

Impairment testing of goodwill*(Continued)*

The following table illustrates the breakeven points of each key variables, with all other variables held constant, where the recoverable amount of each cash-generating unit would have been approximately equal to its carrying amount.

	As at 31 December	
	2018	2017
Shui Jun (Yau Tong)		
Pre-tax discount rate	**22.0%**	19.5%
Growth rate beyond the five-year period	**(8.5)%**	(3.2)%
Shui On (Kwai Shing E.)		
Pre-tax discount rate	**18.4%**	16.9%
Growth rate beyond the five-year period	**(0.5)%**	0.0%
Shui On (Sun Tin Wai)		
Pre-tax discount rate	**34.3%**	27.7%
Growth rate beyond the five-year period	**(48.4)%**	(28.2)%

14. Goodwill *(Continued)*

Impairment testing of goodwill *(Continued)*

The following table sets forth the impact of reasonable possible changes in each of the key assumptions, with all other variables held constant, of goodwill impairment testing of each cash-generating unit as of the dates indicated.

Possible changes of key assumptions	Recoverable amount of the cash-generating unit exceeding/(below) its carrying amount as at 31 December 2018 HK$'000	2017 HK$'000
Shui Jun (Yau Tong)		
Pre-tax discount rate increases by 1%	**23,179**	14,511
Pre-tax discount rate increases by 3%	**14,249**	6,639
Growth rate beyond the five-year period decreases by 1%	**23,730**	14,727
Growth rate beyond the five-year period decreases by 3%	**16,019**	7,581
Shui On (Kwai Shing E.)		
Pre-tax discount rate increases by 1%	**14,828**	7,389
Pre-tax discount rate increases by 3%	**5,091**	(1,195)
Growth rate beyond the five-year period decreases by 1%	**13,444**	7,701
Growth rate beyond the five-year period decreases by 3%	**2,088**	16
Shui On (Sun Tin Wai)		
Pre-tax discount rate increases by 1%	**14,969**	13,243
Pre-tax discount rate increases by 3%	**11,503**	9,569
Growth rate beyond the five-year period decreases by 1%	**15,160**	13,618
Growth rate beyond the five-year period decreases by 3%	**12,132**	10,596

15. Trade Receivables

	As at 31 December	
	2018 **HK$'000**	2017 HK$'000
Trade receivables	**204**	270

The Group normally requires its customers to make payments in advance. The Group's customers settle their bills in a timely manner and therefore, the Group's exposure to credit risks is insignificant.

The Group's trade receivables as at the end of the reporting period, based on the date of the service rendered, had maturity of less than three months and no impairment loss was recognised.

The carrying amounts of trade receivables approximate to their fair values.

16. Prepayments, Other Receivables and Other Assets

	As at 31 December	
	2018 **HK$'000**	2017 HK$'000
Prepayments	**344**	425
Deposits	**9,072**	6,760
Other receivables	**171**	67
	9,587	7,252

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 was no recent history of default.

The carrying amounts of financial assets included in prepayments, other receivables and other assets approximate to their fair values.

17. Cash and Bank Balances

	As at 31 December	
	2018 **HK$'000**	2017 HK$'000
Cash and bank balances	**59,283**	47,567

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.

The carrying amounts of cash and bank balances approximate to their fair values.

18. Balances With Related Parties

	Note	As at 31 December 2018 HK$'000	2017 HK$'000
Amount due to a related company of which Mr. Yik Tak Chi is a member of key management personnel:			
Yu Fat Hong (Hong Kong) Limited ("Yu Fat Hong")	*(i)*	**274**	261

The carrying amounts of balances with related parties approximate to their fair values.

Note:

(i) The balances with related companies are trade in nature, unsecured, interest-free and repayable on demand.

19. Trade Payables

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December 2018 HK$'000	2017 HK$'000
Within 3 months	**879**	868

The trade payables are non-interest-bearing and are normally settled between 30 and 60 days. The carrying amounts of trade payables approximate to their fair values.

20. Other Payables and Accruals

	As at 31 December 2018 HK$'000	2017 HK$'000
Customer deposits	**7,525**	7,196
Accruals	**5,513**	5,178
Other payables	**3,067**	2,659
Contract liabilities	**162**	–
Receipt in advance	**–**	121
	16,267	15,154

Other payables are non-interest-bearing and repayable on demand. The carrying amounts of financial liabilities included in other payables and accruals approximate to their fair values.

