THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Hang Chi Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Hang Chi Holdings Limited
恒智控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8405)

(1) MAJOR AND CONNECTED TRANSACTION RELATING TO THE ACQUISITION OF 60% OF THE ISSUED SHARE CAPITAL OF GUARDIAN HOME LIMITED; AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

Opus Capital Limited
創富融資有限公司

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" of this circular, unless the context otherwise requires.

A letter from the Board is set out on pages 6 to 18 of this circular.

A notice convening the EGM to be held at Room D, 35/F, TG Place, 10 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Wednesday, 10 July 2019 at 3 p.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof (as the case may be).

Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing the proxy shall be deemed to be revoked.

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

24 June 2019

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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

CONTENTS

In this circular, the following expressions shall have the following meanings unless the context otherwise requires.

"Acquisition"	the acquisition of 60% of the issued share capital of the Target Company upon and subject to the terms and conditions of the Agreement
"Agreement"	the sale and purchase agreement dated 11 March 2019 (as amended and supplemented by the Supplemental Agreement dated 17 June 2019) and entered into among the Vendor, the Purchaser and the Guarantor in relation to the Acquisition
"Announcements"	the announcements of the Company dated 11 March 2019 and 17 June 2019 in relation to, among others, the Agreement and the Supplemental Agreement, respectively
"associate(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day (excluding Saturday, Sunday and any day on which a tropical cyclone warning no. 8 or above or on which a "black" rainstorm warning is hoisted before 10:00 a.m.) on which licensed banks in Hong Kong are generally open for business
"Chun Shek Nursing Home"	Guardian Home (Chun Shek) Integrated Nursing Home (佳安家(秦石)綜合護老中心), which is an elderly residential care home operated by Guardian Home (Chun Shek)
"close associate(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Company"	Hang Chi Holdings Limited (恒智控股有限公司), a company incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on GEM of the Stock Exchange (stock code: 8405)
"Completion"	completion of the Acquisition in accordance with the Agreement
"connected person(s)	has the meaning ascribed to it under the GEM Listing Rules

"Consideration"	the consideration of HK$63,000,000 for the Acquisition
"controlling shareholder(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held at Room D, 35/F, TG Place, 10 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Wednesday, 10 July 2019 at 3 p.m. for the purpose of considering, and if thought fit, approving the relevant resolution in relation to the Acquisition, as set out in the notice of EGM
"Enlarged Group"	the Group as enlarged by the Acquisition
"GEM"	GEM operated by the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM of the Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Glory Crest"	Glory Crest Limited (峰榮有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Target Company
"Group"	the Company and its subsidiaries
"Guarantor"	Ms. Woo Pui Kei, Betty (胡佩琪)
"Guardian Home (Chun Shek)"	Guardian Home (Chun Shek) Limited (佳安家(秦石)有限公司) (formerly known as Top City Service Limited (通城服務有限公司) and Guardian Sports and Recreation Limited (佳競有限公司)), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Target Company
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Shareholders"	the Shareholders other than Mr. Yik, Mr. Lui, Shui Wah, Jumbo Sino and their respective close associates

"Independent Third Party(ies)"	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons in accordance with the GEM Listing Rules
"Independent Valuer"	Royson Valuation Advisory Limited, an independent valuer engaged by the Company to conduct valuation on 60% equity interest of the Target Company
"Jumbo Sino"	Jumbo Sino Investment Limited (基兆投資有限公司), a company incorporated in Hong Kong with limited liability and is wholly-owned by Mr. Lui
"Latest Practicable Date"	19 June 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Listing"	the listing of the Shares on GEM of the Stock Exchange on 12 July 2017
"Main Board"	the stock market operated by the Stock Exchange which is independent from and operated in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
"Mr. Lui"	Mr. Lui Chi Tat (雷志達), the chief executive officer of the Company and an executive Director
"Mr. Yik"	Mr. Yik Tak Chi (易德智), the chairman of the Company and an executive Director
"Opus Capital"	Opus Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), being the financial adviser to the Company in respect of the Acquisition
"PRN"	Professional Rehabilitation & Nursing Services (PRN) Limited (佳安專業復康護理服務有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Target Company
"Prospectus"	the prospectus of the Company dated 28 June 2017

"Purchaser"	Shui On Nursing Home Holdings Limited (瑞安護老院集團有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
"Savills Guardian"	Savills Guardian (Holdings) Limited, a company incorporated in Hong Kong with limited liability and an Independent Third Party, with principal business activities of providing property and facilities management services
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	the holder(s) of the Shares
"Shui On (KSE)"	Shui On Nursing Centre (Kwai Shing E.) Co. Limited (瑞安護老中心(葵盛東)有限公司), a company incorporated in Hong Kong with limited liability and an indirect non-wholly owned subsidiary of the Company
"Shui Wah"	Shui Wah Limited (瑞樺有限公司), a company incorporated in the British Virgin Islands with limited liability and a controlling shareholder of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Supplemental Agreement"	the supplemental agreement dated 17 June 2019 and entered into among the Vendor, the Purchaser and the Guarantor to amend and supplement the Agreement
"Target Company"	Guardian Home Limited (佳安家有限公司), a company incorporated in Hong Kong with limited liability
"Target Group"	the Target Company and its subsidiaries, namely Guardian Home (Chun Shek), PRN and Glory Crest

"Vendor"	Jun Pak Limited (榛栢有限公司), a company incorporated in Hong Kong with limited liability and is wholly owned by the Guarantor
"%"	per cent

In the event of inconsistency, the English text of the circular, the notice of EGM and the enclosed form of proxy shall prevail over the Chinese text.

Hang Chi Holdings Limited
恒智控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8405)

Executive Directors:
Mr. Yik Tak Chi *(Chairman)*
Mr. Lui Chi Tat *(Chief executive officer)*
Mr. Chung Kin Man
Ms. Chung Wai Man

Non-executive Director:
Mr. Lau Joseph Wan Pui

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

Registered office:
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.
TG Place
10 Shing Yip Street
Kwun Tong, Kowloon
Hong Kong

24 June 2019

To the Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION RELATING TO THE ACQUISITION OF 60% OF THE ISSUED SHARE CAPITAL OF GUARDIAN HOME LIMITED; AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcements in relation to the Acquisition.

On 11 March 2019 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor and the Guarantor, pursuant to which the

Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell 60% of the issued share capital of the Target Company at the Consideration of HK$63,000,000.

On 17 June 2019 (after trading hours), the Purchaser, the Vendor and the Guarantor entered into the Supplemental Agreement to extend the long stop date of the Agreement from 1 July 2019 to 1 September 2019 or such later date as the Vendor and the Purchaser may agree in writing.

The Acquisition constitutes a major and connected transaction for the Company under the GEM Listing Rules. The purpose of this circular is to provide you with, among other things, (a) further information in relation to the Acquisition; (b) an accountant's report of the Target Group; (c) management discussion and analysis on the Target Group; (d) unaudited pro forma financial information of the Enlarged Group; (e) a valuation report on 60% equity interest in the Target Group; and (f) a notice of the EGM.

The principal terms of the Agreement are summarised as follows:

THE AGREEMENT

Date

11 March 2019 (after trading hours) (as amended and supplemented by the Supplemental Agreement on 17 June 2019)

Parties

(1) the Vendor;

(2) the Purchaser; and

(3) the Guarantor.

Subject matter to be acquired

Pursuant to the Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire 60% of the issued share capital of the Target Company, subject to the terms and conditions of the Agreement.

Consideration

The Consideration is HK$63,000,000 which shall be settled by the Purchaser in cash in the following manner:

(a) an amount of HK$30,000,000, being the refundable deposit (the "**Deposit**") and the part payment towards the Consideration, shall be paid by the Purchaser to the Vendor upon signing of the Agreement;

(b) a further amount of HK$20,000,000 shall be paid by the Purchaser to the Vendor on the date of despatch of the circular in relation to the Acquisition by the Company; and

(c) a further amount of HK$13,000,000, being the remaining balance of the Consideration, shall be paid by the Purchaser to the Vendor on or before 31 December 2019.

Basis of determination of the Consideration

The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser by taking into account, among others, (i) the valuation conducted by the Independent Valuer on 60% equity interest in the Target Group as at 31 December 2018 (the "**Valuation**") with an appraised value of approximately HK$69,406,000; (ii) the historical financial performance of the Target Group; (iii) the business prospect of the Target Group; and (iv) the reasons for and benefits of the Acquisition as described under the paragraph headed "Reasons for and Benefits of the Acquisition" below.

The Consideration shall be satisfied by the unutilised net proceeds from the Listing and internal resources of the Group.

Based on the aforesaid, the Directors (including the independent non-executive Directors) consider the terms and conditions of the Acquisition, including the Consideration, to be fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion is conditional upon fulfillment of the following conditions:

(a) the Company having published the Announcements and despatched this circular in relation to the Acquisition to the Shareholders, and the Agreement and the transactions contemplated thereunder having been approved by the Shareholders in the EGM or in other manners in accordance with the GEM Listing Rules;

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

(c) the Vendor having provided the documents to the Purchaser to prove that all necessary licenses, approvals, permits, consents and waivers to carry on the business of the Target Group have been obtained;

(d) the Guarantor, the Vendor and the Purchaser not having been informed that the tenancy in relation to the property where Chun Shek Nursing Home operates will not be renewed by the relevant landlord; and

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

The Purchaser may waive in writing the conditions (b), (d) and (e) as set out above at its absolute discretion. The above conditions (a) and (c) shall not be waivable. In the event that the conditions mentioned above cannot be fulfilled or waived (as the case may be, save and except for conditions (a) and (c)) by the parties to the Agreement before 1 September 2019 or such later date as the Vendor and the Purchaser may agree in writing, the Agreement shall be terminated and neither party to the Agreement shall have any further obligations towards the other thereunder except for antecedent breaches (if any). The Vendor shall refund the Deposit in full to the Purchaser within five (5) Business Days after the termination of the Agreement.

At the time of signing the Agreement, the initial agreed long stop date of the Agreement was 1 July 2019. As more time is required to complete the Acquisition, including among others, the convening of the EGM on 10 July 2019, on 17 June 2019 (after trading hours), the Purchaser, the Vendor and the Guarantor entered into the Supplemental Agreement to extend the long stop date of the Acquisition from 1 July 2019 to 1 September 2019 or such later date as the Vendor and the Purchaser may agree in writing.

As at the Latest Practicable Date, none of the conditions had been fulfilled, and the Purchaser had no intention to waive conditions (b), (d) and (e).

Guarantee

The Guarantor has agreed to warrant and guarantee to the Purchaser the due and punctual performance by the Vendor of all its obligations under the Agreement and the transactions contemplated thereunder.

The Vendor further guarantees that the bank balance of the relevant members of the Target Group as at the date of Completion will be sufficient to reflect the aggregate amount of deposits, service fees and miscellaneous fees already paid by the elderly residents of Chun Shek Nursing Home prior to Completion, and undertake to make up such shortfall within 20 days after Completion if there is any shortfall.

Completion

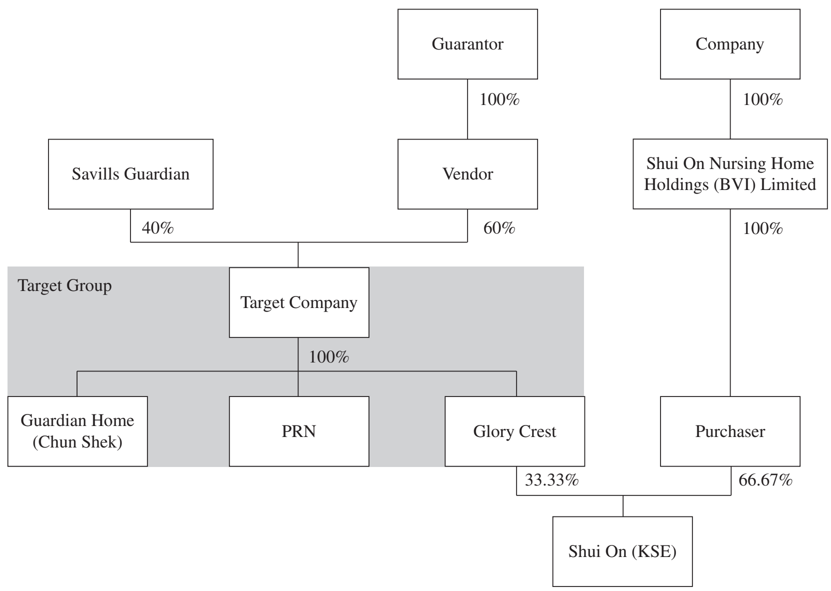
Completion is expected to take place on the fifth (5^{th}) Business Day after the fulfilment or waiver (as the case may be) of the conditions (or such later date as the parties to the Agreement may agree in writing) mentioned above.

Upon Completion, the Target Company will be owned as to 60% by the Purchaser and 40% by Savills Guardian, an Independent Third Party, and the Company will indirectly hold 60% of the issued share capital of Guardian Home (Chun Shek) and an effective equity interest of approximately 86.67% of the issued share capital of Shui On (KSE) through the Purchaser. Accordingly, the financial results and financial position of the Target Group will be consolidated into those of the Group.

