



雅居投資控股有限公司  
Modern Living Investments Holdings Limited

(Incorporated in the Cayman Islands with limited liability) Stock Code: 8426

# 凝 聚 信 任 同 步

*You'll never walk alone*

## 2019 ANNUAL REPORT



## **CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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*This annual report, for which the directors (collectively the “**Directors**” and each the “**Director**”) of Modern Living Investments Holdings Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”, “**we**”, “**our**” or “**us**”) 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 annual 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 annual report misleading.*

# CONTENTS

<b>2</b>	Corporate Information
<b>3</b>	Chairman's Statement
<b>4</b>	Management Discussion and Analysis
<b>10</b>	Biographical Details of Directors and Senior Management
<b>14</b>	Corporate Governance Report
<b>25</b>	Report of the Directors
<b>34</b>	Independent Auditor's Report
<b>38</b>	Consolidated Statement of Comprehensive Income
<b>39</b>	Consolidated Balance Sheet
<b>40</b>	Consolidated Statement of Changes in Equity
<b>41</b>	Consolidated Statement of Cash Flows
<b>42</b>	Notes to the Consolidated Financial Statements
<b>85</b>	Environmental, Social and Governance Report
<b>104</b>	Financial Summary



# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Ho Chu Ming (*Chairman*)  
Mr. Ng Fuk Wah (*Chief Executive Officer*)  
Mr. Sung Alfred Lee Ming  
Mr. Tang Kong Fuk

### Non-executive Directors

Ms. Tam Mo Kit  
Mr. Tam Kam Cheung Patrick (*resigned on 28 June 2019*)

### Independent Non-executive Directors

Dr. Chan Man Wai  
Mr. Wong Siu Fai Albert  
Mr. Ng Kee Fat Ronny

## COMPLIANCE OFFICER

Mr. Sung Alfred Lee Ming (*HKICPA*)

## AUTHORISED REPRESENTATIVES

Mr. Ng Fuk Wah (*HKICPA*)  
Mr. Sung Alfred Lee Ming (*HKICPA*)

## COMPANY SECRETARY

Mr. Ng Fuk Wah (*HKICPA*)

## AUDIT COMMITTEE

Mr. Wong Siu Fai Albert (*Chairman*)  
Dr. Chan Man Wai  
Mr. Ng Kee Fat Ronny

## REMUNERATION COMMITTEE

Mr. Ng Kee Fat Ronny (*Chairman*)  
Dr. Chan Man Wai  
Mr. Wong Siu Fai Albert

## NOMINATION COMMITTEE

Dr. Chan Man Wai (*Chairman*)  
Mr. Wong Siu Fai Albert  
Mr. Ng Kee Fat Ronny

## AUDITOR

PricewaterhouseCoopers  
*Certified Public Accountants  
and Registered PIE Auditor*  
22/F, Prince's Building  
Central  
Hong Kong

## COMPLIANCE ADVISER

Ballas Capital Limited  
Unit 1802, 18/F, 1 Duddell Street  
Central  
Hong Kong

## LEGAL ADVISERS

*As to Hong Kong law*  
ONC Lawyers  
19th Floor, Three Exchange Square  
8 Connaught Place  
Central  
Hong Kong

*As to Cayman Islands law*  
Appleby  
2206–19 Jardine House  
1 Connaught Place  
Central  
Hong Kong

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited  
1 Queen's Road Central  
Central, Hong Kong

Bank of China (Hong Kong) Limited  
24/F Bank of China Tower  
1 Garden Road  
Hong Kong

## REGISTERED OFFICE

PO Box 1350  
Clifton House, 75 Fort Street  
Grand Cayman KY1-1108  
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 1102–1103, 11th Floor  
Delta House  
No. 3 On Yiu Street  
Sha Tin  
New Territories  
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited  
PO Box 1350  
Clifton House, 75 Fort Street  
Grand Cayman KY1-1108  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## COMPANY'S WEBSITE

[www.modernliving.com.hk](http://www.modernliving.com.hk)

## STOCK CODE

8426

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the **"Board"**) of Modern Living Investments Holdings Limited (the **"Company"**), I am pleased to present the annual report of the Company and its subsidiaries (together referred to as the **"Group"**) for the year ended 31 December 2019.

## BUSINESS REVIEW

The year under review was full of challenges and difficulties, but the Group continued its efforts to stay competitive in the market. Under the Group's existing property management portfolio as at 31 December 2019, it has 19 public housing estates, 4 Home Ownership Scheme (**"HOS"**) estates awarded by the Hong Kong Housing Authority (**"HA"**), and 2 standalone service contracts awarded by the HA under the Group's management.

The total revenue of the Group for the year ended 31 December 2019 was approximately HK\$413.96 million (2018: HK\$371.21 million), representing an increase of approximately 11.52% as compared with last year. The operating profit of the Group for the year ended 31 December 2019 was approximately HK\$7.46 million (2018: HK\$15.12 million), representing a decrease of approximately 50.66% as compared with last year. The decrease in operating profit was mainly attributable to (i) increase in employee benefits expenses resulting from salary increment and the fact that more staff members and workers were employed after the commencement of services for the two new public housing estates and one HOS estate in April 2019; (ii) increase in insurance expense and guarantee fees; and (iii) increase in cleaning material costs.

The basic and diluted earnings per share for the year ended 31 December 2019 was HK0.90 cents (2018: earnings per share of HK1.52 cents).

The Board recommended the payment of a final dividend of HK\$0.005 per share, totalling HK\$4 million for the year ended 31 December 2019 (2018: HK\$4 million). Other than final dividend, the Company has not declared any interim or special dividend for the year ended 31 December 2019 (2018: Nil).

Details of the Group's performance, financial position and results of operation for the year ended 31 December 2019 will be more particularly discussed in the section headed "Management Discussion and Analysis" in this annual report.

## LOOKING AHEAD

The population and number of residential properties in Hong Kong is expanding. The voices over the increase in building of public housing and the speeding up of the housing completion is expected to be imminent as the demand of housing in Hong Kong remains to be extremely high. It is envisaged that the property management business will expand simultaneously. On the other hand, even though strong competition exists and costs soar resulting from minimum wage revision and inflation, the Directors are confident that the Group will be benefited from the increase of its market share in due course.

In the near future, the Group will continue to expand its property management portfolio by capturing opportunities from both public and private sectors, in residential and/or commercial properties.

## APPRECIATION

I wish to take this opportunity to extend my sincere thanks to our shareholders, business partners and customers for their ongoing support to the Group. At the same time, I would like to express my appreciation to my fellow Directors, the Group's management team and staff members for their substantial contribution and unwavering dedication to the Group.

**Ho Chu Ming**

*Chairman and Executive Director*

Hong Kong, 25 March 2020

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND FUTURE PROSPECTS

The Group provides property management services in Hong Kong, with a primary focus on public housing. During the year ended 31 December 2019, the HA was the Group's largest customer and contributed most of the Group's total revenue. The Group's property management services include (i) estate management services (entailing general management, tenancy management, financial management, minor repairs and maintenance as well as project management services); (ii) security services; and (iii) cleaning services.

Looking forward, the property management services sector is still full of challenges. As the Group's business is mainly focused on property management of public housing and subsidised housing, it is expected that the impact brought by the anticipated economic downturn in Hong Kong and coronavirus epidemic will not be significant to the Group's business. Nevertheless, the Group will embrace these challenges by implementing proactive marketing strategies, investing more resources on human resources and the reinforcing on cost control measures. The Group intends to execute its development plan as set out in the prospectus of the Company dated 31 October 2017 (the "**Prospectus**") carefully and prudently, with an aim to bring a higher return to the shareholders of the Company and facilitate for long-term growth of the business of the Group.

## FINANCIAL REVIEW

### Revenue

The Group's revenue increased by approximately 11.52% from approximately HK\$371.21 million for the year ended 31 December 2018 to approximately HK\$413.96 million for the year ended 31 December 2019. The increase was primarily attributable to (i) the additional service fee income from two new public housing estates and one new HOS estate awarded by the HA in April 2019; and (ii) the upward adjustment on service fee for some of the Group's existing contracts in accordance with the adjustment mechanism as stipulated in those contracts.

The following table sets out the number of properties the Group was contracted to provide services to as at 31 December 2019.

Types of properties	Number of estates/ contracts
(1) Public housing estates (excluding HOS estates)	19
(2) HOS estates	4
(3) Stand-alone service contracts	2

### Other Income

Majority of other income mainly represented cleaning services to ancillary facilities within the estates managed by the Group. Other income decreased by approximately HK\$0.10 million from approximately HK\$0.35 million for the year ended 31 December 2018 to approximately HK\$0.25 million for the year ended 31 December 2019. The decrease was mainly due to decrease in the cleaning services income from the ancillary facilities area within the estates for the year ended 31 December 2019.

### Other Gains, Net

Other gains increased by approximately HK\$0.15 million from approximately HK\$0.06 million for the year ended 31 December 2018 to approximately HK\$0.21 million for the year ended 31 December 2019. The increase was mainly due to increase in gain on disposal of plant and equipment for the year ended 31 December 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Employee Benefits Expenses

Employee benefits expenses comprised staff costs of the Group's (i) estate management staff, which mainly included staff for general management, tenancy management, financial management, project management, repairs and maintenance, management and headquarters; (ii) security staff; and (iii) cleaning staff. As at 31 December 2019, the Group had a total of 2,028 employees (2018: 2,410 employees). The decrease in number of employees was mainly attributable to the completion of contracts to nine public housing estates and four stand-alone services during the fourth quarter of 2019.

The total employee benefits expenses amounted to approximately HK\$376.87 million (2018: HK\$330.48 million) for the year ended 31 December 2019, representing approximately 91.04% (2018: 89.03%) of the Group's revenue. The total employee benefits expenses increased by approximately 14.04% for the year ended 31 December 2019 from last year. Such increase was mainly attributable to (i) the salaries and wages for the additional staff employed for the three new contracts awarded by the HA in April 2019; and (ii) the annual increase in salaries and wages.

## Cleaning Material Costs

The cleaning material costs amounted to approximately HK\$7.47 million for the year ended 31 December 2019 (2018: HK\$5.60 million), representing an increase of 33.39% as compared with last year. The increase was mainly due to the construction waste disposal charge paid to the sub-contractor for the two new public housing estates and one new HOS estate commenced in April 2019.

## Other Operating Expenses

Other operating expenses amounted to approximately HK\$17.95 million (2018: HK\$16.36 million) for the year ended 31 December 2019, representing an increase of approximately 9.72% from last year. Other operating expenses mainly included insurance expense, office supplies expense, security charges for specialist guard company to escort money in transit, guarantee fee for performance bonds, entertainment, travelling expense and estate maintenance expense.

The increase in other operating expenses was mainly attributable to (i) increase in estate maintenance expense; (ii) increase in various compliance costs; and (iii) increase in insurance expense and guarantee fees.

## Finance Income/Costs, net

Net finance income amounted to approximately HK\$1.13 million (2018: net finance costs of HK\$0.60 million) for the year ended 31 December 2019. The net finance income was mainly attributable to increase in bank deposit during the year ended 31 December 2019.

## Income Tax Expense

Income tax expense amounted to approximately HK\$1.40 million for the year ended 31 December 2019 (2018: HK\$2.38 million). Profit before income tax amounted to approximately HK\$8.58 million for the year ended 31 December 2019 compared with approximately HK\$14.52 million for the year ended 31 December 2018.

## Profit and total comprehensive income attributable to owners of the Company

Profit for the year decreased from approximately HK\$12.14 million for the year ended 31 December 2018 to approximately HK\$7.19 million, mainly due to (i) increase in employee benefit expenses; (ii) increase in various compliance costs; (iii) increase in insurance expense; and (iv) increase in cleaning material costs for the year ended 31 December 2019. Total comprehensive income for the year ended 31 December 2019 amounted to approximately HK\$3.38 million as compared with approximately HK\$11.25 million for the year ended 31 December 2018. Such decrease was mainly due to the decrease in profit for the year and increase in remeasurements of employee benefit obligations.

## DIVIDENDS

The Board recommended the payment of a final dividend of HK\$0.005 per share, totaling HK\$4 million for the year ended 31 December 2019 (2018: HK\$4 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES

	2019 HK\$'000	2018 HK\$'000
<b>Financial position</b>		
Current assets	<b>146,182</b>	153,919
Current liabilities	<b>41,012</b>	49,337
Net current assets	<b>105,170</b>	104,582
Total assets	<b>153,444</b>	162,408
Total liabilities	<b>41,682</b>	50,619
Borrowings	–	13,854
Cash and bank balances	<b>15,444</b>	30,208
Pledged bank deposits	<b>32,845</b>	28,668
Total equity	<b>111,762</b>	111,789
<b>Key financial ratios</b>		
Return on equity <sup>(Note 1)</sup>	<b>6.43%</b>	10.86%
Return on total assets <sup>(Note 2)</sup>	<b>4.68%</b>	7.48%
Current ratio <sup>(Note 3)</sup>	<b>3.56 times</b>	3.12 times
Gearing ratio <sup>(Note 4)</sup>	<b>1.19%</b>	12.39%

### Notes:

- Return on equity is calculated as the profit for the year divided by total equity.
- Return on total assets is calculated as the profit for the year divided by total assets.
- Current ratio is calculated as total current assets divided by total current liabilities.
- Gearing ratio is calculated as the total debt divided by total equity. Total debt represents borrowings and lease liabilities.

