



**Hang Chi Holdings Limited**  
**恒智控股有限公司**

(Incorporated in the Cayman Islands with limited liability)  
Stock Code: 8405

**2019**  
**Annual**  
**Report**



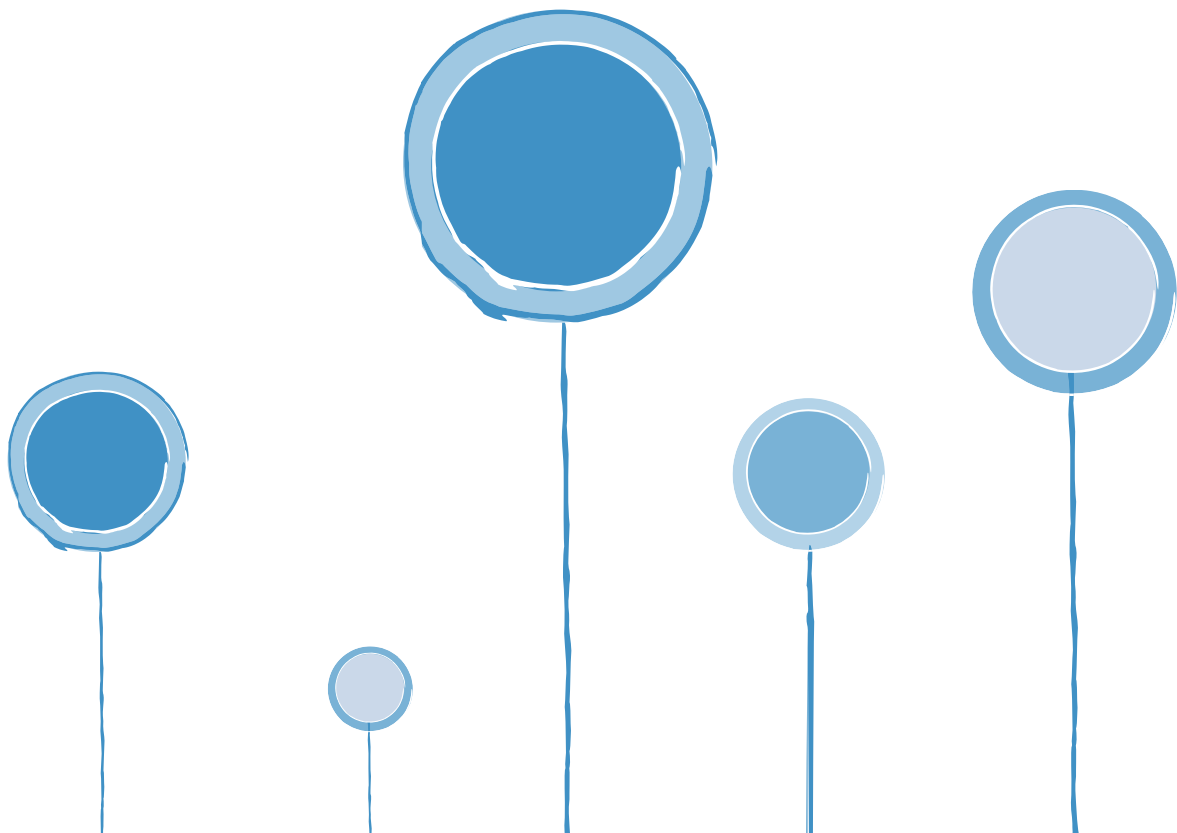
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*This report, for which the directors (the “Directors”) of Hang Chi Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (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 report 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 report misleading.*





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## CORPORATE INFORMATION

### Board of Directors

#### Executive Directors

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

#### Non-executive Director

Mr. Lau Joseph Wan Pui

#### Independent non-executive Directors

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

### Board Committees

#### Audit Committee

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

#### Nomination Committee

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

#### Remuneration Committee

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

### Company Secretary

Ms. Leung Pui Shan (*HKICPA*)

### Authorised Representatives

Mr. Chung Kin Man  
 Ms. Leung Pui Shan

### Compliance Officer

Mr. Chung Kin Man

### Compliance Adviser

Guotai Junan Capital Limited

### Registered Office

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

### Headquarters and Principal Place of Business in Hong Kong

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

### Auditor

Ernst & Young  
*Certified Public Accountants*

### Principal Banker

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

### Principal Share Registrar and Transfer Office in the Cayman Islands

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

### Branch Share Registrar and Transfer Office in Hong Kong

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

### Stock Code

8405

### Company's Website

[www.shuionnc.com](http://www.shuionnc.com)

### Contact Information

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## FINANCIAL HIGHLIGHTS

CORPORATE INFORMATION

FINANCIAL HIGHLIGHTS

CHAIRMAN'S STATEMENT

MANAGEMENT DISCUSSION  
AND ANALYSIS

### Consolidated statement of profit or loss and other comprehensive income

	2019 HK\$'000	2018 HK\$'000	Change % (approximate)
Revenue	168,680	135,516	24.47%
EBITDA	64,534	35,600	81.28%
Profit for the year	30,544	23,709	28.83%

### Consolidated statement of financial position

Cash and cash equivalents	52,267	59,283	-11.83%
Trade receivables	464	204	127.45%
Net assets value	173,027	146,990	17.71%

## CHAIRMAN'S STATEMENT

Dear Shareholders,

My sincere greetings to everyone of you. With a steady improving performance, I am pleased to present the annual results of the Company and its subsidiaries (collectively with the Company, the "Group") for the year ended 31 December 2019.

### Business Review

In 2019, although our business was still perplexed by rental increase and manpower shortage, we were able to overcome the impact of market downturn. We achieved a reasonable growth in business scale and profitability when most of the industries in Hong Kong were facing a downturn. In addition to the acquisition of an elderly residential care home in Shatin in mid-2019, we also upgraded the facilities and information technology system of our elderly residential care home, thereby enhancing our quality of services and boosting our income. These dual measures have effectively counteracted the market downturn. Our development in training, accounting, human resources, supervision and information technology systems are becoming increasingly matured after the establishment of our staff training centre in 2017, which is conducive to our long-term development.

### Future Development

With crisis comes opportunity. Although the current social situation has led to the downturn of the economy, our rental costs could be adjusted downwards. Excess labour from other industries may switch to the residential care home services industry and mitigate our pressure in manpower shortage. Only with ample human resources can the quality of elderly residential care homes be sustained or improved. With this in mind, we hope to expand our scale and market share through opening new or acquiring existing elderly residential care homes in the future.

### Appreciation

Finally, I would like to take this opportunity to express my sincere gratitude to all employees of the Group. Our employees are our most valuable assets. Their relentless efforts have maximised the value of the Company's business. Without them at the frontline, our customers would not be able to enjoy comfortable old age life and investors may not be able to obtain reasonable returns. I will lead all employees of the Group to lay a solid foundation of the residential care home services industry in Hong Kong and enjoy a better future together.

### Yik Tak Chi

*Chairman and Executive Director*

Hong Kong, 17 March 2020

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Operational Review

The Group is an established operator of elderly residential care homes in Hong Kong providing comprehensive residential care home services to the elderly residents including: (i) the provision of accommodation with dietician-managed meal plans, 24-hour nursing and caretaking assistance and professional services such as regular medical consultation, physiotherapy, occupational therapy, psychological and social care services; and (ii) the sale of healthcare and medical consumable products and the provision of customisable add-on healthcare services to the elderly residents. In July 2019, the Group completed the acquisition of 60% of the issued share capital of Guardian Home Limited, as a result of which the Group came to hold 60% interest in Guardian Home (Chun Shek) Limited, which is an operator of an elderly residential care home under the name of Guardian Home (Chun Shek) Integrated Nursing Home (佳安家(秦石)綜合護老中心) in Sha Tin. During the year ended 31 December 2019 (the “Reporting Year”), the Group derived its revenue from seven elderly residential care homes across different districts in Hong Kong, including four “Shui On 瑞安”, one “Shui Hing 瑞興”, one “Shui Jun 瑞臻” and one “Guardian Home 佳安家” branded elderly residential care homes.

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

MANAGEMENT DISCUSSION AND ANALYSIS

2019

**244** residential care places

**SHATIN**

Guardian Home (Chun Shek)  
Integrated Nursing Home

2017

**207** residential care places

**KWUN TONG**

Shui Jun Nursing Centre (Yau Tong)  
Company Limited

**42** of residential care places under EBPS EA2\*

2016

**263** residential care places

**KWAI TSING**

Shui On Nursing Centre  
(Kwai Shing E.) Co. Limited

**136** of residential care places under EBPS EA1\*

**91** residential care places

**SHATIN**

Shui On Nursing Centre  
(Sun Tin Wai) Company Limited

2016

2011

**90** residential care places

**KWUN TONG**

Shui Hing Nursing Centre Limited

**72** residential care places

**EASTERN**

Shui On Nursing Centre  
(Hing Wah) Company Limited

2008

**118** residential care places

**KWUN TONG**

Shui On Nursing Centre  
(Shun On) Company Limited

**61** of residential care places under EBPS EA1\*

2007

Strategic locations of the Group's **elderly residential care homes**

\*Classification under the Enhanced Bought Place Scheme (the "EBPS")



## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating Performance

#### Revenue

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

	2019		2018	
	Revenue HK\$'000	Percentage of segment revenue approximate %	Revenue HK\$'000	Percentage of segment revenue approximate %
<b>Rendering of elderly home care services</b>				
– residential care places leased by the Social Welfare Department (the “SWD”) under the EBPS	34,729	20.59%	30,109	22.22%
– residential care places leased by individual customers	91,461	54.22%	73,775	54.44%
– residential care places leased by non-governmental organisations	580	0.34%	443	0.33%
	126,770	75.15%	104,327	76.99%
<b>Sales of elderly related goods and provision of healthcare services</b>	41,910	24.85%	31,189	23.01%
<b>Total</b>	<b>168,680</b>	<b>100.00%</b>	<b>135,516</b>	<b>100.00%</b>

During the Reporting Year, the Group’s revenue increased from approximately HK\$135,516,000 for the last year to approximately HK\$168,680,000, representing an approximately 24.47% increase.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating Performance (Continued)

#### Rendering of elderly home care services

The revenue from rendering of elderly home care services was derived from the provision of, among others, residence, nursing and caretaking services, health and medical services, rehabilitation services, meal preparation services and social care services in Hong Kong. The revenue increased from approximately HK\$104,327,000 for the last year to approximately HK\$126,770,000 for the Reporting Year, representing an approximately 21.51% increase.

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

During the Reporting Year, the revenue derived from the SWD, which leased a fixed number of residential care places at the Group's elderly residential care homes under the EBPS, increased from approximately HK\$30,109,000 for the last year to approximately HK\$34,729,000, representing an approximately 15.34% increase.

- *Residential care places leased by individual customers*

The revenue derived from rendering of elderly home care services for individual customers, together with the unsubsidised portions paid by individual customers under the EBPS increased from approximately HK\$73,775,000 for the last year to approximately HK\$91,461,000 for the Reporting Year, representing an approximately 23.97% increase.

The increment was mainly due to completion of the acquisition of Guardian Home Limited on 12 July 2019 which increased the total number of residential care places. After the acquisition of Guardian Home Limited, the Group owned and operated seven elderly residential care homes with a total of 1,085 residential care places; while there were six elderly residential care homes with a total of 816 residential care places for last year. With over 90% occupancy rate of all elderly residential care homes recorded for both Reporting Year and last year, the revenue amount increased.

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

The revenue derived from the non-governmental organisations which leased residential care places from the Group's elderly residential care homes increased from approximately HK\$443,000 for the last year to approximately HK\$580,000 for the Reporting Year, representing an approximately 30.93% increase.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating Performance *(Continued)*

#### Sales of elderly related goods and provision of healthcare services

The revenue from sales of elderly related goods and provision of healthcare services was derived from the sales of adult nappies, nutritional milk, other medical consumable products, daily supplies and provision of additional healthcare services to the residents. The revenue increased from approximately HK\$31,189,000 for the last year to approximately HK\$41,910,000 for the Reporting Year, representing an approximately 34.37% increase.

#### Average occupancy rates of the elderly residential care homes

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

	2019 approximate %	2018 approximate %
<b>Average occupancy rates</b>		
– elderly residential care homes under the EBPS	<b>94.46%</b>	97.03%
– non-EBPS elderly residential care homes	<b>90.83%</b>	93.95%

#### Average occupancy rates

- elderly residential care homes under the EBPS
- non-EBPS elderly residential care homes

#### Staff costs

Staff costs are the largest component of the operating expenses, which comprised of wages, salaries, bonuses, long service payments, retirement benefit costs and other allowances and benefits payable to employees. Due to the increase in the number of elderly residential care homes operated by the Group which increased the total number of staff, the amount of staff costs increased from approximately HK\$54,511,000 for the last year to approximately HK\$60,043,000 for the Reporting Year, representing an approximately 10.15% increase.

#### Property rental and related expenses

Property rental and related expenses mainly represented by the rental and ancillary office payments under operating leases related to the elderly residential care homes. The amount of property rental and related expenses decreased from approximately HK\$27,209,000 for the last year to approximately HK\$19,169,000 for the Reporting Year, representing an approximately 29.55% decrease. With the adoption of IFRS 16 Leases during the Reporting Year, the rental expenses were re-allocated between Property rental and related expenses, Depreciation and amortisation and Finance costs. The rental and related expenses payments for the elderly residential care homes and office amounted to approximately HK\$34,265,000 in total for the Reporting Year.

#### Profit for the year

During the Reporting Year, the Group recorded a profit of approximately HK\$30,544,000 and approximately HK\$23,709,000 was noted for the last year. Such increase was attributable to the increment in revenue and better cost control policy implemented during the Reporting Year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Liquidity, Financial Resources, Gearing and Capital Structure

#### Liquidity

As at 31 December 2019, current assets amounted to approximately HK\$69,293,000 (2018: approximately HK\$69,280,000). Current liabilities were approximately HK\$48,583,000 (2018: approximately HK\$18,469,000).

#### Financial Resources

As at 31 December 2019, the Group had total cash and bank balances of approximately HK\$52,267,000 (2018: approximately HK\$59,283,000).

As at 31 December 2019, the Group had trade receivables of approximately HK\$464,000 (2018: approximately HK\$204,000).

#### Gearing

The gearing ratio of the Group as at 31 December 2019 was 30% (2018: nil) as the Group incurred the lease liabilities with the adoption of IFRS 16 Leases during the Reporting Year. The Group was not in need of any material debt financing during the Reporting Year.

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

#### Capital Structure

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

As at 31 December 2019, the total equity of the Group was approximately HK\$173,027,000 (2018: approximately HK\$146,990,000).

#### Dividend

The Directors recommend the payment of a final dividend of HK\$0.06 per ordinary share, totaling HK\$24,000,000 (2018: nil) for the Reporting Year.

#### Significant Investments Held by the Group

As at 31 December 2019, there was no significant investment held by the Group.

#### Future Plans for Material Investment and Capital Assets

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

#### Acquisition of Guardian Home Limited

On 11 March 2019, Shui On Nursing Home Holdings Limited (“Shui On Holdings (HK)”), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with, among others, Jun Pak Limited, pursuant to which Shui On Holdings (HK) agreed to acquire and Jun Pak Limited agreed to sell 60% of the issued share capital of Guardian Home Limited (“Guardian Home”) at the consideration of HK\$63,000,000 (the “Acquisition”). The Acquisition constituted a major and connected transaction of the Company under the GEM Listing Rules. The Acquisition was completed on 12 July 2019.

Guardian Home is an investment holding company, which holds the entire issued share capital of Guardian Home (Chun Shek) Limited (“Guardian Home (Chun Shek)”) and Glory Crest Limited (“Glory Crest”). Guardian Home (Chun Shek) operates Guardian Home (Chun Shek) Integrated Nursing Home in Sha Tin, whereas Glory Crest holds approximately 33.33% of the issued share capital of Shui On Nursing Centre (Kwai Shing E.) Co. Limited (“Shui On (KSE)”).

Since completion of the Acquisition, Guardian Home has been owned as to 60% by Shui On Holdings (HK) and 40% by an independent third party, and the Company has been indirectly holding 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 Shui On Holdings (HK).

The Directors considered the Acquisition would allow the Group to expand its network of elderly residential care homes in Hong Kong and enhance the Group’s competitiveness in the market. The Acquisition also enabled 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) has increased from approximately 66.67% to 86.67% since completion of the Acquisition.

For more information on the Acquisition, please refer to the Company’s announcements dated 11 March 2019 and 12 July 2019 and the Company’s circular dated 21 June 2019.

Save as the Acquisition, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the Reporting Year.

#### Foreign Exchange Exposure

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

#### Contingent Liabilities

As at 31 December 2019, the Group had no material contingent liabilities (2018: nil).

#### Capital Expenditure

During the Reporting Year, the Group’s capital expenditure amounted to approximately HK\$1,463,000 (2018: approximately HK\$3,175,000) which was used for the acquisition of plant and equipment in the elderly residential care homes.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Human Resources and Remuneration Policy

As at 31 December 2019, the Group had 340 employees (2018: 277 employees). The Group offered competitive remuneration package, discretionary bonuses and social insurance benefits to its employees. In addition, a share option scheme (the “Share Option Scheme”) and a share award scheme (the “Share Award Scheme”) have been respectively adopted on 21 June 2017 and 6 November 2019 for, among others, the employees of the Group.