21. Deferred Tax

The movements in deferred tax assets and liabilities during the reporting period are as follows:

Deferred tax assets

	Depreciation in excess of related depreciation allowance HK$'000
Gross deferred tax assets at 1 January 2017	1,224
Deferred tax credited to profit or loss during the year	160
Gross deferred tax assets at 31 December 2017 and 1 January 2018	1,384
Deferred tax credited to profit or loss during the year	53
Gross deferred tax assets at 31 December 2018	**1,437**

21. Deferred Tax *(Continued)*

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Depreciation allowances in excess of related depreciation HK$'000	Total HK$'000
Gross deferred tax liabilities at 1 January 2017	1,541	131	1,672
Deferred tax liabilities recognised in the acquisition of subsidiaries	563	–	563
Deferred tax charged/(credit) to profit or loss during the year	(537)	121	(416)
Gross deferred tax liabilities at 31 December 2017 and 1 January 2018	1,567	252	1,819
Deferred tax credit to profit or loss during the year	(717)	(51)	(768)
Gross deferred tax liabilities at 31 December 2018	**850**	**201**	**1,051**

21. Deferred Tax *(Continued)*

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	As at 31 December	
	2018 **HK$'000**	2017 HK$'000
Gross deferred tax assets	**1,437**	1,384
Offsetting with deferred tax liabilities	**(665)**	(663)
Net deferred tax assets	**772**	721
Gross deferred tax liabilities	**1,051**	1,819
Offsetting with deferred tax assets	**(665)**	(663)
Net deferred tax liabilities	**386**	1,156

22. Issued Capital

Shares

	As at 31 December	
	2018 **HK$**	2017 HK$
Issued and fully paid:		
400,000,000 (2017: 400,000,000) ordinary shares	**4,000,000**	4,000,000

A summary of movement in the Company's issued share capital is as follows:

	Notes	**Number of shares in issue**	**Share capital** HK$
At 1 January 2017		6,550	66
Capitalisation issue of shares	*(i)*	299,993,450	2,999,934
Issue of shares from initial public offering	*(ii)*	100,000,000	1,000,000
At 31 December 2017 and 31 December 2018		400,000,000	4,000,000

Notes:

(i) Pursuant to the written resolution of shareholders of the Company passed on 21 June 2017, subject to the share premium account of the Company being credited pursuant to the listing of the Company's shares, the Company capitalised HK$2,999,934 standing to the credit of the share premium account of the Company to pay up in full 299,993,450 new ordinary shares of HK$0.01 each for allotment and issue pari passu to the then existing shareholders of the Company.

(ii) In connection with the Company's initial public offering, 100,000,000 new shares of HK$0.01 each were issued at a price of HK$0.72 per share for a total cash consideration, before expenses, of approximately HK$72,000,000 on 12 July 2017.

23. Reserves

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statements of changes in equity.

Merger reserve

The merger reserve represents the nominal value of paid-up capital of subsidiaries acquired by the Company pursuant to the Reorganisation as set out in note 1 to the financial statements.

24. Partly-Owned Subsidiary With Material Non-Controlling Interests

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Shui On (Kwai Shing E.)*:		
Percentage of equity interest held by non-controlling shareholders	**33.3%**	33.3%
Profit for the year allocated to non-controlling interests	**1,808**	1,675
Dividends paid to non-controlling shareholders	**2,500**	2,000

* The Group acquired a 66.7% equity interest in Shui On (Kwai Shing E.) on 23 August 2016.

	As at 31 December	
	2018 HK$'000	2017 HK$'000
Shui On (Kwai Shing E.):		
Accumulated balances of non-controlling interests	**2,084**	2,776

24. Partly-Owned Subsidiary With Material Non-Controlling Interests *(Continued)*

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Shui On (Kwai Shing E.):		
Revenue	**38,831**	35,360
Total expenses	**(33,405)**	(30,337)
Profit and total comprehensive income for the year	**5,426**	5,023
Net cash flows from operating activities	**7,633**	7,947
Net cash flows used in investing activities	**(2,767)**	(208)
Net cash flows used in financing activities	**(7,500)**	(6,000)
Net increase/(decrease) in cash and cash equivalents	**(2,634)**	1,739

	As at 31 December	
	2018 HK$'000	2017 HK$'000
Shui On (Kwai Shing E.):		
Current assets	**5,661**	6,704
Non-current assets	**6,130**	6,137
Current liabilities	**(5,107)**	(3,703)
Non-current liabilities	**(429)**	(809)

25. Operating Lease Arrangements

The Group leases its residential care homes under operating lease arrangements. Leases for office premises are negotiated for terms ranging from three to six years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Within one year	**16,148**	23,268
In the second to fifth years, inclusive	**7,712**	12,533
	23,860	35,801

In addition, the operating lease rentals of certain premises are based on the higher of a fixed rental and a contingent rent depending on the revenue of residential care homes pursuant to the terms and conditions as set up in the rental agreements. As the future revenue of these residential care homes could not be reliably determined as at the end of the reporting period, the relevant contingent rentals have not been included above and only the minimum lease commitments have been included in the above table.

26. Contingent Liabilities

The Group and the Company had no significant contingent liabilities at the end of the reporting period.

27. Related Party Transactions

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the reporting period:

	Notes	Year ended 31 December 2018 HK$'000	2017 HK$'000
Purchases from a related company of which Mr. Yik Tak Chi is a member of key management personnel			
Yu Fat Hong	*(i)*	**3,314**	2,495
Rent from related companies of which Mr. Yik Tak Chi is a member of key management personnel			
Ever Premier Limited	*(ii)*	**1,800**	240
Roymark Limited	*(ii)*	**7,440**	992

Notes:

(i) The purchases were made according to the prices and conditions offered by the related company to its major customers.