The current ratio as at 31 December 2019 was 3.56 times as compared to that of 3.12 times as at 31 December 2018. The increase was mainly due to the repayment of borrowings during the year ended 31 December 2019.

As at 31 December 2019, the Group's cash and bank balances were approximately HK\$15.44 million (2018: approximately HK\$30.21 million). As at 31 December 2019, the Group's borrowings were nil (2018: HK\$13.85 million, which bear interest at 2.15%–5.13% per annum). Further details and the maturities of the Group's total borrowings are set out in note 26 to the consolidated financial statements.

The gearing ratio decreased to approximately 1.19% as at 31 December 2019 from approximately 12.39% as at 31 December 2018, mainly due to the repayment of borrowings. With the availability of cash and bank balances and bank facilities, the Group has sufficient liquidity to satisfy its funding requirements. The Directors are of the view that the Group's financial position is solid.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL STRUCTURE

Since the Listing on 10 November 2017 (the “**Listing Date**”), there has been no change in the capital structure of the Company. The share capital of the Group only comprises ordinary shares.

As at 31 December 2019, the Company’s issued share capital was HK\$8,000,000 and the number of issued ordinary shares was 800,000,000 of HK\$0.01 each. The number of total issued shares of the Company remained unchanged during the year ended 31 December 2019. Details of the Group’s share capital are set out in note 23 to the consolidated financial statements in this annual report.

## COMMITMENT

The operating lease commitment of the Group was related to the lease of its office premise, which was recognised as lease liabilities in the consolidated balance sheet in accordance with HKFRS 16 since 1 January 2019. The Group has no other material operating lease commitment and capital commitment as at 31 December 2019.

## SEGMENT INFORMATION

Segment information is disclosed in note 5 of the notes to the consolidated financial statements.

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 31 December 2019, the Group did not have any plans for material investments and capital assets.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2019.

## SIGNIFICANT INVESTMENT

The Group held investment in an insurance contract of approximately HK\$2.24 million as at 31 December 2019 (2018: HK\$2.18 million). The gain on investment in an insurance contract amounted to approximately HK\$0.07 million for the year ended 31 December 2019 (2018: HK\$0.06 million). Other than the insurance contract as mentioned above, the Group did not have other significant investment as at 31 December 2019.

## CONTINGENT LIABILITIES

Save as disclosed in note 30 to the consolidated financial statements, as at 31 December 2019 and 2018, the Group did not have other material contingent liabilities.

## EXPOSURE TO EXCHANGE RATE FLUCTUATION

The Group’s revenue generating operations are mainly transacted in Hong Kong Dollar. The Directors consider that the impact of foreign exchange exposure to the Group is minimal. The Group had not entered into any foreign exchange hedging contracts for the year ended 31 December 2019.

## CHARGE OF GROUP’S ASSETS

As at 31 December 2019, the Group has pledged its bank deposits of approximately HK\$32.85 million (2018: approximately HK\$28.67 million) and investment in an insurance contract of approximately HK\$2.24 million (2018: approximately HK\$2.18 million) to a bank for securing its performance bonds of approximately HK\$93.07 million (2018: approximately HK\$61.27 million) and bank borrowings of nil amount, (2018: approximately HK\$12.42 million) under certain banking facilities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had a total of 2,028 employees (2018: 2,410 employees). The decrease in number of employees was mainly attributable to the completion of contracts to nine public housing estates and four stand-alone services during the fourth quarter of 2019. The Group's employee benefits expenses for the year ended 31 December 2019 amounted to approximately HK\$376.87 million (2018: HK\$330.48 million). To ensure that the Group is able to attract and retain Directors and staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. In addition, discretionary bonus is offered to eligible employees by reference to the Group's results and individual performance. The Group has also granted 32,000,000 share options to four employees on 17 June 2019.

## EVENTS AFTER THE REPORTING PERIOD

Since the outbreak of Coronavirus Disease 2019 ("COVID-19") in January 2020 in Hong Kong, the Group has adopted a series of precautionary and epidemic control measures to prevent the spread of the COVID-19 among the staff of the Group and the residents of the estates managed by the Group. As the Group's business is mainly focused on property management of public housing and subsidised housing in Hong Kong, contracts of which are normally ranged from 2 to 6 years, it is expected that the impact brought by the COVID-19 and the anticipated consequential economic downturn in Hong Kong would not be significant to the Group's business. However, the Group would continue to pay attention to the development of the COVID-19 and evaluate its impact on the financial position and operating results of the Group. As at the date of this report, the Directors were not aware of any material adverse effects on the financial position of the Group as a result of the COVID-19.

## USE OF PROCEEDS FROM THE LISTING

The final offer price for the Listing was HK\$0.30 per share, and the actual net proceeds from the Listing were approximately HK\$34.85 million, after deducting the listing-related expenses of approximately HK\$25.15 million (of which, approximately HK\$15.92 million and HK\$9.23 million are recognised in the consolidated statement of comprehensive income and the consolidated statement of changes in equity, respectively). This amount was lower than the estimated net proceeds of approximately HK\$44.5 million, which was based on a mid-point offer price of HK\$0.34 per share, as disclosed in the Prospectus. In light of the difference between the actual and estimated amount of the net proceeds, the Group has adjusted the use of net proceeds in the same manner and in the same proportion as shown in the Prospectus:

	Adjusted use of actual net proceeds in the same manner and proportion as stated in the Prospectus up to 31 December 2019 HK\$ million	Actual utilised amounts as at 31 December 2019 HK\$ million	Unutilised amount out of the planned amount as at 31 December 2019 HK\$ million
Satisfying the additional working capital requirement by the HA and additional cash to be deposited as collateral of the performance bond for tendering for additional property management service contracts from the HA	25.80	21.85	3.95
As additional working capital and satisfying additional cash to be deposited as collateral of the performance bond for tendering for additional stand-alone cleaning or security service contracts from the HA	9.05	–	9.05
Total:	34.85	21.85	13.00

## MANAGEMENT DISCUSSION AND ANALYSIS

From the Listing Date to 31 December 2019, HK\$14.19 million and HK\$7.66 million were utilised as performance bond and working capital respectively to secure new estates contracts awarded by the HA. The Company intends to continue to apply the net proceeds in accordance with the section headed "Future Plans and Use of Proceeds" in the Prospectus. As at 31 December 2019, the unutilised portion of the proceeds of approximately HK\$13.00 million was placed in interest bearing account with bank and partially paid down the bank borrowings in accordance with the disclosure in the Prospectus.

The delay in utilisation of the net proceeds was mainly due to the delay in the Group obtaining new property management service contracts and stand-alone cleaning or security service contracts in tenders, which in turn caused the delay in deployment of additional working capital under capital requirement and as collateral of performance bond.

### COMPARISON OF BUSINESS STRATEGIES AND ACTUAL BUSINESS PROGRESS

An analysis comparing the business strategies as disclosed in the Prospectus with the Group's actual business progress for the period from the Listing Date to 31 December 2019 is set out below:

Business objectives	Actual progress
Upgrading the computer system	The Group has started evaluation of its computer system and the enhancement started in the second quarter of 2018.
Tender submission for contracting work from various departments	The Group closely evaluates its capacity for its submission for tenders. The Group will submit tenders as and when suitable opportunity is available.

Since the Listing, the Group has commenced to incur expenditure to implement the above business strategies.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Ho Chu Ming (何柱明先生)**, aged 61, is the chairman of the Board and one of the controlling shareholders of the Company. He joined the Group in January 2005 and was appointed as a Director on 6 July 2017. Mr. Ho was designated as an executive Director and the chairman of the Board on 14 July 2017. Mr. Ho is responsible for the strategic planning, overall management and supervision of operation of the Group.

Mr. Ho has over 26 years of experience in the property management and maintenance industries. He obtained his bachelor's degree in building technology and management from The University of Salford, the United Kingdom, in July 1986. Mr. Ho has been a professional associate of the Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors since October 1987 and March 1989, respectively.

**Mr. Ng Fuk Wah (吳福華先生)**, aged 60, is an executive Director, the chief executive officer of the Group, as well as the company secretary of the Company. Mr. Ng joined the Group in July 2007 and was appointed as a Director on 6 July 2017. He was designated as an executive Director and the chief executive officer of the Company on 14 July 2017. Mr. Ng is deemed as one of controlling shareholders of the Company as his spouse, Ms. Tam Mo Kit, is one of the controlling shareholders of the Company. Mr. Ng is responsible for the overall business development, strategic planning and major decision-making of the Group.

Mr. Ng has over 25 years of experience in the property management industry and obtained his professional diploma in accountancy from The Hong Kong Polytechnic University in November 1983 and a diploma in housing management from the School of Professional and Continuing Education of The University of Hong Kong (HKU SPACE) in September 2002. Mr. Ng was admitted as a member of the Hong Kong Society of Accountants (currently known as the Hong Kong Institute of Certified Public Accountants) in October 1986. He was admitted as a member of the Hong Kong Institute of Housing in December 2002 and was registered as a professional housing manager of the Housing Managers Registration Board in August 2003.

**Mr. Sung Alfred Lee Ming (宋理明先生)**, aged 62, is an executive Director and the chief financial officer of the Group. Mr. Sung joined the Group in April 2007, and was appointed as a Director on 26 June 2017. He was designated as an executive Director and appointed as the chief financial officer of the Company on 14 July 2017. Mr. Sung is one of the controlling shareholders and the compliance officer of the Company. Mr. Sung is primarily responsible for the Group's treasury, accounting, finance and compliance matters.

Mr. Sung graduated from La Trobe University in Australia in March 1984 with a bachelor's degree in economics. Mr. Sung was admitted as a fellow of the Taxation Institute of Australia and a member and fellow of the Hong Kong Society of Accountants (currently known as the Hong Kong Institute of Certified Public Accountants) in November 1987, December 1987 and February 1995, respectively. He was also admitted as an associate of the Australian Society of Certified Practising Accountants (currently known as CPA Australia) and the Institute of Chartered Accountants in Australia (currently known as the Chartered Accountants Australia and New Zealand) in March 1986 and April 1989, respectively.

Mr. Sung has been the sole proprietor of Alfred Sung & Co. since 1999 and he is primarily responsible for overseeing audit and taxation works. From April 2012 to October 2014, Mr. Sung served as an independent non-executive director of TC Orient Lighting Holdings Limited (stock code: 515), a company listed on the Main Board of the Stock Exchange. Mr. Sung has been an independent non-executive director of Shen You Holdings Limited (stock code: 8377) since 24 November 2017. Mr. Sung is also the chairman of the audit committee, a member of each of the remuneration committee and the nomination committee of Shen You Holdings Limited.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Tang Kong Fuk (鄧降福先生)**, aged 54, joined the Group in December 2002 and was appointed as a Director on 6 July 2017 and was designated as an executive Director on 14 July 2017. Mr. Tang is one of the controlling shareholders of the Company. Mr. Tang is primarily responsible for the maintenance management of the public housing estates.

Mr. Tang has over 30 years of experience in the real estate and maintenance management industries. Mr. Tang graduated from the Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) with a higher certificate in building studies in November 1987.

### NON-EXECUTIVE DIRECTOR

**Ms. Tam Mo Kit (譚慕潔女士)**, aged 60, joined the Group in April 2007 and was appointed as a Director on 6 July 2017 and was designated as a non-executive Director on 14 July 2017. Ms. Tam is one of the controlling shareholders of the Company and the spouse of Mr. Ng Fuk Wah, who is an executive Director and the chief executive officer of the Company. Ms. Tam is responsible for strategic planning and financial planning of the Group.

Ms. Tam obtained a professional diploma in accountancy from the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) in November 1983. Ms. Tam was admitted as an associate member of the Hong Kong Society of Accountants (currently known as the Hong Kong Institute of Certified Public Accountants) since October 1985.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Chan Man Wai (陳文偉)**, aged 63, was appointed as an independent non-executive Director on 24 October 2017. He is primarily responsible for providing independent advice to the Board.

Dr. Chan has over 31 years of experience in the real estate industry. In January 2016, Dr. Chan became the Professor of Practice (Programme Management) of the Department of Building & Real Estate of The Hong Kong Polytechnic University.

Dr. Chan graduated with a bachelor's degree in building surveying (commendation) from De Montfort University, the United Kingdom in 1979. Dr. Chan also obtained a master degree in construction project management and doctor of philosophy, both from The University of Hong Kong in 1988 and 1998, respectively. Dr. Chan obtained his master degree of international and public affair from The University of Hong Kong in 2002. Dr. Chan also obtained a master degree in major programme management from the University of Oxford (St. Catherine's College), the United Kingdom in 2016.