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

	<u>Number of persons</u>
Less than HK\$500,000	–
HK\$500,001 to HK\$1,000,000	6
Over HK\$1,000,001	–

### Use of Proceeds

The net proceeds (the “Net Proceeds”) from the listing of the Shares on GEM (the “Listing”) received by the Company, after deducting underwriting fees and related expenses in connection with the Listing, was approximately HK\$45.5 million, which had been fully utilised as at 31 December 2019.

As at 31 December 2019, (i) approximately HK\$25.0 million of the Net Proceeds had been applied towards the acquisition of an operating elderly residential care home; (ii) approximately HK\$2.0 million of the Net Proceeds had been applied to establish the Group’s headquarters and on-the-job training centre; (iii) approximately HK\$2.0 million of the Net Proceeds had been applied to renew and upgrade the facilities at the Group’s elderly residential care homes; (iv) approximately HK\$2.6 million of the Net Proceeds had been applied to upgrade the Group’s information technology infrastructure; (v) approximately HK\$0.1 million of the Net Proceeds had been used as the Group’s general working capital; and (vi) approximately HK\$13.8 million of the Net Proceeds had been applied to settle part of the consideration of the Acquisition as detailed below.

As disclosed in the announcement of the Company dated 26 October 2018 (the “Announcement”), due to the Company’s difficulty in finding a suitable leased property for setting up a new residential care home in Hong Kong, the Board had resolved to adjust the allocation of the use of the Net Proceeds and change the use of the unutilised Net Proceeds of approximately HK\$13.8 million (the “Unutilised Proceeds”) to acquiring another operating residential care home in Hong Kong. It was also disclosed in the Announcement that, the Company was evaluating the feasibility of acquiring an operating residential care home located in the New Territories, but there had been no substantive discussion or execution of agreement between the Group and the potential seller as at the date of the Announcement. No particular target for acquisition had been confirmed by the Company as at the date of the Announcement.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Use of Proceeds *(Continued)*

Pursuant to Rule 18.32(8)(b) of the GEM Listing Rules, the Company is required to disclose, among other things, the expected timeline for the use of the Unutilised Proceeds in the annual report. However, as at the date of the 2018 Annual Report, i.e. 27 February 2019, the Company had not made any substantive plan on the timeframe for application of the Unutilised Proceeds, and the plan of using the Unutilised Proceeds specifically for the Acquisition had not existed. In light of the above, it was practically difficult for the Company to disclose a detailed timeline for utilising the Unutilised Proceeds in the 2018 Annual Report as required under the GEM Listing Rules.

The plan on the timeframe for application of the Unutilised Proceeds was only materialised in mid-March of 2019, in or around the time when the Group entered into a sale and purchase agreement in relation to the Acquisition with, among others, Jun Pak Limited on 11 March 2019. Pursuant to the aforesaid sale and purchase agreement, a sum of HK\$20,000,000, representing part of the consideration of the Acquisition, shall be paid by the Group on the date of despatch of the circular in relation to the Acquisition. Accordingly, the Unutilised Proceeds was applied to settle part of such amount when the aforesaid circular was despatched in late June 2019.

The Company confirms that, despite the omission to strictly following the requirement under Rule 18.32(8)(b) of the GEM Listing Rules, the use of the Unutilised Proceeds by the Company did not deviate from its intended use as disclosed in the 2018 Annual Report.

### Subsequent Events

#### Adoption of the Share Award Scheme

On 6 November 2019, the Board resolved to adopt the Share Award Scheme, pursuant to which Shares were awarded to the selected participants in accordance with the rules of the Share Award Scheme. Each selected participant shall be a full-time employee of the Group who is not a Director or connected person of the Company. The maximum number of awarded shares which may be awarded under the Share Award Scheme shall be 1,360,000 Shares, representing approximately 0.34% of the total number of issued Shares as at 31 December 2019.

On 22 January 2020, 1,336,000 Shares, representing approximately 0.33% of the total number of issued Shares, were awarded to the selected participants, all of whom are independent third parties and full-time employees of the Group, pursuant to the rules of the Share Award Scheme. The Share Award Scheme lapsed after completion of the transfer of the awarded shares on the same date.

For details of the Share Award Scheme, please refer to the Company's announcement dated 6 November 2019.

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

### Executive Directors

**Mr. Yik Tak Chi (易德智先生) (“Mr. Yik”)**, aged 67, was appointed as a Director on 16 February 2016, and was redesignated as the Chairman and an executive Director, and appointed as the chief executive officer of the Company (the “CEO”) on 7 February 2017. Mr. Yik stepped down as the CEO with effect from 22 January 2018. He is also the chairman of the Nomination Committee. Mr. Yik is the founder of the Group, who also serves as a director of all of the subsidiaries of the Company. Mr. Yik is responsible for the overall management, strategic planning, business development and major decision-making of the Group.

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

In 1993, Mr. Yik and his sister co-founded Shui On Aged Home (Prince Edward Road), a private elderly residential care home located in Kowloon. Since then, he has been actively involved in the planning and establishment, the daily management and operation of elderly residential care homes and has accumulated more than 25 years of experience in the operation and management of elderly residential care homes. Other than the elderly residential care homes of the Group, Mr. Yik also assisted in management and operation of three other elderly residential care homes before the establishment of the Group.

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

**Mr. Chung Kin Man (鍾建民先生) (“Mr. Chung”)**, aged 56, was appointed as an executive Director and the compliance officer of the Company on 7 February 2017. Mr. Chung also serves as a director of the Group companies, namely, Shui On Nursing Centre (Shun On) Company Limited (“Shui On (Shun On)”), Shui Hing Nursing Centre Limited and Shui On Holdings (HK). Mr. Chung is currently responsible for human resource management, staff training and daily operation of the Group. He also assists Mr. Yik in affairs such as corporate strategic planning and business development of the Group.

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

Mr. Chung has over 16 years of work experience in elderly residential care homes. Prior to joining the Group, Mr. Chung worked as a health worker in other elderly residential care homes, and primarily assisted the nurses and physiotherapists in taking care of the elderly residents and handling administrative duties. Mr. Chung first joined the Group as the director of Shui On (Shun On) in March 2006 and became the home manager of Shui On (Shun On) in September 2007. He was responsible for the daily management and operation of Shui On (Shun On). In June 2011, Mr. Chung was further appointed as the director of Shui Hing and was responsible for staff training and daily operation of the Group in view of the Group’s expansion.

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



## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

### Executive Directors *(Continued)*

**Ms. Chung Wai Man (鍾慧敏女士) (“Ms. Chung”)**, aged 54, was appointed as an executive Director on 7 February 2017. Ms. Chung also serves a director of medical service of Shui On (Shun On). Ms. Chung is currently responsible for making healthcare policies, procedures, training programs for the medical staff at all levels in the Group, and also responsible for allocating, distributing and supervising the medical and nursing work, and evaluating the work efficiency from time to time. She also assists Mr. Yik in recruiting, supervising and managing the medical staff at all levels in the Group.

Ms. Chung obtained a degree of Bachelor of Nursing from The University of Newcastle in Australia in April 1996 and a Post-Experience Diploma in Nursing Management from The Hong Kong Polytechnic University in November 1998. She has been a registered nurse registered with the Nursing Council of Hong Kong since December 1990. Ms. Chung has approximately 28 years of experience as a registered nurse in Hong Kong specialising in geriatrics. Ms. Chung received nursing training in Kwong Wah Hospital from 1987 to 1990, and was employed as a registered nurse in Geriatrics of Caritas Medical Centre from 1991 to 1993. She then worked in Geriatrics and Hospice division in Tung Wah Group of Hospitals Wong Tai Sin Hospital from 1996 to 2006. Ms. Chung was subsequently employed as a registered nurse in Shui On Nursing Centre (Shatin) Limited. She joined the Group as a director of Shui On (Hing Wah) in November 2007.

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

**Mr. Lui Chi Tat (雷志達先生) (“Mr. Lui”)**, aged 46, was appointed as the CEO on 22 January 2018. He has been appointed as an executive Director on 27 February 2019. Mr. Lui also serves as a director of all of the subsidiaries of the Company, except Shui On Nursing Home Holdings (BVI) Limited. He is currently responsible for the daily operation and management of the Group.

Mr. Lui started working as an apprentice in the renovation industry after his graduation from secondary school in 1991. He then joined the industry of elderly residential care homes by working in Jun Pak Limited (formerly known as Shui On Nursing Centre Limited), which operated an elderly residential care home in Yau Tong district, as a general clerk in 1994. Mr. Lui subsequently became the deputy home manager of the aforesaid elderly residential care home from 2001 to 2004 and the home manager of an elderly residential care home in Shatin district, from 2004 to 2010. Since 2010, Mr. Lui has been appointed as a director and the home manager of Shui On (KSE). As a home manager, Mr. Lui has been responsible for daily operation, management and administration of the above elderly residential care homes during the relevant period. Mr. Lui has accumulated more than 20 years of experience in the management and operation of elderly residential care homes.

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

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

### Non-Executive Director

**Mr. Lau Joseph Wan Pui (劉允培先生) (“Mr. Joseph Lau”)**, aged 68, was appointed as a non-executive Director on 7 February 2017. He is also the chairman of the Remuneration Committee. Mr. Joseph Lau is currently responsible for providing advice on the business strategies of the Group.

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

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

### Independent Non-Executive Directors

**Mr. Kwok Chi Shing (郭志成先生) (“Mr. Kwok”)**, aged 58, was appointed as an independent non-executive Director on 21 June 2017. He is also the chairman of the Audit Committee and a member of the Remuneration Committee.

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

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

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

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

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

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

### Independent Non-Executive Directors *(Continued)*

**Mr. Lau Tai Chim (劉大潛先生) (“Mr. Lau”)**, aged 68, was appointed as an independent non-executive Director on 21 June 2017. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee.

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

Mr. Lau has been served as an independent non-executive director of Future Bright Mining Holdings Limited (高鵬礦業控股有限公司) from December 2014 to September 2018, the shares of which are listed on the Main Board (stock code: 2212). Mr. Lau also served as an independent non-executive director of Warderly International Holdings Limited (匯多利國際控股有限公司) (currently known as Fullshare International Holdings Limited (豐盛控股有限公司)) from April 2002 to September 2010, the shares of which are listed on the Main Board (stock code: 0607), and was appointed as a non-executive director of Kingboard Chemical Holdings Limited (建滔化工集團有限公司) from March 2001 to September 2004, the shares of which are listed on the Main Board (stock code: 0148).

**Mr. Wong Wai Ho (黃偉豪先生) (“Mr. Wong”)**, aged 70, joined the Group and was appointed as an independent non-executive Director on 21 June 2017. He is also a member of the Audit Committee and the Nomination Committee.

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

Mr. Wong has served as an independent non-executive director since 2014 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 2015, a company whose shares are listed on the Main Board (stock code: 1098). Mr. Wong was an executive director of Proactive Technology Holdings Limited (currently known as Chinese Strategic Holdings Limited 華人策略控股有限公司) from 2000 to 2006, a company whose shares are listed on GEM (stock code: 8089).

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

### Senior Management

**Ms. Leung Pui Shan (梁佩珊女士) (“Ms. Leung”)**, aged 39, joined the Group as the chief financial officer in Shui On Holdings (HK) in December 2015 and was appointed as the chief financial officer and company secretary of the Company on 7 February 2017. She is currently responsible for accounting, financial management and company secretarial matters of the Group.

Ms. Leung obtained a degree of Bachelor of Accountancy and Management Information Systems from The City University of Hong Kong in November 2004, and a degree of master of Accountancy from The Hong Kong Polytechnic University in October 2011. She has been a member of the Hong Kong Institute of Certified Public Accountants since 2011. Ms. Leung has over 15 years of experience in auditing, advisory accounting and financial management. For the period from May 2012 to April 2015, Ms. Leung served as a financial controller and company secretary of Manwell (China) Limited (萬華 (中國) 有限公司), a subsidiary of China Tianyi Holdings Limited (中國天溢控股有限公司) (stock code: 0756) (currently known as Tianyi (Summi) Holdings Limited (天溢 (森美) 控股有限公司)), a company whose shares are currently listed on the Main Board. Ms. Leung had worked in the field of audit in Ernst & Young from 2011 to 2012, Deloitte Touche Tohmatsu from 2006 to 2009 and K.W. Tam & Co. from 2004 to 2005.

## CORPORATE GOVERNANCE REPORT

### Corporate Governance Practices

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

During the Reporting Year, the Company has adopted and complied with, where applicable, the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 15 to the GEM Listing Rules.

### Code of Conduct of Directors’ Securities Transactions

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

### Board of Directors

The Board has a balance of skills and experience required of the Group’s business. As at the date of this report, the Board comprised four executive Directors, one non-executive Director and three independent non-executive Directors, whose biographies are set out in the section headed “Board of Directors and Senior Management” on pages 13 to 16 of this report. Save as disclosed under the section headed “Board of Directors and Senior Management”, there is no other financial, business, family or other material or relevant relationships between the Board members, and in particular, between the Chairman and the CEO.

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

## CORPORATE GOVERNANCE REPORT

**Board of Directors** (Continued)

## Meetings

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

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

	Number of meetings attended/held during the respective tenure				
	General meeting	Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee meetings
<b>Chairman and Executive Director</b>					
Mr. Yik Tak Chi	2/2	7/7	n/a	1/1	n/a
<b>Executive Directors</b>					
Mr. Chung Kin Man	2/2	7/7	n/a	n/a	n/a
Ms. Chung Wai Man	2/2	7/7	n/a	n/a	n/a
Mr. Lui Chi Tat (appointed on 27 February 2019)	2/2	6/7	n/a	n/a	n/a
<b>Non-executive Director</b>					
Mr. Lau Joseph Wan Pui	2/2	7/7	n/a	n/a	1/1
<b>Independent non-executive Directors</b>					
Mr. Kwok Chi Shing	1/2	7/7	4/4	n/a	1/1
Mr. Lau Tai Chim	2/2	7/7	4/4	1/1	1/1
Mr. Wong Wai Ho	2/2	7/7	4/4	1/1	n/a

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

**Responsibilities and Delegation**

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

## CORPORATE GOVERNANCE REPORT

### Board of Directors *(Continued)*

#### Induction and Continuous Professional Development

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

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

#### Chairman and Chief Executive Officer

Under code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Yik Tak Chi is the Chairman of the Board and Mr. Lui Chi Tat is the CEO. The roles of the Chairman and the CEO are defined clearly and set out in writing to ensure their accountability and responsibility with respect to the management of the Company.

The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board and seeking to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive, in a timely manner, adequate and reliable information. The CEO is responsible for managing the business of the Group and leading the management team to implement strategies and objectives adopted by the Board.

#### Appointment and Re-election of Directors

Each executive Director has entered into a service contract with the Company for an initial fixed term of three years, which is renewable automatically until terminated by not less than three months' notice in writing served by either party on the other expiring at the end of the initial term or any time thereafter. Each non-executive Director and independent non-executive Director has entered into a letter of appointment with the Company for an initial fixed term of three years, provided that either party can at any time terminate the appointment by giving to the other party not less than three months' prior notice in writing. However, the appointments of the Directors are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provision of the Articles of Association.

The Articles of Association provides that at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years.

#### Insurance of the Directors and Officers

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

## CORPORATE GOVERNANCE REPORT

### Board Diversity Policy

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

### Nomination Policy

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

- (a) diversity in all its aspects, including but not limited to skills, knowledge, gender, age, ethnicity, cultural and educational background, professional experience and other personal qualities of the candidate;
- (b) ability to exercise sound business judgment and possess proven achievement and experience in directorship including effective oversight of and guidance to management;
- (c) commitment of the candidate to devote sufficient time for the proper discharge of the duties of a Director. In this regard, the number and nature of offices held by the candidate in public companies or organisations, and other executive appointments or significant commitments will be considered;
- (d) potential/actual conflicts of interest that may arise if the candidate is selected;
- (e) independence of the independent non-executive director candidates must satisfy the independence requirements under the GEM Listing Rules; and
- (f) in the case of a proposed re-appointment of an independent non-executive director, the number of years he/she has already served.

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

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

## CORPORATE GOVERNANCE REPORT

### Board Committees

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

#### Audit Committee

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

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

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

- (a) reviewed with the management and the external auditor the effectiveness of audit process and the accounting principles and practices adopted by the Group, the accuracy and fairness of the annual results of the Company for the year ended 31 December 2018, the first quarterly results of the Company for the three months ended 31 March 2019, the interim results of the Company for the six months ended 30 June 2019 and the third quarterly results of the Company for the three months ended 30 September 2019;
- (b) met with the external auditor to discuss the accounting and audit issues of the Group and reviewed their findings, recommendations and representations;
- (c) reviewed with the management the risk management and internal control system of the Group;
- (d) conducted annual review on the exempt continuing connected transactions of the Group;
- (e) recommended the Board on the re-appointment of external auditor at the 2019 annual general meeting; and
- (f) reviewed the independence of external auditor and approved its engagement.

The Company's annual results for the year ended 31 December 2019 have been reviewed by the Audit Committee.



## CORPORATE GOVERNANCE REPORT

**Board Committees** *(Continued)***Nomination Committee**

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

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

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

- (a) reviewed the existing structure, size, composition and diversity of the Board;
- (b) assessed the independence of the independent non-executive Directors and reviewing the independent non-executive Directors' annual confirmations on their independence;
- (c) made recommendation to the Board on the re-election of Directors at the 2019 annual general meeting; and
- (d) considered the appointment of proposed executive Director and made recommendation to the Board on the proposed executive Director.

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

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

## CORPORATE GOVERNANCE REPORT

### Board Committees *(Continued)*

#### Remuneration Committee

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

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

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

- (a) recommended to the Board on the remuneration package regarding the newly appointed executive Director; and
- (b) considered and reviewed the executive Directors’ remuneration.