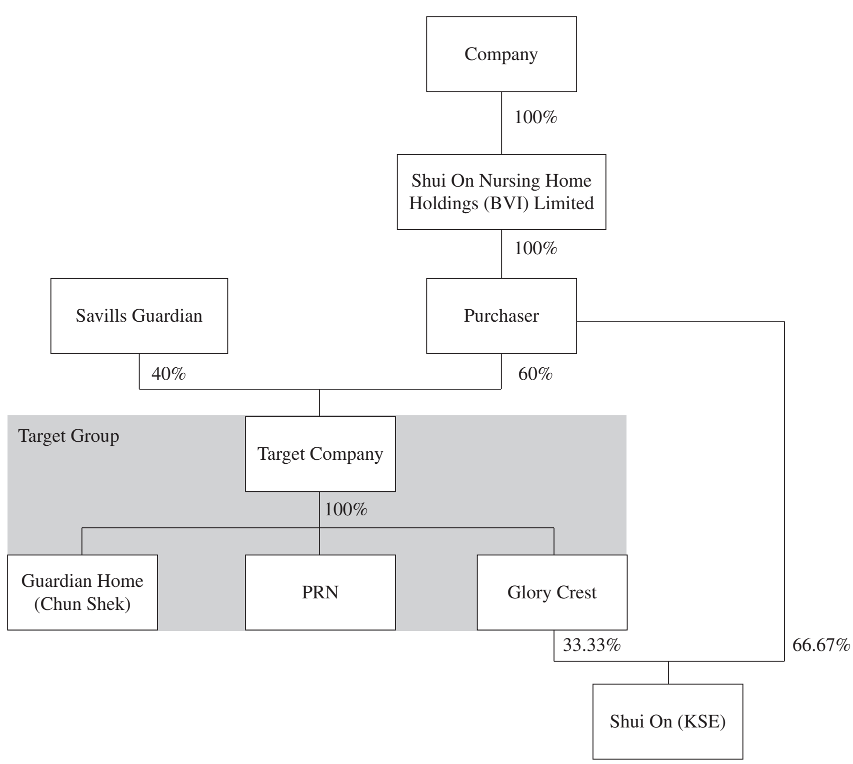
INFORMATION ON THE TARGET GROUP

The following diagrams illustrate the shareholding structures of the Target Group (i) immediately prior to the Acquisition and (ii) immediately upon Completion, respectively:

(i) Shareholding structure of the Target Group immediately prior to the Acquisition



(ii) Shareholding structure of the Target Group immediately upon Completion



The Target Company

The Target Company is a company incorporated in Hong Kong on 12 August 2006 with limited liability. It is principally engaged in investment holding. As at the Latest Practicable Date, the Target Company was owned as to 60% by the Vendor and 40% by Savills Guardian, an Independent Third Party.

Guardian Home (Chun Shek)

Guardian Home (Chun Shek) is a company incorporated in Hong Kong on 15 April 1992 with limited liability. It holds a licence of residential care home for the elderly and operates Chun Shek Nursing Home, an elderly residential care home in Sha Tin, Hong Kong with 244 residential care places. Chun Shek Nursing Home does not participate in the Enhanced Bought Place Scheme ("**EBPS**") of the Social Welfare Department ("**SWD"**). As at the Latest Practicable Date, Guardian Home (Chun Shek) was wholly-owned by the Target Company.

Glory Crest

Glory Crest is a company incorporated in Hong Kong on 20 November 2007 with limited liability. As at the Latest Practicable Date, Glory Crest was wholly-owned by the Target Company. Glory Crest is principally engaged in investment holding and is interested in approximately 33.33% of the issued share capital of Shui On (KSE), a non wholly-owned subsidiary of the Company.

Shui On (KSE) is an operator of an elderly residential care home with 238 residential care places in Kwai Tsing, Hong Kong. It holds a licence of residential care home for the elderly. Shui On (KSE) participates in the EBPS of the SWD and is classified as class EA1 under the EBPS, the highest classification rated by the SWD under the EBPS.

PRN

PRN is a company incorporated in Hong Kong on 16 November 2007 with limited liability. As at the Latest Practicable Date, (i) PRN was wholly-owned by the Target Company; and (ii) PRN had ceased its operation and completed deregistration on 31 May 2019.

Set out below is the summary of the key financial information extracted from the accountants' report on the historical financial information of the Target Group for the three years ended 31 December 2018 as set out in Appendix II to this circular:

	For the year ended 31 December 2016	**For the year ended 31 December 2017**	**For the year ended 31 December 2018**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)
Profit before taxation	6,753	16,822	21,964
Profit after taxation	6,757	14,650	18,691

	As at 31 December 2016 *HK$'000* (audited)	As at 31 December 2017 *HK$'000* (audited)	As at 31 December 2018 *HK$'000* (audited)
Net assets	14,237	23,887	12,578

Please refer to Appendix II to this circular which sets out the audited financial information on the Target Group.

INFORMATION ON THE VENDOR

The Vendor is a company incorporated in Hong Kong with limited liability, which is wholly owned by the Guarantor. The Vendor is principally engaged in investment holding.

The Vendor, which holds 60% equity interests in the Target Group, was formerly wholly-owned by Mr. Lui until December 2017 when Mr. Lui disposed of his entire equity interests in the Vendor to the Guarantor at the consideration of HK$37,200,000. Mr. Lui did not hold any position in the Company at the relevant time.

As at the Latest Practicable Date, the Vendor was deemed to be interested in approximately 33.33% of the issued share capital of Shui On (KSE). The Vendor is therefore a substantial shareholder of Shui On (KSE) and hence a connected person of the Company at the subsidiary level.

INFORMATION ON THE GUARANTOR

The Guarantor is a private investor who principally invests in the industry of residential care home for the elderly in Hong Kong.

INFORMATION ON THE PURCHASER AND THE GROUP

The Purchaser is a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company. It is principally engaged in investment holding.

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) 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) 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.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The principal business of the Group is to provide residential care home services to elderly residents. In order to maintain the competitiveness of the Group in the elderly residential care home market in Hong Kong and strengthen the position of the Group by capturing a larger market share in Hong Kong, the Group intends to expand the network of the elderly residential care homes in strategic locations in Hong Kong. The Directors hold positive view of the prospects of Chun Shek Nursing Home and consider that the Acquisition would allow the Company to expand its network of elderly residential care homes in Hong Kong and enhance its competitiveness in the market. Furthermore, the Acquisition would enable the Group to further consolidate its interests in Shui On (KSE), such that the effective equity interests held by the Group in Shui On (KSE) will increase from approximately 66.67% to 86.67% immediately upon Completion.

According to the announcement of the Company dated 26 October 2018, the Board has decided to reallocate the unutilised net proceeds from the Listing (the "**Net Proceeds**") of approximately HK$13.8 million to acquire an operating residential care home. Therefore, the Acquisition is in line with the adjusted use of the Net Proceeds.

Taking into account of the aforesaid, the Directors (including the independent non-executive Directors) are of the view that the terms of the Agreement are normal commercial terms and fair and reasonable, and the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole.

VALUATION

As the Independent Valuer has adopted the discounted cash flows method under the income approach, the Valuation is regarded as a profit forecast under Rule 19.61 of the GEM Listing Rules (the "**Profit Forecast**") and Rules 19.60A, 19.62 and 20.66(7) of the GEM Listing Rules are applicable. According to the Valuation, the fair value of the 60% equity interest in the Target Group as at 31 December 2018 was approximately HK$69,406,000.

Pursuant to Rule 19.62(1) of the GEM Listing Rules, the following are the details of the principal assumptions, including commercial assumptions, upon which the report for the Valuation was based:

(1) There will be no major changes in the existing political, legal, fiscal and economic conditions in which the Target Group and Shui On (KSE) carry on their business;

(2) There will be no major changes in the current taxation law in the country where the Target Group and Shui On (KSE) operates, that the rates of tax payable will remain unchanged and that all applicable laws and regulations will be complied with;

(3) There will be no material changes in the industry in which the Target Group and Shui On (KSE) involve that would materially affect the revenues, profits, cash flows attributable to the Target Group and Shui On (KSE);

(4) The Target Group and Shui On (KSE) as well as their partners will obtain the necessary licenses and approvals to provide their service;

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

(6) The availability of finance will not be a constraint on the forecasted growth of operations of the Target Group and Shui On (KSE);

(7) The Target Group and Shui On (KSE) will successfully maintain their competitiveness and market share through optimising the utilization of their resources and expanding their marketing network;

(8) The Target Group and Shui On (KSE) can keep abreast of the latest development of the industry such that their competitiveness and profitability can be sustained;

(9) The Target Group and Shui On (KSE) will utilize and maintain their current operational, administrative and technical facilities to expand and increase their sales;

(10) The Target Group and Shui On (KSE) will be able to secure funds to repay their debts when they fall due;

(11) The Target Group and Shui On (KSE) will retain and have competent management, key personnel, and technical staff to support their ongoing operations;

(12) Industry trends and market conditions for related industries will not deviate materially from economic forecasts;

(13) The financial projections have been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration;

(14) The perpetual growth rate of 3% is adopted, which reflects a long term inflation in Hong Kong and industry growth rate;

(15) Shui On (KSE) will take all the reasonable steps to ensure the fulfillment of the criteria of the EBPS under SWD all the time; and

(16) The Target Group and Shui On (KSE) will have the intention to renew their current operating lease upon expiry and the probability of failure to renewal is considered as remote.

The reporting accountants of the Company, Ernst & Young ("**EY**"), has reviewed the calculations of the discounted cash flows of the Target Company, in which the Valuation was based.

Opus Capital, the financial adviser to the Company in respect of the Acquisition, has reviewed the Profit Forecast in respect of the Valuation and has discussed with the management of the Company and the Independent Valuer regarding the bases and assumptions upon which the Profit Forecast has been made to arrive at the Valuation. Opus Capital has confirmed that it is satisfied that the Profit Forecast has been made by the Directors after due and careful enquiry.

Pursuant to Rule 19.60A of the GEM Listing Rules, a report from EY dated 24 June 2019 in compliance with Rule 19.62(2) of the GEM Listing Rules and a letter from Opus Capital dated 24 June 2019 in compliance with Rule 19.62(3) of the GEM Listing Rules have been submitted to the Stock Exchange, the texts of which are included in Appendix VI to this circular.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will be owned as to 60% by the Purchaser and 40% by Savills Guardian, which is an Independent Third Party, and the Company will indirectly hold 60% of the issued share capital of Guardian Home (Chun Shek) and an aggregate of approximately 86.67% of the issued share capital of Shui On (KSE) through the Purchaser. Accordingly, the financial results and financial position of the Target Group will be consolidated into the accounts of the Group.

Effects on assets and liabilities

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, assuming that Completion had taken place on 31 December 2018, (i) the total assets would have increased by approximately HK$165,845,000 to approximately HK$236,482,000; (ii) the total liabilities would have increased by approximately HK$18,855,000 to approximately HK$88,035,000; and (iii) the net assets of the Group would have increased by approximately HK$146,990,000 to approximately HK$148,447,000.

Effects on earnings

According to the accountants' report on the Target Group set out in Appendix II to this circular, the audited revenue and the net profit of the Target Group for the year ended 31 December 2018 were approximately HK$42,344,000 and approximately HK$18,691,000, respectively. The Directors expect that the Acquisition will contribute positively to the financial performance of the Group. Nevertheless, the actual effect on earnings of the Enlarged Group will depend on the future financial performance of the Target Group.

IMPLICATIONS UNDER THE GEM LISTING RULES

General

As at the Latest Practicable Date, the Vendor was deemed to be interested in approximately 33.33% of the issued share capital of Shui On (KSE). The Vendor is therefore a substantial shareholder of Shui On (KSE) and hence a connected person of the Company at the subsidiary level. Accordingly, the Acquisition constitutes a connected transaction of the Company under the GEM Listing Rules.

As the Board had approved the Agreement and the transactions contemplated thereunder; and the independent non-executive Directors have confirmed that the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable, the transactions contemplated under the Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Pursuant to Rule 20.99 of the GEM Listing Rules, the Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempt from the circular, independent financial advice and independent shareholders' approval requirements.

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

As (i) Mr. Lui was the former owner of the Target Group who had disposed of his interests in the Target Group to the Guarantor in December 2017; and (ii) Mr. Yik, Mr. Lui and certain family members of Mr. Yik and Mr. Lui (namely Ms. Yik Wai Hang, Mr. Yik Siu Tim and Mr. Yi Shaoguang) (collectively, the "**Yik Family**") held and/or currently hold directorships in members of Target Group and held and/or currently hold management roles in members of the Target Group, each member of the Yik Family is considered to have a material interest in the Acquisition.

At the Board meeting held to approve the Agreement and the transactions contemplated thereunder, Mr. Yik and Mr. Lui were considered to be interested in the Acquisition, and had abstained from voting on the relevant Board resolution relating to the Agreement and the transactions contemplated thereunder. Apart from the aforesaid, none of the Directors had any material interest in the Acquisition and was required to abstain from voting on the relevant Board resolution approving the Agreement and the transactions contemplated thereunder.

Any Shareholders who are involved in or interested in the Acquisition are required to abstain from voting on the relevant ordinary resolution approving the Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, (i) Mr. Yik, an executive Director, was interested in 262,980,000 Shares (representing approximately 65.75% of the issued share capital of the Company), of which 14,280,000 Shares were held as beneficial owner and

248,700,000 Shares were indirectly held through Shui Wah; and (ii) Mr. Lui, an executive Director, was interested in 36,020,000 Shares in the Company (representing approximately 9.01% of the issued share capital of the Company), of which 20,720,000 Shares were held as beneficial owner and 15,300,000 Shares were directly held through Jumbo Sino. Accordingly, Mr. Yik, Mr. Lui, Shui Wah, Jumbo Sino and their respective close associates will abstain from voting on the relevant ordinary resolution in relation to the Agreement and the transactions contemplated thereunder to be proposed at the EGM. Save as disclosed above, none of the Yik Family and their respective close associates held any Shares as at the Latest Practicable Date.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, save as the aforesaid Shareholders, no Shareholder (or its/his/her close associates) has any material interest in the Acquisition and will be required to abstain from voting at the EGM to be convened for the purpose of considering and, if thought fit, approving the Agreement and the transactions contemplated thereunder.

THE EGM

Set out on pages EGM-1 to EGM-3 of this circular is a notice convening the EGM to be held at Room D, 35/F, TG Place, 10 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Wednesday, 10 July 2019 at 3 p.m. at which the relevant resolution will be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder by the Independent Shareholders. The voting in relation to the Agreement and the transactions contemplated thereunder at the EGM will be conducted by way of poll at the EGM, and an announcement on the results of the EGM will be made by the Company after the EGM. The aforesaid Shareholders with a material interest in the Acquisition together with his/her/its close associates will abstain from voting on the relevant resolution approving the Agreement and the transactions contemplated thereunder.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, there was (i) no voting trust or other agreement or arrangement or understanding entered into or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing the proxy shall be deemed to be revoked.

In order to be eligible to attend and vote at the EGM, all unregistered holders of the Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Monday, 8 July 2019.

RECOMMENDATION

The Board considers that the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

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

(A) THE GROUP

Financial Information of the Group

The consolidated financial information of the Group, together with the accompanying notes, for (i) the year ended 31 December 2016 is disclosed on pages I-1 to I-66 of appendix I of the Prospectus; (ii) the year ended 31 December 2017 is disclosed in the annual report of the Company for the year ended 31 December 2017 (pages 42 to 106); and (iii) the year ended 31 December 2018 is disclosed in the annual report of the Company for the year ended 31 December 2018. The Prospectus, the aforesaid annual reports of the Company are available on the Company's website at www.shuionnc.com through the links below:

Annual report for the year ended 31 December 2018	https://www.shuionnc.com/site/assets/files/2350/ew08405_ar.pdf
Annual report for the year ended 31 December 2017	https://shuionnc.com/site/assets/files/1804/ew08405_ar.pdf
Prospectus	https://www.shuionnc.com/site/assets/files/1484/ewf08405.pdf

Indebtedness Statement

As at the close of business on 30 April 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group, apart from intra-group liabilities, did not have any debt securities issued and outstanding or agreed to be issued, bank borrowings or other similar indebtedness, mortgages and charges, guarantees or other material contingent liabilities.