In June 1982 and October 1989, Dr. Chan was admitted as an associate and a fellow of the Royal Institution of Chartered Surveyors, respectively. He has become an authorised person (under the List of Surveyors) of the Building Authority, Hong Kong in August 1983. Dr. Chan has further been admitted as a member and fellow of The Hong Kong Institute of Surveyors in August 1984 and April 1992, respectively. Since April 1993, Dr. Chan is a registered professional surveyor in building surveying division of Hong Kong. Dr. Chan was admitted as a member of Canadian Institute of Surveyors and a fellow of the Hong Kong Institute of Facility Management in January 1991 and August 1999, respectively.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Wong Siu Fai Albert (黃紹輝)**, aged 60, was appointed as an independent non-executive Director on 24 October 2017. He is primarily responsible for providing independent advice to the Board. Before retirement, Mr. Wong was the chief financial officer and the secretary of Walcom Group Limited, a company listed on AIM of the London Stock Exchange from December 2006 to June 2019. He has over 34 years of experience in corporate finance and accounting work for various business-consulting companies and audit firms.

Mr. Wong obtained an honours diploma in accounting (Distinction) from Hong Kong Baptist University in June 1983. He has been an associate member of the Hong Kong Society of Accountants (currently known as the Hong Kong Institute of Certified Public Accountants) since February 1987 and a fellow member of the Hong Kong Institute of Certified Public Accountants since February 2008. From June 2006 to October 2014, Mr. Wong served as an independent non-executive director of TC Orient Lighting Holding Limited (Stock Code: 515), a company listed on the Main Board of the Stock Exchange.

**Mr. Ng Kee Fat Ronny (吳紀法先生)**, aged 72, was appointed as an independent non-executive director on 24 October 2017. He is primarily responsible for providing independent advice to the Board.

Mr. Ronny Ng was a former employee of the Hong Kong Housing Department (the “**Housing Department**”). He has 38 years of experience in property management of public rental housing estates and shopping centres. Mr. Ronny Ng retired from the Housing Department in January 2007 and his last position was senior housing manager. Mr. Ronny Ng was a fellow of Chartered Institute of Housing from June 1991 to March 2006 and member of Hong Kong Institute of Housing from 1993 to 2006. Mr. Ronny Ng is also a registered professional housing manager from 2000 to 2007. He was awarded the Medal of Honour by the Government in 2006. Mr. Ronny Ng completed the certificate course in Housing Management offered by the Department of Extra-mural Studies of the University of Hong Kong in 1978.

Save as disclosed above, each of the Directors did not hold any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

### SENIOR MANAGEMENT

**Ms. Lau Wai Kay Vicky (劉慧琪女士)**, aged 47, is the business development and administration manager of the Group. Ms. Lau joined the Group in October 2016 and is primarily responsible for business development and administration matters of the Group. Ms. Lau has over 17 years of experience in business development in various industries, including property management industry and banking industry. Ms. Lau obtained a bachelor of arts degree from University of Toronto, Ontario, Canada and a master of business administration degree from University of Canberra, Australia in November 1994 and December 2002, respectively.

**Ms. Lo Mei Yee (盧美儀女士)**, aged 45, is the personnel and administration manager of the Group. She joined the Group in July 2009 and is primarily responsible for human resources and administration matters of the Group. Ms. Lo has over 21 years of experience in handling human resources and administrative matters. Ms. Lo obtained a bachelor of arts degree from The University of Hong Kong and a master of science in management (human resource management) from The Polytechnic University in December 1997 and February 2004, respectively.

**Mr. Yun Kwok King (殷國經先生)**, aged 64, is the senior property manager of the Group. He joined the Group in May 2007 and is primarily responsible for supervision of property management of public estates managed by the Group. Mr. Yun has over 42 years of experience in property management industry and worked in the HA from February 1977 to June 2003 with last position as assistant housing manager. Mr. Yun was elected as a corporate member of the Chartered Institute of Housing in November 1997.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Ms. Chan Kwai Chu (陳桂珠女士)**, aged 56, is the senior property manager of the Group. Ms. Chan joined the Group in October 2014 and is primarily responsible for supervision of property management of public estates managed by the Group. Ms. Chan has over 30 years of experience in the property management industry. She worked in the HA from March 1989 to January 2001 with her last position as housing officer. Ms. Chan obtained a certificate in housing practice from the School of Professional and Continuing Education of The University of Hong Kong (HKU SPACE) in July 1997.

**Mr. Yiu Ping Keung (姚炳強先生)**, aged 59, is the regional technical manager (Building Works) of the Group. Mr. Yiu is a founding shareholder and one of the controlling shareholders of the Company. He joined the Group in February 2003 and is primarily responsible for supervision the technical building works matters of public estates managed by the Group. Mr. Yiu has over 39 years of experience in building works supervision. Mr. Yiu obtained a diploma in civil engineering and a higher certificate in civil engineering from The Hong Kong Polytechnic University.

**Ms. Chan Nga Shuen (陳雅旋女士)**, aged 31, is the registered safety officer of the Group. Ms. Chan joined the Group in May 2010 and is primarily responsible for safety management of the Group. Ms. Chan obtained a bachelor of social sciences degree from Lingnan University, and obtained a professional diploma in occupational safety and health from the School of Continuing Education Hong Kong Baptist University in January 2012. Ms. Chan became a registered safety officer of the Labour Department, Hong Kong in December 2016.

### COMPANY SECRETARY

**Mr. Ng Fuk Wah (吳福華先生)** is the company secretary of the Company. Please refer to the paragraph headed “Executive Directors” above for a biography of Mr. Ng.

### COMPLIANCE OFFICER

**Mr. Sung Alfred Lee Ming (宋理明先生)** is the compliance officer of the Company. Please refer to the paragraph headed “Executive Directors” above for a biography of Mr. Sung.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board recognises that transparency and accountability are important to the Company as a listed company. Since its Listing, the Company is committed in establishing and maintaining good corporate governance practices and procedures. The Directors believe that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture in return to the benefits of the Company's shareholders as a whole.

The Board has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 15 to the GEM Listing Rules. During the year ended 31 December 2019 and up to the date of this annual report, the Board is of the opinion that the Company has complied with all the code provisions of the CG Code.

The Directors will continue reviewing the Company's corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements from time to time, and to meet the rising expectation on the Company.

## BOARD OF DIRECTORS

### Composition of the Board

The Board currently comprises:

#### Executive Directors

Mr. Ho Chu Ming (*Chairman*)

Mr. Ng Fuk Wah (*Chief Executive Officer*)

Mr. Sung Alfred Lee Ming (*Chief Financial Officer*)

Mr. Tang Kong Fuk

#### Non-executive Directors

Ms. Tam Mo Kit

Mr. Tam Kam Cheung Patrick (resigned on 28 June 2019)

#### Independent Non-executive Directors

Dr. Chan Man Wai

Mr. Wong Siu Fai Albert

Mr. Ng Kee Fat Ronny

The biographical details of the Directors are set out in the section headed “Biographical Details of Directors and Senior Management” in this annual report.

# CORPORATE GOVERNANCE REPORT

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Ho Chu Ming is the chairman of the Board. According to the code provision A.2.1 of the CG Code, the role of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established. Mr. Ho Chu Ming currently assumes the role of chairman of the Board while Mr. Ng Fuk Wah assumes the role of chief executive officer. The Board considers that this structure could enhance efficiency in formulation and implementation of the Company's strategies.

In compliance with rules 5.05(1), (2) and 5.05A of the GEM Listing Rules, the Company has appointed three independent non-executive Directors and one of whom (Mr. Wong Siu Fai Albert) has appropriate professional qualifications, or accounting and related financial expertise.

## RESPONSIBILITIES OF THE BOARD

The overall management of the Company's business is vested in the Board which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All the Directors should make decisions objectively in the interests of the Company. The Board has full support from the executive Directors and the senior management of the Company to discharge its responsibilities.

The day-to-day management, administration and operation of the Company are delegated to the executive Directors and the senior management of the Company. The delegated functions and work tasks are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by any of the executive Directors and the senior management. The Board also assumes the responsibilities of maintaining high standard of corporate governance, including, among others, developing and reviewing the Company's policies and practices on corporate governance, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and reviewing the Company's compliance with the CG Code. All Directors, including both the non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for efficient and effective delivery of the Board functions. The Board has also delegated various responsibilities to the board committees of the Company (the "**Board Committees**"). Further details are set out below in this annual report.

The Company has received annual confirmations from each of the independent non-executive Directors of his independence, and the Company considered each of them to be independent in accordance with Rule 5.09 of the GEM Listing Rules.

## BOARD COMMITTEES

The Board has established three Board Committees to oversee specific aspects of the Group's affairs and help it in the execution of its responsibilities. Each of the Board Committees have specific written terms of reference which clearly outline the committees' authority and duties, and require the Board Committees to report back on their decisions or recommendations to the Board. All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

## AUDIT COMMITTEE

The Company established the Audit Committee on 24 October 2017 with written terms of reference in compliance with paragraph C.3.3 of the CG Code. The Audit Committee consists of three independent non-executive Directors, namely Dr. Chan Man Wai, Mr. Wong Siu Fai Albert and Mr. Ng Kee Fat Ronny. Mr. Wong Siu Fai Albert has since been appointed as the chairman of the Audit Committee, and is the independent non-executive Director with the appropriate professional qualifications.

## CORPORATE GOVERNANCE REPORT

The primary duties of the Audit Committee are to review and supervise the Group's financial reporting process, to nominate and monitor the Company's external auditors, to oversee the independence and qualifications of the external auditors, and to oversee the risk management and internal control procedures of the Company.

The members of the Audit Committee should meet at least four times a year. The Audit Committee has held meetings on 22 March 2019, 14 May 2019, 9 August 2019 and 13 November 2019 to review and approve the respective announcements and reports of the financial results of the Group.

Subsequent to the end of the Reporting Period and up to the date of this annual report, a meeting of the Audit Committee was held on 25 March 2020, during which the Audit Committee has, among other things, reviewed the consolidated financial statements of the Group for the Reporting Period, including the accounting policies and practices adopted by the Group, as well as the risk management and internal control systems of the Group. The attendance records of the respective members of the Audit Committee to its meetings during the Reporting Period are set out below:

Name of member of the Audit Committee	Attendance/ number of meeting held
Mr. Wong Siu Fai Albert ( <i>Chairman</i> )	4/4
Dr. Chan Man Wai	4/4
Mr. Ng Kee Fat Ronny	4/4

### REMUNERATION COMMITTEE

The Company has established the Remuneration Committee on 24 October 2017 with written terms of reference in compliance with paragraph B.1.2 of the CG Code. The Remuneration Committee has three members, namely Dr. Chan Man Wai, Mr. Wong Siu Fai Albert and Mr. Ng Kee Fat Ronny. Mr. Ng Kee Fat Ronny has been appointed as the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy, structure and package relating to all Directors and senior management of the Company, and to ensure that none of the Directors determine their own remuneration.

The attendance records of the respective members of the Remuneration Committee to its meetings during Reporting Period is set out below.

Name of member of the Remuneration Committee	Attendance/ number of meeting held
Mr. Ng Kee Fat Ronny ( <i>Chairman</i> )	1/1
Dr. Chan Man Wai	1/1
Mr. Wong Siu Fai Albert	1/1

# CORPORATE GOVERNANCE REPORT

## NOMINATION COMMITTEE

The Company has established the Nomination Committee on 24 October 2017 with written terms of reference in compliance with paragraph A.5.2 of the CG Code. The Nomination Committee consists of three members, namely Dr. Chan Man Wai, Mr. Wong Siu Fai Albert and Mr. Ng Kee Fat Ronny. Dr. Chan Man Wai has been appointed as the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board annually, to identify individuals suitably qualified to become members of the Board, to assess the independence of the independent non-executive Directors, to make recommendations to the Board on relevant matters relating to appointments or re-appointments of Directors and to make succession planning for the Directors.

The attendance records of the respective members of the Nomination Committee to its meetings during the Reporting Period is set out below.

Name of member of the Nomination Committee	Attendance/ number of meeting held
Dr. Chan Man Wai ( <i>Chairman</i> )	1/1
Mr. Ng Kee Fat Ronny	1/1
Mr. Wong Siu Fai Albert	1/1

## Nomination criteria

In evaluating and selecting any candidate for the directorship, the following criteria should be considered by the Nomination Committee:

- (i) the candidate's character and integrity;
- (ii) the candidate's qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;
- (iii) any measurable objectives adopted for achieving diversity on the Board;
- (iv) for independent non-executive Directors, whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- (v) any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- (vi) the candidate's willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- (vii) such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

# CORPORATE GOVERNANCE REPORT

## Nomination Procedures

The Company has put in place the following director nomination procedures:

### Appointment of New and Replacement Directors

- (i) If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, management, advisors of the Company and external executive search firms.
- (ii) Upon compilation and interview of the list of potential candidates, the relevant Nomination Committee will shortlist candidates for consideration by the Nomination Committee/Board based on the selection criteria and such other factors that it considers appropriate. The Board has the final authority on determining suitable director candidate for appointment.