#### Risk Management and Internal Controls

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

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

Reference is made to the announcement of the Company dated 29 July 2019 in relation to the continuing connected transactions in relation to renewal tenancy agreements. The Company did not announce the transactions until 29 July 2019, which was almost one month after the date of the new tenancy agreements. Pursuant to Rule 20.33 of the GEM Listing Rules, a listed issuer must announce the connected transaction as soon as practicable after its terms have been agreed. At the time of entering into of the new tenancy agreements, the staff responsible for compliance matters of the Company misconceived the disclosure requirement for renewal of the original tenancy agreements due to inadvertence, thereby failing to comply with the requirement under Rule 20.33 of the GEM Listing Rules.

The Directors have conducted a review on the internal control system after the aforesaid incident and found some deficiencies in the management system and process guidelines, as a result, new and existing employees may not be aware of the work procedures, thereby increasing the risk of errors. In order to rectify such weakness, management system and process guidelines should be properly documented and maintained. Training should also be arranged to ensure all level of employees understand relevant working procedures.

## CORPORATE GOVERNANCE REPORT

### Dividend Policy

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

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

- (a) the actual and expected financial performance of the Group;
- (b) the capital and debt level of the Group;
- (c) the general market conditions;
- (d) any working capital requirements, capital expenditure requirements and future development plans of the Group;
- (e) retained earnings and distributable reserves of the Company and each of the members of the Group;
- (f) the liquidity position of the Group;
- (g) any restrictions on dividend payouts imposed by any of the Group’s lenders;
- (h) the statutory and regulatory restrictions which the Group is subject to from time to time; and
- (i) any other relevant factors that the Board may deem appropriate.

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

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

### Auditor’s Remuneration

During the Reporting Year, remuneration in respect of audit service provided by the auditor of the Company to the Group was approximately HK\$1,650,000.

### Directors and Auditor’s Responsibilities for Financial Statement

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the Reporting Year. The auditor of the Company acknowledges its reporting responsibilities in the auditor’s report on the financial statement during the year. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company’s ability to continue as going concern. The statement made by the auditor of the Company regarding their reporting responsibilities on the financial statements is set out in the Independent Auditor’s Report on pages 59 to 62 of this report.

## CORPORATE GOVERNANCE REPORT

### Company Secretary

The company secretary is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The company secretary reports to the Chairman and is responsible for advising the Board on corporate governance matters and facilitating communication between the Board members, the Shareholders and the management of the Company. During the Reporting Year, the company secretary undertook more than 15 hours of relevant professional training. The biography of the company secretary is set out in the section headed "Board of Directors and Senior Management" on pages 13 to 16 of this report.

### Shareholders' Rights

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

#### Way to Convene an Extraordinary General Meeting

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

#### Procedures for Putting Enquiries to the Board

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

#### Procedures for Putting Forward Proposals at Shareholders' Meeting

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

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

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

### Investor Relations

The Company has established a range of communication channels between itself and the Shareholders, its investors and other stakeholders. These include the annual general meeting, the annual, interim and quarterly reports, notices, announcements and circulars. The latest information of the Group together with the published documents are also available and delivered to the Shareholders at the Company's website at [www.shuionnc.com](http://www.shuionnc.com).

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Introduction, Environmental, Social and Governance Policies

The Group is an established operator of elderly residential care homes in Hong Kong providing comprehensive residential care home services to the elderly residents including: (i) the provision of accommodation with dietician-managed meal plans, 24-hour nursing and caretaking assistance and professional services such as regular medical consultation, physiotherapy, occupational therapy, psychological and social care services; and (ii) the sale of healthcare and medical consumable products and the provision of customizable add-on healthcare services to the elderly residents.

As a Hong Kong based company, the Group adheres to develop sustainably in accordance with the environmental, social and governance (“ESG”) management principles, and is committed to effectively and responsibly handling the Group’s ESG issues as a core part of the Group’s business strategy as the Group believes this is the key to its continuous success in the future.

### The ESG Governance Structure

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

### Reporting Scope

The ESG Report covers the Group’s only operational segment, which is the operation of elderly residential care homes. It includes the Hong Kong head office and six elderly residential care homes, which are the four self-owned and self-operated “Shui On 瑞安”, one “Shui Hing 瑞興” and one “Shui Jun 瑞臻” branded elderly residential care homes across four districts in Hong Kong (“Reporting Scope”). The ESG Report will not be covering Guardian Home Limited that was acquired in July 2019. The Group will continue to expand the scope of disclosure in the future when the Group’s data collection system becomes more mature and the sustainability work is enhanced.

### Reporting Framework

The ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “ESG Reporting Guide”) as set out in Appendix 20 of the Rules (the “GEM Listing Rules”) Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Information relating to the Group’s corporate governance practices has been set out in the Corporate Governance Report on P.17 to P.25 of this annual report.

### Reporting Period

The ESG Report describes the ESG activities, challenges and measures taken by the Group during the year ended 31 December 2019 (the “Reporting Period”).

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Stakeholder Engagement

The Group values different stakeholders and their feedback on the Group's business and ESG issues, therefore stakeholder participation is an integral part of the Group's continuous improvement in its sustainability performance. To fully understand, respond and address the core concerns of different stakeholders, the Group has maintained close communication with major stakeholders, including but not limited to shareholders and investors, customers, suppliers, employees, government and regulatory bodies as well as communities, non-governmental organisations ("NGOs") and media. Through the participation of different stakeholders, the Group integrates stakeholders' expectations into the Company's ESG strategy. The Group's communication channels with stakeholders and stakeholders' expectations on the Group are as follows:

Stakeholder	Communication Channels	Expectations
<b>Shareholders and investors</b>	<ul style="list-style-type: none"> <li>Annual general meeting and other shareholders meetings</li> <li>Financial reports</li> <li>Announcements and circulars</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with related laws and regulations</li> <li>Disclosing latest information in due course</li> <li>Economic performance</li> <li>Corporate sustainable development</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>Customer satisfaction surveys</li> <li>Customer service center</li> <li>Customer service manager</li> <li>Complaints revision meetings</li> </ul>	<ul style="list-style-type: none"> <li>Fulfilling product and service responsibility</li> <li>Customer service and privacy protection</li> </ul>
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>Supplier management meetings and events</li> </ul>	<ul style="list-style-type: none"> <li>Fair competition</li> <li>Business ethics and reputation</li> <li>Win-win cooperation</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>Employee satisfaction surveys</li> <li>Means for employees to express opinions (forms, opinion collection boxes, etc.)</li> <li>Regular management communication and performance reviews</li> <li>Employee communication channel and broadcast</li> <li>Intranet</li> </ul>	<ul style="list-style-type: none"> <li>Health and safety</li> <li>Equal opportunities</li> <li>Remuneration and benefits</li> <li>Career development</li> </ul>
<b>Government and regulatory bodies</b>	<ul style="list-style-type: none"> <li>Regular meetings</li> <li>Written response to public enquires</li> <li>Site visits</li> </ul>	<ul style="list-style-type: none"> <li>Tax payment according to law</li> <li>Business ethics</li> <li>Compliance with related laws and regulations</li> </ul>
<b>Communities, NGOs, and media</b>	<ul style="list-style-type: none"> <li>Community activities and partner programs</li> <li>Community investment plans</li> <li>ESG reports</li> </ul>	<ul style="list-style-type: none"> <li>Payback to the society</li> <li>Environmental protection</li> <li>Compliance operation</li> </ul>

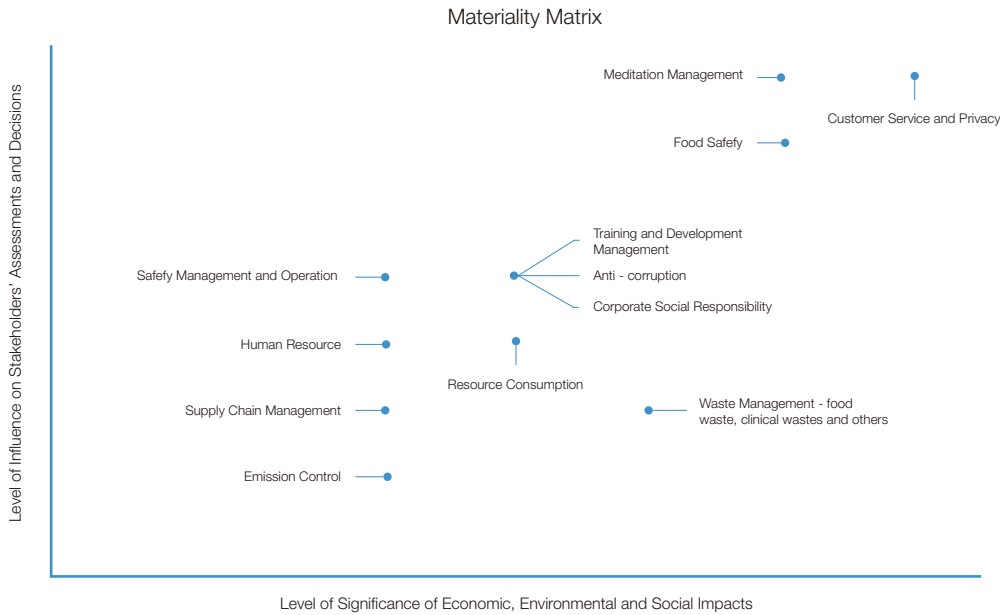
The Group is committed to cooperate with every stakeholder to improve its performance on ESG aspects and continuously create greater value for a broader society.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Materiality Assessment

The Group's management and staff in major functions are involved in the preparation of the ESG Report, in order to assist the Group in reviewing its operations and identifying the relevant ESG issues, and assesses the importance of those relevant matters to the Group's business and stakeholders. Based on the assessed significant ESG issues, a data collection questionnaire was prepared to collect information from relevant departments and business units of the Group.

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



During the Reporting Period, the Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues, and confirmed that the disclosed contents are in compliance with the requirements of the ESG Reporting Guide.

## Contact Us

The Group welcomes stakeholders to provide their opinions and suggestions. You can provide valuable advices in respect of the ESG Report or the Group's performances in sustainable development by email at [ir@shuionnc.com](mailto:ir@shuionnc.com).

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### A. Environmental

#### A1. Emissions

##### *General Disclosure and Key Performance Indicators (“KPIs”)*

The Group recognises the potential impacts that may cause to the natural environment in the course of daily operation. Therefore, the Group values the importance of environmental management, and strives to protect the environment in order to fulfill the Group’s commitment on social responsibility. The Group has established the Environmental Policy and Waste Management Measures and various environmental policies to effectively control the pharmaceutical wastes generated from the daily operation of the elderly residential care homes, and minimise the impacts brought to the environment. The Group emphasises the adoption of the best managing methods according to different parts of the operations. The Group will also monitor the implementation status of the environmental initiatives adopted by each department and implement an effective environmental management system so to achieve the Group’s environmental targets and indicators.

During the Reporting Period, the Group has not identified any material non-compliance of related environmental laws and regulations in relation to exhaust gas and greenhouse gas (“GHG”) emissions, water and land discharge, and the generation of hazardous and non-hazardous wastes that have a significant impact to the Group. Such laws and regulations include but are not limited to the Air Pollution Control Ordinance (Cap. 311 of the Laws of Hong Kong), the Waste Disposal Ordinance (Cap. 354 of the Laws of Hong Kong), and the Environmental Impact Assessment Ordinance (Cap. 499 of the Laws of Hong Kong).

##### *Emission Control*

##### *Air Emissions*

The Group has taken the initiative to examine the issue of air emission across all operations so to comply with relevant regulations. Due to its business nature, the Group considers the relevant air emissions generated are not significant.

Despite the Group does not emit a significant amount of air emissions, the Group still pays attention to environmental protection, and always promotes the concepts of environmental protection and sustainable development to employees through different channels. The Group strives to achieve energy saving and waste reduction during daily work processes, in order to reduce air emissions. Through different environmental protection promotions, employees’ awareness on air emissions reduction has been increased.



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**A. Environmental** *(Continued)*A1. Emissions *(Continued)**General Disclosure and Key Performance Indicators (“KPIs”) (Continued)**Emission Control (Continued)**GHG Emissions*

The Group’s GHG emissions include direct GHG emissions (Scope 1) and indirect GHG emissions (Scope 2), emission sources include the combustion of gasoline for transportation, towngas used for cooking and purchased electricity. The Group actively adopts electricity conservation and energy saving measures so to reduce GHG emissions, related measures are described in the section headed “Energy Management” under Aspect A2. Through the implementation of related measures, employees’ awareness on GHG emissions reduction has been increased. During the Reporting Period, the Group’s total GHG emissions<sup>1</sup> was 1,187.52 tCO<sub>2</sub>e (2018: 1,458.95 tCO<sub>2</sub>e). The total GHG emissions intensity has decreased by approximately 19% from approximately 5.27 tCO<sub>2</sub>e per employee in 2018 to approximately 4.29 tCO<sub>2</sub>e per employee in 2019.

Notes:

1. GHG emissions data is presented in terms of carbon dioxide equivalent and are based on, including but not limited to, the “The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards” issued by the World Resources Institute and the World Business Council for Sustainable Development, “How to prepare an ESG Report? — Appendix II: Reporting Guidance on Environmental KPIs” issued by the Stock Exchange, the “Global Warming Potential Values” from the IPCC Fifth Assessment Report, 2014 (AR5), CLP 2019 Sustainability Report, Hong Kong Electric Investments Sustainability Report 2018 and Towngas Sustainability Report 2018.
2. As at 31 December 2019, the Group had a total of 277 full-time employees in respect of the Reporting Scope. The data is also used for calculating other intensity data.

*Domestic sewage*

The Group continues to monitor the sewage generated in its operation so to comply with related laws and regulations. Due to its business nature, the Group’s major sources of wastewater generated from daily operation are flushing sewage and cleansing water. Domestic sewage is discharged to public wastewater collection sewer and processed centrally by the public wastewater sewerage system. Specific measures on reducing sewage generated are described in the section headed “Water Management” under Aspect A2.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### A. Environmental (Continued)

#### A1. Emissions (Continued)

##### *General Disclosure and Key Performance Indicators (“KPIs”) (Continued)*

##### *Waste Management*

##### *Non-Hazardous Waste Management – Food Waste and Others*

The Group involves food processing during the course of operation. To support the Environmental Protection Department’s Food Wise Charter and reduce food wastes, the Group has formulated the Food and Environmental Hygiene Guideline for its kitchens to provide notes on food preparation, guidance in food storage and control of food processing, which aims to reduce food wastes at source. The Group also introduces various food waste reduction measures, such as making better use of food ingredients and monitoring the amount of food wastes generated on a regular basis.

Apart from food waste, the Group’s major sources of non-hazardous wastes generated during its daily operation are paper and other domestic wastes. The Group has been working closely with employees and business partners to promote waste reduction. The Group has introduced the following measures in workplaces in order to encourage employees in taking the responsibilities in managing wastes and reducing the generation of wastes:

- Encourage paper recycling and proper reusing recycled paper;
- Encourage double-side printing or photocopying; and
- Promote paperless working environment, encourage employees to work and communicate through emails and e-format documents.

In addition, the Group always reminds employees the importance of environmental protection by posting “Environmental Information” reminders on office equipment so as to enhance employees’ environmental awareness. Through the above measures, the Group’s employees’ awareness on waste management has been raised. During the Reporting Period, the Group had generated approximately 901.21 tonnes of food wastes and domestic wastes (2018: 892.10 tonnes). The Group’s total non-hazardous waste intensity has slightly increased approximately by 0.9% from approximately 3.22 tonnes per employee in 2018 to approximately 3.25 tonnes per employee in 2019. In addition, the Group has consumed approximately 1.18 tonnes of paper (2018: 1.04 tonnes) during the Reporting Period.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**A. Environmental** *(Continued)*A1. Emissions *(Continued)**General Disclosure and Key Performance Indicators (“KPIs”) (Continued)**Waste Management (Continued)**Hazardous Waste Management – Clinical Waste and Others*

The Group’s major business involves the provision of elderly residential care home services and management, and is required to manage various types of medical related products, part of the operation includes the management and disposal of hazardous clinical wastes. The Group is cautious on the management of generated wastes, and provides clear guidelines and measures for employees to ensure employees’ safety when handling hazardous wastes. The Group follows various guidelines and standards to comply with relevant laws and regulations on waste management. Such relevant laws and regulations include the Waste Disposal Ordinance (Cap. 354 of the Laws of Hong Kong), the Waste Disposal (Chemical Waste) (General) Regulation (Cap. 354C of the Laws of Hong Kong), and the Waste Disposal (Clinical Waste) (General) Regulation (Cap. 354O of the Laws of Hong Kong).

The services provided by the Group’s elderly residential care homes will produce used or contaminated sharp objects such as syringes, needles, dressings as well as the medication left by the elderly residents. Therefore, the Group strictly complies with relevant laws and regulations such as the Waste Disposal Ordinance, the Waste Disposal (Clinical Waste) (General) Regulation and the Clinical Waste Code of Practice in respect to the production, storage, collection and disposal of clinical waste. The Group has also formulated the In-House Manual which is updated regularly with reference to the Waste Disposal (Clinical Waste) (General) Regulation to raise employees’ awareness in the processing and management of hazardous wastes. During the Reporting Period, the Group was not subjected to any actual or threatened proceedings brought under, or received any written complaint or warnings in relation to the production, storage, collection and disposal of clinical waste under the Waste Disposal Ordinance and the Waste Disposal (Clinical Waste) (General) Regulation.