Working Capital

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

Financial and Trading Prospects of the Group

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

Leveraging its industry experience and proven track record in the management of its elderly residential care homes, the Group intends to expand the network of its elderly residential care homes in strategic locations in Hong Kong to provide the services to more elderly residents in Hong Kong.

(B) THE ENLARGED GROUP

Financial Information of the Enlarged Group

Financial information of the Target Company for the three years ended 31 December 2018 and the unaudited pro forma financial information of the Enlarged Group as at 31 December 2018 are disclosed in Appendix II and Appendix IV to this circular, respectively.

Indebtedness Statement

As at the close of business on 30 April 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group, apart from intra-group liabilities, did not have any debt securities issued and outstanding or agreed to be issued, bank borrowings or other similar indebtedness, mortgages and charges, guarantees or other material contingent liabilities.

Financial and Trading Prospects of the Enlarged Group

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

Leveraging its industry experience and proven track record in the management of its elderly residential care homes, the Enlarged Group intends to expand the network of its elderly residential care homes in strategic locations in Hong Kong to provide the services to more residents in Hong Kong.

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

The Directors
Hang Chi Holdings Limited

Dear Sirs,

We report on the historical financial information of Guardian Home Limited (the "**Target Company**") set out on pages II-3 to II-36, which comprises the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Company for each of the years ended 31 December 2016, 2017 and 2018 (the "**Relevant Periods**"), and the consolidated statements of financial position of the Target Company as at 31 December 2016, 2017 and 2018 and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-3 to II-36 forms an integral part of this report, which has been prepared for inclusion in the circular of Hang Chi Holdings Limited (the "**Company**") dated 24 June 2019 (the "**Circular**") in connection with the proposed acquisition of the Target Company by the Company.

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

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

REPORTING ACCOUNTANTS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Target Company as at 31 December 2016, 2017 and 2018 and of the financial performance and cash flows of the Target Company for each of the Relevant Periods in accordance with the basis of preparation set out in note 2 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE GEM OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on II-3 have been made.

Dividends

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

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong
24 June 2019

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

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

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

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2016	**2017**	**2018**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	6	29,527	37,496	42,344
Other income and gains	6	225	428	393
Staff costs		(10,908)	(9,760)	(9,827)
Property rental and related expenses		(6,718)	(6,889)	(7,036)
Depreciation		(1,683)	(1,814)	(1,756)
Food		(1,776)	(1,201)	(1,064)
Medical fees		(1,675)	(990)	(1,052)
Professional and legal fees		(424)	(460)	(365)
Utility expenses		(847)	(804)	(840)
Consumables		(19)	(92)	(28)
Other operating expenses		(1,523)	(1,403)	(1,250)
Loss on disposal of items of property, plant and equipment		(13)	(5)	(5)
Share of profit of an associate		2,587	2,316	2,450
PROFIT BEFORE TAX	7	6,753	16,822	21,964
Income tax (expense)/credit	10	4	(2,172)	(3,273)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		6,757	14,650	18,691

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2016	2017	2018
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	13	4,317	2,639	956
Investment in an associate	14	1,808	2,124	2,074
Deferred tax assets	15	599	776	954
Total non-current assets		6,724	5,539	3,984
CURRENT ASSETS				
Trade receivables	16	164	85	109
Prepayments, other receivables and other assets	17	1,807	1,862	1,797
Cash and cash equivalents	18	9,895	23,524	12,868
Total current assets		11,866	25,471	14,774
CURRENT LIABILITIES				
Trade payables	19	314	343	303
Other payables and accruals	20	3,318	3,710	4,331
Tax payable		721	3,070	1,546
Total current liabilities		4,353	7,123	6,180
NET CURRENT ASSETS		7,513	18,348	8,594
TOTAL ASSETS LESS CURRENT LIABILITIES		14,237	23,887	12,578
NET ASSETS		14,237	23,887	12,578
EQUITY				
Issued capital	21	13,601	8,601	8,601
Reserves	22	636	15,286	3,977
TOTAL EQUITY		14,237	23,887	12,578

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Issued capital	Retained profits/ (accumulated losses)	Total
		HK$'000	HK$'000	HK$'000
At 1 January 2016		33,601	(6,121)	27,480
Profit for the year		–	6,757	6,757
Reduction of share capital	21	(20,000)	–	(20,000)
At 31 December 2016 and 1 January 2017		13,601	636	14,237
Profit for the year		–	14,650	14,650
Reduction of share capital	21	(5,000)	–	(5,000)
At 31 December 2017 and 1 January 2018		8,601	15,286	23,887
Profit for the year		–	18,691	18,691
Dividends declared	11	–	(30,000)	(30,000)
At 31 December 2018		8,601	3,977	12,578

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	6,753	16,822	21,964
Adjustments for:			
Share of profit of an associate	(2,587)	(2,316)	(2,450)
Depreciation *(note 7)*	1,683	1,814	1,756
Loss on disposal of items of property, plant and equipment	13	5	5
	5,862	16,325	21,275
Decrease/(increase) in trade receivables	119	79	(24)
Decrease/(increase) in prepayments, other receivables and other assets	143	(55)	65
Decrease in an amount due from a related company	35	–	–
Increase/(decrease) in trade payables	252	29	(40)
Increase in other payables and accruals	283	392	621
Decrease in amounts due to related companies	(487)	–	–
Cash generated from operations	6,207	16,770	21,897
Income tax paid	–	–	(4,975)
Net cash flows from operating activities	6,207	16,770	16,922
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received from an associate	2,500	2,000	2,500
Purchases of items of property, plant and equipment	(1,215)	(141)	(78)
Proceeds from disposal of items of property, plant and equipment	17	–	–
Net cash flows from investing activities	1,302	1,859	2,422

	Year ended 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments for share capital reduction	(20,000)	(5,000)	–
Dividends paid	–	–	(30,000)
Net cash flows used in financing activities	(20,000)	(5,000)	(30,000)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(12,491)	13,629	(10,656)
Cash and cash equivalents at beginning of year	22,386	9,895	23,524
CASH AND CASH EQUIVALENTS AT END OF YEAR	9,895	23,524	12,868
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statements of financial position	9,895	23,524	12,868
Cash and cash equivalents as stated in the consolidated statements of cash flows	9,895	23,524	12,868

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. INFORMATION OF THE TARGET COMPANY

Guardian Home Limited (the "**Target Company**"), previously known as Nice Concord Limited, was incorporated on 12 August 2006 with limited liability in Hong Kong. The address of its registered office is Unit No. B(6), 6/F., Kam Man Fung Factory Building, No. 6 Hong Man Street, Chai Wan, Hong Kong.

The Target Company is principally engaged in investment holding. The principal activities of its subsidiaries (together with the Target Company, the "**Target Group**") are the operation of elderly residential care home and the provision of professional rehabilitation and nursing services.

In the opinion of the directors of the Target Company, the holding and ultimate holding company of the Target Company as at 31 December 2018 and as at the date of this report was Jun Pak Limited, which was incorporated in Hong Kong. The Target Company's ultimate controlling shareholder is Ms. Woo Pui Kei.

Information about subsidiaries

Particulars of the Target Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued/registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
Glory Crest Limited ("**Glory Crest**")	Hong Kong	Ordinary shares HK$1	100%	–	Investment holding
Guardian Home (Chun Shek) Limited ("**Guardian Home (Chun Shek)**")	Hong Kong	Ordinary shares HK$10,000	100%	–	Operation of a residential care home for the elderly
Professional Rehabilitation & Nursing Services (PRN) Limited ("**PRN**")	Hong Kong	Ordinary shares HK$1,000	100%	–	Provision of professional rehabilitation and nursing services *(note a)*
Delight Guardian Social Enterprise Limited ("**Delight**")	Hong Kong	Ordinary shares HK$100	100%	–	Trading of elderly care products and providing rehabilitation services *(note b)*

Notes:

(a) PRN has ceased its business since 30 September 2017 was dissolved by deregistration on 31 May 2019.

(b) Delight has ceased its business since 31 December 2015 and was dissolved by deregistration on 1 September 2017.

2. BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which comprise all standards and interpretations approved by the International Accounting Standards Board (the "**IASB**"). All IFRSs effective for the accounting period commencing from 1 January 2018, together with the relevant transitional provisions, have been early adopted by the Target Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

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

3. ISSUED BUT NOT YET EFFECTIVE IFRSs

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

Amendments to IFRS 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, 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

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

Except for IFRS 16 as described below, the directors of the Target Company considered that the application of the other new and revised IFRSs will not have a material impact on the Target Company'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 Target Group will adopt IFRS 16 from 1 January 2019.

The Target 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 Target 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 Target 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 Target 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. As at 1 January 2019, the Target Group's lease will end up within 12 months and the Target Group will continue to account the lease in the same way as short-term leases.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in an associate

An associate is an entity in which the Target 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 Target Group's investments in an associate is stated in the consolidated statement of financial position at the Target Group's share of net assets under the equity method of accounting, less any impairment losses. The Target Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Target 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 Target Group and its associate are eliminated to the extent of the Target Group's investments in an associate, 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 Target Group's investments in an associate.

Fair value measurement

The Target Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target 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 Target 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.

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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 consolidated financial statements on a recurring basis, the Target 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 at the end of each of the Relevant Periods. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Target 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 Target Group;

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

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

or

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

(i) the entity and the Target 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 Target 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 Target Group or an entity related to the Target 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 Target Group or to the parent of the Target 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 Target Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Furniture and fixtures	20.0%–33.3%
Leasehold improvements	Over the shorter of the lease terms and 10.0%

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.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Target 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.

Investments and other financial assets

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 Target 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 Target Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Target 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 Target 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 Target 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 Target 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 Target 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.

Derecognition of financial assets

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 Target Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Target 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 Target Group has transferred substantially all the risks and rewards of the asset, or (b) the Target Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Impairment of financial assets

The Target 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 Target 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 Target Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Target 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.

The Target Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Target Group may also consider a financial asset to be in default when internal or external information indicates that the Target Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target 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 Target Group applies the practical expedient of not adjusting the effect of a significant financing component, the Target Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Target Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Target 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 that contain a significant financing component and lease receivables, the Target Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

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 Target Group's financial liabilities include trade payables, other payables and accruals.

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

Government grants

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

Revenue recognition

Revenue 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 Target 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 Target 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.

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 Target Group and the amount of the dividend can be measured reliably.

Employee benefits

Pension scheme

The Target 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 Target Group in an independently administered fund. The Target 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 board of directors in a general meeting.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

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

Useful lives and residual values of property, plant and equipment

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

Deferred tax assets

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

6. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Revenue from contracts with customers			
Rendering of elderly home care services	21,896	26,863	29,749
Sale of elderly related goods and provision of healthcare services	7,631	10,633	12,595
	29,527	37,496	42,344

Revenue from contracts with customers

(i) Disaggregated revenue information

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Timing of revenue recognition			
Services transferred over time	26,364	32,720	36,097
Goods transferred at a point in time	3,163	4,776	6,247
Total revenue from contracts with customers	29,527	37,496	42,344

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 ended31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:			
Rendering of elderly home care services	109	221	110
Sale of elderly related goods and provision of healthcare services	38	77	43
	147	298	153

(ii) Performance obligations

Information about the Target 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 without advance payment, payment is generally due within 30 days from delivery.

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

	31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	298	153	94

An analysis of other income and gains is as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Other income and gains			
Government grants	–	–	16
Rent income	–	227	278
Sundry income	177	130	35
Others	48	71	64
	225	428	393

7. PROFIT BEFORE TAX

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

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Cost of inventories sold	2,571	2,067	1,958
Employee benefit expense (including directors' and chief executive's remuneration *(note 8)*):			
Wages and salaries	9,179	9,184	9,379
Social security contributions	315	270	286
	9,494	9,454	9,665
Auditors' remuneration	90	92	362
Minimum lease payments under operating leases	6,718	6,889	7,036
Depreciation *(note 13)*	1,683	1,814	1,756

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Fees	540	792	163
Other emoluments:			
Salaries, allowances and benefits in kind	–	–	281
Pension scheme contributions	–	–	9
	540	792	453

		Fees	**Salaries, allowances and benefits in kind**	**Pension scheme contributions**	**Total**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2016:					
Directors:					
Mr. Ho Chiu Kee	(a)	–	–	–	–
Mr. Yin Jason Hoeyan	(b)	–	–	–	–
Ms. Yau Fai San	(b)	–	–	–	–
Ms. Yin Joanne Yoong Wah	(b)	–	–	–	–
Mr. Wong Ho Chi Paul		–	–	–	–
Mr. Lui Chi Tat	(c)	270	–	–	270
Ms. Au Ka Ming	(c)	–	–	–	–
Mr. Yik Tak Chi	(d)	90	–	–	90
Ms. Woo Pui Kei Betty	(e)	180	–	–	180
		540	–	–	540

		Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2017:					
Directors:					
Mr. Ho Chiu Kee	(a)	–	–	–	–
Mr. Wong Ho Chi Paul		–	–	–	–
Mr. Lui Chi Tat		396	–	–	396
Ms. Au Ka Ming		–	–	–	–
Ms. Woo Pui Kei Betty		396	–	–	396
		792	–	–	792

		Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2018:					
Directors:					
Mr. Ho Chiu Kee	(a)	–	–	–	–
Mr. Wong Ho Chi Paul		–	–	–	–
Mr. Lui Chi Tat	(c)	–	–	–	–
Ms. Au Ka Ming	(c)	–	–	–	–
Ms. Woo Pui Kei Betty		163	281	9	453
Mr. Yi Shaoguang	(f)	–	–	–	–
Mr. Yik Siu Tim	(f)	–	–	–	–
		163	281	9	453

(a) Mr. Ho Chiu Kee was resigned as a director on 1 January 2019.

(b) Mr. Yin Jason Hoeyan, Ms. Yau Fai San and Ms. Yin Joanne Yoong Wah were resigned as directors on 30 June 2016.