### Re-election of Directors and Nomination from Shareholders

- (i) Where a retiring Director, being eligible, offers himself for re-election, the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules.
- (ii) Any shareholder of the Company who wishes to nominate a person to stand for election as a Director at a general meeting must lodge with the Company Secretary of the Company within the lodgement period specified in the relevant shareholder circular (a) a written nomination of the candidate, (b) written confirmation from such nominated candidate of his willingness to stand for election, and (c) biographical details of such nominated candidate as required under the GEM Listing Rules. Particulars of the candidate so proposed will be sent to all shareholders for information by a supplementary circular.

## CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Rules 5.46 to 5.67 of the GEM Listing Rules (the “**Model Code**”). The Company had also made specific enquiry to each of the Director and all Directors confirmed that they have complied with the required standards set out in the Model Code regarding Directors' securities transactions throughout the Reporting Period. The Company was not aware of any non-compliance with the Model Code by the Directors during the year ended 31 December 2019 and up to the date of this annual report.

Pursuant to Rule 5.66 of the Model Code, the Directors have also requested any employee of the Company or director or employee of subsidiary of the Company who, because of his/her office or employment in the Company or a subsidiary, is likely to possess inside information in relation to the securities of the Company, not to deal in securities of the Company when he/she would be prohibited from dealing by the Model Code as if he/she were a Director.

## BOARD DIVERSITY POLICY

The Company adopted a board diversity policy (the “**Board Diversity Policy**”) from the Listing Date. A summary of this Board Diversity Policy, together with the measurable objectives set for implementing this Board Diversity Policy, and the progress made towards achieving those objectives are disclosed as below.

## SUMMARY OF THE BOARD DIVERSITY POLICY

The Company recognised and embraced the benefits of having a diverse Board to the quality of its performance. The Board Diversity Policy aims to set out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from a number of measurable aspects including gender, age, ethnicity, knowledge and length of services. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regards for the benefits of diversity on the Board.

# CORPORATE GOVERNANCE REPORT

## MEASURABLE OBJECTIVES

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

## IMPLEMENTATION AND MONITORING

The Nomination Committee reviewed the Board's composition under diversified perspectives, and monitored the implementation of the Board Diversity Policy annually.

The Nomination Committee of the Board has reviewed the Board Diversity Policy to ensure its effectiveness and considered that the Group achieved the Board Diversity Policy during the Reporting Period.

## BOARD MEETING, GENERAL MEETING AND PROCEDURES

During the Reporting Period, four Board meetings were held. For the financial year commencing on 1 January 2019, the Board is scheduled to meet four times a year at approximately quarterly intervals with notice given to the Directors at least 14 days in advance. The attendance record of each Director at the Board meeting is set out in the table below:

Name of Directors	Number of attendance/ number of Board meetings
<b>Executive Directors</b>	
Mr. Ho Chu Ming ( <i>Chairman</i> )	4/4
Mr. Ng Fuk Wah ( <i>Chief Executive Officer</i> )	4/4
Mr. Sung Alfred Lee Ming ( <i>Chief Financial Officer</i> )	4/4
Mr. Tang Kong Fuk	4/4
<b>Non-executive Directors</b>	
Ms. Tam Mo Kit	4/4
Mr. Tam Kam Cheung Patrick (resigned on 28 June 2019)	2/4
<b>Independent Non-executive Directors</b>	
Dr. Chan Man Wai	4/4
Mr. Wong Siu Fai Albert	4/4
Mr. Ng Kee Fat Ronny	4/4

## CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc. The Board held meetings from time to time whenever necessary. At least 14 days' notice of regular Board meetings is given to all Directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers are sent to all the Directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the Directors to review the documents.

Minutes of every Board meeting are circulated to all Directors for their perusal and comments prior to confirmation of the minutes. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

# CORPORATE GOVERNANCE REPORT

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date subject to renewal and termination by either party in accordance with the terms thereof and retirement and re-election provisions in accordance with the articles of association of the Company (the “Articles”).

Each of the non-executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing from the Listing Date subject to renewal and termination by either party in accordance with the terms thereof and retirement and re-election provisions in the Articles.

Under provision A.4.1 of the CG Code, the independent non-executive Directors should be appointed for a specific term subject to re-election. Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing from the Listing Date subject to renewal and termination by either party in accordance with the terms thereof and retirement and re-election provisions in the Articles.

With the various experience of both the executive Directors, non-executive Directors and the independent non-executive Directors, the Board considers that the Directors have a balance of skills and experience for the business of the Group.

Article 108 of the Articles provides that at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation and that every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

Save as disclosed in the section headed “Biographical Details of Directors and Senior Management” of this annual report, there is no financial, business, family or other material or relevant relationships among members of the Board and senior management.

## CONTINUOUS PROFESSIONAL DEVELOPMENT

To assist the Directors’ continuous professional development, the Company recommends the Directors to attend relevant seminars to develop and refresh their knowledge and skills. The Directors also participate in continuous professional development programmes such as external seminars organised by qualified professionals, to develop and refresh their knowledge and skills in relation to their contribution to the Board. All the Directors understand the importance of continuous professional development and are committed to participate any suitable training to develop and refresh their knowledge and skills. The company secretary of the Company is responsible for maintaining and updating records for the Directors’ training sessions. During the Reporting Period, the Directors have participated continuous professional development by attending courses or reading relevant materials on the topic related to corporate governance and relevant update of the rules and regulations.

## DIRECTORS’ RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group that give a true and fair view of the state of affairs of the Group. The Directors aim to present a balanced and understandable assessment of the Group’s position and prospects with timely publication of the consolidated financial statements of the Group. As at 31 December 2019, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt on the Group’s ability to continue as a going concern.

The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. The statements by external auditor, PricewaterhouseCoopers, about their reporting responsibility on the consolidated financial statements of the Group are set out in the independent auditor’s report in this annual report.

# CORPORATE GOVERNANCE REPORT

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board has an overall responsibility for the establishment, maintenance and review of the Group's internal control system to safeguard shareholders' investments and the assets of the Group. The internal control system of the Group aims to facilitate effective and efficient operation which in turn minimises the risks to which the Group is exposed. The system can only provide reasonable but not absolute assurance against misstatement or losses.

The Group recognises that good risk management is essential for the long-term development on the Group's business. Management is responsible for establishing, implementing, reviewing and evaluating a sound and effective internal control system underpinning the risk management framework. All employees of the Group are committed to implement the risk management framework into the daily operation.

The Company has not established a standalone internal audit department, however, the Group engaged an external consulting firm as the Group's internal control adviser, Infinity Concept Ripple Limited (the "Internal Control Adviser") to conduct a review on the internal control systems which included financial, operational, compliance, procedural and risk management functions. The Directors confirm that issues identified by the Internal Control Adviser have been properly addressed and/or resolved and that the current internal control and risk management mechanisms are adequate and appropriate for the Group's operations.

## OBJECTIVES OF RISK MANAGEMENT AND INTERNAL CONTROL

The objectives of the risk management and internal control framework of the Group are to identify and manage the risk of the Group's with the acceptable safety levels and achieve the Group's strategic objectives. The Group has adopted a three-line risk management approach to identify, analysis, evaluation, mitigate and handle risks. At the first line of defence, department staff/frontline employees who must understand their roles and responsibilities are responsible for identifying, assessing and monitoring risks associated with transactions. The second line of defence is the Group's management that provides independent oversight of the risk management activities of the first line of defence. It ensures that risks are within the Group's risk capacity and that the control of the first line of defence is effective. As the final line of defence, the Audit Committee, with the advices and opinions from the external professional party and the internal control function was conducted on an annual basis to ensure that the first and second lines of defence are performed effectively.

## AUDITORS' REMUNERATION

The amount of fees charged by the external auditor generally depends on the scope and volume of the external auditor's work performed.

For the Reporting Period, the remuneration paid or payable to PricewaterhouseCoopers, the external auditor of the Company, in respect of their audit services for the Group was as follows:

Categories of Services	2019 HK\$'000
Audit services	1,080

For the Reporting Period, PricewaterhouseCoopers did not provide any non-audit services to the Group.

## COMPANY SECRETARY

Mr. Ng Fuk Wah has taken no less than 15 hours of relevant professional training for the Reporting Period. The biographical details of Mr. Ng are set out under the section headed "Biographical Details of Directors and Senior Management" of this annual report.

## COMPLIANCE OFFICER

Mr. Sung Alfred Lee Ming is the compliance officer of the Company. Please refer to his biographical details as set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interest and rights, separate resolutions can be proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be posted on the website of the Stock Exchange and the Company's website after the relevant shareholders' meeting.

## PROCEDURES FOR SHAREHOLDERS TO CONVENE EXTRAORDINARY GENERAL MEETING

The following procedures for shareholders to convene an extraordinary general meeting are subject to the Articles (as amended from time to time), and the applicable legislation and regulation, in particular the GEM Listing Rules (as amended from time to time):

- (a) 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 (the **"Eligible Shareholder(s)"**) carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the **"Company Secretary"**), to require an extraordinary general meeting (**"EGM"**) to be called by the Board for the transaction of any business specified in such requisition;
- (b) Eligible Shareholders who wish to convene an EGM must deposit a written requisition (the **"Requisition"**) signed by the Eligible Shareholder(s) concerned to the head office and principal place of business of the Company in Hong Kong at Units 1102–1103, 11th Floor, Delta House, No. 3 On Yiu Street, Sha Tin, New Territories, Hong Kong, or Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for the attention of the Board and/or the Company Secretary;
- (c) the Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding, the reason(s) to convene an EGM and the details of the business(es) proposed to be transacted in the EGM, and must be signed by the Eligible Shareholder(s) concerned together with a deposit of a sum of money reasonable sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned in accordance with the statutory requirements to all the registered shareholders;
- (d) the Requisition will be verified with Hong Kong branch share registrar and transfer office of the Company and upon their confirmation that the Requisition is proper and in order, the Board will convene an EGM by serving sufficient notice in accordance with the requirements under the Articles to all the registered Shareholders. On the contrary, if the Requisition has been verified as not in order or the Shareholders concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM;
- (e) if within 21 days of the deposit of the Requisition, the Board fails to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

## PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD PROPOSALS AT SHAREHOLDERS' MEETINGS

There are no provisions allowing shareholders to move new resolutions at the general meetings under the Companies Law (Revised) of Cayman Islands. However, pursuant to the Articles, shareholders who wish to move a resolution may by means of Requisition convene an EGM following the procedures set out above.

# CORPORATE GOVERNANCE REPORT

## PROCEDURES FOR RAISING ENQUIRIES

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong share registrar (details of which are set out in the section headed "Corporate Information" of this annual report).

Should the shareholders have any enquiries and concerns, they may send in written enquiries addressed to the head office and principal place of business of the Company in Hong Kong at Units 1102–1103, 11th Floor, Delta House, No. 3 On Yiu Street, Sha Tin, New Territories, Hong Kong by post for the attention of the Board and/or the Company Secretary.

Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

## INVESTORS RELATIONS

The Company has adopted a shareholders communication policy with the objective of providing the shareholders of the Company with information about the Company and enabling them to engage actively with the Company and exercise their rights as shareholders in an informed manner.

The Company has established a range of communication channels between itself and its shareholders, and investors. These include answering questions through the annual general meeting, the publication of annual, interim and quarterly reports, notices, announcements and circulars, the Company's website at [www.modernliving.com.hk](http://www.modernliving.com.hk) and meetings with investors and shareholders. News update of the Group's business development and operation are also available on the Company's website.

## NON-COMPETITION UNDERTAKINGS BY CONTROLLING SHAREHOLDERS

Each of the controlling shareholders of the Company has made an annual declaration to the Company that for the Reporting Period, he/she/it and his/her/its associates have complied with the terms of non-competition undertakings ("**Non-Competition Undertakings**") given in favour of the Company which are contained in the Deed of Non-Competition Undertaking. Details of the Non-Competition Undertakings are set out in the section headed "Relationship with the Controlling Shareholders" of the Prospectus. The independent non-executive Directors have also reviewed the status of compliance by each of the controlling shareholders with the undertakings in the Non-Competition Undertakings and as far as the independent non-executive Directors can ascertain, there is no breach of any of the undertakings in the Non-Competition Undertakings.

## CONSTITUTIONAL DOCUMENTS

Since the Listing Date and up to the date of this annual report, there has been no change to the Memorandum and Articles of Association of the Company.