Apart from clinical waste, the Group’s operation also involves the production, storage, collection and disposal of chemical wastes. According to the Waste Disposal Ordinance and the Waste Disposal (Chemical Waste) (General) Regulation, chemical wastes are defined as the unused or expired medications. To properly and effectively manage the related chemicals, the Group has formulated relevant codes in the In-House Manual, and arranged on-job trainings for employees to handle such chemicals. The chemical wastes processed by the Group were transferred to licensed waste handling company for further treatment.

During the Reporting Period, the Group had generated a total of approximately 0.20 tonnes of hazardous wastes (2018: 0.19 tonnes), and the total hazardous wastes intensity has remained steady at approximately 0.0007 tonnes per employees when compared to 2018.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### A. Environmental (Continued)

#### A2. Use of Resources

##### *General Disclosure and KPIs*

The Group aims to actively promote the effective use of resources, and timely monitors the potential environmental impacts brought by business operations. In addition, the Group actively promotes the culture of “Smart Usage” of resources, promotes green operating environment, and aims to minimise the environmental impacts brought by the Group’s operation.

##### *Resource Consumption*

The Group consumes a fair amount of resources during the course of operation, and with this in mind, the Group is cautious about the consumption habit, in particular on the use of water and electricity, to minimise consumption and reduce consumption footprint.

##### *Energy Management*

During the course of daily operation, the Group’s major energy source is electricity consumption for operation. The Group has formulated power management policy, and identified energy conservation as one of the Group’s basic policies. In addition, the Group has also formulated policies and systems in order to achieve energy consumption reduction and efficient use of electricity, relevant measures are as follows:

- Remind employees to turn off lights and photocopiers after use;
- Set the temperature of air-conditioner to 25.5°C;
- Replace all lighting equipment with LED lighting system where feasible;
- Equip ventilation equipment with a timer to control the starting time, and set the start and stop time according to the actual needs so as to reduce the damages of equipment and waste of electricity; and
- Use time switch to locally control air conditioners.

During the Reporting Period, the Group had consumed total of approximately 2,302.14 MWh energy (2018: 2,599.67 MWh). The Group’s total energy consumption intensity has decreased approximately by 12% from approximately 9.39 MWh per employee in 2018 to approximately 8.31 MWh per employee in 2019.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**A. Environmental** *(Continued)***A2. Use of Resources** *(Continued)**General Disclosure and KPIs (Continued)**Resource Consumption (Continued)**Water Management*

The Group's water use is mainly domestic water. The Group encourages all employees to develop the habit of saving water, and has strengthened the promotion of water-saving and posted water-saving slogans in guiding employees to use water reasonably. The following measures are water conservation measures taken by the Group's elderly residential care homes:

- Use water saving appliances as much as possible;
- Close faucet at all times after use of water to prevent water long-flowing, running, dripping and leaking; and
- Notify relevant departments if abnormal conditions are found to prevent the waste of water resources.

During the Reporting Period, the Group had consumed total of approximately 32,165.00 m<sup>3</sup> of water (2018: 38,820.00 m<sup>3</sup>). The Group's total water consumption intensity has decreased approximately by 17% from approximately 140.14 m<sup>3</sup> per employee in 2018 to approximately 116.12 m<sup>3</sup> per employee in 2019.

Due to the Group's operation locations, the Group does not encounter any significant issues in sourcing water that is fit for purpose.

*Use of Packaging Material*

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

**A3. The Environmental and Natural Resources***General Disclosure and KPIs*

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

*Indoor Air Quality*

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### B. Social

#### B1. Employment

##### *General Disclosure and KPIs*

Human resources are the most valuable asset of the Group and serve as the core competitive advantage, while serve as the basis for the Group's sustainable development at the same time. The Company respects and protects the rights and interests of every employee, regulates employment management, protects employees' occupational health and safety, strengthens democratic management, safeguards employees' interest, fully respects and values employees' enthusiasm, initiative and creativity, and strives to build a harmonious labour relationship. The Company has formulated operating mechanisms for administrative and human resource systems such as the Employee Handbook to provide employees a healthy and positive working atmosphere, and guide employees to actively integrate their personal pursuit into the long-term development of the Group.

During the Reporting Period, the Group has not identified any material non-compliance of employment related laws and regulations that would have a significant impact to the Group. Such laws and regulations include but not limited to the Employment Ordinance (Cap. 57 of the Laws of Hong Kong), the Employees' Compensation Ordinance (Cap. 282 of the Laws of Hong Kong), and the Minimum Wage Ordinance (Cap. 608 of the Laws of Hong Kong).

##### *Human Resources*

##### *Employment, Promotion and Dismissal*

The Group actively implements the strategy of strengthening talents, and continuously establishes and improves the talent recruitment system. During the recruitment process, the Group standardises the recruitment procedures and principles, and adheres to the recruitment principles of morality, knowledge, ability, experience and physique suitable for the position, as well as the principles of openness, fairness, competition and merit, so to continuously attract and recruit outstanding talents. The Group's comprehensive Recruitment Procedures has detailed the recruitment applications, recruitment procedures, prohibition and responsibilities.

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

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**B. Social** *(Continued)*B1. Employment *(Continued)**General Disclosure and KPIs (Continued)**Human Resources (Continued)**Compensation and Benefits*

The Group has established a relative fair, reasonable and competitive remuneration system for paying employees based on the principles of fairness, competitiveness, incentives, reasonableness, and legality. The Group offers competitive remuneration package to retain talents, which includes fixed salaries and annual performance bonuses. To ensure the remuneration scheme stays competitive, the Company has established the Remuneration Committee, and with the written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set in Appendix 15 to the GEM Listing Rules.

The principal duties of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and packages for all executive directors and senior management; review performance-based remuneration; and ensure none of the Directors determine their own remuneration. Members of the Remuneration Committee meet regularly to review the remuneration policy of Directors, assess the performance of executive Directors and certain senior management of the Group. The emolument of the Group's employee is determined by the Remuneration Committee. Employees are offered with competitive remuneration package, discretionary bonuses and social insurance benefits based on merit, qualifications and competence. In addition, the Group's employees' salary and benefits level are reviewed annually by the management team based on related performance appraisals.

In addition, the Group has adopted the share option scheme and the share award scheme for purpose of recognising the contributions by certain eligible participants and to provide them with incentives in order to retain them for the continual operation and development of the Group, while to align the interests of the eligible participants with those of the shareholders of the Company.

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### B. Social (Continued)

#### B1. Employment (Continued)

##### General Disclosure and KPIs (Continued)

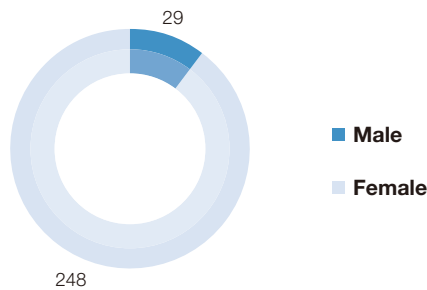
##### Human Resources (Continued)

##### Equal Opportunities, Diversity and Anti-Discrimination

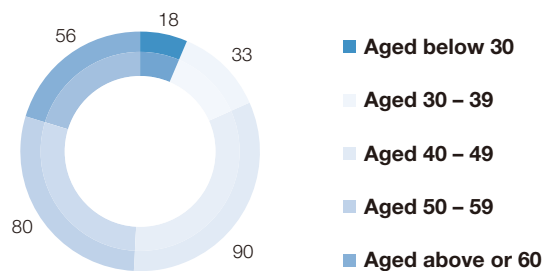
As an equal opportunity employer, the Group is committed to providing and safeguarding an inclusive and collaborative workplace culture. The Group is committed to providing equal opportunities for all employees in all aspects of employment, while ensuring employees will not experience discrimination, and physical and verbal harassment on the basis of race, religious belief, colour, gender, physical or mental disability, age, national origin, marital and family status, and sexual orientation. Any employee who is intimidated, humiliated, bullied or harassed (including sexual harassment) may report to employee representative, management representative, or directly to the general manager. The Group will handle complaints seriously after complaints are received.

As at 31 December 2019, the total number of employees was 277 in respect of the Reporting Scope, and details on the breakdown of the Group's employees are shown in the following graphs:

#### Gender Distribution



#### Age Distribution





## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### B. Social (Continued)

#### B2. Health and Safety

##### *General Disclosure and KPIs*

Safety has always been one of the Group's priorities, and the Group is dedicated to maintaining a high occupational safety and health standard and providing a safe and comfortable working environment to staff and elderly residents. The Group has formulated related internal policies and mechanisms for employees on workplace safety operation guidelines to raise the safety awareness during the operation process, and rule regarding recording and managing accidents and compliance. To minimise work-related injuries, the Group invests in various aiding tools and instruments, and arranges staff (including nurses and health workers) to receive trainings.

Directors, senior management and home managers are responsible to ensure that professional staff and employees have strictly complied with relevant laws, regulations, industrial standards and protocols while providing services to elderly residents. The Quality Control Manual and the Employee Handbook are provided to staff at all levels whilst the management supervises the execution.

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### B. Social (Continued)

#### B2. Health and Safety (Continued)

##### *General Disclosure and KPIs (Continued)*

##### *Safety Management and Operation*

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

The maintenance division is responsible for emergency incidents relating to water, electricity and gas, such as power outage or water leakage at the elderly residential care homes. The Group has installed emergency lighting systems in the elderly residential care homes in accordance with the Fire Services Ordinance (Cap. 95 of the Laws of Hong Kong) for safety compliance. The medical and cleaning division is responsible for cleaning and disinfection of the elderly residential care homes, while ensuring that employees are adhering to the Cleaning Protocols.

##### *Kitchen Safety*

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

During the Reporting Period, the Group only encountered 3 work-related injuries at the elderly residential care homes as a result of the implementation of comprehensive safety management and internal control procedure. The impact of such work-related injuries was considered as minor and did not cause a material adverse impact on the Group's business, financial condition or result operations.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**B. Social** *(Continued)***B3. Development and Training***General Disclosure and KPIs*

The Group realises the contribution of the talents to the Group's continuous success. The Group has established internal training and development system, and promotes staff personal growth as well as the sustainable development of the Group. The Group regularly arranges drills and comprehensive professional trainings on potential problems that might happen during daily operation for employees to raise their alertness, while improving their skills and maintaining service quality.

*Training and Development Management*

The Group has established the Staff Training Guidelines, which lists out relevant training objectives, requirements and content. The management is responsible for the design of the continuing education programs that best meet the training needs of the directors and staff so to enhance their professional knowledge, skills and conduct. When developing the training plans, management takes into consideration of the institutional size, the corporate structure, the risk management system, the scope of business activities, and the development at that time. The management reviews the training programs at least once per year, and arranges appropriate training activities for employees according to the priority order. At each training, the Group monitors whether employees have complied with the continuous training requirement, home managers or supervisors are responsible for keeping record and signing it with employees to record the training histories of relevant personnel. Both home managers or supervisors have the responsibility to keep the relevant training records. Failure to show the related training records may result in disciplinary actions.

*Training Management*

Training programs provided by the Group are divided into two categories: basic elderly and nursing care trainings, as well as technical trainings. Basic elderly and nursing care trainings are targeted for health and care workers and caregivers, training contents include proper use of wheelchair, tooth care, prevention of flu, practical techniques in lifting and transfer, feeding skills, skin and incontinence care, knowledge on cognitive disorders, diabetes and herpes zoster, etc. Technical trainings are targeted for nurses, contents include the improvement, update and refreshment of knowledge on drug management, resistance issue, vaccinations and constraints trainings.

The Group also provides induction trainings to newly recruited employees. Each home manager or supervisor is required to provide induction guidance for new recruits. Each elderly residential care home also provides continuous trainings on elderly care to staff, and staff at each level should receive no less than two trainings per year. If any employee fails to meet the target, home managers or supervisors should bear the responsibility.

The Group believes that continuous education is the key to maintain the professionalism of staff, and it plays a key role to the Group's business growth and long-term sustainable development. Therefore, training schemes take into consideration many factors including employees' career development, and personal health and growth to provide appropriate trainings to employees. The Group encourages the employees to participate seminars relating to occupational safety and health, solution of stress in work, and workers pressure sharing sessions to expand their knowledge, thus widening their career path.

During the Reporting Period, the Group's employees had participated a total of 4,061.50 training hours.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### B. Social (Continued)

#### B4. Labour Standards

##### *General Disclosure*

##### *Prevention of Child and Forced Labour*

The Group strictly complies with the Employment Ordinance (Cap. 57 of the Laws of Hong Kong), and prohibits the employment of child and forced labour. The Group clearly stipulates in job advertisements and leaflets that only employees ages 18 or above would be employed, and requests new employees to provide true and accurate personal information. To ensure information provided are true and accurate, recruitment staff stringently verifies their information including academic certificates and ID cards, etc.

The Group has established a comprehensive recruitment process for candidates' background checks, and the Human Resources Management Policy to deal with any exceptional situations. To prevent any violations, the Group conducts regular inspections to prevent any child labour or forced labour in any of the operating elderly residential care homes. For overtime working, the Group stipulates in the Employee Handbook that employees are required to acquire permission from the Group to work overtime, and the Group must arrange compensatory leave or salary for the overtime work. Any personnel in any department of the Group are prohibited to detain employees' ID card, deposit or salary for any reasons. The Group also does not allow corporal punishment, mental abuse and fines, and prohibits punitive measures such as abusive, corporal punishment, violence, mental stress, sexual harassment (including inappropriate language, posture and physical contact) and sexual abuse for any reason in management methods and behaviours.

During the Reporting Period, the Group was not aware of any material non-compliance with any laws and regulations in relation to the prevention of child and forced labour that would have a significant impact to the Group. Such laws and regulations include but are not limited to the Employment Ordinance (Cap. 57 of the Laws of Hong Kong).

#### B5. Supply Chain Management

##### *General Disclosure*

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

##### *Supply Chain Management*

The Group has established a comprehensive and stringent procurement system and supplier selection process, which includes qualifications check, production inspection, and annual review and re-evaluation to ensure supplier's responsibility on products and the quality of raw materials are maintained. The Group believes that good supply chain management leads to products' success, therefore, the Group conducts strict measures to ensure that the suppliers comply with the specifications and meet the Group's standards in terms of quality, environment, safety and social aspects. During the food procurement process, suppliers or food manufactures are required to provide relevant safety documents to ensure the compliance with relevant legislations in Hong Kong; if there are no safety certifications, elderly residential care homes will switch to suppliers with good reputation to procure goods. The Company also requires suppliers to maintain the food delivery vehicles and containers clean, food shall be kept at proper temperature and delivered at appropriate or scheduled time. The Group also conducts regular supplier performance reviews and assessment, and is committed to building good working relationships with suppliers and maintaining the quality of suppliers and products.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**B. Social** *(Continued)***B5. Supply Chain Management** *(Continued)**General Disclosure (Continued)**Supply Chain Management (Continued)*

Apart from environmental factors, the Group will also conduct measures to monitor its suppliers or contractors in meeting relevant laws and regulations and other required standards in terms of health and safety, forced labour and child labour. The Group also inspects suppliers' awareness of the above aspects through site visits.

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

**B6. Product Responsibility***General Disclosure*

The Group dedicates its effort to maintain a good relationship with customers and suppliers, treats it as an important aspect of the business, and ensures product and service quality actively through internal control. The Group maintains on-going communication with customers to ensure that the customers' needs and expectations for products and services are fully understood and satisfied, while providing customers with better service experience and building closer working relationships.

During the Reporting Period, the Group was not aware of any influential material seriously non-compliance with any laws and regulations in relation to privacy issues and compensation regarding health and safety, advertisement, labelling and products and service provided that would have a significant impact to the Group. Such related laws and regulations include but are not limited to the "Personal Data (Privacy) Ordinance" (Cap. 486 of the Laws of Hong Kong).

*Food Safety*

Food safety is a critical part of the Group's service. The Group has formulated measures relating to the preparation and storage of food, cooking utensils, and maintenance of kitchen facilities, while at the same time requiring kitchen staff to strictly comply with the implemented Quality Control Procedure and Guideline on Food and Environmental Hygiene. In terms of quality control of food ingredients, the Group's quality inspection team (including chefs and kitchen staff of each elderly residential care homes) is responsible to inspect the quality and supply of food ingredients. In addition, the Group provides trainings and guidelines related to maintaining food and environmental hygiene to chefs and kitchen assistants.

Chefs and home managers are responsible for supervising the food preparation process and food safety, and cooking in accordance to the standardised food preparation procedure. Any food not prepared in accordance with standardised food preparation procedures or does not meet the standard shall be disposed. In addition to preparing food in accordance to the standardised procedure, the Quality Control Manual also sets out the storage procedures, hygiene standards, and kitchen staffs conduct of conduct. The Group requires kitchen staff to strictly adhere to the stipulated quality standard and procedures in order to ensure the food ingredients supplied to the elderly residential care homes and kitchens are safe for consumption. The Group continually provides related trainings to chefs and kitchen staff relating to food handling process to ensure the safety of the food supplied, and the compliance with the operational procedures and quality standards.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**B. Social** *(Continued)*B6. Product Responsibility *(Continued)**General Disclosure (Continued)**Drug Management*

As confirmed by the Directors, Shui On (Shui On), Shui Hing, Shui On (Hing Wah), Shui On (Sun Tin Wai), Shui On (Kwai Shing E.) and Shui Jun (Yau Tong) have registered with the Environmental Protection Department as chemical waste producers. Staff in each elderly residential care homes strictly follow the operation procedure as set out in the Pharmacy and Poisons Ordinance (Cap. 138 of the Laws of Hong Kong) and the Group's In-House Manual in regards to the collection, storage, handling and dispensation of chemicals.