(c) Mr. Lui Chi Tat and Ms. Au Ka Ming were appointed as directors on 30 June 2016 and resigned on 3 January 2018.

(d) Mr. Yik Tak Chi was appointed as a director on 30 June 2016 and resigned on 20 August 2016.

(e) Ms. Woo Pui Kei Betty was appointed as a director on 20 August 2016.

(f) Mr. Yi Shaoguang and Mr. Yik Siu Tim were appointed as directors on 3 January 2018.

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during each of the Relevant Periods included two Directors, details of whose remuneration are set out in note 8 above. Details of the remuneration during the Relevant periods of the remaining three highest paid employees who are neither a Director nor chief executive of the Company, are as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK\$'000	*HK\$'000*	*HK\$'000*
Salaries, allowances and benefits in kind	563	1,012	1,141
Pension scheme contributions	29	43	48
	592	1,055	1,189

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

	Number of employees Year ended 31 December		
	2016	**2017**	**2018**
Nil to HK$1,000,000	3	3	3

10. INCOME TAX

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

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Current tax	595	2,349	3,451
Deferred tax *(note 15)*	(599)	(177)	(178)
Total tax charge/(credit) for the year	(4)	2,172	3,273

A reconciliation of the tax expense/(credit) applicable to profit before tax at the statutory rate in which the Target Group is domiciled to the tax expense/(credit) at the effective tax rate is as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Profit before tax	6,753	16,822	21,964
Tax at the statutory tax rate	1,114	2,776	3,624
Expenses not deductible for tax	2	3	49
Income not subject to tax	(427)	(382)	(400)
Tax losses utilised from previous years	(159)	(151)	–
Tax reduction in current year	(20)	(75)	–
Tax losses and temporary difference not recognised	4	1	–
Tax losses and temporary difference of previous years recognised	(518)	–	–
Total tax charge/(credit) for the year	(4)	2,172	3,273

11. DIVIDENDS

The distribution amounts set out in the consolidated statement of changes in equity of HK$30,000,000 for the year ended 31 December 2018 represented the dividends declared by the Target Company to its then shareholders.

12. EARNINGS PER SHARE

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

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures *HK$'000*	Leasehold improvements *HK$'000*	Total *HK$'000*
Cost:			
At 1 January 2016	2,197	10,604	12,801
Additions	841	374	1,215
Disposals	(485)	–	(485)
At 31 December 2016 and at 1 January 2017	2,553	10,978	13,531
Additions	112	29	141
Disposals	(132)	–	(132)
At 31 December 2017 and at 1 January 2018	2,533	11,007	13,540
Additions	78	–	78
Disposals	(65)	–	(65)
At 31 December 2018	2,546	11,007	13,553
Accumulated depreciation:			
At 1 January 2016	1,598	6,388	7,986
Depreciation provided during the year	404	1,279	1,683
Disposals	(455)	–	(455)
At 31 December 2016 and at 1 January 2017	1,547	7,667	9,214
Depreciation provided during the year	432	1,382	1,814
Disposals	(127)	–	(127)
At 31 December 2017 and at 1 January 2018	1,852	9,049	10,901
Depreciation provided during the year	373	1,383	1,756
Disposals	(60)	–	(60)
At 31 December 2018	2,165	10,432	12,597
Net book value:			
At 31 December 2016	1,006	3,311	4,317
At 31 December 2017	681	1,958	2,639
At 31 December 2018	381	575	956

14. INVESTMENT IN AN ASSOCIATE

	As at 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Share of net assets	1,808	2,124	2,074

Particulars of the associate are as follows:

Name	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Target Group As at 31 December 2016	2017	2018	Principal activities
Shui On Nursing Centre (Kwai Shing E.) Co. Limited ("**Shui On (KSE)**")	Hong Kong	33.33%	33.33%	33.33%	Operating a residential care home for the elderly

The shareholdings in Shui On (KSE) are held through Glory Crest, a wholly-owned subsidiary of the Target Group.

The following table illustrates the summarised financial information in respect of Shui On (KSE) adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	As at 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Current assets	4,697	6,704	5,661
Non-Current assets	1,616	1,236	3,533
Current liabilities	(3,026)	(3,705)	(5,107)
Net assets	3,287	4,235	4,087
Reconciliation to the Target Group's interest in the associate:			
Proportion of the Target Group's ownership	33.33%	33.33%	33.33%
Group's share of net assets of the associate	1,096	1,412	1,362
Goodwill on acquisition	712	712	712
Carrying amount of the investment	1,808	2,124	2,074
Revenue	33,735	35,460	38,831
Profit for the year	7,760	6,948	7,353
Total comprehensive income for the year	7,760	6,948	7,353
Dividend income from the associate	2,500	2,000	2,500

15. DEFERRED TAX

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

Deferred tax assets

	Depreciation in excess of related depreciation allowance
	HK$'000
Gross deferred tax assets at 1 January 2016	–
Deferred tax credited to profit or loss during the year	599
Gross deferred tax assets at 31 December 2016 and 1 January 2017	599
Deferred tax credited to profit or loss during the year	177
Gross deferred tax assets at 31 December 2017 and 1 January 2018	776
Deferred tax credited to profit or loss during the year	178
Gross deferred tax assets at 31 December 2018	954

16. TRADE RECEIVABLES

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	164	85	109

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

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

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Within 90 days	148	43	106
91 to 180 days	16	42	3
	164	85	109

None of the receivables is impaired. Receivables that were not impaired relate to a large number of diversified customers for whom there was no recent history of default.

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Other receivables	27	20	26
Prepayments	65	74	71
Deposits	1,715	1,768	1,700
Total	1,807	1,862	1,797

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.

18. CASH AND CASH EQUIVALENTS

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Cash and bank balances	9,895	23,524	12,868

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.

19. TRADE PAYABLES

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	314	343	303

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

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Within 90 days	308	343	303
91 to 180 days	6	–	–
	314	343	303

The trade payables are non-interest-bearing.

20. OTHER PAYABLES AND ACCRUALS

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Customer deposits	2,034	2,591	2,989
Contract liabilities	298	153	94
Other payables	92	121	344
Payroll accruals	894	845	904
	3,318	3,710	4,331

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

21. ISSUED CAPITAL

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Issued and fully paid:			
3,000 ordinary shares	13,601	8,601	8,601

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

	Number of shares in issue	**Share capital**
		HK$'000
At 1 January 2016	3,000	33,601
Reduction of share capital *(note a)*	–	(20,000)
At 31 December 2016 and 1 January 2017	3,000	13,601
Reduction of share capital *(note b)*	–	(5,000)
At 31 December 2017 and 31 December 2018	3,000	8,601

Notes:

(a) Pursuant to a special resolution passed on 26 May 2016, the Target Company resolved to reduce its share capital by HK$20,000,000.

(b) Pursuant to a special resolution passed on 4 January 2017, the Target Company resolved to further reduce its share capital by HK$5,000,000.

22. RESERVES

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

23. OPERATING LEASE ARRANGEMENTS

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

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	6,707	6,740	3,025
In the second to fifth years, inclusive	9,633	2,892	–
	16,340	9,632	3,025

24. CONTINGENT LIABILITIES

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

25. RELATED PARTY TRANSACTIONS

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

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Management fees paid to the then holding company			
Jun Pak Limited	60	120	120
Accountancy fees paid to related companies			
Shui On (KSE)	180	360	–
Wanthorpe Limited	132	–	–
	312	360	–
Administrative expense paid to a related company			
Guardian Property Management Limited	90	–	–

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

(b) Compensation of key management personnel of the Target Group:

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

26. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	164	85	109
Financial assets included in prepayments, other receivables and other assets	1,742	1,788	1,726
Cash and cash equivalents	9,895	23,524	12,868
	11,801	25,397	14,703

Financial liabilities

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	314	343	303
Financial liabilities included in other payables and accruals	2,126	2,712	3,333
	2,440	3,055	3,636

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

The Target 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

At the end of each of the Relevant Periods, the Target Group had no material financial assets or liabilities measured at fair value.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Target Group's operations. The Target 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 throughout the Relevant Periods, the Target Group's policy that no trading in financial instruments shall be undertaken.

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

The credit risk of the Target Group's other financial assets, which comprise cash and cash equivalents and 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.

Liquidity risk

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

31 December 2016

	On demand	Less than 3 months	Total
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	314	–	314
Financial liabilities included in other payables and accruals	2,126	–	2,126
	2,440	–	2,440

31 December 2017

	On demand	Less than 3 months	Total
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	343	–	343
Financial liabilities included in other payables and accruals	2,712	–	2,712
	3,055	–	3,055

31 December 2018

	On demand	Less than 3 months	Total
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	303	–	303
Financial liabilities included in other payables and accruals	3,333	–	3,333
	3,636	–	3,636

Capital management

The primary objectives of the Target Group's capital management are to safeguard the Target 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 Target 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 Target Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target 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, amounts due to related companies, less cash and bank balances. Capital represents equity attributable to the owners of the parent.

As at the end of each of the Relevant Periods, The Target Group's cash and bank balances exceeded the financial liabilities. As such, no gearing ratios as at the end of each of the Relevant Periods were presented.

29. EVENTS AFTER THE RELEVANT PERIODS

There have been no significant events since the end of the Relevant Periods.

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December		
		2016	**2017**	**2018**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS				
Investment in subsidiaries		11	11	11
Total non-current assets		11	11	11
CURRENT ASSETS				
Prepayments, other receivables and other assets		1	1	4
Amounts due from subsidiaries		8,683	–	–
Cash and cash equivalents		5,262	17,155	9,738
Total current assets		13,946	17,156	9,742
CURRENT LIABILITIES				
Other payables and accruals		38	75	297
Tax payable		–	142	336
Total current liabilities		38	217	633
NET CURRENT ASSETS		13,908	16,939	9,109
TOTAL ASSETS LESS CURRENT LIABILITIES		13,919	16,950	9,120
NET ASSETS		13,919	16,950	9,120
EQUITY				
Issued capital	21	13,601	8,601	8,601
Reserves	(i)	318	8,349	519
TOTAL EQUITY		13,919	16,950	9,120

Note (i):

A summary of the Company's retained profits/(accumulated losses) is as follows:

	Retained profits/(accumulated losses)
	HK$'000
At 1 January 2016	(2,391)
Profit for the year and total comprehensive income for the year	2,709
At 31 December 2016 and 1 January 2017	318
Profit for the year and total comprehensive income for the year	8,031
At 31 December 2017 and 1 January 2018	8,349
Profit for the year and total comprehensive income for the year	22,170
Dividends declared	(30,000)
At 31 December 2018	519

31. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Target Group or any of the companies now comprising the Target Group in respect of any period subsequent to 31 December 2018.

Set out below is the management discussion and analysis of the Target Group for the financial years ended 31 December 2016, 2017 and 2018. The following discussion and analysis should be read in conjunction with the accountants' report of the Target Company as set out in Appendix II to this circular. Certain numerical figures included in this management discussion and analysis of the Target Group have been rounded. Therefore, discrepancies in tables between totals and the sums of the amounts listed may occur due to such rounding.

BUSINESS REVIEW

The Target Company is a company incorporated in Hong Kong with limited liability and is an investment holding company. The Target Company currently invested in Guardian Home (Chun Shek) and Shui On (KSE), which are the operators of an elderly residential care home in Hong Kong.

Guardian Home (Chun Shek)

Guardian Home (Chun Shek) is a company incorporated in Hong Kong with limited liability, and is an operator of an elderly residential care home in Sha Tin, Hong Kong under the name of Chun Shek Nursing Home, which provides comprehensive residential care home services to the elderly residents. As at the Latest Practicable Date, Chun Shek Nursing Home operates with 244 residential care places and does not participate in the EBPS, a publicly funded welfare programme of the SWD.

Shui On (KSE)

Shui On (KSE) is a company incorporated in Hong Kong with limited liability, and is an operator of an elderly residential care home in Kwai Shing East, Hong Kong, which provides comprehensive residential care home services to the elderly residents. As at the Latest Practicable Date, Shui On (KSE) participated in the EBPS, a publicly funded welfare programme of the SWD pursuant to which leased residential care places are offered at subsidised rate to eligible elderly citizens in Hong Kong. Shui On (KSE) was classified as EA1 under the EBPS, which is the highest classification rate by the SWD under the EBPS.

FINANCIAL REVIEW

Revenue

The breakdown of revenue by types of services provided by the Target Group for the years ended 31 December 2016, 2017 and 2017 is set out below:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Rendering of elderly home care services	21,896	26,863	29,749
Sales of elderly related goods and provision of healthcare services	7,631	10,633	12,595
Total	29,527	37,496	42,344

Rendering of elderly home care services

The revenue from rendering of elderly home care services was derived from the provision of, among others, residence, nursing and caretaking services, health and medical services, rehabilitation services, meal preparation services and social care services in Hong Kong. The revenue from rendering of elderly home care services of the Target Company increased by 22.68% from approximately HK$21,896,000 in 2016 to HK$26,863,000 in 2017 and subsequently increased by 10.74% to HK$29,749,000 in 2018, primarily reflecting the stable occupancy rate maintained by the management team.

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 by 39.34% from approximately HK$7,631,000 in 2016 to HK$10,633,000 in 2017 and subsequently increased by 18.45% to HK$12,595,000 in 2018.

Profit for the year

The Target Group's profit for the year were approximately HK$6,757,000, HK$14,650,000 and HK$18,691,000, respectively for the three years ended 31 December 2016, 2017 and 2018.

The profit for the year of the Target Group was significantly increased by 116.81% from HK$6,757,000 in 2016 to HK$14,650,000 in 2017, primarily due to (i) the increment noted from the occupancy rate in 2016 with approximately 80% to over 90% in 2017; and (ii) with better cost control policy applied in 2017.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL STRUCTURE

Liquidity

As at 31 December 2016, current assets and current liabilities of the Target Group amounted to approximately HK$11,866,000 and HK$4,353,000 respectively.

As at 31 December 2017, current assets and current liabilities of the Target Group amounted to approximately HK$25,471,000 and HK$7,123,000 respectively.

As at 31 December 2018, current assets and current liabilities of the Target Group amounted to approximately HK$14,774,000 and HK$6,180,000 respectively.

Financial Resources

As at 31 December 2016, the Target Group had total cash and bank balances of approximately HK$9,895,000 and trade receivables of approximately HK$164,000.

As at 31 December 2017, the Target Group had total cash and bank balances of approximately HK$23,524,000 and trade receivables of approximately HK$85,000.