# CORPORATE GOVERNANCE REPORT

## DIVIDEND POLICY

Pursuant to the amended CG Code, the Company should have a dividend policy and disclose such policy in its annual report. The Company has adopted a dividend policy (the “**Dividend Policy**”), the summary of which is set out below:

- (i) In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia:
  - a. the general financial condition of the Group;
  - b. capital and debt level of the Group;
  - c. future cash requirements and availability for business operations, business strategies and future development needs;
  - d. any restrictions on payment of dividends that may be imposed by the Group’s lenders;
  - e. the general market conditions; and
  - f. any other factors that the Board considers appropriate.
- (ii) The payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and the Articles of Association of the Company. Any final dividends declared by the Company must be approved by an ordinary resolution of the Shareholders at an annual general meeting and must not exceed the amount recommended by the Board. The Board may from time to time pay to the Shareholders such interim and/or special dividends as it considers to be justified by the profits of the Group.
- (iii) The Board endeavours to strike a balance between the Shareholders’ interests and prudent capital management with a sustainable Dividend Policy. The Board will review the Dividend Policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the policy at any time as it deems fit and necessary.

# REPORT OF THE DIRECTORS

The Board is pleased to present their annual report together with the audited consolidated financial statements of the Group for the Reporting Period.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 35 to the consolidated financial statements. The principal activity of the Group is the provision of property management services with a primary focus on public housing in Hong Kong.

## RESULTS AND DIVIDENDS

The results of the Group for the Reporting Period are set out in the consolidated statement of comprehensive income on page 38 of this annual report.

The Company does not declared a special dividend for the Reporting Period (2018: Nil).

The Board recommended the payment of a final dividend of HK\$0.005 per share, totalling HK\$4 million for Reporting Period (2018: HK\$4 million).

## CHARITABLE DONATIONS

During the year, the Group made charitable donations totaling HK\$9,380 (2018: HK\$56,000).

## PLANT AND EQUIPMENT

Details of the movements in plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

## BORROWINGS

Particulars of borrowings of the Group as at the balance sheet date are set out in note 26 to the consolidated financial statements.

## BUSINESS REVIEW

Detailed business review is set out in the section headed “Management Discussion and Analysis” in this annual report. Future development of the Company’s business is set out in the sections headed “Management Discussion and Analysis” and “Chairman’s Statement” of this annual report.

# REPORT OF THE DIRECTORS

## KEY PERFORMANCE INDICATORS (“KPI”) WITH THE STRATEGY OF THE GROUP

The key financial performance indicators of the Group for the Reporting Period are set out below:

Strategy	KPI
Maximise value for the shareholders	Return on equity = 6.43% (2018: 10.86%)
Improve the Group’s liquidity	Current ratio = 3.56 (2018: 3.12)

## COMPLIANCE WITH LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

## PRINCIPAL RISK AND UNCERTAINTIES

The Group believes that the risk management practices are important and use its best effort to ensure it is sufficient to mitigate the risks present in the Group’s operations and financial position as efficiently and effectively as possible. Operational risks may arise when the Group has loss of (i) its major customer; and (ii) senior management employed by the Group which may adversely affect the Group’s operations.

An analysis of the Group’s financial risk management (including credit risk, interest rate risk, foreign exchange risk and liquidity risk) objectives and policies are provided in note 3 to the consolidated financial statements. Other risks facing the Group are set out in the section headed “Risk Factors” of the Prospectus.

## FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group is set out on page 104 of this annual report. The summary does not form part of the audited consolidated financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive or similar rights under the laws of Caymans Islands or the Articles which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

The Directors confirm that for the Reporting Period, there has been no purchase, sale or redemption of the Company’s listed securities by the Company or any of its subsidiaries.

## RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 35(b) to the consolidated financial statements, respectively.

## DISTRIBUTABLE RESERVES

Retained earnings of the Company may be available for distribution to ordinary shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid. The Company’s reserves available for distribution to the shareholders at 31 December 2019 amounted to approximately HK\$108.98 million.

# REPORT OF THE DIRECTORS

## SEGMENT INFORMATION

An analysis of the Group's performance for the year by operating segment is set out in note 5 to the consolidated financial statements.

## RELATIONSHIP WITH KEY STAKEHOLDERS

### Customers

The HA is the Group's single largest and most important customer. For the Reporting Period, the aggregate revenue attributable to the HA amounted to approximately HK\$412.56 million, representing approximately 99% of the total revenue.

### Suppliers

For the Reporting Period, purchases from the Group's five largest suppliers (in respect of cleaning materials, plastic bags and uniforms) amounted to approximately HK\$5.79 million as compared to approximately HK\$5.56 million for the year ended 31 December 2018. The increase was mainly due to increase in purchasing cleaning material and uniforms for new contracts for the Reporting Period.

### Employees

Employees are regarded as important and valuable assets of the Group. Details of remuneration are set out in the section headed "Management Discussion and Analysis" in this annual report.

None of the Directors, their respective associates, or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any significant beneficial interest in the major customer and suppliers disclosed above.

## DIRECTORS

During the year and up to the date of this annual report, the Board's composition is as follows:

### Executive Directors

Mr. Ho Chu Ming (*Chairman*)  
Mr. Ng Fuk Wah  
Mr. Sung Alfred Lee Ming  
Mr. Tang Kong Fuk

### Non-executive Directors

Ms. Tam Mo Kit  
Mr. Tam Kam Cheung Patrick (resigned on 28 June 2019)

### Independent non-executive Directors

Dr. Chan Man Wai  
Mr. Wong Siu Fai Albert  
Mr. Ng Kee Fat Ronny

Pursuant to article 108 of the Article, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation and that every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

## REPORT OF THE DIRECTORS

Accordingly, three Directors, namely Mr. Sung Alfred Lee Ming, Dr. Chan Man Wai and Mr. Wong Siu Fai Albert will retire from office as Directors at the forthcoming annual general meeting to be held on Friday, 22 May 2020 and are eligible and will offer themselves for re-election.

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 10 to 13 of this annual report.

### DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date and subject to renewal and termination by either party in accordance with the terms thereof and retirement and re-election provisions in accordance with the Articles of the Company.

Each of the non-executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing from the Listing Date subject to renewal and termination by either party in accordance with the terms thereof and retirement and re-election provisions in the Articles.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three year commencing from the Listing Date subject to renewal and termination by either party in accordance with the terms thereof and retirement and re-election provisions in the Articles.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

### INDEPENDENCE CONFIRMATION

The Company has received confirmation from each of the independent non-executive Directors regarding his independence in accordance with Rule 5.09 of the GEM Listing Rule and there has been no circumstances which would render them not to be independent as contemplated under the GEM Listing Rules. The Company therefore considers each of the independent non-executive Director to be independent.

### PERMITTED INDEMNITY PROVISION

Pursuant to Articles of the Company, a permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has purchased the Directors' and Officers' Liability Insurance to provide protection against claims arising from the lawful discharge of duties by the Directors.

### EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors, chief executive and the five highest paid individuals of the Group are set out in note 11 to the consolidated financial statements.

### RETIREMENT BENEFIT SCHEME

Details of the Group's retirement benefit scheme are set out in note 28 to the consolidated financial statements.

# REPORT OF THE DIRECTORS

## INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2019, the interests and short positions of the Directors and the 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 (the “SFO”) which were required to be notified to the Company and the Stock Exchange: (a) pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions in which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein (the “Register”); or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange were as follows:

### (i) Long position in the shares

Name of Director	Capacity/nature of interest	Number of Shares <sup>(1)</sup>	Approximate percentage of interest in the Company
Ms. Tam Mo Kit <sup>(2)</sup>	Interest in a controlled corporation	523,460,000 (L)	65.43%
Mr. Ng Fuk Wah <sup>(3)</sup>	Interest of spouse	523,460,000 (L)	65.43%
Mr. Ho Chu Ming	Beneficial owner	1,000,000 (L)	0.13%

Notes:

- The letter “L” denotes the person’s long position in the Shares.
- R5A Group Limited is the registered owner of 491,440,000 Shares, representing approximately 61.43% of the Company’s issued share capital. R5A Group Limited is owned as to 55.23% by Ms. Tam Mo Kit, 16.28% by Mr. Sung Alfred Lee Ming, 13.96% by Mr. Ho Chu Ming, 12.79% by Mr. Tang Kong Fuk, 1.16% by Mr. Ho Tik Wai and 0.58% by Mr. Yiu Ping Keung. Therefore, Ms. Tam Mo Kit is deemed to be interested in all the Shares held by R5A Group Limited for the purposes of the SFO. Mr. Ng Fuk Wah is the beneficial owner of 32,020,000 Shares in the Company, representing approximately 4.00% of the issued share capital of the Company. As Ms. Tam Mo Kit is the spouse of Mr. Ng Fuk Wah, Ms. Tam Mo Kit is also deemed to be interested in the same number of Shares held by Mr. Ng Fuk Wah under the SFO.
- Mr. Ng Fuk Wah is the beneficial owner of 32,020,000 Shares in the Company, representing approximately 4.00% of the issued share capital of the Company. Mr. Ng Fuk Wah is the spouse of Ms. Tam Mo Kit. Under the SFO, Mr. Ng Fuk Wah is deemed to be interested in the same number of Shares in which Ms. Tam Mo Kit is interested.

### (ii) Long position in the ordinary shares of associated corporation

Name of Director	Name of associated corporation	Capacity/nature of interest	Number of shares held	Percentage of interest
Ms. Tam Mo Kit	R5A Group Limited	Beneficial owner	950	55.23%
Mr. Sung Alfred Lee Ming	R5A Group Limited	Beneficial owner	280	16.28%
Mr. Ho Chu Ming	R5A Group Limited	Beneficial owner	240	13.96%
Mr. Tang Kong Fuk	R5A Group Limited	Beneficial owner	220	12.79%

Save as disclosed above and so far as is known to the Directors, as at 31 December 2019, none of the Directors nor chief executive of the Company had or was deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rules 5.46 of the GEM Listing Rules.

# REPORT OF THE DIRECTORS

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

So far as the Directors are aware of, as at 31 December 2019, the following persons/entities other than a Director or the chief executive of the Company had interests or short positions in the shares and underlying shares, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO, or who were directly or indirectly interested in 5% or more of the issued voting shares of the Company:

### Long positions in the ordinary shares of the Company

Name of Shareholder	Nature of interest/ holding capacity	Number of shares <sup>(1)</sup>	Approximate percentage of interest in the Company
R5A Group Limited <sup>(2)</sup>	Beneficial owner	491,440,000 (L)	61.43%
Ms. Yeung Siu Wen	Beneficial owner	57,120,000 (L)	7.14%

Notes:

1. The letter "L" denotes the person's long position in the Shares.
2. R5A Group Limited is the registered owner of 491,440,000 Shares, representing 61.43% of the Company's issued share capital. R5A Group Limited is owned as to 55.23% by Ms. Tam Mo Kit, 16.28% by Mr. Sung Alfred Lee Ming, 13.96% by Mr. Ho Chu Ming, 12.79% by Mr. Tang Kong Fuk, 1.16% by Mr. Ho Tik Wai and 0.58% by Mr. Yiu Ping Keung.

Save as disclosed above and so far as is known to the Directors, immediate following the Listing, the Directors were not aware of any other persons who had or deemed or taken to have any interests or short positions in the shares or underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 336 of the SFO, or who were directly or indirectly interested in 5% or more of the issued voting shares of the Company.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME

On 24 October 2017, a share option scheme was adopted by the shareholders of the Company (the “**Share Option Scheme**”). The purpose of the Share Option Scheme is to provide incentives and rewards to eligible participants who would contribute to the success of the Group’s operations. Under the terms of the Share Option Scheme, the Board may, at its discretion, grant share options to any full-time employee and any Director of the Company or its subsidiaries, including any executive, non-executive or independent non-executive directors. The Share Option Scheme will remain in force for a period of ten years commencing the date on the Listing Date.

The exercise price for shares under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (ii) the average of the closing prices of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share on the date of grant. Any share options granted under the Share Option Scheme shall end in any event not later than ten years from the Commencement Date (as defined in the Share Option Scheme). A nominal value of HK\$1.00 is payable on acceptance of each grant of share options.

On 17 June 2019, 32,000,000 share options were granted by the Company to four employees at exercise price of HK\$0.177 per share, the details of which are as follows:

Name or category of participants	Date of grant	Exercise price per share	Vesting date	Exercise period	As at 1 January 2019	Granted during the year	Exercised during the year	Cancelled/lapsed during the year	As at 31 December 2019
Employees in aggregate	17 June 2019	HK\$0.177	17 June 2020 (50%)	17 June 2020 – 16 June 2022	-	16,000,000	-	-	16,000,000
			17 June 2021 (50%)	17 June 2021 – 16 June 2022	-	16,000,000	-	-	16,000,000
<b>Total number of share options</b>					<b>-</b>	<b>32,000,000</b>	<b>-</b>	<b>-</b>	<b>32,000,000</b>

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest subsisted at the end of the year or at any time during the year.

## COMPETING INTEREST

For the Reporting Period, the Directors were not aware of any business or interest of the Directors, the controlling shareholders, and their respective close associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

## INTERESTS OF THE COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Ballas Capital Limited ("**Ballas**") to be the compliance adviser. As at 31 December 2019, as notified by Ballas, except for the compliance adviser agreement entered into between the Company and Ballas dated 18 July 2017, neither Ballas nor any of its directors or employees or associates, has or may have, any interest in the securities of the Company or any member of the Group (including options or rights to subscribe for such securities).

## RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group are set out in note 33 to the consolidated financial statements. Such related party transactions do not fall under the definition of connected transaction or continuing connected transaction under Chapter 20 of the GEM Listing Rules.

## CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

During the Reporting Period, the Group has not entered into any connected transactions or continuing connected transactions that are not exempted under the GEM Listing Rules. The Board confirms that the Company has complied with the applicable disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

## MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of any business of the Group were entered into or existed during the Reporting Period.

## SUFFICIENCY OF PUBLIC FLOAT

Since the Listing Date and up to the date of this annual report, based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital is held by the public as required under the GEM Listing Rules.

## EVENTS AFTER THE REPORTING PERIOD

Since the outbreak of Coronavirus Disease 2019 ("**COVID-19**") in January 2020 in Hong Kong, the Group has adopted a series of precautionary and epidemic control measures to prevent the spread of the COVID-19 among the staff of the Group and the residents of the estates managed by the Group. As the Group's business is mainly focused on property management of public housing and subsidised housing in Hong Kong, contracts of which are normally ranged from 2 to 6 years, it is expected that the impact brought by the COVID-19 and the anticipated consequential economic downturn in Hong Kong would not be significant to the Group's business. However, the Group would continue to pay attention to the development of the COVID-19 and evaluate its impact on the financial position and operating results of the Group. As at the date of this report, the Directors were not aware of any material adverse effects on the financial position of the Group as a result of the COVID-19.

# REPORT OF THE DIRECTORS

## AUDITOR

The consolidated financial statements have been audited by PricewaterhouseCoopers, Certified Public Accountants, who will retire and, being eligible, offered themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting. A resolution for their re-appointment as the auditor of the Company will be proposed at the forthcoming annual general meeting.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is committed to support environmental protection to ensure business development and sustainability. The Group implement green office practices to reduce the consumption of energy and natural resources. These practices include the use of energy-saving lightings and recycled paper, reduce energy consumption by switching off idle lightings, computers and electrical appliances and the use of environmentally friendly products whenever possible.

The environmental, social and governance report for the Reporting Period is set on pages 85 to 103 of this annual report.

## CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the forthcoming annual general meeting to be held on Friday, 22 May 2020, the register of members of the Company will be closed from Friday, 15 May 2020 to Friday, 22 May 2020 (both dates inclusive), during which period no transfer of the shares will be registered. Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 14 May 2020.

## CORPORATE GOVERNANCE

Details of the corporate governance practices adopted by the Company are set out on pages 14 to 24 of this annual report.

## REVIEW BY AUDIT COMMITTEE

The audited consolidated financial statements of the Group for the Reporting Period have been reviewed by the audit committee. The audit committee is of the opinion that the consolidated financial statements of the Group for the Reporting Period comply with applicable financial reporting standards, GEM Listing Rules, and that adequate disclosures have been made.

On behalf of the Board

**Ho Chu Ming**

*Chairman and Executive Director*

Hong Kong, 25 March 2020

# INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

## To the Shareholders of Modern Living Investments Holdings Limited

*(Incorporated in Cayman Islands with limited liability)*

### OPINION

#### What we have audited

The consolidated financial statements of Modern Living Investments Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 38 to 84, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### Our opinion

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 Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) 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 (“HKSA”) issued by the 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

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.

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T: +852 2289 8888, F: +852 2810 9888, [www.pwchk.com](http://www.pwchk.com)*

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matters identified in our audit are summarised as follows:

- Occurrence and completeness of employee benefits expenses

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Occurrence and completeness of employee benefits expenses</b></p> <p>Refer to Note 2.19, Note 2.20, Note 10, Note 24 and Note 28 to the consolidated financial statements.</p> <p>The Group operates in a labour-intensive industry and manages over 2,000 employees. For the year ended 31 December 2019, HK\$377 million of employee benefits expenses, which consisted of basic salaries, staff benefits, pension cost, provision of annual leave, provision for long service payments, and share-based payment, were incurred by the Group and accounted for approximately 92% of the total cost incurred for the year. Also, management judgements are involved in estimating the provision of annual leave, provision for the long service payments and share-based payment.</p> <p>In view of the significance of employee benefits expenses to the consolidated statement of comprehensive income and the management judgement involved, significant auditor's effort is involved in verifying the occurrence and completeness of such expenses. Therefore, we determined this area to be a key audit matter.</p>	<p>Our audit procedures included testing the Group's internal controls over employee benefits expenses. Specifically, we sample tested the effectiveness of key management controls designed and implemented over the process of maintenance of employee records and the approval of monthly payroll calculation and settlement.</p> <p>We tested, on sample basis, the supporting evidence for the occurrence of payroll expenses, including but not limited to, inspecting payment records, reviewing employment contracts and checking to time-sheet records of individual employees. In assessing the completeness of employee benefits expenses, we arranged face-to-face interviews with selected employees and traced the employees' identities and salaries to their employment records; selected, on a sample basis, the payroll settlement records and agreed the salary payments to the employee benefits expenses recorded.</p> <p>We also assessed and challenged management's assumptions over the provision of annual leave and long service payment by evaluating key parameters used, including but not limited to, the employee turnover rate, discount rate and salary growth rate, against the internal historical data and external economic trends. We have also involved our valuation specialist to re-perform the calculation of the provision of long service payment, and to review the reasonableness of assumptions by making reference to available market data, in order to assess the appropriateness of the methodology adopted by management and the overall reasonableness of the provision.</p> <p>We also assessed and challenged management's assumptions over the share-based payment by evaluating key parameters used, including but not limited to, the interest rate, volatility, dividend yield, time to maturity, grant date and exercise multiple. We have also involved our in-house valuation specialist to re-perform the calculation of the fair value of share options as at grant date, and to review the reasonableness of assumptions making reference to available market data, in order to assess the appropriateness of the methodology adopted by management and the overall reasonableness of the fair value.</p> <p>Based on our audit procedures performed, we found that the occurrence and completeness of the employee benefits expenses was supported by the available evidence.</p>

# INDEPENDENT AUDITOR'S REPORT

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of 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 DIRECTORS AND AUDIT COMMITTEE 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 HKFRSs issued by the HKICPA 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee are responsible 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. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism 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.

# INDEPENDENT AUDITOR'S REPORT

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

*(Continued)*

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- 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 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 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 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 Fong Wan Huen.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 25 March 2020

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Revenue	6	413,961	371,208
Other income	7	248	347
Other gains, net	8	213	63
Employee benefits expenses	10	(376,870)	(330,477)
Cleaning material costs		(7,472)	(5,596)
Utilities expenses		(2,056)	(1,836)
Depreciation of plant and equipment	16	(1,692)	(2,232)
Depreciation of right-of-use assets	17	(919)	–
Other operating expenses		(17,954)	(16,356)
Operating profit	9	7,459	15,121
Finance income		1,619	255
Finance costs		(494)	(852)
Finance income/(costs), net	12	1,125	(597)
Profit before income tax		8,584	14,524
Income tax expense	13	(1,398)	(2,382)
<b>Profit for the year</b>		<b>7,186</b>	<b>12,142</b>
<b>Other comprehensive loss:</b> <i>Items that will not be reclassified to profit or loss</i>			
Remeasurement of employee benefits obligations	28	(3,809)	(895)
Other comprehensive loss for the year, net of tax		(3,809)	(895)
<b>Total comprehensive income for the year</b>		<b>3,377</b>	<b>11,247</b>
<b>Earnings per share</b>			
Basic and diluted (HK cents per share)	15	0.90	1.52

The notes on pages 42 to 84 are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 HK\$'000	2018 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Plant and equipment	16	1,801	4,177
Right-of-use assets	17	1,255	–
Retention money receivables	19	1,964	2,019
Investment in an insurance contract	18	2,242	2,177
Rental deposit	19	–	116
		<b>7,262</b>	<b>8,489</b>
<b>Current assets</b>			
Trade receivables	19	64,986	75,873
Contract assets	19	14,969	12,223
Prepayments, deposits and other receivables	19	5,368	6,947
Pledged bank deposits	20	32,845	28,668
Short-term bank deposit	21	12,570	–
Cash and bank balances	22	15,444	30,208
		<b>146,182</b>	<b>153,919</b>
<b>Total assets</b>		<b>153,444</b>	<b>162,408</b>
<b>EQUITY</b>			
<b>Equity attributable to the owners of the Company</b>			
Share capital	23	8,000	8,000
Reserves	23	103,762	103,789
<b>Total equity</b>		<b>111,762</b>	<b>111,789</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	27	117	369
Borrowings	26	–	913
Lease liabilities	17	553	–
		<b>670</b>	<b>1,282</b>
<b>Current liabilities</b>			
Trade payables	25	196	368
Other payables and accrued liabilities	25	37,433	34,708
Borrowings	26	–	12,941
Lease liabilities	17	774	–
Current income tax liabilities		2,609	1,320
		<b>41,012</b>	<b>49,337</b>
<b>Total liabilities</b>		<b>41,682</b>	<b>50,619</b>
<b>Total equity and liabilities</b>		<b>153,444</b>	<b>162,408</b>

The notes on pages 42 to 84 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 38 to 84 were approved by the Board of Directors on 25 March 2020 and were signed on its behalf

**Ng Fuk Wah**  
Director and Chief Executive Officer

**Sung Alfred Lee Ming**  
Director and Chief Financial Officer

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share Capital HK\$'000 (Note 23)	Share premium HK\$'000 (Note 23)	Contribution reserves HK\$'000 (Note 23)	Share-based payment reserves HK\$'000 (Note 23)	Retained earnings HK\$'000	Total equity HK\$'000
<b>Balance at 1 January 2018</b>	8,000	42,776	22,270	-	27,496	100,542
Profit for the year	-	-	-	-	12,142	12,142
Other comprehensive loss: Remeasurement of employee benefits obligations	-	-	-	-	(895)	(895)
Total comprehensive income	-	-	-	-	11,247	11,247
<b>Balance at 31 December 2018</b>	8,000	42,776	22,270	-	38,743	111,789
<b>Balance at 1 January 2019</b>	<b>8,000</b>	<b>42,776</b>	<b>22,270</b>	<b>-</b>	<b>38,743</b>	<b>111,789</b>
Profit for the year	-	-	-	-	7,186	7,186
Other comprehensive loss: Remeasurement of employee benefits obligations	-	-	-	-	(3,809)	(3,809)
Total comprehensive income	-	-	-	-	3,377	3,377
Transactions with owners in their capacity as owners:						
Share-based payment	-	-	-	596	-	596
Dividend paid	-	-	-	-	(4,000)	(4,000)
Total transactions with owners in their capacity as owners	-	-	-	596	(4,000)	(3,404)
<b>Balance at 31 December 2019</b>	<b>8,000</b>	<b>42,776</b>	<b>22,270</b>	<b>596</b>	<b>38,120</b>	<b>111,762</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 HK\$'000	2018 HK\$'000
<b>Cash flows from operating activities</b>			
Net cash generated from/(used in) operations	29(a)	18,956	(418)
Hong Kong profits tax paid		–	(708)
<b>Net cash generated from/(used in) operating activities</b>		<b>18,956</b>	<b>(1,126)</b>
<b>Cash flows from investing activities</b>			
Purchases of plant and equipment		(867)	(708)
Proceeds from disposal of plant and equipment		330	–
Interest received		1,390	255
(Increase)/decrease in pledged bank deposits		(4,177)	8,100
Increase in short-term bank deposit		(12,570)	–
<b>Net cash (used in)/generated from investing activities</b>		<b>(15,894)</b>	<b>7,647</b>
<b>Cash flows from financing activities</b>			
Interest paid		(411)	(775)
Dividend paid		(4,000)	–
Proceeds from bank borrowings		239,022	188,533
Repayment of bank borrowings		(247,592)	(225,488)
Repayment of finance lease liabilities		–	(591)
Repayment of lease liabilities		(1,000)	–
<b>Net cash used in financing activities</b>		<b>(13,981)</b>	<b>(38,321)</b>
Net decrease in cash and cash equivalents		(10,919)	(31,800)
<b>Cash and cash equivalents at beginning of the year</b>		<b>26,363</b>	<b>58,163</b>
<b>Cash and cash equivalents at end of the year</b>	22	<b>15,444</b>	<b>26,363</b>

The notes on pages 42 to 84 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

Modern Living Investments Holdings Limited (“the Company”) was incorporated in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and registered as an exempted company with limited liability on 26 June 2017. The address of the Company’s registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The Company’s principal place of business is Units 1102–1103, 11th Floor, Delta House, No. 3 On Yiu Street, Sha Tin, New Territories, Hong Kong.

The Company is an investment holding company and its subsidiaries (collectively, the “Group”) are engaged in the provision of property management services with a primary focus on public housing in Hong Kong.

These consolidated financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (HK\$’000) except when otherwise indicated.