*Drug Storage and Record*

The elderly residential care homes operated by the Group provide safety guidelines (among other things) on the preparation, handling, and usage of medication, such guidelines include requiring staff to verify all medications taken and owned by elderly residents (include medication details and records); sorting drugs in accordance to their ingredients, nature and residents category, and placing drugs in locked cabinets or other specific places, while complying and following the relevant instructions stated on the package; and being kept and accessed by designated personnel; performing "three checks five rights" (i.e. ensuring (i) right elderly resident; (ii) right drugs; (iii) right time; (iv) right order; and (v) right dosage, for three times); and being investigated monthly by health workers, ensure the drug storage record of the Group's residential care homes are consistent with the elderly residents medication record.

If there are any changes in the elderly resident's medication (e.g. drug replaced after attending medical follow-up), their personal medication record will be updated by the staff in elderly care homes. When drugs are expired or being reported on changes in colour, taste or thickness, the Group's staff consults the hospital and seek for advices. Unused drugs are stored and disposed safely in accordance to the Waste Disposal (Chemical Waste) (General) Regulation, violators of the drug handling and safety procedures may be dismissed.

*Drug Disposal*

All disposed medical wastes have to be placed in assigned container, and the Group has formulated a detailed drug management guideline, which includes storage, record and listing, preparation and disposal of drugs. The Group also employs chemical and medical waste collector in disposing the chemical and medical wastes or expired and excess drugs.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**B. Social** *(Continued)***B6. Product Responsibility** *(Continued)**General Disclosure (Continued)**Customer Service and Data Privacy*

The Group values the relationship with customers and suppliers, and treats it as an important aspect of the business. The Group maintains an open engagement channel with customers through complaint revision meetings in order to assess the Group's operation performance. It was proven that such meetings are effective in understanding the latest updates and improving the services. The Group is also dedicated to building a close working relationship with suppliers, and the Group conducts regular performance evaluations and appraisal to build a closer relationship with clients.

The Group has adopted a comprehensive complaint mechanism to handle customer complaints, enabling the senior management to act directly to customer feedbacks, and to resolve issues quickly. When the Group receives complaints from the elderly residents or their families, the home managers or personnel in charge will contact the aggrieved customers and offer comfort at the first instance. Home managers then conduct investigation based on the severity and the information provided by relevant personnel. Home managers are required to keep detailed records of the disputes in accordance to the standard procedures, and report the incidents to the executive director, while informing the family of the concerned elderly resident the solution that the elderly residential care homes have taken.

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

Since the Group's operation involves serving a lot of the elderly residents, the Group exerts extra cautious in safeguarding their personal data, and has taken appropriate measures to avoid the leakage of personal information. The Group has adopted policies to protect the personal data of elderly residents in accordance with relevant laws and regulations. To further ensure the rights to data privacy of elderly residents, the Group has restricted access of the information systems with designated employees so that certain information can only be obtained upon an as-needed basis. In addition, employees and professional staff are required to sign confidentiality agreements under which they commit to keeping all personal data confidential.

*Service Quality*

To ensure the overall quality has met the Group's standard, and maintain the mental and well-being of elderly residents, on-site managers and social workers are responsible for the operation control of the homes, such as infection control of the elderly residential care homes, Quality Assurance Scheme for elderly residential care homes, and quality control on the handling and management of suspicious cases of battered elderlies. During the Reporting Period, the Group has not received any material complaints lodged directly with the elderly residential care homes; SWD has also not received complaints on any elderly residential care homes owned by the Group.

*Advertising and Labelling*

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### B. Social (Continued)

#### B7. Anti-corruption

##### *General Disclosure*

##### *Anti-corruption*

The Group strictly complies with all laws and regulations, and is fully committed to restricting any illegal activities, including corruption and bribery. The Group requires staff to understand and avoid any forms of illegal activities, work together in protecting the Group during daily operations and prevent any money laundering activities. The Employee Handbook sets out the relevant guidelines on work ethics and the prevention of fraud, negligence, anti-bribery and corruption. All employees are given with an Employee Handbook upon employment, and must abide by the rules and guidelines during their employment.

The Group is committed to cultivate an open and transparent, fair and honest standardised internal management atmosphere, requiring employees, in particular the management to be honest and trustworthy as the basic code of conduct. The Group does not tolerate malpractices, corruption, bribery, and concealment. If in any case of the above is confirmed, strict disciplinary actions will be taken immediately.

During the Reporting Period, the Group was not aware of any material non-compliance with the relevant laws and regulations of bribery, extortion, fraud and money laundering that would have a significant impact to the Group. Such related laws and regulations include but are not limited to the Prevention of Bribery Ordinance (Cap. 201 of the Laws of Hong Kong).

#### B8. Community Investment

##### *General Disclosure*

##### *Corporate Social Responsibility*

In addition to bringing profits for stakeholders, the Group also bears social responsibilities and gives back to the community whenever necessary. Therefore, the Group strives to contribute to the society through sustainable community service to fulfil the Group's corporate social responsibility. The Group has actively organised various events, such as museum visit, heritage tours, natural park visit, festival dinners, etc., for Hong Kong's senior residents to participate. The Group hopes these events can expand the social life of seniors, while spreading the message of elderly care in Hong Kong. The Group has been continuously putting effort in serving the community, and looking for opportunity to serve even further in the future.

##### *Social Caring Pledge*

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



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

Subject Areas, Aspects, General Disclosure and KPIs	Description	Section/Declaration
<b>Aspect B4: Labour Standards</b>		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
<b>Aspect B5: Supply Chain Management</b>		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
<b>Aspect B6: Product Responsibility</b>		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
Recommended Disclosure: KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Product Responsibility
<b>Aspect B7: Anti-corruption</b>		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
<b>Aspect B8: Community Investment</b>		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment

## DIRECTORS' REPORT

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

### Principal Activities

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

### Results and Dividends

The results of the Group for the Reporting Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 63 of this report.

The Directors recommend the payment of a final dividend of HK\$0.06 per ordinary share, totaling HK\$24,000,000 (2018: nil) for the Reporting Year.

### Business Review

The business review of the Group for the Reporting Year is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 3 to 12 of this report.

### Principal Risks and Uncertainties

Although the worldwide outbreak of coronavirus recently may not have an impact on the business and daily operation of the Group, the Company has formed a crisis response team to monitor the situation of its residential care homes. The Group has accordingly launched a series of special measures to strengthen infection control, such as shortening the visiting time of the elderly residential care homes and preparing adequate reserve of health protection equipment for its employees and elderly residents. The crisis response team will hold meetings regularly to review the adequacy of current measures.

### Financial Summary

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 124 of this report.

### Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group during the Reporting Year are set out in note 13 to the consolidated financial statements.

### Share Capital

Details of movements during the Reporting Year in the share capital of the Company are set out in note 24 to the consolidated financial statements.

### Purchase, Sale or Redemption of Securities

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

### Major Customers and Suppliers

During the Reporting Year, the Group sold less than 30% of its goods and services to its largest customer.

During the Reporting Year, the Group's largest supplier and the five largest suppliers accounted for approximately 27% (2018: approximately 25%) and approximately 71% (2018: approximately 70%) respectively, of the Group's total purchases.

## DIRECTORS' REPORT

### Major Customers and Suppliers *(Continued)*

Mr. Yik, the Chairman, an executive Director, and one of the Company's controlling shareholders, holds approximately 6.8% interest in Yu Fat Hong (Hong Kong) Limited, being the largest supplier of the Group for the Reporting Year, whereas such supplier is not a connected person of the Company as defined under the GEM Listing Rules. The Directors confirm that all of the five largest suppliers of the Group during the Reporting Year were not connected persons of the Company.

Except for Yu Fat Hong (Hong Kong) Limited, the largest supplier of the Group for the Reporting Year, of which Mr. Yik is a director and currently holds 6.8% interest, none of the Directors or their close associates or any Shareholders holding more than 5% of the total issued share capital of the Company had any interest in any of the five largest suppliers of the Group during the Reporting Year.

### Reserves

Details of movements in the reserves of the Group and the Company during the Reporting Year are set out in the consolidated statement of changes in equity on page 65 of this report and note 25 to the consolidated financial statements respectively. As at 31 December 2019, the Company's reserves that were available for distribution to the Shareholders amounted to HK\$159,347,000 (2018: HK\$140,906,000).

### Directors

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

#### Executive Directors

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

#### Non-executive Director

Mr. Lau Joseph Wan Pui

#### Independent non-executive Directors

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

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

### Directors' Service Contracts

Each executive Director has entered into a service contract with the Company for an initial fixed term of three years, which is renewable automatically until terminated by not less than three months' notice in writing served by either party on the other expiring at the end of the initial term or any time thereafter. Each non-executive Director and independent non-executive Director has entered into a letter of appointment with the Company for an initial fixed term of three years, provided that either party can at any time terminate the appointment by giving to the other party not less than three months' prior notice in writing.

## DIRECTORS' REPORT

### Directors' Service Contracts *(Continued)*

None of the Directors has a service contract with the Group which is not determinable within one year without payment of compensation (other than statutory compensation).

### Independent Non-Executive Directors

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

### Directors' Material Interests in Transactions, Arrangements and Contracts that are Significant in relation to the Company's Business

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

### Management Contracts

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

### Competing Business of Directors and Controlling Shareholders

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

### Emolument Policy

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

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

The Company also adopted the Share Award Scheme as an incentive to the eligible employees, details of the Share Award Scheme are set in the section headed "Subsequent Events – Adoption of the Share Award Scheme" above.

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

## DIRECTORS' REPORT

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were required:

(a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

#### Long Positions in the Shares

Name of Directors/ chief executive	Capacity/ Nature of interests	Number of Shares held/ interested in	Approximate percentage of shareholding (Note 1)
Mr. Yik Tak Chi ("Mr. Yik")	(i) Interest of controlled corporation (Note 2)	262,980,000	65.75%
	(ii) Beneficial owner (Note 2)		
Mr. Lui Chi Tat ("Mr. Lui")	(i) Interest of controlled corporation (Note 3)	36,032,000	9.01%
	(ii) Beneficial owner (Note 3)		
	(iii) Interest of spouse (Note 3)		
Mr. Chung Kin Man ("Mr. Chung")	Beneficial owner	40,000	0.01%
Ms. Chung Wai Man ("Ms. Chung")	Beneficial owner	20,000	0.005%

Notes:

- The approximate percentage of shareholding is calculated based on 400,000,000 Shares in issue as at 31 December 2019.
- As at 31 December 2019, Mr. Yik was interested in 262,980,000 Shares, of which 248,700,000 Shares were held by Shui Wah Limited ("Shui Wah") and 14,280,000 Shares were directly held by him. Shui Wah was owned as to 89.11% by Lucky Expert Investments 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. Mr. Yik is the sole director of Shui Wah, Lucky Expert, Hang Chi and Multifield.
- As at 31 December 2019, Mr. Lui was interested in 36,032,000 Shares, of which 15,300,000 Shares were held by Jumbo Sino Investment Limited ("Jumbo Sino"), a company incorporated in Hong Kong and wholly owned by Mr. Lui, 20,720,000 Shares were directly held by him and 12,000 Shares were held by his spouse. By virtue of the SFO, Mr. Lui is deemed to be interested in all the Shares held by Jumbo Sino and his spouse. Mr. Lui is a director of Jumbo Sino.

## DIRECTORS' REPORT

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

Long Positions in the ordinary shares of associated corporation

Name of Directors/ chief executive	Name of associated corporation	Capacity/ Nature of interests	Number of shares held/ interested in	Percentage of shareholding
Mr. Yik	Multifield	Beneficial owner <i>(Note)</i>	1	100.00%
	Hang Chi	Interest of controlled corporation <i>(Note)</i>	20,000	100.00%
	Lucky Expert	Interest of controlled corporation <i>(Note)</i>	5,988	59.88%
	Shui Wah	Interest of controlled corporation <i>(Note)</i>	8,911	89.11%
Mr. Chung	Lucky Expert	Beneficial owner	493	4.93%
Ms. Chung	Lucky Expert	Beneficial owner	602	6.02%
Mr. Lui	Jumbo Sino	Beneficial owner	3	100.00%

Note:

As at 31 December 2019, the Company was owned as to approximately 62.18% by Shui Wah. Shui Wah was 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. Accordingly, Multifield, Hang Chi, Lucky Expert and Shui Wah are associated corporations of the Company.

Save as disclosed above, as at 31 December 2019, 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.



## DIRECTORS' REPORT

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

As at 31 December 2019, 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%
Yingfeng International Investment Limited (盈豐國際投資有限公司) ("Yingfeng International")	Beneficial owner (Notes 5 and 6)	32,000,000	8.00%
Ruipei Industrial (Shanghai) Co., Ltd.* (芮沛實業(上海)有限公司) ("Ruipei")	Interest in controlled corporation (Notes 5 and 6)	32,000,000	8.00%
Zhongchuang Investment (Holdings) Limited (眾創投資(控股)有限公司) ("Zhongchuang")	Interest in controlled corporation (Notes 5 and 6)	32,000,000	8.00%
China Minsheng Futurelife Holding Group Co., Ltd.* (中民未來控股集團有限公司) ("CMIG Futurelife")	Interest in controlled corporation (Notes 5 and 6)	32,000,000	8.00%
China Minsheng Investment Group Co., Ltd.* (中國民生投資股份有限公司) ("CMIG")	Interest in controlled corporation (Notes 5 and 6)	32,000,000	8.00%

\* For identification purposes only

## DIRECTORS' REPORT

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

#### Long Positions in the Shares (Continued)

Notes:

1. The approximate percentage of shareholding is calculated based on 400,000,000 Shares in issue as at 31 December 2019.
2. As at 31 December 2019, Shui Wah held 248,700,000 Shares. Shui Wah was 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, 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, as at 31 December 2019, 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 together control 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.
5. As disclosed in the Prospectus, on 21 June 2017, Yingfeng International, as cornerstone investor, entered into a cornerstone investment agreement with, among others, the Company, pursuant to which Yingfeng International subscribed for a total number of 32,000,000 Shares.
6. Yingfeng International is a company incorporated under the laws of British Virgin Islands. To the best of the Directors' knowledge, information and belief, after making all reasonable enquiries, Yingfeng International is wholly-owned by Zhongchuang, a company incorporated in Hong Kong. Zhongchuang is wholly owned by Ruipei, which is in turn wholly owned by CMIG Futurelife. CMIG Futurelife is held as to 65% by CMIG and 35% by an independent third party. Each of Ruipei, CMIG Futurelife and CMIG is established under the laws of the PRC.

Save as disclosed above, as at 31 December 2019, the Directors were not aware of any persons (other than the Directors and chief executive of the Company) who had any interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### Arrangements to Acquire Shares and Debentures

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

### Share Options

Pursuant to the resolution passed by the shareholders of the Company on 21 June 2017, the Company has adopted the Share Option Scheme which is valid and effective for a period of 10 years from 21 June 2017. The purpose of the Share Option Scheme is provide incentives or rewards to the eligible persons for their contributions of to the Group. Eligible person under the Share Option Scheme means any full-time or part-time employee of the Company or any member of the Group, including any executive Directors, non-executive Directors and independent non-executive Directors, suppliers, customers, agents, advisors and consultants of the Group who, in the sole opinion of the Board, will contribute or have contributed to the Group. The Board may, at its discretion, invite any of the aforesaid eligible persons to take up the options. There is no change to the terms of the Share Option Scheme since adoption.

## DIRECTORS' REPORT

### Share Options *(Continued)*

The total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and other share option scheme is 40,000,000, representing 10% of the Shares in issue as at the date of this report. The maximum number of shares issuable upon exercise of the options granted to each eligible participant under the Share Option Scheme and any other share option scheme of the Group in any twelve-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval. The total number of Shares issued and to be issued upon exercise of the options granted to each eligible participant under the Share Option Scheme and any other share option scheme of the Group in any twelve-month period shall not exceed 1% of the Shares in issue from time to time. Any further grant of share options in excess of this limit is subject to shareholders' approval.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, shall require the approval of the independent non-executive directors.

If any grant of share options to a substantial shareholder or an independent non-executive director, or any of their respective associates will result in the total number of the Shares issued and to be issued upon exercise of the share options already granted and to be granted (including options exercised, cancelled and outstanding) to such person under the Share Option Scheme or other share option schemes in any twelve-month period up to and including the date of the grant (i) representing in aggregate 0.1% (or such other percentage as may from time to time specified by the Stock Exchange) of the Shares in issue from time to time, and (ii) having an aggregate value, based on the closing price of the Shares at the date of the grant, in excess of HK\$5 million, then the proposed grant of share options must be approved by the Shareholders in advance in a general meeting.

As an overall limit, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Company shall not, in aggregate, exceed 30% of the Company's shares in issue from time to time.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the eligible person. The exercise period of the share options granted is determined by the Board, which shall not end on a date more than 10 years from the date on which the share option is granted in accordance with the Share Option Scheme. Unless otherwise determined by the Board, the Share Option Scheme does not require a minimum period for which the share options must be held or a performance target which must be achieved before the share options can be exercised.

The subscription price for the Shares subject to share options will be a price determined by the and shall be the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the share options; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the share options; and (iii) the nominal value of a Share.

Details of the Share Option Scheme are disclosed in the section headed "Statutory and General Information" of the Prospectus.

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

### Pre-emptive Rights

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

### Sufficiency of Public Float

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

## DIRECTORS' REPORT

### Interests of Compliance Adviser

As confirmed by the Company's compliance adviser, Guotai Junan Capital Limited (the "Compliance Adviser"), as at 31 December 2019, 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.