As at 31 December 2018, the Target Group had total cash and bank balances of approximately HK$12,868,000 and trade receivables of approximately HK$109,000.

Gearing

The gearing ratio of the Target Group as at 31 December 2016, 31 December 2017 and 31 December 2018 were nil as it was not in need of any material debt financing during those periods.

As at 31 December 2018, the Target Group had no borrowing from financial institution and no pledge of assets.

Capital Structure

As at 31 December 2016, 31 December 2017 and 31 December 2018, the total equity of the Target Group was approximately HK$14,237,000, HK$23,887,000 and HK$12,578,000 respectively.

SIGNIFICANT INVESTMENTS HELD BY THE TARGET COMPANY

As at 31 December 2016, 31 December 2017 and 31 December 2018, there was no significant investment held by the Target Group.

FOREIGN EXCHANGE EXPOSURE

The sales and purchases of the Target Group were denominated in HK$. As such, the Target Group has limited exposure to any significant foreign currency exchange risks. The Board does not expect any material impact on the Target Group's operations caused by any foreign currency fluctuations. No financial instruments were employed by the Target Group for hedging purpose during the three years ended 31 December 2016, 2017 and 2018.

CONTINGENT LIABILITIES

As at 31 December 2016, 31 December 2017 and 31 December 2018, the Target Group had no material contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Target Group employed 75 employees. The Target Group offered competitive remuneration package, discretionary bonuses and social insurance benefits to its employees. For the three years ended 31 December 2016, 2017 and 2018, the Target Group's staff cost were approximately HK$10,908,000, HK$9,760,000 and HK$9,827,000 respectively.

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

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

To provide additional financial information, the unaudited pro forma statement of assets and liabilities (the "**Unaudited Pro Forma Financial Information**") of the Enlarged Group (being the Group together with the Target Company) as at 31 December 2018 has been prepared based on:

(a) the audited consolidated financial statements of the Group as at 31 December 2018 as published in the Group's 2018 annual report;

(b) the consolidated statement of financial position of the Target Company at 31 December 2018 which has been extracted from Appendix II to this circular; and

(c) after taking into account of the unaudited pro forma adjustments as described in the notes thereto to demonstrate how the Acquisition might have affected the historical financial information in respect of the Group as if the Acquisition had been completed on 31 December 2018.

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

The Unaudited Pro Forma Financial Information of the Enlarged Group is for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 December 2018 or at any future date.

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

	The Group as at 31 Dec 2018	The Target Company as at 31 Dec 2018	Unaudited Pro Forma Adjustments				Unaudited Pro Forma Enlarged Group as at 31 Dec 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	note 1	*note 2*	*note 3*	*note 4*	*note 5*	*note 6*	
NON-CURRENT ASSETS							
Property, plant and equipment	10,603	956					11,559
Intangible assets	5,250	–					5,250
Goodwill	79,940	–			55,453		135,393
Investment in subsidiaries	–	–	63,000		(63,000)		–
Investments in an associate	–	2,074				(2,074)	–
Deferred tax assets	772	954					1,726
Total non-current assets	96,565	3,984					153,928
CURRENT ASSETS							
Trade receivables	204	109					313
Prepayments, deposits and other receivables	9,587	1,797					11,384
Tax recoverable	206	–					206
Cash and bank balances	59,283	12,868		(1,500)			70,651
Total current assets	69,280	14,774					82,554
CURRENT LIABILITIES							
Trade payables	879	303					1,182
Other payables and accruals	16,267	4,331	63,000				83,598
Due to a related company	274	–					274
Tax payables	1,049	1,546					2,595
Total current liabilities	18,469	6,180					87,649
NON-CURRENT LIABILITIES							
Deferred tax liabilities	386	–					386
Total non-current liabilities	386	–					386
Net assets	146,990	12,578					148,447
EQUITY							
Equity attributable to the equity holder of the parent Issued capital	4,000	8,601			(8,601)		4,000
Share Premium	109,298	–					109,298
Reserves	(1,041)	–		(1,500)		(824)	(3,365)
Retained profit	32,649	3,977			(3,977)		32,649
	144,906	12,578					142,582
Non-controlling interests	2,084	–			5,031	(1,250)	5,865
Total equity	146,990	12,578					148,447

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

(1) The balances were extracted from the annual report for the year ended 31 December 2018 of the Group.

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

(3) On 11 March 2019, the Purchaser entered into the Share Transfer Agreement with the Vendors, pursuant to which the Purchaser agreed to acquire 60% of the entire equity interests in the Target Company from the Vendors at an aggregate consideration of HK$63 million.

The pro forma adjustment represents the aggregate cash consideration amounted to HK$63 million for the acquisition of the Target Company. All conditions precedent set out in the Share Transfer Agreement assumed to have been fully satisfied.

(4) For the purpose of the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the total transaction costs of legal, accountancy and other professional services to the Acquisition are estimated to be HK$1,500,000.

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

Consideration of the Acquisition	63,000
Identifiable net assets acquired	12,578
Non-controlling interests	5,031
Goodwill arising from the Acquisition of the Target Company *(note)*	55,453

Note: For illustrative purposes, the Directors had assumed the carrying values of the identifiable assets and liabilities of the Target Company approximated to their fair values. The goodwill is recognized as the amount reached by the Consideration of the Acquisition minus identifiable net assets acquired at 31 December 2018 for the purpose of the illustration of this Unaudited Pro Forma Financial Information.

(6) Glory Crest, a wholly-owned subsidiary of the Target Company, held 33.33% equity interest of Shui On Nursing Centre (Kwai Shing E.) Co. Limited, a subsidiary of the Group. The pro forma adjustment represents the consolidation offsetting for the Enlarged Group.

The Group prepared this Unaudited Pro Forma Financial Information in accordance with IFRS3 and assumed that the carrying amounts of the identifiable assets and liabilities of the Target Company at 31 December 2018 approximated the fair values of the Target Company. According to IFRS3, it suggests that, at the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other IFRSs subsequently.

IAS38 "Intangible Assets" requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognized in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Any intangible item acquired in a business combination was recognized as an asset separately from goodwill when it was identifiable and could be measured reliably. If the amount cannot be recognized as an intangible asset, it forms part of the amount recognized as goodwill at the acquisition date. For the purpose of the Unaudited Pro Forma Financial Information, the management has assumed that no identifiable intangible assets.

With this assumption, the Acquisition gives rise to a goodwill of HK$55.5 million, which is measured at cost at initial recognition and would be subsequently tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

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

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

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

(B) ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 31 DECEMBER 2018

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

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

EY 安永

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

To the Directors of Hang Chi Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Hang Chi Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") and Guardian Home Limited (hereinafter referred to as the "**Target Company**") (the Group together with the Target Company are collectively referred to as the "**Enlarged Group**"), by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of assets and liabilities as at 31 December 2018, and related notes as set out in Appendix IV to the circular dated 24 June 2019 (the "**Circular**") issued by the Company (the "**Pro Forma Financial Information**") in connection with the acquisition (the "**Acquisition**") of 60% equity interest of the Target Company by the Company. The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Section A of Appendix IV to the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Acquisition on the Group's financial position as at 31 December 2018 as if the Acquisition had taken place at 31 December 2018. As part of this process, information about the Group's financial position has been extracted by the Directors from the Company's published report for the year ended 31 December 2018, and the information about the Target Company's financial position has been extracted by the Directors from the Target Company's financial statements for each of the years ended 31 December 2016, 2017 and 2018 on which accountants' report have been published in Appendix II to the Circular.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth

Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**") and with reference to Accounting Guideline ("**AG**") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our independence and quality control

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

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

Reporting accountants' responsibilities

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

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

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

The purpose of the Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

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

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

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

(c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong
24 June 2019

The following is the text of a letter and valuation report, prepared for the purpose of incorporation in this circular received from Royson Valuation Advisory Limited, an independent valuer, in connection with its valuation as at 31 December 2018 of a 60% equity interest in the business enterprise of Guardian Home Limited.

ROYSON

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

24 June 2019

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

Dear Sirs or Madams,

RE: VALUATION OF 60% EQUITY INTEREST IN GUARDIAN HOME LIMITED

We have been instructed by Hang Chi Holdings Limited (the "**Company**", together with its subsidiaries as the "**Group**") to perform an appraisal of the fair value of a 60% equity interest in the business enterprise of Guardian Home Limited (the "**Target Company**", together with its subsidiaries as the "**Target Group**") as at 31 December 2018 (the "**Appraisal Date**") for transaction purpose and our valuation will also be used in connection with a public document of the Company.

The Target Company is a company incorporated in Hong Kong on 12 August 2006 with limited liability. It is principally engaged in investment holding. As at the Appraisal Date, the Target Company is owned as to 60% by Jun Pak Limited (the "**Vendor**") and 40% by Savills Guardian (Holdings) Limited.

The Target Company is an investment holding company incorporated in Hong Kong with limited liability. The Target Company currently invests in Guardian Home (Chun Shek) Limited ("**Guardian Home (Chun Shek)**") and Shui On Nursing Centre (Kwai Shing East) Co. Ltd ("**Shui On (KSE)"**), which are the operators of an elderly residential care home in Hong Kong.

In this appraisal, fair value is defined as the price a willing buyer would pay a willing seller in a transaction on the open market.

The fair value of the equity interest in the Target Group is principally derived by the application of the discounted cash flows method under income approach. Our opinion of value relies on a going-concern premise. This premise assumes that the Target Group and Shui On (KSE) are the ongoing business enterprises with management operating in a rational way with a goal of maximising shareholder value.

DESCRIPTION OF THE APPRAISAL

On 11 March 2019, Shui On Nursing Home Holdings Limited (the "**Purchaser**"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "**Agreement**") with the Vendor and Ms. Woo Pui Kei, Betty (the "**Guarantor**"), as the guarantor, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell 60% of the issued share capital of the Target Company at an aggregate consideration of HK$63,000,000.

The objective of this valuation is to provide an independent opinion on the fair value of a 60% equity interest of the Target Group for transaction purpose. We understand that our valuation will also be used in connection with a public document of the Company.

The appraisal is conducted in conformity with Hong Kong Generally Accepted Accounting Principles and the International Valuation Standards. These standards contain guideline on the basis and valuation approaches used.

BASIS OF VALUE

The valuation has been performed based on fair value. As defined in the International Valuation Standards, fair value is the price a willing buyer would pay a willing seller in a transaction on the open market.

PREMISE OF VALUE

Our opinion of value relies on a going-concern premise. This premise assumes that the Target Group and Shui On (KSE) are the ongoing business enterprises with management operating in a rational way with a goal of maximising shareholder value.

SCOPE OF WORK

This appraisal reflects facts and conditions existing as at the Appraisal Date. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

Our appraisal opinion is based on the assumptions stated herein and on information provided by the management of the Target Group, Shui On (KSE) and/or the Company (the "**Management**").

In the course of our valuation, we have conducted the following processes and procedures:

1. Collected the relevant historical financial statements and other financial and operational information of the Target Group and Shui On (KSE) from the Management;

2. Reviewed the terms of the Agreement;

3. Conducted interviews with the Management in relation to the history, operations and business prospects of the Target Group and Shui On (KSE);

4. Researched the general economic outlook and the outlook for the specific industry affecting the business of the Target Group and Shui On (KSE), their industry and their markets;

5. Analysed the historical financial statements of the Target Group and Shui On (KSE);

6. Examined the reasonableness of the information as well as other records and documents provided by the Management, in light of our research and analysis on the industry and economic data as mentioned in this report;

7. Determined the most appropriate valuation method for this valuation;

8. Identified the comparable companies of the Target Group and Shui On (KSE);

9. Developed the appropriate discount rate that reflects the return of entities engaged in a similar line of business and returns from other similar types of projects of the Target Group and Shui On (KSE);

10. Reviewed the underlying assumptions of a the 5-year financial projections of Guardian Home (Chun Shek) and Shui On (KSE) furnished to us by the Management (the "**Projection**"); and

11. Calculated the business enterprise value of the Target Group based on the assumptions and valuation methods stated in the report.

INFORMATION SOURCES

To aid us in our analysis of the Target Group, we have consulted, reviewed and relied on the key information, including but not limited to, the followings which is publicly available or provided by the Management:

1. Financial database empowered by Bloomberg;

2. Relevant industry report and economic data;

3. Announcements and financial statements of the Group available on the website of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") at www.hkexnews.hk;

4. Unaudited and/or audited historical financial and operational information of the Target Group and Shui On (KSE);

5. The Agreement;

6. The Projection; and

7. Discussions with the Management.

LIMITING CONDITIONS

This appraisal relies upon the following contingent and limiting conditions:

1. Public, industry, statistical, and other information furnished by others, upon which all or portions of this analysis is based, is believed to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.

2. The Company and its representatives warranted to us that the information they supplied was complete and accurate to the best of their knowledge and that the financial statement information reflects the results of operations and financial and business condition of the Target Group and Shui On (KSE) in accordance with generally accepted accounting principles, unless otherwise noted. The financial statements and other related information supplied by management has been accepted as correct without further verification. We have not audited, reviewed, or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information. We also have no reason to believe that any material facts have been withheld from us.

3. This report is to be used for the specific purposes stated herein and any other use is invalid. No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document to be prepared or distributed to third parties may be made without our written consent and approval.

4. The opinion of value is valid only for the stated purpose as of the valuation date indicated. We take no responsibility for changes in market conditions and assume no obligation to revise our conclusion of value to reflect events or conditions which occur subsequent to the valuation date.

5. For the prospective financial information approved by management that was used in our engagement, we have not examined or compiled the prospective financial information and therefore, do not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions. Events and circumstances frequently do not occur as expected and there will usually be differences between prospective financial information and actual results, and those differences may be material.

6. In arriving at our opinion of value, we have relied to a very considerable extent on the above-mentioned information. Any variation to the assumptions in the valuation could seriously affect our opinion of value.

INFORMATION ABOUT THE GROUP AND THE PURCHASER

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

As at the Appraisal Date, the Group held a 66.67% equity interest in Shui On (KSE).

The Purchaser is a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company. It is principally engaged in investment holding.