(ii) The rental expenses were based on terms mutually agreed by both parties.

(b) Outstanding balances with related parties:

Details of the Group's balances with related parties as at the end of the reporting period are included in note 18 to the financial statements.

(c) Compensation of key management personnel of the Group:

	Year ended 31 December 2018 HK$'000	2017 HK$'000
Short term employee benefits	**7,774**	6,307
Post-employment benefits	**227**	154
Total compensation paid to key management personnel	**8,001**	6,461

Further details of directors' and the chief executive's emoluments are included in note 7 to the financial statements.

28. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Loans and receivables	
	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Trade receivables	**204**	270
Financial assets included in prepayments, other receivables and other assets	**9,243**	6,827
Cash and bank balances	**59,283**	47,567
	68,730	54,664

Financial liabilities

	Financial liabilities at amortised cost	
	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Trade payables	**879**	868
Financial liabilities included in other payables and accruals	**10,592**	9,855
Due to a related company	**274**	261
	11,745	10,984

29. Fair Value and Fair Value Hierarchy of Financial Instruments

As at 31 December 2018 and 2017, the fair values of the Group's financial assets or financial liabilities approximated to their respective carrying amounts.

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

29. Fair Value and Fair Value Hierarchy of Financial Instruments *(Continued)*

The Group'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

The Group did not have any financial assets or financial liabilities measured at fair value as at 31 December 2017 and 2018.

During the years ended 31 December 2017 and 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

30. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group 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 reporting period, the Group's policy that no trading in financial instruments shall be undertaken.

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

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

30. Financial Risk Management Objectives and Policies *(Continued)*

Liquidity risk

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

As at 31 December 2018

	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	Total HK$'000
Trade payables	879	–	–	879
Financial liabilities included in other payables and accruals	10,592	–	–	10,592
Due to a related company	274	–	–	274
	11,745	–	–	11,745

As at 31 December 2017

	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	Total HK$'000
Trade payables	868	–	–	868
Financial liabilities included in other payables and accruals	9,855	–	–	9,855
Due to a related company	261	–	–	261
	10,984	–	–	10,984

Capital management

The primary objectives of the Group's capital management are to safeguard the Group'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 Group 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 Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No change was made in the objectives, policies or processes for managing capital during the reporting period.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes trade payables, other payables and accruals, an amount due to a related company, less cash and bank balances. Capital represents equity attributable to the owners of the parent.

As at 31 December 2018 and 2017, the Group's cash and bank balances exceeded the financial liabilities. As such, no gearing ratios as at 31 December 2018 and 2017 were presented.

31. Events After the Reporting Period

There was no significant event that took place after the reporting period and up to the date of the financial statements.

32. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

		As at 31 December	
	Note	**2018 HK$'000**	2017 HK$'000
NON-CURRENT ASSETS			
Investment in a subsidiary		**5**	5
Total non-current assets		**5**	5
CURRENT ASSETS			
Due from a subsidiary		**36,900**	44,900
Cash and bank balances		**18,043**	21,841
Total current assets		**54,943**	66,741
CURRENT LIABILITIES			
Due to a subsidiary		**5,909**	5,909
Total current liabilities		**5,909**	5,909
NET CURRENT ASSETS		**49,034**	60,832
TOTAL ASSETS LESS CURRENT LIABILITIES		**49,039**	60,837
Net assets		**49,039**	60,837
EQUITY			
Issued capital	*25*	**4,000**	4,000
Reserves *(note)*		**45,039**	56,837
Total equity		**49,039**	60,837

32. Statement of Financial Position of the Company *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	–	–	–
Loss for the year	–	(1,654)	(1,654)
Issue of shares for the IPO	71,000	–	71,000
Capitalisation issue	(3,000)	–	(3,000)
Share issue expenses	(9,509)	–	(9,509)
At 31 December 2017 and 1 January 2018	58,491	(1,654)	56,837
Profit for the year	–	202	202
Dividend declared	–	(12,000)	(12,000)
At 31 December 2018	58,491	(13,452)	45,039

33. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 27 February 2019.

FOUR YEARS FINANCIAL SUMMARY

The consolidated results, assets and liabilities of the Group for the last four financial years as extracted from the financial statements of the Groups are summarised below:

Results

	Year ended 31 December 2015 HK$'000	Year ended 31 December 2016 HK$'000	Year ended 31 December 2017 HK$'000	**Year ended 31 December 2018 HK$'000**
Revenue	39,937	58,975	97,148	**135,516**
Profit for the year	36,407	7,608	3,166	**23,709**

Assets and liabilities

	As at 31 December			
	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018 HK$'000**
Total assets	32,505	87,115	156,966	**165,845**
Total liabilities	16,684	12,991	19,185	**18,855**