### Continuing Connected Transactions

On 30 June 2019, Shui Jun Nursing Centre (Yau Tong) Company Limited ("Shui Jun (Yau Tong)"), a wholly-owned subsidiary of the Company, as tenant, entered into two new tenancy agreements (which were amended and supplemented by two supplemental agreements dated 9 August 2019) (collectively, the "Tenancy Agreements") with Ever Premier Limited and Roymark Limited, as landlords, respectively, to renew the original tenancy agreements dated 30 June 2016. The premises under the Tenancy Agreements are rented by Shui Jun (Yau Tong) for the operation of the elderly residential care home in its ordinary course of business from 1 July 2019 to 30 June 2020 at the monthly rental of HK\$150,000 and HK\$620,000 per month, respectively.

As (i) Mr. Yik and Ms. Yik Wai Hang (an associate of Mr. Yik) together own (directly and indirectly) 65% of Roymark Limited and Mr. Yik, Mr. Lui and Ms. Yik Wai Hang hold directorship therein; and (ii) Ever Premier Limited is wholly-owned by Roymark Limited and Mr. Yik and Mr. Lui hold directorship therein, Roymark Limited and Ever Premier Limited are associates of a connected person of the Company under the GEM Listing Rules. Accordingly, the Tenancy Agreements and the transactions contemplated thereunder constituted continuing connected transactions of the Company under the GEM Listing Rules.

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

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group on page 116 of this report in accordance with Rule 20.54 of the GEM Listing Rules. A copy of the auditor's letter has been provided by the company to the Stock Exchange.

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

Save as the transactions above, none of the related party transactions undertaken by the Group during the Reporting Year set out in note 31 to the consolidated financial statements constituted connected transaction or continuing connected transaction under Chapter 20 of the GEM Listing Rules.

### Non-Competition Undertakings

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

## DIRECTORS' REPORT

Each of the Covenantors has confirmed and declared to the Company of his/her/its compliance with their undertakings given in the Non-competition Deed. During the period from the date of listing of the Company on the Stock Exchange and up to the date of this report, the Covenantors did not, either on his/her/its own or in conjunction with any third party, take up any opportunity relating to the Restricted Business, or offer or make available such opportunity to the Company. At a meeting of an independent board committee comprising members of the Audit Committee held on 17 March 2020, all the independent non-executive Directors reviewed the confirmations in respect of the Non-competition Deed submitted to the Company by the Covenantors, which confirmed compliance with the Non-competition Deed by the Covenantors.

### Permitted Indemnity Provisions

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

### Closure of Register of Members

#### Entitlement to Attend and Vote at the AGM

For determining the Shareholders' eligibility to attend and vote at the forthcoming AGM to be held on Wednesday, 6 May 2020 (the "2020 AGM"), the register of members of the Company will be closed from Tuesday, 28 April 2020 to Wednesday, 6 May 2020, both days inclusive, during which period no transfer of Shares will be registered. The record date will be Tuesday, 28 April 2020. In order to qualify for attending and voting at the 2020 AGM, all transfer of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong branch share registrar, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong for registration no later than 4:30 p.m. on Monday, 27 April 2020.

#### Entitlement to the Proposed Final Dividend

For the purposes of determining the Shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 13 May 2020 to Monday, 18 May 2020, both days inclusive, during which period no share transfer will be effected. The record date will be Monday, 18 May 2020. In order to qualify for the entitlement of the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong no later than 4:30 p.m. on Tuesday, 12 May 2020. If the resolution for approving the proposed final dividend is passed at the AGM, the proposed final dividend will be payable on Tuesday, 2 June 2020.

### Auditor

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

On behalf of the Board

**Yik Tak Chi**  
*Chairman*

Hong Kong, 17 March 2020

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of Hang Chi Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 63 to 123, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Basis for opinion**

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

**Key audit matters**

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

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

## INDEPENDENT AUDITOR'S REPORT

**Key audit matters** *(Continued)*

## Key audit matter

*Impairment of goodwill*

The carrying value of goodwill in the consolidated financial statements amounted to HK\$112,790,000 as at 31 December 2019, representing 36.7% of the total assets of the Group. In accordance with IFRSs, the Group is required to perform impairment test for goodwill at least annually. In performing the impairment test, goodwill generated from acquisition is allocated to the corresponding subsidiaries acquired as each of these acquired subsidiaries is a separate cash-generating unit. The impairment test is based on the recoverable amount of each of these cash-generating units which is its value in use determined using cash flow projections based on a financial budget covering a five-year period. This matter was significant to our audit because the impairment test process is complex and involves significant judgements and estimates based on assumptions that are affected by expected future market and economic conditions.

The Group's disclosures about the impairment of goodwill are included in notes 2.4, 3 and 15, to the consolidated financial statements, which specifically explain the key assumptions management used for the calculation of the recoverable amounts.

*Purchase price allocation for business combination*

During the year, the Group completed a major acquisition at a total consideration of HK\$63,000,000. We considered the acquisition to be a key audit matter as it was a significant transaction during the year which required significant management judgement regarding the allocation of the purchase price to the assets and liabilities acquired. This exercise also required management to determine the fair values of the assets and liabilities acquired and to identify intangible assets acquired in the acquisition. Management has engaged an external valuation expert to assist in such exercise.

The accounting policies and disclosures for business combination are included in notes 2.4, 3 and 27 to the consolidated financial statements.

## How our audit addressed the key audit matter

Our audit procedures included, among others, evaluating, with the assistance from our internal valuation specialists, the assumptions and methodologies used by the Group, in particular, budgeted gross margin, discount rate and growth rate. We evaluated the assumptions, taking into account the historical accuracy of the Group's cash flow projections, by comparing the forecasts with the historical performance, reviewing the business development plan of each cash-generating unit and comparing with comparable companies.

We also assessed the adequacy of disclosures of goodwill impairment in the consolidated financial statements.

Our audit procedures included, among others, reading the sales and purchase agreement and the circular issued to the shareholders of the Company in relation to the acquisition to obtain an understanding of the transaction and the key terms. We discussed with management to understand the identification of assets and liabilities acquired. We involved our internal valuation specialists to assist us in evaluating the valuation methodology and assumptions used by management and the external valuation expert in the fair valuation of acquired assets and liabilities. We assessed the valuation assumptions such as discount rate and growth rate by comparing these assumptions to source data, market data and historical experiences of the Group in respect of acquisitions of companies in the same business. We also assessed the objectivity, independence, competence and relevant experience of the external valuation expert.

We also assessed the adequacy of related disclosures in the consolidated financial statements.

## INDEPENDENT AUDITOR'S REPORT

### Other information included in the Annual Report

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

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

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

### Responsibilities of the directors for the consolidated financial statements

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

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

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

### Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.



## INDEPENDENT AUDITOR'S REPORT

**Auditor's responsibilities for the audit of the consolidated financial statements** *(Continued)*

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

17 March 2020

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	Year ended 31 December	
		2019 HK\$'000	2018 HK\$'000
<b>REVENUE</b>	5	<b>168,680</b>	135,516
Other income	5	<b>6,466</b>	5,554
Staff costs		<b>(60,043)</b>	(54,511)
Property rental and related expenses		<b>(19,169)</b>	(27,209)
Depreciation and amortisation		<b>(25,052)</b>	(7,515)
Food		<b>(4,722)</b>	(4,021)
Medical fees		<b>(8,377)</b>	(6,931)
Professional and legal fees		<b>(6,733)</b>	(3,842)
Utility expenses		<b>(3,798)</b>	(3,231)
Consumables		<b>(1,407)</b>	(1,335)
Other operating expenses		<b>(6,363)</b>	(4,390)
Finance costs	6	<b>(2,781)</b>	–
<b>PROFIT BEFORE TAX</b>	7	<b>36,701</b>	28,085
Income tax expenses	10	<b>(6,157)</b>	(4,376)
<b>PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>30,544</b>	23,709
Attributable to:			
Owners of the parent		<b>28,235</b>	21,901
Non-controlling interests		<b>2,309</b>	1,808
		<b>30,544</b>	23,709
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic and diluted (HK cents)	12	<b>7.06</b>	5.48

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	As at 31 December	
		2019 HK\$'000	2018 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	8,401	10,603
Right-of-use assets	17	102,515	–
Intangible assets	14	12,797	5,250
Goodwill	15	112,790	79,940
Deferred tax assets	23	1,290	772
Total non-current assets		237,793	96,565
<b>CURRENT ASSETS</b>			
Trade receivables	16	464	204
Prepayments, other receivables and other assets	18	16,125	9,587
Tax recoverable		437	206
Cash and cash equivalents	19	52,267	59,283
Total current assets		69,293	69,280
<b>CURRENT LIABILITIES</b>			
Trade payables	21	1,727	879
Other payables and accruals	22	18,563	16,267
Due to a related company	20	295	274
Tax payables		5,217	1,049
Lease liabilities	17	22,781	–
Total current liabilities		48,583	18,469
<b>NET CURRENT ASSETS</b>		<b>20,710</b>	<b>50,811</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>258,503</b>	<b>147,376</b>
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities	17	84,731	–
Deferred tax liabilities	23	745	386
Total non-current liabilities		85,476	386
Net assets		173,027	146,990
<b>EQUITY</b>			
Equity attributable to owners of the parent:			
Issued capital	24	4,000	4,000
Reserves	25	159,347	140,906
Non-controlling interests		163,347	144,906
		9,680	2,084
Total equity		173,027	146,990

**Yik Tak Chi**  
Chairman

**Chung Kin Man**  
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### Year ended 31 December 2019

	Attributable to owners of the parent						Non-controlling interests HK\$'000	Total equity HK\$'000
	Issued capital HK\$'000 <i>(note 24)</i>	Share premium* HK\$'000	Merger reserve* HK\$'000 <i>(note 25)</i>	Other reserve* HK\$'000	Retained profits* HK\$'000	Total HK\$'000		
At 31 December 2018 and 1 January 2019	4,000	109,298	5	(1,046)	32,649	144,906	2,084	146,990
Profit and total comprehensive income for the year	-	-	-	-	28,235	28,235	2,309	30,544
Acquisition of a non-controlling interest	-	-	-	(9,794)	-	(9,794)	(1,442)	(11,236)
Acquisition of a subsidiary	-	-	-	-	-	-	12,609	12,609
Final dividend declared	-	-	-	-	-	-	(5,880)	(5,880)
At 31 December 2019	4,000	109,298	5	(10,840)	60,884	163,347	9,680	173,027

\* These reserve accounts comprise the consolidated reserves of HK\$159,347,000 and HK\$140,906,000 in the consolidated statement of financial position as at 31 December 2019 and 2018, respectively.

### Year ended 31 December 2018

	Attributable to owners of the parent						Non-controlling interests HK\$'000	Total equity HK\$'000
	Issued capital HK\$'000 <i>(note 24)</i>	Share premium* HK\$'000	Merger reserve* HK\$'000 <i>(note 25)</i>	Other reserve* HK\$'000	Retained profits* HK\$'000	Total HK\$'000		
At 31 December 2017 and 1 January 2018	4,000	109,298	5	(1,046)	22,748	135,005	2,776	137,781
Profit and total comprehensive income for the year	-	-	-	-	21,901	21,901	1,808	23,709
Final dividend declared	-	-	-	-	(12,000)	(12,000)	(2,500)	(14,500)
At 31 December 2018	4,000	109,298	5	(1,046)	32,649	144,906	2,084	146,990

\* These reserve accounts comprise the consolidated reserves of HK\$140,906,000 and HK\$131,005,000 in the consolidated statement of financial position as at 31 December 2018 and 2017, respectively.

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO FINANCIAL STATEMENTS

FIVE YEARS FINANCIAL SUMMARY

	Notes	Year ended 31 December	
		2019 HK\$'000	2018 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		36,701	28,085
Adjustments for:			
Finance costs		2,781	–
Loss on disposal of items of property, plant and equipment		–	214
Depreciation	7	3,902	4,129
Depreciation of right-of-use assets	17	16,250	–
Amortisation of intangible assets	7	4,900	3,386
		<b>64,534</b>	35,814
(Increase)/decrease in trade receivables		(173)	66
Increase in prepayments, other receivables and other assets		(2,278)	(2,335)
Increase in trade payables		524	11
(Decrease)/increase in other payables and accruals		(3,470)	1,113
Increase in an amount due to a related company		21	13
		<b>59,158</b>	34,682
Cash generated from operations		59,158	34,682
Interest paid		(2,781)	–
Income tax paid		(6,490)	(5,291)
		<b>49,887</b>	29,391
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of subsidiaries	27	(37,245)	–
Purchases of items of property, plant and equipment		(1,463)	(3,175)
		<b>(38,708)</b>	(3,175)
Net cash flows used in investing activities		(38,708)	(3,175)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Principal portion of lease payments	28(b)	(12,315)	–
Dividend paid		(5,880)	(14,500)
		<b>(18,195)</b>	(14,500)
Net cash flows used in financing activities		(18,195)	(14,500)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		<b>(7,016)</b>	11,716
Cash and cash equivalents at beginning of year		59,283	47,567
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>52,267</b>	59,283

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended 31 December 2019

**ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS**

Cash and bank balances as stated in the consolidated statement of financial position

Non-pledged time deposits with original maturity of less than three months when acquired

Cash and cash equivalents as stated in the consolidated statement of cash flows

Year ended 31 December	
2019 HK\$'000	2018 HK\$'000
<b>23,583</b>	59,283
<b>28,684</b>	–
<b>52,267</b>	59,283

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

### 1. Corporate Information

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

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

#### Information about subsidiaries

Particulars of the Company’s subsidiaries are as follows:

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**1. Corporate Information** *(Continued)**Information about subsidiaries (Continued)*Particulars of the Company's subsidiaries are as follows: *(continued)*

Name	Place and date of incorporation/ registration/ and place of business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shui On Nursing Centre (Hing Wah) Company Limited ("Shui On (Hing Wah)")	Hong Kong 13 November 2007	HK\$10,000	–	100%	Operation of an elderly residential care home
Shui On Nursing Centre (Sun Tin Wai) Company Limited ("Shui On (Sun Tin Wai)")	Hong Kong 2 November 2006	HK\$15,000	–	100%	Operation of an elderly residential care home
Shui On Nursing Centre (Kwai Shing E.) Co. Limited ("Shui On (Kwai Shing E.)")	Hong Kong 12 December 2006	HK\$3,760,000	–	86.67%	Operation of an elderly residential care home
Shui Jun Nursing Centre (Yau Tong) Company Limited ("Shui Jun (Yau Tong)")	Hong Kong 4 February 2006	HK\$6,000	–	100%	Operation of an elderly residential care home
Guardian Home Limited ("Guardian Home")	Hong Kong 12 August 2006	HK\$8,601,000	–	60%	Investment holding
Glory Crest Limited ("Glory Crest")*	Hong Kong 20 November 2007	HK\$1	–	60%	Investment holding
Guardian Home (Chun Shek) Limited ("Chun Shek")*	Hong Kong 8 May 2009	HK\$10,000	–	60%	Operation of an elderly residential care home

\* The Group acquired the 60% equity interest in Guardian Home at a cash consideration of HK\$63,000,000 on 12 July 2019 and thereafter Guardian Home and its subsidiaries, namely Glory Crest and Chun Shek, became subsidiaries of the Group.



## NOTES TO FINANCIAL STATEMENTS

31 December 2019

### 2.1 Basis Of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**2.2 Changes in Accounting Policies and Disclosures**

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

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015–2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group's financial statements, the nature and impact of IFRS 16 is described below:

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement 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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17 and related interpretations.

**New definition of a lease**

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**2.2 Changes in Accounting Policies and Disclosures** *(Continued)**As a lessee – Leases previously classified as operating leases**Nature of the effect of adoption of IFRS 16*

The Group has lease contracts for land and buildings. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation of the right-of-use assets and interest accrued on the outstanding lease liabilities as finance costs.

*Impacts on transition*

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were 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 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Using a single discount rate to a portfolio of leases with reasonably similar characteristics
- Accounting for the leases which the lease term ends within 12 months of the date of initial application in the same way as short-term leases, and including the cost associated with these leases within the disclosure of short-term lease expenses

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**2.2 Changes in Accounting Policies and Disclosures (Continued)****Financial impact at 1 January 2019**

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	HK\$'000
<b>Assets</b>	
Increase in right-of-use assets	11,989
<b>Liabilities</b>	
Increase in lease liabilities	11,989
The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:	
	HK\$'000
<b>Operating lease commitments as at 31 December 2018</b>	23,860
Less: commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	11,241
	12,619
Weighted average incremental borrowing rate as at 1 January 2019	4.5%
Discounted operating lease commitments at 1 January 2019	11,989
<b>Lease liabilities as at 1 January 2019</b>	11,989

**2.3 Issued But Not Yet Effective IFRSs**

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

Amendments to IFRS 3	<i>Definition of a Business</i> <sup>1</sup>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i> <sup>1</sup>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
IFRS 17	<i>Insurance Contracts</i> <sup>2</sup>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i> <sup>1</sup>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2020

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>3</sup> No mandatory effective date yet determined but available for adoption

The directors of the Group considered that the application of the above issued but not yet effective IFRSs will not have a material impact on the Group's consolidated financial results.