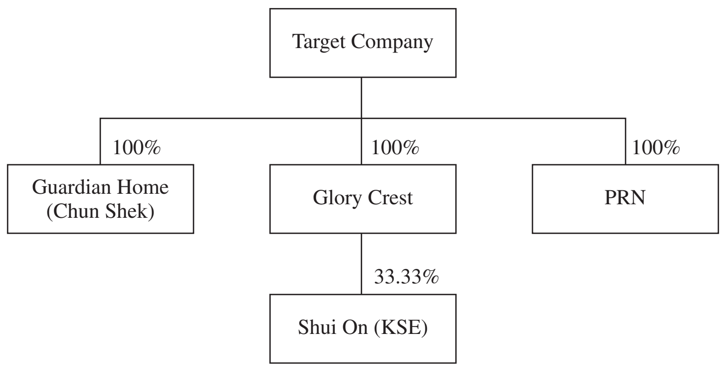
INFORMATION ABOUT THE VENDOR

The Vendor is a company incorporated in Hong Kong with limited liability, which is wholly owned by the Guarantor. The Vendor is principally engaged in investment holding.

As at the Appraisal Date, the Vendor was deemed to be interested in approximately 33.33% of the issued share capital of Shui On (KSE).

INFORMATION ABOUT THE TARGET GROUP

The group structure of the Target Group as at the Appraisal Date was:



The Target Company

The Target Company is a company incorporated in Hong Kong on 12 August 2006 with limited liability. It is principally engaged in investment holding. As at the Appraisal Date, the Target Company was owned as to 60% by the Vendor and 40% by Savills Guardian (Holdings) Limited.

As at the Appraisal Date, the Target Company had the net assets of approximately HK$9,120,000.

Guardian Home (Chun Shek)

Guardian Home (Chun Shek) is a company incorporated in Hong Kong on 15 April 1992 with limited liability. It holds a licence of residential care home for the elderly and operates Guardian Home (Chun Shek) Integrated Nursing Home (佳安家(秦石)綜合護老中心) ("**Chun Shek Nursing Home**"), an elderly residential care home in Sha Tin, Hong Kong with 244 residential care places. Chun Shek Nursing Home does not participate in the Enhanced Bought Place Scheme ("**EBPS**") of the Social Welfare Department ("**SWD**"). As at the Appraisal Date, Guardian Home (Chun Shek) was wholly-owned by the Target Company.

Guardian Home (Chun Shek) is currently managed by experienced health care professionals, provides 24-hour comprehensive care for the elderly residents. Chun Shek Nursing Home provides 244 beds and the average monthly occupancy rates in 2017 and 2018 were over 90%.

For the year ended 31 December 2018, Guardian Home (Chun Shek) recorded a revenue and profit after taxation of approximately HK$42,344,000 and HK$15,586,000 respectively. As at the Appraisal Date, Guardian Home (Chun Shek) was a debt-free company with the net assets of approximately HK$1,344,000.

Glory Crest

Glory Crest is a company incorporated in Hong Kong on 20 November 2007 with limited liability. It is principally engaged in investment holding and is interested in approximately 33.33% of the issued share capital of Shui On (KSE), a non-wholly owned subsidiary of the Group. As at the Appraisal Date, Glory Crest was wholly owned by the Target Company.

As at the Appraisal Date, Glory Crest had the net assets of approximately HK$2,124,000 and its major assets are its investment 33.33% equity interest in Shui On (KSE).

PRN

PRN is a company incorporated in Hong Kong on 16 November 2007 with limited liability. As at the Appraisal Date, PRN was wholly owned by the Target Company; and PRN had ceased its operation and completed deregistration on 31 May 2019.

As at the Appraisal Date, PRN had the net assets of HK$4,286. As advised by the Management, there was no material contingent liability in PRN as at the Appraisal Date.

Shui On (KSE)

Shui On (KSE) is principally engaged in operating a residential care home for the elderly. As at the Appraisal Date, Shui On (KSE) was owned as to 66.67% by the Company and 33.33% by the Target Group. It is classified as an associate of the Target Group.

Shui On (KSE) is an operator of an elderly residential care home with 238 residential care places in Kwai Tsing, Hong Kong. KSE holds a licence of residential care home for the elderly ("**RCHEs**"), is managed by experienced health care professionals, provides 24-hour comprehensive care for the elderly residents. Shui On (KSE) participates in the EBPS of the SWD and is classified as class Enhanced A1 or EA1 under the EBPS, the highest classification rated by the SWD under the EBPS. The average monthly occupancy rates in 2017 and 2018 were over 90%.

For the year ended 31 December 2018, Shui On (KSE) recorded a revenue and profit after taxation of approximately HK$38,831,000 and HK$7,353,000 respectively. As at the Appraisal Date, Shui On (KSE) had the net assets of approximately HK$4,087,000.

INDUSTRY OVERVIEW

Overview of Hong Kong Economy

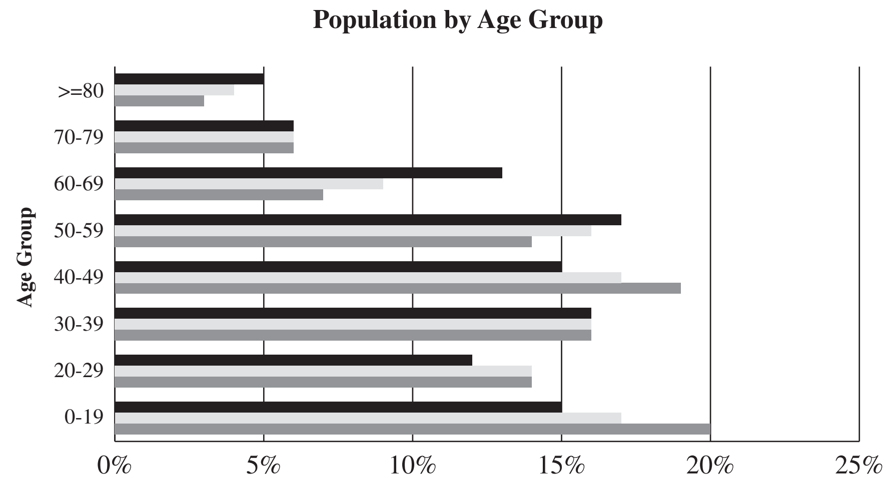
Hong Kong is one of the world's most services-oriented economy, with services sectors accounting for more than 90% of Gross Domestic Product ("**GDP**"). Hong Kong has a population of approximately 7.45 million as at mid-2018 on a total area of about 1,100 square kilometres. The Hong Kong economy with a GDP of HK$725.98 billion, grew by 2.90% in the third quarter of 2018 over a year earlier.

Hong Kong's GDP per capita grew from about HK$238,676 in 2007 to about HK$359,996 in 2017, representing a compound annual growth rate ("**CAGR**") of about 4.20%. In the same period, Hong Kong's GDP grew from about HK$1,650.76 billion in 2007 to about HK$2,660.98 billion in 2017, representing a CAGR of about 4.89%. Growth of the Hong Kong population remained mild from 6.92 million in 2007 to 7.39 million in 2017, at a CAGR of 0.66%, which is much lower than the growth in GDP.

According to the World Economic Outlook Database published by International Monetary Fund ("**IMF**") in October 2018, the forecasted annual growth rate in real GDP from 2019 to 2023 ranges from 2.9% to 3.1% while the projected inflation rate for the same period will be 2.1% to 2.5%. Population is projected to grow at a similar historical rate of 0.82% per annum.

The ageing trend in the population continued and the pace of ageing became faster in the recent years. According to the latest statistics published by Census and Statistics Department of The Government of the Hong Kong Special Administrative Region ("**HK Government**"), the largest age group in 2018 is the one aged between 50 to 59, representing 16.71% or approximately 1.24 million of the population. The populating aged over 60 increased from about 16.55% or approximately 1.14 million in 2007 to about 24.52% or approximately 1.83 million in 2018. In a decade, the median age of the population increased from 40 in 2007 to 43.9 in 2017, reflecting the ageing trend. The elderly dependency ratio (that is the ratio of those aged between 15 and 64 and those aged over 65) rose from 17.00% in 2007 to 22.80% in 2017. As the share of Hong Kong's population over 65 swells, fewer and fewer working-age people need to support more and more old people. The trend is expected to add significantly to health and welfare bills.

Chart 1: Distribution of the Population in 2005, 2011 and 2018



	0-19	20-29	30-39	40-49	50-59	60-69	70-79	>=80
2018	15%	12%	16%	15%	17%	13%	6%	5%
2011	17%	14%	16%	17%	16%	9%	6%	4%
2005	20%	14%	16%	19%	14%	7%	6%	3%

% of Population

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

Table 1: Selected Statistics on Population and National Income in 2007 and 2017

	2007	**2017**
Population	6,916,300	7,391,700
Year-on-year ("yoy") change (%)	*0.90%*	*0.80%*
Elderly dependency ratio	17.00%	22.80%
Median age	39.60	43.90
Expectation of life at birth (years)		
Male	79.40	81.90
Female	85.40	87.60
GDP, current market price (HK$'M)	1,650,756	2,660,983
yoy %	*9.80%*	*6.80%*
Per capita GDP, current market price (HK$)	238,676	359,996
yoy %	*8.90%*	*6.00%*

Source: Hong Kong Annual Digest of Statistics 2018, Census and Statistics Department, HK Government

Overview of the Elderly Residential Care Home Industry in Hong Kong

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

In March 2017, SWD launched the Pilot Scheme on Residential Care Service Voucher ("**RCSV**") for the Elderly (the "**Scheme**"). Under the Scheme, it provides an additional choice for elderly persons in need of residential care service by allowing them to choose the services provided by eligible RCHEs operated by non-governmental organisations or the private sector according to their needs. The Scheme is implemented in three phases with a total of 3,000 RCSVs to be issued within a period of three years from 2017 to 2019 by five batches and each batch with a specified quota.

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

As at 31 December 2018, there were 730 RCHEs in Hong Kong, of which 548 or approximately 75.1%, were private ones and with 139 homes had participated in the EBPS. In aggregate, there are 74,721 places in capacity.

Table 2: Capacity of RCHEs in Hong Kong in 2017 and 2018

	31-Dec-17	**31-Dec-18**
Subsidised (EBPS)	8,044	7,974
Subsidised places	19,334	19,396
Non-subsidised places in non-profit-making self-financing homes/contract homes	5,055	5,091
Private home	41,929	42,260
Total number of places in Hong Kong	**74,245**	**74,721**

Source: SWD, HK Government

Based on the statistics published by *SWD*, as at 31 December 2018, the average waiting time for a place in both a subsidised care and attention home and a subsidised nursing home remain the same as 22 months as compared that in September 2017. However, the waiting time for a private RCHE under the EBPS was increased by 1 month to around 10 months in the same period.

Due to the waiting time, many elderly applicants on the waiting list stay in private RCHEs while waiting for a subsidised place and many applicants passed away before being offered a subsidised place. In 2017, 6,611 applicants passed away while waiting for a subsidised RCHE place.

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

VALUATION METHODOLOGY

In order to arrive at our opinion of value, we have considered the three generally accepted approaches to valuation: market approach; income approach and cost approach and adopted the approaches deemed most relevant will then be selected for use.

Market Approach

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

Income Approach

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

Cost Approach

A third approach to the valuation is the cost approach. The discrete valuation of an asset using an asset-based approach is based upon the concept of replacement as an indicator of value. A prudent investor would pay no more for an asset than the amount for which he or she could replace the asset new. A commonly used methodology under the cost approach is the *Adjusted NAV Method* which calls for a summation of the fair values of all assets belonging to an entity and a reduction of that aggregate by the fair values of that entity's total liabilities. The fair value is represented by the *adjusted* book value of total assets net of liabilities owed to any person other than the beneficial owners of the subject company, after adjusting for any necessary discounts or premiums to the book values of the assets and liabilities to reflect their market values.

Selected Approach

We have determined the appropriate valuation method based on their respective business nature and stage of development.

According to its group structure, the fair value of the Target Group shall be the sum of the fair values of a 100% equity in Guardian Home (Chun Shek), a 33.33% equity interest in Shui On (KSE) and the other net assets, which were mainly represented by cash balances, of the remaining companies in the Target Group which include the Target Company, Glory Crest, and PRN (collectively as the "**Remaining Sub-group**").

Each of Guardian Home (Chun Shek) and Shui On (KSE) has over 5 years of profitable track records in the elderly home operations in Hong Kong. They are profitable service companies with light assets, thus their fair value has a week relationship with their book costs. In addition, there was neither closely comparable transaction publicly available nor closely comparable publicly traded entity with financial and operating characteristics similar to those of Guardian Home (Chun Shek) and Shui On (KSE) could be identified. Thus, cost approach and market approach are considered as inappropriate for this valuation. However, based on the historical financial and operating data, the Management could provide us the financial forecasts of Guardian Home (Chun Shek) and Shui On (KSE). Therefore, their business enterprise values can be estimated based on forecasts of fundamental conditions in the future rather than current data using the DCF analysis under the income approach.

Members of the Remaining Sub-group are mainly investment holding company. They mainly had monetary assets, like cash balances, as at the Appraisal Date. The book value of their assets should fairly represent the respective fair value. Thus, the total of such net assets would be added back directly to arrive at our opinion of value.

DCF Analysis

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

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

The following section presents some of the key assumptions of the financial forecast used in the DCF analysis performed in this appraisal. The Projection was prepared for the period from 1 January 2019 through 31 December 2023 (the "**Projection Period**"), after that a 3% terminal growth rate was used.

Forecast Net Income

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

Revenue – Revenue of Guardian Home (Chun Shek) and Shui On (KSE) mainly includes home fee income, home sundry income and government grants. Given their business nature, historical operating data and the latest market conditions, the Management expected the occupancy rate and so then the home fee and other relevant income would remain stable in the foreseeable future. Based on the historical financial data and the expected demand and price inflation in Hong Kong, the forecasted annual revenue of Guardian Home (Chun Shek) and Shui On (KSE) would grow at steady rate during the Projection Period.

With a constant average occupancy rate of 88.0%, the revenue of Guardian Home (Chun Shek) was expected to grow at a projected CAGR of 2.7% during the Projection Period. Such projected CAGR was based on, among other things, (i) the historical monthly home fee and service income; and (ii) a projected yearly price adjustment of 5.0% for both home fee and service income taking into account Guardian Home (Chun Shek)'s historical annual price adjustments, historical Hong Kong inflation and potential competition.

Shui On (KSE) is classified as class Enhanced A1 or EA1 under the EBPS. Based on the historical records, the forecasted average occupancy rates for EBPS and non-EBPS adopted in this valuation were set as 95.0% and 87.0% respectively and the turnover was expected to grow at a projected CAGR of 4.2% during the Projection Period. Such projected CAGR was based on, among other things, (i) the historical monthly SWD subsidy, EBPS and non-EBPS home fee and service income; (ii) a projected yearly price adjustment of 2.0%, 6.0% and 8.0% for SWD subsidy, non-EBPS home fee and service income respectively taking into account Shui On (KSE)'s historical annual price adjustments and Hong Kong inflation; and (iii) EBPS home fee is expected to stay stationary throughout the Projection Period.