The Company has listed its shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited on 10 November 2017 (the “Listing”).

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years and periods presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements has been prepared under the historical cost convention, except that investment in an insurance contract is stated at its cash surrender value.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

#### (i) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- HKFRS 16 Leases
- Prepayment Features with Negative Compensation — Amendments to HKFRS 9
- Long-term Interests in Associates and Joint Ventures — Amendments to HKAS 28
- Annual Improvements to HKFRS Standards 2015–2017 Cycle
- Plan Amendment, Curtailment or Settlement — Amendments to HKAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments

The Group had to change its accounting policy following the adoption of HKFRS 16. For details, please refer to Note 2(iii). The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### (ii) New standards and interpretations not yet adopted

	Effective for annual periods beginning on or after
Amendments to HKAS 1 and HKAS 8, "Definition of material"	1 January 2020
Amendments to HKFRS 3 (Revised), "Definition of a business"	1 January 2020
Conceptual Framework for Financial Reporting 2018	1 January 2020
HKFRS 17, "Insurance contracts"	1 January 2021
Amendments to HKFRS 10 and HKAS 28 "Sale or contribution of assets between an investor and its associate or joint venture"	To be determined

The above new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

### 2.2 Change in accounting policy

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

As indicated in Note 2.1 above, the Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019. In accordance with the transitional provision under HKFRS 16, the Group has applied the simplified transition approach, and all right-of-use assets were measured at the amount of the lease liabilities on adoption (adjusted for any prepaid or accrued lease expenses). Comparative figures for the 2018 financial year have not been restated. The new accounting policies are disclosed in Note 2.16.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.13%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and the lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principals of HKFRS 16 are only applied after that date.

#### (i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedient permitted by the standard:

- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Change in accounting policies (Continued)

#### (ii) Measurement of lease liabilities

	2019 HK\$'000
Operating lease commitments disclosed as at 31 December 2018	566
Discounted using the lessee's incremental borrowing rate at the date of initial application	540
Add: finance lease liabilities recognised as at 31 December 2018	1,439
<b>Lease liabilities recognised as at 1 January 2019</b>	<b>1,979</b>
Of which are:	
— Current lease liabilities	881
— Non-current lease liabilities	1,098
	<b>1,979</b>

#### (iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated balance sheet position as at 31 December 2018.

#### (iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the consolidated balance sheet on 1 January 2019:

Consolidated balance sheet	31 December 2018 as originally presented HK\$'000	Effects of the adoption of HKFRS 16 HK\$'000	1 January 2019 Restated HK\$'000
<b>Non-current assets</b>			
Plant and equipment	4,177	(1,369)	2,808
Right-of-use assets	–	1,909	1,909
<b>Current liabilities</b>			
Lease liabilities	–	881	881
Borrowings	12,941	(526)	12,415
<b>Non-current liabilities</b>			
Lease liabilities	–	1,098	1,098
Borrowings	913	(913)	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.3 Subsidiaries

#### (a) Consolidation

Subsidiaries are all entities (including a structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

#### (b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends received from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

### 2.5 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK\$, which is the Company's functional currency and the Group's presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss within "other gains, net".

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.6 Plant and equipment

Plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Depreciation of plant and equipment is calculated using the straight-line method to allocate cost over their estimated useful lives, as follows:

Tools and equipment	5 years
Furniture and fixtures	5 years
Motor vehicles	5 years
Office equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains or losses on disposal are determined by comparing proceeds with carrying amount and are recognised in profit or loss within "other gains, net".

### 2.7 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.8 Financial assets

#### (i) Classification

The Group classifies its financial assets as those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

See Note 32 for details of each type of financial asset.

The Group reclassifies debt instrument when and only when its business model for managing those assets changes.

#### (ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.8 Financial assets *(Continued)*

#### (iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

#### *Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

#### (iv) Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3 details how the Group determines whether there has been a significant increase in credit risk.

For retention money receivables, trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets.

Impairment on other receivables and deposits, cash and bank balances, short-term bank deposit and pledged bank deposits are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measure as lifetime expected credit losses.

### 2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

### 2.10 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

For contract assets, please refer to Note 19(ii) for details.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.11 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet.

### 2.12 Bank balances in client accounts

Certain bank accounts were opened and held in the name of the entity within the Group on behalf of some customers. Such bank accounts are regarded as client accounts held on behalf of third parties and are not recognised as assets and associated liabilities in the consolidated financial statements of the Group.

### 2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### 2.14 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.15 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.16 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until 31 December 2018, leases of plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases (Note 16). Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 34). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the group under residual value guarantees;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.16 Leases *(Continued)*

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

### 2.17 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowings are removed from the consolidated balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### (b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### (c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.19 Employee benefits

#### (i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by the employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.19 Employee benefits *(Continued)*

#### (ii) Pension obligations

The Group contributes to a defined contribution retirement benefit plan, the Mandatory Provident Fund scheme (MPF) in Hong Kong, the assets of which are generally held in separate trustee administered funds.

A defined contribution retirement benefit plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group's contributions to the defined contribution retirement benefit plan are charged to profit or loss in the period incurred.

#### (iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the Group has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the balance sheet date are discounted to their present value.

#### (iv) Bonus plan

Provisions for bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

#### (v) Long service payments

The Group's net obligation in respect of lump sum long service amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method by a qualified actuary, discounted to its present value, and the fair value of any related plan assets is deducted. The discount rate is the yield at balance sheet date on Exchange Fund Notes that have maturity dates approximating the terms of the Group's obligations. All actuarial gains and losses of long service payments provision are recognised immediately in other comprehensive income in the period in which they occur. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.20 Share-based payment

#### (i) Equity-settled share-based payment transactions

Share-based payment benefits are provided to employees through the Company's share option scheme adopted on 24 October 2017 (the "Share Option Scheme"). Information relating to the Share Option Scheme is set out in Note 23 and Note 24.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expenses is determined to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to equity.

#### (ii) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

### 2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities.

Revenue are recognised when or as the control of the services or goods is transferred to the purchaser. Depending on the terms of the contract and the laws that apply to the contract, control of the services or goods may transfer over time or at a point in time.

When control of services or goods is transferred over time, the progress towards complete satisfaction of performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.21 Revenue recognition *(Continued)*

A contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer, and it is presented separately. A contract asset becomes a receivable when receipt of the consideration is conditional only on the passage of time. Contract assets are assessed for impairment under the same approach adopted for impairment assessment of financial assets carried at amortised cost.

An entity is a principal if it controls the promised goods or service before transferring it to the customer. An entity is an agent if its role is to arrange for another entity to provide the goods or service. The Group consider it is a principle in providing its services.

In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

**(i) Property management services income**

Property management services income is recognised on a systematic basis over the service period.

**(ii) Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method.

### 2.22 Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the entity's shareholders or directors, where appropriate.

### 2.23 Investment in an insurance contract

The Group acquired a management life insurance contract, which includes both investment and insurance elements. The investment in insurance contract is initially recognised at the amount of the premium paid and subsequently carried at the amount that could be realised under the insurance contract (cash surrender value) at end of each reporting period, with changes in value recognised in profit or loss.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, interest rate risk, foreign exchange risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use any financial derivatives to hedge its financial risk exposures.

Management regularly manages the financial risks of the Group. Because of the simplicity of the financial structure and the current operations of the Group, no hedging activities are undertaken by management.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### (a) Credit risk

Credit risk mainly arises from cash and bank balances, short-term bank deposit, pledged bank deposits, trade receivables, contract assets, other receivables and deposits, and retention money receivables. The carrying amounts of these balances in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group maintains a defined credit policy for its customers and the credit terms given vary according to the business activities. The financial strength of and the length of business relationship with the customers, on an individual basis, are considered in arriving at the respective credit terms. Overdue balances are reviewed regularly by management.

Majority of the Group's bank balances, short-term bank deposit and pledged bank deposits are placed in those banks and financial institutions which are independently rated with a high credit rating. Management does not expect any losses from non-performance by these banks and financial institutions as they have no default history in the past.

The credit quality of the debtors is assessed based on the financial position of the debtors as well as past experience of the Group in dealing with respective debtors. The Group's historical experience in collection of deposits and receivables falls within recorded allowance, if necessary, and the directors are of the opinion that adequate provision for uncollectible receivable has been made.

As at 31 December 2019, the Group has a high concentration of credit risk as 99% (2018: 99%) of the total trade receivables and contract assets were due from the largest customer (2018: largest customer). The largest customer is a statutory body which develops and implements a public housing programme.

Management does not expect any losses to be incurred from non-performance by these financial institutions and counterparties.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### (a) Credit risk *(Continued)*

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available, reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customers' ability to meet its obligations
- actual or expected significant changes in the operating results of customers
- significant increases in credit risk on other financial instruments of customers
- significant changes in the expected performance and behavior of customers, including changes in the payment status of customers in the Group and changes in the operating results of the customers.

#### (i) *Retention money receivables, trade receivables and contract assets*

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for retention money receivables, trade receivables and contract assets.

As at 31 December 2019, the Group has assessed that the expected loss rate for retention money receivables, trade receivables and contract assets from public estates was immaterial. Thus no loss allowance provision for retention money receivables, trade receivables and contract assets from public estates was recognised during the year.

#### (ii) *Other receivables and deposits*

Other financial assets at amortised cost include other receivables and deposits.

As at 31 December 2018 and 2019, management considers other receivables and deposits as a low risk of default and a strong capacity to meet contractual cash flows as performing. The Group has assessed that the expected credit losses for these receivables and deposits are not material under the 12 months expected losses method. Thus no loss allowance provision was recognised during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### (b) Interest rate risk

Other than the short-term bank deposit, pledged bank deposits, bank balances and borrowings, the Group has no other significant interest-bearing assets and liabilities. The Group's short-term bank deposit, pledged bank deposits and bank balances earn interest at floating rates. Also, borrowings of the Group are at floating rates which expose the Group to cash flow interest rate risk. The Group does not enter into derivatives to address either cash flow or fair value interest rate risks.

During the year ended 31 December 2019, if the interest rates had been 50 basis points higher/lower with all other variables held constant, the Group's profit for the year would have been approximately HK\$39,000 lower/higher (2018: HK\$90,000), respectively mainly as a result of higher/lower net finance cost on floating rate bank deposits and borrowings.

#### (c) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

Most of the income and expenditures of the Group are denominated in HK\$. For the pledged bank deposits and short-term bank deposits denominated in USD, and their expression in HK\$ on the consolidated balance sheet are reasonably stable due to the HK\$/USD Linked Exchange Rate System. In the opinion of directors, the exposure to foreign exchange rate risk is considered low. As such, no sensitivity analysis is presented. The Group has not implemented or entered into any type of instruments or arrangements to hedge against currency exchange fluctuations for the year ended 31 December 2019.

#### (d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenant, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks to meet their liquidity requirements in the short and longer term.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interests payments computed using contractual rates, or if floating, based on the current rates at the year-end date). Where the loan agreement contains a repayable on demand clause which gives the lender the unconditional right to call the loan at any time, the amounts repayable are classified in the earliest time bracket in which the lender could demand repayment and no interest payments were included. The maturity analysis for other borrowings is prepared based on the scheduled repayment dates. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

#### (d) Liquidity risk (Continued)

	Within 1 year/ repayable on demand HK\$'000	Between 1 and 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
<b>At 31 December 2019</b>				
Trade payables	196	–	–	196
Other payables	1,970	–	–	1,970
Borrowings	–	–	–	–
Lease liabilities	817	576	–	1,393
	<b>2,983</b>	<b>576</b>	<b>–</b>	<b>3,559</b>
<b>At 31 December 2018</b>				
Trade payables	368	–	–	368
Other payables	2,707	–	–	2,707
Borrowings, excluding finance lease liabilities	12,415	–	–	12,415
Finance lease liabilities	580	950	–	1,530
	16,070	950	–	17,020

The table below summarises the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the “on demand” time band in the maturity analysis contained in the above table.

Taking into account the Group’s financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity analysis – Bank borrowings subject to a repayment on demand clause based on scheduled repayments			Total outflows HK\$'000
	Within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 5 years HK\$'000	
At 31 December 2018	12,739	–	–	12,739
At 31 December 2019	–	–	–	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Group consists of shareholders' equity and total debts. Capital is managed so as to maximise the return to shareholders while maintaining a capital base to allow the Group to operate effectively in the marketplace and sustain future development of the business. The Group monitors capital on the basis of net gearing ratio. This ratio is calculated as net cash divided by total capital. Net cash is calculated as total debts less cash and bank balances. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

The gearing ratios as at 31 December 2019 and 2018 are as follows:

	2019 HK\$'000	2018 HK\$'000
Total debts <i>(Note 29(c))</i>	1,327	13,854
Less: cash and bank balances <i>(Note 22)</i>	(15,444)	(30,208)
Net cash	(14,117)	(16,354)
Total equity	111,762	111,789
Total capital	97,645	95,435
Net gearing ratio	N/A	N/A

As at 31 December 2019, the Group maintained a net cash position of HK\$14,117,000 (2018: HK\$16,354,000), thus no net gearing ratio is presented.