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

### 2.4 Summary of Significant Accounting Policies

#### Business combinations and goodwill

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

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

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**2.4 Summary of Significant Accounting Policies (Continued)****Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

**Impairment of non-financial assets**

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

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

### 2.4 Summary of Significant Accounting Policies *(Continued)*

#### Related parties

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

- (a) the party is a person or a close member of that person's family and that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

#### Property, plant and equipment and depreciation

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**2.4 Summary of Significant Accounting Policies (Continued)***Property, plant and equipment and depreciation (Continued)*

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

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

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

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

*Intangible assets (other than goodwill)*

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

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

*Customer relationships*

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

*Leases (applicable from 1 January 2019)*

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.



## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**2.4 Summary of Significant Accounting Policies** *(Continued)**Leases (applicable from 1 January 2019) (Continued)**Group as a lessee (Continued)**(a) Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Land and buildings: 1.25 to 6 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

*(b) Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

*(c) Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of land and buildings (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

*Leases (applicable before 1 January 2019)*

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**2.4 Summary of Significant Accounting Policies (Continued)***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 Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

*Subsequent measurement*

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

*Financial assets at amortised cost (debt instruments)*

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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

### 2.4 Summary of Significant Accounting Policies (Continued)

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

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

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

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

#### Impairment of financial assets

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

#### General approach

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

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**2.4 Summary of Significant Accounting Policies (Continued)***Impairment of financial assets (Continued)**General approach (Continued)*

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

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

*Simplified approach*

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

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

*Subsequent measurement*

The subsequent measurement of financial liabilities is as follows:

*Financial liabilities at amortised cost (loans and borrowings)*

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

### 2.4 Summary of Significant Accounting Policies (Continued)

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

#### Cash and cash equivalents

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

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

#### Provisions

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

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

#### Income tax

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

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**2.4 Summary of Significant Accounting Policies (Continued)***Income tax (Continued)*

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**2.4 Summary of Significant Accounting Policies** *(Continued)***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 Group expects to be entitled in exchange for those goods or services.

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

*(a) Rendering of services*

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

*(b) Sale of goods*

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

*Revenue from other sources*

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

*Other income*

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

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

**Contract liabilities**

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**2.4 Summary of Significant Accounting Policies (Continued)****Employee benefits****Pension scheme**

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

**Borrowing costs**

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

**Dividends**

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

**Foreign currencies**

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



## NOTES TO FINANCIAL STATEMENTS

31 December 2019

### 3. Significant Accounting Judgements and Estimates

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

#### Estimation uncertainty

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

#### Deferred tax assets

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

#### Useful lives of property, plant and equipment and intangible assets

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

#### Impairment of non-financial assets (other than goodwill)

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

#### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units based on assumptions that are affected by expected future market and economic conditions and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was HK\$112,790,000 (2018: HK\$79,940,000). Further details are given in note 15 to the financial statements.

#### Business combination

On 12 July 2019, the Company, through Shui On Holdings (HK), acquired a 60% interest in Guardian Home Limited. Guardian Home Limited and its subsidiaries are engaged in investment holding and operation of an elderly residential care home in Hong Kong. Intangible asset acquired by the Group in the acquisition includes customer relationships. The residual portion of the purchase consideration was allocated as goodwill, which represents the balance of the purchase consideration over the fair value of identifiable net assets acquired by the Group. The purchase price allocation has involved significant management judgement and estimation, such as the valuation methodologies, budgeted revenue, budgeted profit margins, the discount rate adopted and the estimation of useful life of the intangible asset. Further details are given in note 27 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**4. Operating Segment Information**

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

**Geographical information**

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

**Information about a major customer**

Revenue of approximately HK\$34,729,000 for the year ended 31 December 2019 (year ended 31 December 2018: HK\$30,109,000), which amounted to more than 10% of the Group's revenue, was derived from the Hong Kong Government under the Enhanced Bought Place Scheme ("EBPS").

**5. Revenue and Other Income**

An analysis of revenue is as follows:

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
<i>Revenue from contracts with customers</i>		
Rendering of elderly home care services	126,770	104,327
Sale of elderly related goods and provision of healthcare services	41,910	31,189
	<b>168,680</b>	135,516

**Revenue from contracts with customers***(i) Disaggregated revenue information*

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
<b>Timing of revenue recognition</b>		
Services transferred over time	146,184	119,035
Goods transferred at a point in time	22,496	16,481
	<b>168,680</b>	135,516

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 5. Revenue and Other Income (Continued)

## Revenue from contracts with customers (Continued)

## (i) Disaggregated revenue information (Continued)

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

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Rendering of elderly home care services	125	93
Sale of elderly related goods and provision of healthcare services	37	28
	<b>162</b>	121

## (ii) Performance obligations

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

*Rendering of services*

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

*Sale of goods*

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**5. Revenue and Other Income** (Continued)

Revenue from contracts with customers (Continued)

## (ii) Performance obligations (Continued)

## Sale of goods (Continued)

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 are as follows:

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Within one year	253	162

An analysis of other income is as follows:

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
<b>Other income</b>		
Government grants	3,537	3,149
Sundry income	1,053	1,186
Rental income	1,290	888
Bank interest income	250	211
Others	336	120
	<b>6,466</b>	<b>5,554</b>

**6. FINANCE COSTS**

An analysis of finance costs is as follows:

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
Interest on lease liabilities	2,781	–

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 7. Profit Before Tax

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

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
Cost of inventories sold	9,346	8,343
Depreciation of property, plant and equipment	3,902	4,129
Depreciation of right-of-use assets	16,250	–
Amortisation of intangible assets	4,900	3,386
Auditors' remuneration	1,650	1,500
Employee benefit expense (excluding directors' and chief executive's remuneration as set out in note 8):		
– Wages and salaries	52,902	47,862
– Pension scheme contributions	1,760	1,655
	54,662	49,517
Minimum lease payments under operating leases of land and buildings	–	27,209
Lease payment not included in the measurement of lease liabilities	19,169	–
Bank interest income*	(250)	(211)
Government grants*	(3,537)	(3,149)
Foreign exchange differences, net	58	–

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**8. Directors' and Chief Executive's Remuneration**

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

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
Fees	1,440	1,713
Other emoluments:		
Salaries, allowances and benefits in kind	2,406	2,452
Pension scheme contributions	85	86
	<b>3,931</b>	4,251

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

**(a) Independent non-executive directors**

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

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
Mr. Wong Wai Ho (i)	180	180
Mr. Lau Tai Chim (i)	180	180
Mr. Kwok Chi Shing (i)	180	180
	<b>540</b>	540

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

There were no other emoluments payable to the independent non-executive directors during the reporting period (year ended 31 December 2018: Nil).

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 8. Directors' and Chief Executive's Remuneration (Continued)

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

The remuneration of each of the executive directors, a non-executive director and a chief executive for the year ended 31 December 2019 is set out below:

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Total HK\$'000
<b>2019</b>				
Executive directors:				
Mr. Yik Tak Chi (ii)/(iii)	180	408	–	588
Mr. Chung Kin Man (ii)	180	660	32	872
Ms. Chung Wai Man (ii)	180	657	31	868
Mr. Lui Chi Tat (iii)	180	681	22	883
	720	2,406	85	3,211
Non-executive director:				
Mr. Lau Joseph Wan Pui (ii)	180	–	–	180
	900	2,406	85	3,391

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**8. Directors' and Chief Executive's Remuneration (Continued)****(b) Executive directors, a non-executive director and the chief executive (Continued)**

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

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

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

(iii) Mr. Lui Chi Tat was appointed as the executive director of the Company on 27 February 2019. Mr. Lui Chi Tat is also the chief executive of the Company.

There was no arrangement under which the directors waived or agreed to waive any remuneration during the reporting period (year ended 31 December 2018: Nil).



## NOTES TO FINANCIAL STATEMENTS

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## 9. Five Highest Paid Employees

The five highest paid employees during the reporting period included two directors and the chief executive (year ended 31 December 2018: three directors and the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two highest paid employees (year ended 31 December 2018: one) who are neither a director nor chief executive of the Company, are as follows:

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
Salaries, allowances and benefits in kind	1,408	774
Pension scheme contributions	36	18
	<b>1,444</b>	<b>792</b>

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

	Year ended 31 December	
	2019	2018
Nil to HK\$1,000,000	2	1

During the year, no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (year ended 31 December 2018: Nil).

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 10. Income Tax Expenses

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

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the reporting period (year ended 31 December 2018: 16.5%).

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
Current – Hong Kong		
Charge for the year	7,582	5,465
Overprovision in prior years	(262)	(268)
Deferred (note 23)	(1,163)	(821)
Total tax charge for the year	6,157	4,376

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

## Hong Kong

	Year ended 31 December			
	2019		2018	
	HK\$'000	%	HK\$'000	%
Profit before tax	36,701		28,085	
Tax at the statutory rate	6,056	16.5	4,634	16.5
Adjustments in respect of current tax of previous periods	(262)	(0.7)	(268)	(1.0)
Income not subject to tax*	(51)	(0.1)	(35)	(0.1)
Expenses not deductible for tax	414	1.1	45	0.2
Tax charge at the Group's effective rate	6,157	16.8	4,376	15.6

\* Income not subject to tax mainly represented bank interest income during the years ended 31 December 2019 and 2018, which was not taxable in Hong Kong.

## NOTES TO FINANCIAL STATEMENTS

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## 11. Dividends

## Year ended 31 December

	2019 HK\$'000	2018 HK\$'000
Proposed final – HK6.00 cents (2018: Nil) per ordinary share	24,000	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The distribution amounts set out in the consolidated statement of changes in equity of HK\$5,800,000 for the year ended 31 December 2019 represented the dividends declared by Shui On (Kwai Shing E.) and Guardian Home, non-wholly-owned subsidiaries of the Company, to their non-controlling shareholders.

The distribution amounts set out in the consolidated statement of changes in equity of HK\$2,500,000 for the year ended 31 December 2018, represented the dividends declared by Shui On (Kwai Shing E.) to its non-controlling shareholders.

## 12. Earnings per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic earnings per share amount is based on the profit for the year ended 31 December 2019 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 400,000,000 (year ended 31 December 2018: 400,000,000) in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of basic earnings per share is based on:

## Year ended 31 December

	2019 HK\$'000	2018 HK\$'000
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	28,235	21,901
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	400,000,000	400,000,000

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2019 and 2018 as the Group had no potentially dilutive ordinary shares in issue during these years.

## NOTES TO FINANCIAL STATEMENTS

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## 13. Property, Plant and Equipment

	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>31 December 2019</b>				
At 1 January 2019:				
Cost	14,352	6,819	3,516	24,687
Accumulated depreciation	(6,526)	(4,941)	(2,617)	(14,084)
Net carrying amount	7,826	1,878	899	10,603
At 1 January 2019, net of accumulated depreciation	7,826	1,878	899	10,603
Additions	522	513	428	1,463
Acquisition of subsidiaries (note 27)	–	237	–	237
Depreciation provided during the year (note 7)	(2,525)	(911)	(466)	(3,902)
At 31 December 2019, net of accumulated depreciation	5,823	1,717	861	8,401
At 31 December 2019:				
Cost	14,874	7,569	3,944	26,387
Accumulated depreciation	(9,051)	(5,852)	(3,083)	(17,986)
Net carrying amount	5,823	1,717	861	8,401

## NOTES TO FINANCIAL STATEMENTS

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## 13. Property, Plant and Equipment (Continued)

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

## NOTES TO FINANCIAL STATEMENTS

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## 14. Intangible Assets

	Trademarks HK\$'000	Customer relationships HK\$'000	Total HK\$'000
<b>31 December 2019</b>			
At 1 January 2019:			
Cost	2	16,765	16,767
Accumulated amortisation	-	(11,517)	(11,517)
Net carrying amount	2	5,248	5,250
At 1 January 2019, net of accumulated amortisation	2	5,248	5,250
Acquisition of a subsidiary (note 27)	-	12,447	12,447
Amortisation provided during the year (note 7)	-	(4,900)	(4,900)
At 31 December 2019, net of accumulated amortisation	2	12,795	12,797
At 31 December 2019:			
Cost	2	29,212	29,214
Accumulated amortisation	-	(16,417)	(16,417)
Net carrying amount	2	12,795	12,797
<b>31 December 2018</b>			
At 1 January 2018:			
Cost	2	16,765	16,767
Accumulated amortisation	-	(8,131)	(8,131)
Net carrying amount	2	8,634	8,636
At 1 January 2018, net of accumulated amortisation	2	8,634	8,636
Amortisation provided during the year (note 7)	-	(3,386)	(3,386)
At 31 December 2018, net of accumulated amortisation	2	5,248	5,250
At 31 December 2018:			
Cost	2	16,765	16,767
Accumulated amortisation	-	(11,517)	(11,517)
Net carrying amount	2	5,248	5,250

## NOTES TO FINANCIAL STATEMENTS

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## 15. Goodwill

	HK\$'000
Cost and net carrying amount at 1 January 2018 and 31 December 2018	79,940
Acquisition of a subsidiary	32,850
Cost and net carrying amount at 31 December 2019	<b>112,790</b>

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

	Guardian Home	Shui Jun (Yau Tong)	Shui On (Kwai Shing E.)	Shui On (Sun Tin Wai)	Total
Carrying amount of goodwill as at 31 December 2019	32,850	36,216	33,494	10,230	112,790

## Impairment testing of goodwill

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

The recoverable amounts of the cash-generating units of elderly residential care homes have been determined based on a value in use calculation using cash flow projections covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is ranging from 11.3% to 11.8% (2018: 13.9%). The cash flows of the four cash-generating units are projected using annual growth rates ranging from 2% to 3% (2018: 3% to 5%) during the five-year period, which were based on historical growth rates and business development plan. The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2018: 3%), which was based on their historical growth rates and the long-term average growth rate of the industry. The recoverable amounts of the cash-generating units estimated from the cash flow forecasts exceed the carrying amounts.

Assumptions were used in the value in use calculation of the cash-generating units for 31 December 2019 and 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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**15. Goodwill** *(continued)***Impairment testing of goodwill** *(continued)*

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

	As at 31 December	
	2019	2018
<b>Guardian Home</b>		
Pre-tax discount rate	23.8%	n/a
Growth rate beyond the five-year period	(20.8%)	n/a
<b>Shui Jun (Yau Tong)</b>		
Pre-tax discount rate	20.2%	22.0%
Growth rate beyond the five-year period	(8.6%)	(8.5%)
<b>Shui On (Kwai Shing E.)</b>		
Pre-tax discount rate	16.3%	18.4%
Growth rate beyond the five-year period	(0.6%)	(0.5%)
<b>Shui On (Sun Tin Wai)</b>		
Pre-tax discount rate	23.1%	34.3%
Growth rate beyond the five-year period	(23.3%)	(48.4%)

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

Possible changes of key assumptions	Recoverable amount of the cash-generating unit exceeding/ (below) its carrying amount	
	As at 31 December	
	2019	2018
<b>Guardian Home</b>		
Pre-tax discount rate increases by 1%	58,171	n/a
Pre-tax discount rate increases by 3%	40,412	n/a
Growth rate beyond the five-year period decreases by 1%	58,588	n/a
Growth rate beyond the five-year period decreases by 3%	42,759	n/a
<b>Shui Jun (Yau Tong)</b>		
Pre-tax discount rate increases by 1%	28,641	23,179
Pre-tax discount rate increases by 3%	17,641	14,249
Growth rate beyond the five-year period decreases by 1%	28,863	23,730
Growth rate beyond the five-year period decreases by 3%	18,736	16,019



## NOTES TO FINANCIAL STATEMENTS

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## 15. Goodwill (continued)

Impairment testing of goodwill (continued)

## Possible changes of key assumptions

**Shui On (Kwai Shing E.)**

Pre-tax discount rate increases by 1%

Pre-tax discount rate increases by 3%

Growth rate beyond the five-year period decreases by 1%

Growth rate beyond the five-year period decreases by 3%

**Shui On (Sun Tin Wai)**

Pre-tax discount rate increases by 1%

Pre-tax discount rate increases by 3%

Growth rate beyond the five-year period decreases by 1%

Growth rate beyond the five-year period decreases by 3%

Recoverable amount of the cash-generating unit exceeding/ (below) its carrying amount  
As at 31 December

	2019	2018
	<b>22,016</b>	14,828
	<b>8,843</b>	5,091
	<b>22,283</b>	13,444
	<b>10,435</b>	2,088
	<b>17,284</b>	14,969
	<b>11,810</b>	11,503
	<b>17,634</b>	15,160
	<b>12,991</b>	12,132

## 16. Trade Receivables

## As at 31 December

	2019	2018
	HK\$'000	HK\$'000
Trade receivables	<b>464</b>	204

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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## 17. Leases

*The Group as a lessee*

The Group has lease contracts for various items of land and buildings. Leases of land and buildings generally have lease terms between 1 and 6 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

*(a) Right-of-use assets*

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Land and buildings HK\$'000
<b>As at 1 January 2019</b>	11,989
Addition	64,223
Additions as a result of acquisition of a subsidiary (note 27)	42,553
Depreciation charge	(16,250)
<b>As at 31 December 2019</b>	<b>102,515</b>

*(b) Lease liabilities*

The carrying amount of the Group's lease liabilities and the movements during the year are as follows:

	Lease liabilities HK\$'000
<b>Carrying amount at 1 January 2019</b>	11,989
New leases	64,223
Additions as a result of acquisition of a subsidiary (note 27)	43,615
Accretion of interest recognised during the year	2,781
Payments	(15,096)
<b>Carrying amount at 31 December 2019</b>	<b>107,512</b>
<b>Analysed into:</b>	
Current portion	22,781
Non-current portion	84,731

The maturity analysis of lease liabilities is disclosed in note 34 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**17. Leases** *(continued)*The Group as a lessee *(continued)*

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	Year ended 31 December HK\$'000
Interest on lease liabilities	2,781
Depreciation charge of right-of-use assets	16,250
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in property rental and related expenses)	14,563
Total amount recognised in profit or loss	33,594

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 28(c) and 29, respectively, to the financial statements.