In addition, local authorities offer a broad spectrum of allowances and provision to support those RCHEs with eligible elderly persons every year in order to enhance the services for those elderly and address their special needs. The Management expected the aggregate government grants to be recognised as income during the Projection Period would be maintained at a constant ratio of 7.8% of the annual estimated revenue which was same as the last 2-year average ratio.

Operating Expenses – Except staff costs and rentals, the operating expenses of Guardian Home (Chun Shek) and Shui On (KSE) were forecasted to grow at 3.0% annually. Elderly home operation is a relatively labour-intensive business while staff costs are the most expensive operating expenses. After considering factors, like the forecasted staff mix, their qualifications and skill sets, the staff costs of Guardian Home (Chun Shek) and Shui On (KSE) were expected to increase by 10.0% and 3.0% each year during the Projection Period respectively. Their rental agreements were subject to renewal in 2019 and based on the latest negotiation between the landlords and the management, the rental expenses of Guardian Home (Chun Shek) and Shui On (KSE) were expected to soared by 100.0% and over 35.0% respectively upon renewal.

Depreciation and Amortisation Expenses – Depreciation and amortisation expenses were estimated based on the actual monthly expenses in 2018 for the existing net fixed assets. The annual depreciation rate on fixed assets was 20.0% per annum. Renovation works would be taken place and completed in 2019 for both Guardian Home (Chun Shek) and Shui On (KSE) upon rental renewal. Except for the above, only replacement capital expenditure was assumed in the Projection.

Interest Expenses – Guardian Home (Chun Shek) and Shui On (KSE) had no plan to raise debt financing and there was no interest expense to be incurred.

Income Taxes – Guardian Home (Chun Shek) and Shui On (KSE) assumed the current corporate income tax rate of 16.5% in Hong Kong would be maintained throughout the Projection Period.

Working Capital – Based on their management accounts Guardian Home (Chun Shek) and Shui On (KSE) had negative net working capital from time to time. Except for deposits received from their residents, they seldom give them credit period. On the contrary, they might be granted credit period by their vendors and suppliers. Rental and staff costs were identified as the major and crucial operating costs. It was assumed that the business units would retain a minimum cash balance that could cover the staff costs and rental expense for the next 3 months as working capital in the Projection.

Capital Expenditure – Both Guardian Home (Chun Shek) and Shui On (KSE) were expected to spend no more than HK$10,000,000 and HK$3,000,000 respectively to refurnish the elderly home upon renewal. Given that the capacity remained constant and the major renovation would be taken place in the first half of 2019, there were no other material spending on new leasehold improvements, furniture and fixtures were expected to be incurred in other years and only replacement capex was assumed during the Projection Period.

Cash Flow Adjustments

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

Discount Rate Estimation

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

Selection of Comparable Companies

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

To conclude, there are 7 entities which are listed either in Canada, France, Japan and the U.S. selected as comparable companies of Guardian Home (Chun Shek) and Shui On (KSE). A description of the business operation of the comparable companies is summarized below:

	Selected Comparable Company	Principal Business	Market Capitalisation as at the Appraisal Date
1.	Sienna Senior Living Inc. *(stock ticker: SIA; listed in Canada)*	Sienna Senior Living Inc. provides long-term care services. It offers nursing homes, retirement homes, and independent living facilities. The company serves senior citizens in the State of Ontario.	HK$5,960 million
2.	Korian SA *(stock ticker: KORI; listed in France)*	Korian SA operates healthcare facilities, medical establishments. Its facilities include retirement homes and rehabilitation centers. The company is based in France.	HK$22,850 million
3.	Le Noble Age *(stock ticker: LNA; listed in France)*	Le Noble Age operates nursing homes. It serves older clients in all stages of dependency through its facilities located throughout France.	HK$3,790 million
4.	Charm Care Corporation, K.K *(stock ticker: 6062; listed in Japan)*	Charm Care Corporation, K.K. provides residential and personal care services.	HK$1,170 million
5.	Tsukui Corporation *(stock ticker: 2398; listed in Japan)*	Tsukui Corporation provides nursing care services for the elderly and patients. It mainly provides home care services and operates nursing and retirement home. It also offers trainings and lessons for home-helper-to-be and provides staffing services that specialize in nursing.	HK$4,300 million

Selected Comparable Company	Principal Business	Market Capitalisation as at the Appraisal Date
6. Ensign Group, Inc. *(stock ticker: ENSG; listed in the U.S.)*	Ensign Group, Inc. operates facilities offering nursing and rehabilitative care services in multiple states. It provides a broad spectrum of nursing and assisted living services, physical, occupational and speech therapies, and other rehabilitative and healthcare services, for both long-term residents and short-stay rehabilitation patients.	HK$15,900 million
7. National Healthcare Corporation *(stock ticker: NHC; listed in the U.S.)*	National Healthcare Corporation operates long-term health care centers. It also operates homecare programs, independent living centers, and assisted living centers. Its other services include managed care specialty medical units, Alzheimer's units, and a rehabilitation services company.	HK$9,360 million

CAPM

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

The formula of CAPM is defined as follows:

$$\mathbf{Re = R\mathit{f} + \beta(Rm) + Rc}$$

where:
Re = Return on equity
Rf = Risk-free rate
β = Beta
Rm = Market risk premium
Rc = Premium for size and other risk factors

A risk-free rate of 2.01% was used, based upon the yields on long-term government bonds in Hong Kong as of the Appraisal Date. A market risk premium of 6.65% was assumed, which represents the average total return of common stocks in excess of the income return of long-term securities in Hong Kong. In order to estimate the appropriate beta for use in our analysis, we researched companies in a similar business as Guardian Home (Chun Shek) and Shui On (KSE). Our sample included 7 listed companies. The equity beta for each company in our sample was researched. Based on their levered betas that were extracted from Bloomberg as at the Appraisal Date, we first computed the unlevered betas from the market data by adjusting their respective debt-to-equity ratio and the statutory tax rates. We then applied the debt-to-equity ratios and the statutory tax rates of *Guardian Home (Chun Shek)* and *Shui On (KSE)* to derive the re-levered betas and an average re-levered beta of 0.61 was calculated. A small capitalization risk premium of 5.59% were applied in the calculation of the cost of equity. Given Shui On (KSE) is classified as class Enhanced A1 or EA1 under the EBPS which generally has more stable income than an ordinary private elderly home like Guardian Home (Chun Shek), the appropriate company specific risk premium for Guardian Home (Chun Shek) and Shui On (KSE) are be considered to be 1.0% and 0.5% respectively.

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

According to our analysis, the cost of equity of Guardian Home (Chun Shek) and Shui On (KSE) as at the Appraisal Date were 12.5% and 12.0% respectively .

Terminal Value Calculation

The terminal value was based on a terminal value cash flow multiple. Such multiple was calculated by subtracting a 3.0% terminal growth rate from a cost of equity and taking the inverse, which equals the capitalization rate of Guardian Home (Chun Shek) and Shui On (KSE). The terminal growth rate was determined based upon the long-term growth expectations in the elderly residential care home industry and the forecasted long-term inflation rate in Hong Kong. The capitalization rate was applied to the growth-adjusted terminal year cash flow to determine terminal value.

Discount for Lack of Control

It is widely recognized that an investment which offers an investor control of a business is worth more than a minority stake. In valuation perspective, a shareholder with majority stake normally owns the control power in a company, and thus, a control premium is generally recognized. In contrast, a minority discount is recognized when the holder of a minority interest lacks control over corporate policies like election of directors or selection of management, acquisition or liquidation of assets, control over dividend policy, ability to set corporate strategies, ability to affect future earnings, etc.

Various relevant research papers (both formal and informal) and valuation journals on valuation premiums and discounts which are publicly available showed that the discount for lack of control generally falls into a range from 1%–40%.

The Target Company holds an indirect equity interest of 33.33% in Shui On (KSE) which represents a non-controlling stake, a discount for lack of control of 15% is deemed to be reasonable in this appraisal.

Total Fair Value of a 100% Equity Interest in the Target Group as at the Appraisal Date:

	HK$
100% equity interest in Guardian Home (Chun Shek)	86,154,000
33.33% equity interest in Shui On (KSE)	20,360,000
Other net assets of the Remaining Sub-group.	9,163,006
Total	115,677,006

VALUATION ASSUMPTIONS

This appraisal is subject to the following major assumptions:

1. There will be no major changes in the existing political, legal, fiscal and economic conditions in which the Target Group and Shui On (KSE) carry on their businesses;

2. There will be no major changes in the current taxation law in the country where the Target Group and Shui On (KSE) operate, that the rates of tax payable will remain unchanged and that all applicable laws and regulations will be complied with;

3. There will be no material changes in the industry in which the Target Group and Shui On (KSE) involve that would materially affect the revenues, profits, cash flows attributable to the Target Group and Shui On (KSE);

4. The Target Group and Shui On (KSE) as well as their partners will obtain the necessary licenses and approvals to provide their service;

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

6. The availability of finance will not be a constraint on the forecasted growth of operations of the Target Group and Shui On (KSE);

7. The Target Group and Shui On (KSE) will successfully maintain their competitiveness and market share through optimising the utilization of their resources and expanding their marketing networks;

8. The Target Group and Shui On (KSE) can keep abreast of the latest development of the industry such that their competitiveness and profitability can be sustained;

9. The Target Group and Shui On (KSE) will utilize and maintain their current operational, administrative and technical facilities to expand and increase their sales;

10. The Target Group and Shui On (KSE) will be able to secure funds to repay their debts when they fall due;

11. The Target Group and Shui On (KSE) will retain and have competent management, key personnel, and technical staff to support their ongoing operations;

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

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

14. The perpetual growth rate of 3.0% is adopted, which reflects a long-term inflation in Hong Kong and industry growth rate;

15. Shui On (KSE) will take all the reasonable steps to ensure the fulfillment of the criteria of the EBPS under SWD all the time; and

16. The Target Group and Shui On (KSE) will have the intention to renew their current operating lease upon expiry and the probability of failure to renewal is considered as remote.

OPINION OF VALUE

Based upon the investigation and analysis outlined above and on the appraisal method employed, it is our opinion that the fair value of the 60% equity interest in the business enterprise of the Target Group as at **31 December 2018** is reasonably stated by the amount of **HONG KONG DOLLARS SIXTY-NINE MILLION FOUR HUNDRED AND SIX THOUSAND ONLY (HK$69,406,000).**

This opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Any variation to the assumptions and limiting conditions presented in the following report could seriously affect our opinion of value.

Although our valuation is intended to estimate fair value, we assume no responsibility for the inability of a seller or buyer to obtain a sale or purchase contract at that price.

We have no obligation to update this report or our opinion of value for information that comes to our attention after the date of this report.

We hereby certify that we have neither present nor prospective interests in the Group, the Target Group, Shui On (KSE), the Vendor, the Guarantor, or the values reported.

Respectfully submitted,
For and on behalf of
Royson Valuation Advisory Limited
Amy W.S. Chan
Director

Ms. Amy Chan is a member of the Hong Kong Institute of Certified Public Accountants. She has gained over 13 years of experience in accounting, auditing, business valuation and derivative valuation. She has worked in the valuation field for over 8 years and participated in over 600 assignments regarding business valuation, derivatives valuation, intangible assets valuation and purchase price allocation for numerous listed companies and private entities in different industries.

A. LETTER FROM THE REPORTING ACCOUNTANTS

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

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

ACCOUNTANTS' REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF GUARDIAN HOME LIMITED (THE "TARGET COMPANY")

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

We have examined the accounting policies adopted and calculations of (1) the discounted future estimated cash flows on which the valuation prepared by Royson Valuation Advisory Limited dated 24 June 2019 in respect of the Target Company (the "**Valuation**"). The Valuation is in connection with the acquisition of the Target Company, as set out in the Company's circular dated 24 June 2019 (the "**Circular**"). The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 19.61 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**").

Directors' responsibilities for the Discounted Future Estimated Cash Flows

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

Our independence and quality control

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

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

Reporting accountants' responsibilities

Our responsibility is to express an opinion, based on our work on the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rule 19.62(2) of the GEM Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

Opinion

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

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong
24 June 2019

B. LETTER FROM OPUS CAPITAL LIMITED

The following is the text of a report received from Opus Capital Limited, the financial adviser to the Company for the purpose of inclusion in this circular.

Opus Capital Limited
創富融資有限公司

18/F, Fung House
19–20 Connaught Road Central,
Central, Hong Kong

24 June 2019

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

Attention: The Board of Directors

Dear Sirs/Madams,

We refer to the circular of Hang Chi Holdings Limited (the "**Company**") dated 24 June 2019 (the "**Circular**") in relation to the Company's acquisition (the "**Acquisition**") of 60% equity interest in Guardian Home Limited (佳安家有限公司) (the "**Target Company**", together with its subsidiaries and associates as the "**Target Group**") which constitutes a major transaction under the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**") and also the discounted cash flow forecast (the "**Forecast**") underlying the business valuation (the "**Valuation**") prepared by Royson Valuation Advisory Limited (the "**Independent Valuer**") in relation to the appraisal of the fair value of a 60% equity interest in the business enterprise of the Target Group as at 31 December 2018. The Forecast upon which the Valuation has been made is regarded as a profit forecast under Rule 19.61 of the GEM Listing Rules. The principal assumptions (the "**Assumptions**") upon which the Forecast is based are included in the letter from the board (the "**Letter from the Board**") of the Circular. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

We have undertaken reasonableness checks to assess the relevant experience and expertise of the Independent Valuer and are satisfied that reliance could fairly be placed on the Independent Valuer's work.

We have reviewed the Forecast upon which the Valuation has been made and have discussed with the Board and the Independent Valuer the qualifications, bases and assumptions upon which the Forecast have been prepared by the Independent Valuer. We have also considered the letter from Ernst & Young dated 24 June 2019 addressed to the Board as set out in part A of Appendix VI to the Circular regarding the accounting policies and calculations upon which the Forecast have been made. We have noted that Ernst & Young concluded in its letter that the Forecast, so far as the accounting policies and calculations are concerned, have been properly complied, in all material respects, in accordance with the Assumptions as set out in the Letter from the Board and is presented on a basis consistent in all material respects with the accounting policies currently adopted by the Company.