**18. Prepayments, Other Receivables and Other Assets**

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Prepayments	354	344
Deposits	13,682	9,072
Other receivables	2,089	171
	16,125	9,587

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 19. Cash And Cash Equivalents

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Cash and bank balances	23,583	59,283
Non-pledged time deposits with original maturity of less than three months when acquired	28,684	–
	<b>52,267</b>	59,283

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

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

## 20. Balances with Related Parties

	Note	As at 31 December	
		2019 HK\$'000	2018 HK\$'000
Amount due to a related company of which Mr. Yik Tak Chi is a member of key management personnel:			
Yu Fat Hong (Hong Kong) Limited ("Yu Fat Hong")	(i)	295	274

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

Note:

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

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**21. Trade Payables**

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

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Within 3 months	1,727	879

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

**22. Other Payables and Accruals**

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Customer deposits	10,808	7,525
Accruals	5,781	5,513
Other payables	1,721	3,067
Contract liabilities	253	162
	18,563	16,267

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

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**23. Deferred Tax**

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

**Deferred tax assets**

	<b>Depreciation in excess of related depreciation allowance</b> HK\$'000
Gross deferred tax assets at 1 January 2018	1,384
Deferred tax credited to profit or loss during the year	53
Gross deferred tax assets at 31 December 2018 and 1 January 2019	<b>1,437</b>
Deferred tax assets recognised in the acquisition of a subsidiary (note 27)	<b>954</b>
Deferred tax credited to profit or loss during the year	<b>203</b>
Gross deferred tax assets at 31 December 2019	<b>2,594</b>

**Deferred tax liabilities**

	<b>Fair value adjustments arising from acquisition of subsidiaries</b> HK\$'000	<b>Depreciation allowances in excess of related depreciation</b> HK\$'000	<b>Total</b> HK\$'000
Gross deferred tax liabilities at 1 January 2018	1,567	252	1,819
Deferred tax credited to profit or loss during the year	(717)	(51)	(768)
Gross deferred tax liabilities at 31 December 2018 and 1 January 2019	<b>850</b>	<b>201</b>	<b>1,051</b>
Deferred tax liabilities recognised in the acquisition of a subsidiary (note 27)	<b>1,958</b>	–	<b>1,958</b>
Deferred tax credited to profit or loss during the year	<b>(899)</b>	<b>(61)</b>	<b>(960)</b>
Gross deferred tax liabilities at 31 December 2019	<b>1,909</b>	<b>140</b>	<b>2,049</b>

## NOTES TO FINANCIAL STATEMENTS

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## 23. Deferred Tax (continued)

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

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Gross deferred tax assets	2,594	1,437
Offsetting with deferred tax liabilities	(1,304)	(665)
Net deferred tax assets	1,290	772
Gross deferred tax liabilities	2,049	1,051
Offsetting with deferred tax assets	(1,304)	(665)
Net deferred tax liabilities	745	386

## 24. Issued Capital

## Shares

	As at 31 December	
	2019 HK\$	2018 HK\$
Issued and fully paid: 400,000,000 (2018: 400,000,000) ordinary shares	4,000,000	4,000,000

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

	Notes	Number of shares in issue	Share capital HK\$
At 1 January 2017		6,550	66
Capitalisation issue of shares	(i)	299,993,450	2,999,934
Issue of shares from initial public offering	(ii)	100,000,000	1,000,000
At 31 December 2018 and 31 December 2019		400,000,000	4,000,000

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**24. Issued Capital** *(continued)*

Notes:

- (i) Pursuant to the written resolution of shareholders of the Company passed on 21 June 2017, subject to the share premium account of the Company being credited pursuant to the listing of the Company's shares, the Company capitalised HK\$2,999,934 standing to the credit of the share premium account of the Company to pay up in full 299,993,450 new ordinary shares of HK\$0.01 each for allotment and issue pari passu to the then existing shareholders of the Company.
- (ii) In connection with the Company's initial public offering, 100,000,000 new shares of HK\$0.01 each were issued at a price of HK\$0.72 per share for a total cash consideration, before expenses, of approximately HK\$72,000,000 on 12 July 2017.

**25. Reserves**

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

**Merger reserve**

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

**26. Partly-owned Subsidiaries with Material Non-controlling Interests**

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

2019

	From 12 July to 31 December 2019 HK\$'000
<b>Guardian Home*</b>	
Percentage of equity interest held by non-controlling shareholders	40.0%
Profit for the year allocated to non-controlling interests	1,591
Dividends paid to non-controlling shareholders	5,480

\* The Group acquired a 60.0% equity interest in Guardian Home on 12 July 2019.

	As at 31 December 2019 HK\$'000
<b>Guardian Home</b>	
Accumulated balances of non-controlling interests	8,720



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## 26. Partly-owned Subsidiaries with Material Non-controlling Interests (continued)

2018

	Year ended 31 December 2018 HK\$'000
<b>Shui On (Kwai Shing E.)**</b>	
Percentage of equity interest held by non-controlling shareholders	33.3%
Profit for the year allocated to non-controlling interests	1,808
Dividends paid to non-controlling shareholders	2,500
** The Group acquired a 66.7% equity interest in Shui On (Kwai Shing E.) on 23 August 2016.	
	As at 31 December 2018 HK\$'000
<b>Shui On (Kwai Shing E.)</b>	
Accumulated balances of non-controlling interests	2,084

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**26. Partly-owned Subsidiaries with Material Non-controlling Interests** *(continued)*

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

2019

	From 12 July to 31 December 2019 HK\$'000
<b>Guardian Home</b>	
Revenue	21,028
Total expenses	(16,639)
Profit and total comprehensive income for the year	4,389
Net cash flows from operating activities	1,648
Net cash flows used in investing activities	930
Net cash flows used in financing activities	(14,465)
Net decrease in cash and cash equivalents	(11,887)
	As at 31 December 2019 HK\$'000
<b>Guardian Home</b>	
Current assets	19,835
Non-current assets	54,027
Current liabilities	(9,794)
Non-current liabilities	(39,219)

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26. Partly-owned Subsidiaries with Material Non-controlling Interests (continued)  
2018

	Year ended 31 December 2018 HK\$'000
<hr/>	
<b>Shui On (Kwai Shing E.)</b>	
Revenue	38,831
Total expenses	<u>(33,405)</u>
Profit and total comprehensive income for the year	<u>5,426</u>
Net cash flows from operating activities	7,633
Net cash flows used in investing activities	(2,767)
Net cash flows used in financing activities	<u>(7,500)</u>
Net decrease in cash and cash equivalents	<u>(2,634)</u>
	As at 31 December 2018 HK\$'000
<hr/>	
<b>Shui On (Kwai Shing E.)</b>	
Current assets	5,661
Non-current assets	6,130
Current liabilities	(5,107)
Non-current liabilities	<u>(429)</u>

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**27. Business Combination for Acquisition of a Subsidiary**

On 12 July 2019, the Company, through Shui On Nursing Home Holdings Limited, acquired a 60% interest in Guardian Home, from Jun Pak Limited (the "Acquisition"). Guardian Home is engaged in investment holding and the principal activities of its subsidiaries are the operation of an elderly residential care home in Hong Kong. The acquisition was made as part of the Group's strategy to expand its market share of elderly care homes in Hong Kong. The total purchase consideration for the acquisition was HK\$63,000,000, which was paid by cash.

The fair values of the identifiable assets and liabilities of Guardian Home as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK\$'000
Property, plant and equipment	237
Intangible asset	12,447
Right-of-use assets	42,553
Deferred tax assets	954
Trade receivables	87
Prepayments, other receivables and other assets	4,260
Cash and cash equivalents	25,755
Trade payables	(323)
Other payables and accruals	(5,766)
Tax payables	(3,108)
Deferred tax liabilities	(1,958)
Lease liabilities	(43,615)
Total identifiable net assets at fair value	31,523
Non-controlling interests	(12,609)
Goodwill on acquisition	18,914
Acquisition of a non-controlling interest*	32,850
Satisfied by cash	11,236
	63,000

\* As part of the Acquisition, the Group indirectly acquired a 20% equity interest in Shui On Nursing Centre (Kwai Shing E.) Co. Limited with a cash consideration of HK\$11,236,000 on 12 July 2019. The difference between the carrying amount of the non-controlling interest of HK\$1,442,000 and the consideration paid was recognised in other reserve.

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**27. Business Combination for Acquisition of a Subsidiary** *(continued)*

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK\$87,000 and HK\$28,000, respectively. No trade receivable or other receivable balances were expected to be uncollectible.

The Group incurred transaction costs of HK\$2,357,000 for this acquisition. These transaction costs have been expensed and are included in other operating expenses in the consolidated statement of profit or loss and other comprehensive income.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	HK\$'000
Cash consideration	(63,000)
Cash and cash equivalents acquired	25,755
Net outflow of cash and cash equivalents included in cash flows from investing activities	(37,245)
Transaction costs of the acquisition included in cash flows from operating activities	(2,357)
	(39,602)

Since the acquisition, Guardian Home Limited and its subsidiaries contributed HK\$21,028,000 to the Group's revenue and HK\$4,389,000 to the consolidated profit for the year ended 31 December 2019.

Had the combination of Guardian Home Limited and its subsidiaries taken place at the beginning of the year, the revenue from operations of the Group and the profit of the Group for the year ended 31 December 2019 would have been HK\$46,148,000 and HK\$13,839,000 respectively.

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**28. Notes to the Consolidated Statement of Cash Flows****(a) Major non-cash transactions**

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$64,223,000 and HK\$64,223,000, respectively, in respect of lease arrangements for land and buildings (2018: Nil).

**(b) Changes in liabilities arising from financing activities**

	<b>Lease liabilities</b>
	HK\$'000
At 31 December 2018	–
Effect of adoption of IFRS 16	11,989
At 1 January 2019 (restated)	<b>11,989</b>
Changes from financing cash flows	<b>(12,315)</b>
New leases	<b>64,223</b>
Interest expense	<b>2,781</b>
Interest paid classified as operating cash flows	<b>(2,781)</b>
Increase arising from acquisition of a subsidiary	<b>43,615</b>
At 31 December 2019	<b>107,512</b>

**(c) Total cash outflow for leases**

The total cash outflow for leases included in the statement of cash flows is as follows:

	<b>2019</b>
	HK\$'000
Within operating activities	<b>2,781</b>
Within financing activities	<b>12,315</b>
	<b>15,096</b>

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 29. Commitments

## Operating lease commitments as at 31 December 2018

The Group leased certain of its land and buildings under operating lease arrangements. Leases for land and buildings were negotiated for terms ranging from three to six years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows

	As at 31 December 2018 HK\$'000
Within one year	16,148
In the second to fifth years, inclusive	7,712
	<u>23,860</u>

## 30. Contingent Liabilities

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

## 31. Related Party Transactions

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

	Notes	Year ended 31 December	
		2019 HK\$'000	2018 HK\$'000
Purchases from a related company of which Mr. Yik Tak Chi is a member of key management personnel			
Yu Fat Hong	(i)	4,274	3,314
Rental expenses paid to related companies of which Mr. Yik Tak Chi is a member of key management personnel			
Ever Premier Limited	(ii)	1,800	1,800
Roymark Limited	(ii)	7,440	7,440

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**31. Related Party Transactions** *(continued)*(a) *(continued)*

Notes:

- (i) The purchases were made according to the prices and conditions offered by the related company to its major customers.
- (ii) The rental were determined based on terms mutually agreed by both parties at arm's length.

## (b) Outstanding balances with related parties:

Details of the Group's balances with related parties as at the end of the reporting period are included in note 20 to the financial statements.

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

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
Short term employee benefits	8,031	7,774
Post-employment benefits	245	227
Total compensation paid to key management personnel	<b>8,276</b>	8,001

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.



## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**32. Financial Instruments by Category**

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

**Financial assets****Financial assets  
at amortised cost**

	<b>As at 31 December 2019 HK\$'000</b>	<b>As at 31 December 2018 HK\$'000</b>
Trade receivables	464	204
Financial assets included in prepayments, other receivables and other assets	15,771	9,243
Cash and cash equivalents	52,267	59,283
	<b>68,502</b>	<b>68,730</b>

**Financial liabilities****Financial liabilities  
at amortised cost**

	<b>As at 31 December 2019 HK\$'000</b>	<b>As at 31 December 2018 HK\$'000</b>
Trade payables	1,727	879
Financial liabilities included in other payables and accruals	12,529	10,592
Lease liabilities	107,512	–
Due to a related company	295	274
	<b>122,063</b>	<b>11,745</b>

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

### 33. Fair Value and Fair Value Hierarchy of Financial Instruments

As at 31 December 2019 and 2018, the fair values of the Group's financial assets or financial liabilities approximated to their respective carrying amounts.

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

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

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

#### Fair value hierarchy

The Group did not have any financial assets or financial liabilities measured at fair value as at 31 December 2018 and 2019.

During the years ended 31 December 2018 and 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

### 34. Financial Risk Management Objectives and Policies

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

It is, and has been during the reporting period, the Group's policy that no trading in financial instruments shall be undertaken.

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

#### Credit risk

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 34. Financial Risk Management Objectives and Policies (continued)

## Liquidity risk

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

As at 31 December 2019

	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 On demand HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Trade payables	1,727	-	-	-	-	1,727
Financial liabilities included in other payables and accruals	12,529	-	-	-	-	12,529
Lease liabilities	-	5,534	17,247	80,129	4,602	107,512
Due to a related company	295	-	-	-	-	295
	<b>14,551</b>	<b>5,534</b>	<b>17,247</b>	<b>80,129</b>	<b>4,602</b>	<b>122,063</b>

As at 31 December 2018

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

## Capital management

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**34. Financial Risk Management Objectives and Policies** *(continued)**Capital management (continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes trade payables, other payables and accruals, an amount due to a related company, lease liabilities, less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratio as at the end of 31 December 2019 was as follows:

	As at 31 December 2019 HK\$'000
Trade payables	1,727
Other payables and accruals	18,563
Amount due to a related company	295
Lease liabilities	107,512
Less: cash and cash equivalents	<u>(52,267)</u>
Net debt	75,830
Equity	<u>173,027</u>
Net debt and equity	<u>248,857</u>
Gearing ratio	<u>30%</u>

The Group has adopted IFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018. As at 31 December 2018, the Group's cash and cash equivalents exceeded the financial liabilities. As such, no gearing ratios as at 31 December 2018 was presented.

**35. Events After the Reporting Period**

- (a) The outbreak of novel coronavirus (COVID-19) emerged in Wuhan, Hubei Province, China in December 2019 and continued to spread throughout China and to countries across the world. The World Health Organization has characterized the coronavirus outbreak as a pandemic. The directors are of the opinion that the COVID-19 outbreak did not materially affect the financial position and operating results of the Company given the Company derives its revenues principally for provision of elderly residential care home. The Company has taken actions in operation to protect the safety of the elderly, and will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts on the financial position and operating results of the Company.
- (b) On 22 January 2020, 1,336,000 shares, representing approximately 0.33% of the total number of issued shares, were awarded to the selected participants, all of whom are independent third parties and full-time employees of the Group, pursuant to the rules of the Share Award Scheme the Board resolved to adopt on 6 November 2019. The Share Award Scheme lapsed after completion of the transfer of the awarded shares on the same date.

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 36. Statement of Financial Position of the Company

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

	Notes	As at 31 December	
		2019 HK\$'000	2018 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Investment in a subsidiary		5	5
Total non-current assets		5	5
<b>CURRENT ASSETS</b>			
Due from a subsidiary		50,900	36,900
Cash and cash equivalents		4,193	18,043
Total current assets		55,093	54,943
<b>CURRENT LIABILITIES</b>			
Due to a subsidiary		5,909	5,909
Total current liabilities		5,909	5,909
<b>NET CURRENT ASSETS</b>			
		49,184	49,034
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		49,189	49,039
<b>Net assets</b>			
		49,189	49,039
<b>EQUITY</b>			
Issued capital	24	4,000	4,000
Reserves (note)		45,189	45,039
Total equity		49,189	49,039

## NOTES TO FINANCIAL STATEMENTS

31 December 2019

**36. Statement of Financial Position of the Company** *(continued)*

Note:

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

	<b>Share premium account</b>	<b>Accumulated losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018	58,491	(1,654)	56,837
Profit for the year	–	202	202
Dividend declared	–	(12,000)	(12,000)
At 31 December 2018 and 1 January 2019	<b>58,491</b>	<b>(13,452)</b>	<b>45,039</b>
Profit for the year	–	150	150
At 31 December 2019	<b>58,491</b>	<b>(13,302)</b>	<b>45,189</b>

**37. Approval of the Financial Statements**

The financial statements were approved and authorised for issue by the board of directors on 17 March 2020.

## FIVE YEARS FINANCIAL SUMMARY

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

### Results

	Year ended 31 December 2015 HK\$'000	Year ended 31 December 2016 HK\$'000	Year ended 31 December 2017 HK\$'000	Year ended 31 December 2018 HK\$'000	Year ended 31 December 2019 HK\$'000
Revenue	39,937	58,975	97,148	135,516	<b>168,680</b>
Profit for the year	36,407	7,608	3,166	23,709	<b>30,544</b>

### Assets and liabilities

	As at 31 December				
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000
Total assets	32,505	87,115	156,966	165,845	<b>307,086</b>
Total liabilities	16,684	12,991	19,185	18,855	<b>134,059</b>