Our work in connection with the Forecast has been undertaken solely for the purpose of complying with the relevant requirements under Rule 19.62(3) of the GEM Listing Rules. Based on the foregoing and on the basis that (i) the qualification, bases and assumptions adopted by the Independent Valuer in respect of the Forecast have been reviewed by the Directors; and (ii) the Directors are satisfied that no further matters should be brought to our attention, we are satisfied that (i) the Forecast underlying the Valuation, for which the Directors are solely responsible, have been made by the Directors after due and careful enquiry; and (ii) the qualifications, bases and assumptions adopted by the Independent Valuer have been made with due care and objectivity, and on a reasonable basis. However, we express no opinion as to how closely the actual cash flow will eventually correlate with the Forecast.

We have not independently verified the computations leading to the Independent Valuer's determination of the fair value and market value of the Target Group. We have had no role or involvement and have not provided and will not provide any assessment of the fair value and market value of the Target Group. Accordingly, save as expressly stated in this letter, we take no responsibility for and express no views, whether expressly or implicitly, on the fair value and market value of the Target Group as determined by the Independent Valuer and set out in the valuation report issued by the Independent Valuer or otherwise. We further confirm that the assessment, review and discussion carried out by us as described above are primarily based on financial, economic, market and other conditions in effect, and the information made available to us as of the date of this letter and that we have, in arriving at our views, relied on information and materials supplied to us by the Independent Valuer, the Group and the Target Group and opinions expressed by, and representations of, the employees and/or management of the Independent Valuer, the Group and the Target Group. We have assumed that all information, materials and representations so supplied, including all information, materials and representations referred to or contained in the Circular, for which the Directors are wholly responsible, were true, accurate, complete and not misleading at the time they were supplied or made, and remained so up to the date of the Circular and that no material fact or information has been omitted from the information and materials supplied. No representation or warranty, expressed or implied, is made by us on the accuracy, truth or completeness of such information, materials, opinions and/or representations. Circumstances could have developed or could develop in the future that, if known to us at the time of this letter, would have altered our respective assessment and review. Further, while the qualifications, bases and assumptions adopted by the Independent Valuer are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and the Independent Valuer.

We are acting as the financial adviser to the Company in reviewing the Forecast and will receive fees for such advice. We, our directors and affiliates will, neither jointly or severally, be responsible to anyone other than the Company for providing advice in connection with the review of the Forecast, nor will we, our directors or affiliates, whether jointly or severally, owe any responsibility to anyone other than the Company.

Nothing in this letter should be construed as an opinion or view as to the fair value, market value or any other value of the Target Group or as an opinion or recommendation to any person as to whether they should acquire the Shares. Shareholders are recommended to read the Circular with care.

A copy of this letter in its entirety may be reproduced in the Circular on the basis that none of the Company, the Independent Valuer or any other person may reproduce, disseminate or quote this letter (or any part thereof) for any other purpose at any time and in any manner without our prior written consent. In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

Yours faithfully,
For and on behalf of
Opus Capital Limited
Koh Kwai Yim
Executive Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

The authorised share capital of the Company is HK$10,000,000 divided into 1,000,000,000 Shares. As at the Latest Practicable Date, the Company had issued 400,000,000 Shares. All the issued Shares rank *pari passu* with each other in all respects including the rights as to voting, dividends and return of capital.

3. DISCLOSURE OF INTERESTS

(a) Interest of Directors and chief executives

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the 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	(i) Interest of controlled corporation *(Note 2)* (ii) Beneficial owner *(Note 2)*	262,980,000	65.75%

Name of Director/chief executive	Capacity/Nature of interests	Number of Shares held/ interested in	Approximate percentage of shareholding (Note 1)
Mr. Lui	(i) Interest of controlled corporation (Note 3)	36,020,000	9.01%
	(ii) Beneficial owner (Note 3)		

Notes:

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

2. As at the Latest Practicable Date, Mr. Yik was interested in 262,980,000 Shares, of which 248,700,000 Shares were held by Shui Wah and 14,280,000 Shares were directly held by him. Shui Wah was owned as to 89.11% by Lucky Expert Investment Limited ("**Lucky Expert**"), which was in turn owned as to 59.88% by Hang Chi Development & Investment Limited ("**Hang Chi**"). Mr. Yik indirectly owned 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. As at the Latest Practicable Date, Mr. Lui was interested in 36,020,000 Shares, of which 15,300,000 Shares were held by Jumbo Sino, a company incorporated in Hong Kong and wholly-owned by him, and 20,720,000 Shares were directly held by him. By virtue of the SFO, Mr. Lui is deemed to be interested in all the Shares held by Jumbo Sino.

Long positions in the ordinary shares of associated corporation

Name of Director/ chief executive	Name of associated corporation	Capacity/Nature of interests	Number of shares held/ interested in	Percentage of shareholding
Mr. Yik	Multifield	Beneficial owner (Note)	1	100.00%
	Hang Chi	Interest of controlled corporation (Note)	20,000	100.00%

Name of Director/ chief executive	Name of associated corporation	Capacity/Nature of interests	Number of shares held/ interested in	Percentage of shareholding
	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: As at the Latest Practicable Date, the Company was owned as to approximately 62.18% by Shui Wah. Shui Wah is owned as to 89.11% by Lucky Expert, which was in turn owned as to 59.88% by Hang Chi. Mr. Yik indirectly owned 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 the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which was required to be notified the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or otherwise to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

(b) Interest of substantial Shareholders

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

Long positions in the Shares

Name of Shareholder	Capacity/Nature of interests	Number of Shares held/ interested in	Approximate percentage of shareholding *(Note 1)*
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)*	262,980,000	65.75%
Hang Chi	(i) Interest in controlled corporation *(Note 2)* (ii) Interest held jointly with other person *(Note 3)*	262,980,000	65.75%
Ms. Yik Wai Hang	Interest held jointly with other person *(Note 3)*	262,980,000	65.75%
Ms. Chung Shuk Man	Interest of spouse *(Note 4)*	262,980,000	65.75%

Notes:

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

2. As at the Latest Practicable Date, Shui Wah held 248,700,000 Shares. Shui Wah was owned as to approximately 89.11% by Lucky Expert, which was in turn owned as to approximately 59.88% by Hang Chi. Mr. Yik indirectly owned 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 was interested in 262,980,000 Shares. Accordingly, by virtue of the Acting in Concert Agreement, Mr. Yik, Multifield, Hang Chi and Ms. Yik Wai Hang are together controlling approximately 65.75% 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.

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

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Enlarged Group, excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. LITIGATION

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

6. MATERIAL CONTRACTS

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

(a) the Agreement;

(b) the Supplemental Agreement;

(c) the sale and purchase agreement dated 9 October 2017 entered into between Mr. Hui Lung and Mr. Chui Sai Ming as vendors and the Purchaser as purchaser in relation to the acquisition of the entire issued share capital of Shui Jun Nursing Centre (Yau Tong) Company Limited;

(d) the cornerstone investment agreement dated 21 June 2017 entered into between the Company, Guotai Junan Securities (Hong Kong) Limited as the sole global coordinator, Guotai Junan Capital Limited as the sole sponsor and Yingfeng International Investment Limited, details of which are disclosed in the section headed "Cornerstone Investor" of the Prospectus;

(e) the deed of indemnity dated 21 June 2017 entered into by Multifield, Hang Chi, Lucky Expert, Shui Wah, Mr. Yik and Ms. Yik Wai Hang in favour of the Company to provide certain indemnities, details of which are set out in the section headed "Statutory and General Information" of the Prospectus;

(f) the deed of non-competition dated 21 June 2017 and executed by the controlling shareholders of the Company in favour of the Company, details of which are set out in the section headed "Relationship with Controlling Shareholders" of the Prospectus;

(g) the public offer underwriting agreement dated 27 June 2017 and entered into, among others, the Company, Guotai Junan Securities (Hong Kong) Limited as the sole global coordinator and the public offer underwriters, details of which are set out in the section headed "Underwriting" of the Prospectus; and

(h) the placing underwriting agreement dated 3 July 2017 and entered into, among others, the Company and the placing underwriters, details of which are set out in the section headed "Underwriting" of the Prospectus.

7. COMPETING INTEREST OF DIRECTORS AND ASSOCIATES

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates were considered to have interest in any business which competes or may compete, either directly or indirectly, with the business of the Enlarged Group or have or may have any other conflicts of interest with the Enlarged Group pursuant to the GEM Listing Rules.

8. INTEREST OF COMPLIANCE ADVISER

As confirmed by the Company's compliance adviser, Guotai Junan Capital Limited (the "**Compliance Adviser**"), as at the Latest Practicable Date, 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.

9. INTEREST OF DIRECTORS IN ASSETS ACQUIRED OR DISPOSED OF BY OR LEASED TO ANY MEMBER OF THE ENLARGED GROUP

Since the date to which the latest published audited accounts of the Company were made up until the Latest Practicable Date, none of the Directors or proposed Directors or experts (as listed out in paragraph 11 below) had or had proposed to acquire or dispose or lease any interest, direct or indirect, in any assets to any member of the Enlarged Group.

10. CONTRACTS OR ARRANGEMENTS WHICH DIRECTORS ARE MATERIALLY INTERESTED AND ARE SIGNIFICANT IN RELATION TO THE BUSINESS OF THE ENLARGED GROUP

Save as the continuing connected transactions in relation to the tenancy arrangement as disclosed in the announcements of the Company dated 7 October 2017 and 13 November 2017, as at the Latest Practicable Date, there were no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Enlarged Group.

11. EXPERTS AND CONSENT

The following are the qualifications of the experts who have been named in this circular or have given opinions or letters contained in this circular:

Name	**Qualification**
Ernst & Young	Certified public accountants
Opus Capital	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Royson Valuation Advisory Limited	an independent professional valuer

As at the Latest Practicable Date, each of the above experts had given and had not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and/or references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, each of the above experts was not beneficially interested in the share capital of any member of the Enlarged Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Enlarged Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 31 December 2018), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

12. MISCELLANEOUS

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

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

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

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

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

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

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

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

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

Mr. Kwok has served as an independent non-executive director of Grand Ocean Advanced Resources Company Limited (弘海高新資源有限公司) (formerly known as DeTeam Company Limited and Angels Technology Company Limited) since 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).

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

Mr. Lau has been 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).

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

Mr. Wong has served 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).

13. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, there were no material adverse changes in the financial or trading positions of the Enlarged Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

14. DOCUMENTS FOR INSPECTION

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

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

(b) the annual reports of the Company for the years ended 31 December 2017 and 31 December 2018;

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

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

(e) the letter from the Independent Valuer in respect of the valuation on 60% equity interest in the Target Company, the text of which is set out in Appendix V to this circular;

(f) the reports on the profit forecast underlying the valuation of the Target Group prepared by Ernst & Young and Opus Capital, respectively, the texts of which are set out in Appendix VI to this circular;

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

(h) the written consents from Ernst & Young, Opus Capital and the Independent Valuer referred to in the paragraph headed "Experts and Consent" in this Appendix;

(i) the Prospectus;

(j) this circular;

(k) the Agreement; and

(l) the Supplemental Agreement.

Hang Chi Holdings Limited
恒智控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8405)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Hang Chi Holdings Limited (the "**Company**") will be held at Room D, 35/F, TG Place, 10 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Wednesday, 10 July 2019 at 3 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution of the Company:

ORDINARY RESOLUTION

1. "**THAT**

(a) the conditional sale and purchase agreement dated 11 March 2019, which was supplemented and amended by a supplemental agreement dated 17 June 2019 (collectively, the "**Agreement**") and entered into among Jun Pak Limited as vendor, Shui On Nursing Home Holdings Limited as purchaser and Ms. Woo Pui Kei, Betty as guarantor, in relation to the sale and purchase of 60% of the issued share capital of Guardian Home Limited at the consideration of HK$63,000,000 (details of the Agreement are set out in the circular of the Company dated 24 June 2019, and a copy of the Agreement is marked "A" and produced to the EGM and signed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder be and are hereby ratified, confirmed and approved; and

(b) any one or more director(s) of the Company (the "**Director(s)**") be and is/are hereby authorised to implement and take all steps and do all acts and things and execute all such documents (including under seal, where applicable) which he/she/they consider(s) necessary, desirable or expedient to give effect to the Agreement and the transactions contemplated thereunder and to agree with such variation, amendment or waiver as, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole."

Yours faithfully,
On behalf of the Board
Hang Chi Holdings Limited
恒智控股有限公司
Yik Tak Chi
Chairman and Executive Director

Hong Kong, 24 June 2019

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., TG Place
10 Shing Yip Street
Kwun Tong
Kowloon
Hong Kong

Notes:

1. The register of members of the Company will be closed from Tuesday, 9 July 2019 to Wednesday, 10 July 2019, both days inclusive, during which period no transfer of the Company's shares will be registered. In order to determine the entitlement to attend and vote at the EGM, all transfer of the shares of the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer agent in Hong Kong, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong for registration by no later than 4:30 p.m. on Monday, 8 July 2019.

2. Any member of the Company entitled to attend and vote at the EGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM. If more than one proxy is so appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.

3. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

4. To be valid, the form of proxy and (if required by the board of Directors) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the offices of the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

5. No instrument appointing a proxy shall be valid after expiration of 12 months from the date named in it as the date of its execution, except at an adjourned EGM or on a poll demanded at the EGM or any adjournment thereof in cases where the EGM was originally held within 12 months from such date.

6. Where there are joint holders of any shares, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

7. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the EGM if the member so wish and in such event, the form of proxy shall be deemed to be revoked.

8. If a tropical cyclone warning signal No. 8 or above is expected to be hoisted or a black rainstorm warning signal is expected to be in force at any time between 8:00 a.m. to 5:00 p.m. on the date of the EGM, the EGM will be postponed and members will be informed of the date, time and venue of the postponed EGM by a supplementary notice, posted on the respective websites of the Company and Hong Kong Exchanges and Clearing Limited.

   If a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is cancelled at or before 8:00 a.m. on the date of the EGM and where conditions permit, the EGM will be held as scheduled.

   If a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is hoisted or remain hoisted after 8:00 a.m. but lowered at or before 12 noon on the date of the EGM, the EGM will be adjourned to 3:00 p.m. on the same day at the same venue.

   The EGM will be held as scheduled when an amber or red rainstorm warning signal is in force.

   After considering their own situations, members of the Company should decide whether they would attend the EGM under bad weather condition and if they do so, they are advised to exercise care and caution.