### 3.3 Fair value estimation

The carrying amounts of the Group's financial assets, including cash and bank balances, short-term bank deposit, pledged bank deposits, trade receivables, contract assets, retention money receivables and other receivables and deposits and the Group's financial liabilities, including trade and other payables and borrowings approximate their fair values. The fair values of financial liabilities for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### Impairment of trade receivables and contract assets

The Group applies the simplified approach to provide for expected credit losses as prescribed by HKFRS 9, which requires the use of the lifetime expected loss allowance for all trade receivables and contract assets. The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Management reassesses the provision at each balance sheet date.

## 5 SEGMENT INFORMATION

The executive Directors have been identified as the chief operating decision-makers ("CODM") of the Group who review the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

The CODM assesses the performance based on a measure of profit after income tax. The CODM considers all business is included in a single operating segment.

### Segment results, segment assets and segment liabilities

The Group is engaged in the provision of property management service in Hong Kong. Since the operation of provision of property management services attributes to all of the Group's revenue, and a majority of results and assets during the year ended 31 December 2018 and 2019, no business segment analysis is presented accordingly.

### Geographical information

The Group's revenue is derived from customers in Hong Kong. All the assets of the Group were also located in Hong Kong as at 31 December 2018 and 2019. Accordingly, no analysis by geographical segment is provided.

### Information about major customer

Details of the customer individually representing 10% or more of the Group's revenue are as follows:

	2019 HK\$'000	2018 HK\$'000
Customer A	412,565	367,493

No other single customers contributed 10% or more to the Group's revenue for the year ended 31 December 2018 and 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 REVENUE

	2019 HK\$'000	2018 HK\$'000
Property management services income	<b>413,961</b>	371,208

All of the Group's revenues are recognised over time.

## 7 OTHER INCOME

	2019 HK\$'000	2018 HK\$'000
Sundry income	<b>248</b>	347

## 8 OTHER GAINS, NET

	2019 HK\$'000	2018 HK\$'000
Gain on investment in an insurance contract ( <i>Note 18</i> )	<b>65</b>	63
Gain on disposal of plant and equipment	<b>148</b>	–
	<b>213</b>	63

## 9 EXPENSES BY NATURE

Profit before income tax is stated after charging the following items:

	2019 HK\$'000	2018 HK\$'000
Employee benefits expenses ( <i>Note 10</i> )	<b>376,870</b>	330,477
Auditor's remuneration	<b>1,080</b>	1,200
Operating lease rentals in respect of rental premises	–	359
Insurance fee	<b>6,283</b>	4,696
Guarantee fee	<b>1,141</b>	868
Security expenses	<b>669</b>	707
Office supplies	<b>1,591</b>	1,435

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10 EMPLOYEE BENEFITS EXPENSES

	2019 HK\$'000	2018 HK\$'000
Wages, salaries and other allowances (including directors' emoluments)	360,929	317,107
Pension costs — defined contribution plan	14,803	13,397
Accrual for unutilised annual leave	(223)	(421)
Accrual for long service payment	765	394
Share-based payment	596	—
	<b>376,870</b>	330,477

### (a) Pensions — defined contribution plans

Contributions totaling approximately HK\$2,060,000 (2018: HK\$2,250,000) are payable to the MPF fund as at 31 December 2019.

### (b) Five highest paid individuals

For the year ended 31 December 2019, the five individuals whose emoluments were the highest in the Group include 2 (2018: 3) directors, respectively, whose emoluments were reflected in the analysis presented in Note 11 to the consolidated financial statements. The emoluments paid to the remaining individuals are as follows:

	2019 HK\$'000	2018 HK\$'000
Basic salaries and allowances	2,282	1,603
Discretionary bonuses	68	—
Share-based payment	447	—
Employer's contribution to defined contribution plan	54	36
	<b>2,851</b>	1,639

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2019	2018
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	1	—
	<b>3</b>	2

No incentive payment for joining the Group or compensation for loss of office was paid or payable to any for the five highest paid individuals during the year ended 31 December 2019 (2018: same).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURE REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G))

#### (a) Directors' emoluments

The remuneration of each director and the chief executive officer ("CEO") for the year ended 31 December 2019 is set out below:

	Fees HK\$'000	Basic salaries and allowances HK\$'000	Discretionary bonuses HK\$'000	Employer's contribution to a retirement benefit scheme HK\$'000	Total HK\$'000
<b>For the year ended 31 December 2019</b>					
<b>Executive directors</b>					
Ng Fuk Wah ( <i>CEO</i> )	-	936	-	18	954
Ho Chu Ming ( <i>chairman</i> )	-	799	6	18	823
Sung Alfred Lee Ming	-	576	-	18	594
Tang Kong Fuk	-	727	-	18	745
<b>Non-executive directors</b>					
Tam Kam Cheung Patrick	72	-	-	-	72
Tam Mo Kit	-	-	-	-	-
<b>Independent non-executive directors</b>					
Chan Man Wai	120	-	-	-	120
Ng Kee Fat	120	-	-	-	120
Wong Siu Fai Albert	120	-	-	-	120
	<b>432</b>	<b>3,038</b>	<b>6</b>	<b>72</b>	<b>3,548</b>

Tam Kam Cheung Patrick resigned as a non-executive director of the Company on 28 June 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURE REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) (Continued)

### (a) Directors' emoluments (Continued)

The remuneration of each director and the chief executive officer ("CEO") for the year ended 31 December 2018 is set out below:

	Fees HK\$'000	Basic salaries and allowances HK\$'000	Discretionary bonuses HK\$'000	Employer's contribution to a retirement benefit scheme HK\$'000	Total HK\$'000
<b>For the year ended</b>					
<b>31 December 2018</b>					
<b>Executive directors</b>					
Ng Fuk Wah (CEO)	–	925	–	18	943
Ho Chu Ming (chairman)	–	766	–	18	784
Sung Alfred Lee Ming	–	624	–	21	645
Tang Kong Fuk	–	727	–	18	745
<b>Non-executive directors</b>					
Tam Kam Cheung Patrick	144	–	–	–	144
Tam Mo Kit	–	–	–	–	–
<b>Independent non-executive directors</b>					
Chan Man Wai	120	–	–	–	120
Ng Kee Fat	120	–	–	–	120
Wong Siu Fai Albert	120	–	–	–	120
	504	3,042	–	75	3,621

For the year ended 31 December 2019, Ms. Tam Mo Kit agreed to waive her director's fee of HK\$144,000 (2018: HK\$144,000).

### (b) Directors' retirement benefits

No retirement benefits were paid to the directors of the Company during the year ended 31 December 2019 by a defined contribution plan operated by the Group in respect of their services as directors of the Company. Save for the retirement benefits paid to certain directors in respect of their other services in connection with the management of the affairs of the Group disclosed in (a) above, no other retirement benefits were paid to the directors in respect of their other services of the Group during the year ended 31 December 2019 (2018: same).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURE REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) (Continued)

### (c) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year ended 31 December 2019 (2018: same).

### (d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2019, the Group did not pay any consideration to any third parties for making available the services of themselves as directors of the Group (2018: same).

### (e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 31 December 2019, there are no loans, quasi-loans and other dealing arrangements in favour of the directors, bodies corporate controlled by and controlled entities with such directors (2018: Nil).

### (f) Directors' material interests in transactions, arrangements or contracts

Mr. Ho Chu Ming, Mr. Tang Kong Fuk and Mr. Sung Alfred Lee Ming, executive directors of the Company and Ms. Tam Mo Kit, non-executive director of the Company, have beneficial interest in the Company by virtue of their direct interest in the ultimate holding company, R5A Group Limited.

Apart from the aforesaid directors' interests and save for the balances and transactions disclosed elsewhere in the notes to the consolidated financial statements, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Company has a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year ended 31 December 2019 and 2018.

## 12 FINANCE INCOME/(COSTS), NET

	2019 HK\$'000	2018 HK\$'000
Bank interest income	1,619	255
Interests on borrowings	(411)	(775)
Interests on finance lease liabilities	–	(77)
Interests on lease liabilities	(83)	–
	(494)	(852)
	1,125	(597)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13 INCOME TAX EXPENSE

Hong Kong profits tax is calculated at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the year, except for the first HK\$2,000,000 of a qualified entity's assessable profit which is calculated at 8.25%, in accordance with the two-tiered tax rate regime with effect from the year of assessment 2018/2019.

The amount of income tax charged to the consolidated statement of comprehensive income represents:

	2019 HK\$'000	2018 HK\$'000
Hong Kong profits tax:		
Current income tax	1,672	2,595
Over provision in prior year	(22)	(47)
	<b>1,650</b>	2,548
Deferred income tax ( <i>Note 27</i> )	<b>(252)</b>	(166)
	<b>1,398</b>	2,382

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2019 HK\$'000	2018 HK\$'000
Profit before income tax	8,584	14,524
Calculated at applicable tax rate	1,251	2,231
Income not subject to taxation	(136)	(53)
Expenses not deductible for taxation purposes	305	251
Over provision in prior year	(22)	(47)
	<b>1,398</b>	2,382

## 14 DIVIDENDS

	2019 HK\$'000	2018 HK\$'000
Proposed final dividend of HK\$0.005 (2018: HK\$0.005) per ordinary share	<b>4,000</b>	4,000

A final dividend for the year ended 31 December 2019 of HK\$0.005 (2018: HK\$0.005) per ordinary share, totaling approximately HK\$4,000,000 (2018: HK\$4,000,000) has been recommended by the Board for approval at the forthcoming annual general meeting of the Company. The proposed final dividend has not been dealt with as dividend payable as at 31 December 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15 EARNINGS PER SHARE

### (a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the respective years.

	2019 HK\$'000	2018 HK\$'000
Profit attributable to owners of the Company	7,186	12,142
Weighted average number of ordinary shares in issue	8,000,000	8,000,000
Earnings per share (HK cents)	0.90	1.52

### (b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The Company has one (2018: Nil) category of dilutive potential ordinary shares: share options (2018: Nil). For the share options, a calculation was performed to determine the number of shares that could have been issued at fair value (determined as the average market price of the Company's shares for the period) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of share options.

Diluted earnings per share for the year ended 31 December 2019 is the same as the basic earnings per share as the conversion of potential ordinary shares in relation to the outstanding share options would have an anti-dilutive effect to the basic earnings per share.

There were no potential dilutive ordinary shares outstanding during the year ended 31 December 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 16 PLANT AND EQUIPMENT

	Tools and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Office equipment HK\$'000	Total HK\$'000
<b>At 1 January 2018</b>					
Cost	4,669	627	1,867	4,802	11,965
Accumulated depreciation	(2,556)	(366)	(1,226)	(2,116)	(6,264)
Net book value	2,113	261	641	2,686	5,701
<b>Year ended 31 December 2018</b>					
Opening net book value	2,113	261	641	2,686	5,701
Additions	683	–	–	25	708
Depreciation charge	(978)	(113)	(207)	(934)	(2,232)
Closing net book value	1,818	148	434	1,777	4,177
<b>At 31 December 2018</b>					
Cost	5,352	627	1,867	4,827	12,673
Accumulated depreciation	(3,534)	(479)	(1,433)	(3,050)	(8,496)
Net book value	1,818	148	434	1,777	4,177
<b>Year ended 31 December 2019</b>					
Opening net book value	1,818	148	434	1,777	4,177
Adjustment for change in accounting policy ( <i>Note 17</i> )	–	–	–	(1,369)	(1,369)
Restated opening net book amount	1,818	148	434	408	2,808
Additions	622	55	–	190	867
Disposal	(168)	–	(9)	(5)	(182)
Depreciation charge	(1,071)	(101)	(193)	(327)	(1,692)
Closing net book value	1,201	102	232	266	1,801
<b>At 31 December 2019</b>					
Cost	3,803	490	1,582	1,891	7,766
Accumulated depreciation	(2,602)	(388)	(1,350)	(1,625)	(5,965)
Net book value	1,201	102	232	266	1,801

As at 31 December 2018, office equipment of net book value of HK\$1,369,000 where the Group was a lessee, were under non-cancellable finance lease agreements. The lease terms were five years.

From 1 January 2019, leased assets are presented as a separate line item in the consolidated balance sheet, see Note 17. Refer to Note 2.2 for details about the changes in accounting policy.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17 LEASES

### (a) Amounts recognised in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to leases:

	31 December 2019 HK\$'000	1 January 2019 HK\$'000 (Restated)
<b>Right-of-use assets</b>		
Property	180	540
Equipment	1,075	1,369
	<b>1,255</b>	1,909
<b>Lease liabilities</b>		
Current	774	881
Non-current	553	1,098
	<b>1,327</b>	1,979

Additions to the right-of-use assets during the 2019 financial year were approximately HK\$265,000.

### (b) Amounts recognised in the consolidated statement of comprehensive income

The consolidated statement of comprehensive income shows the following amounts relating to leases:

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000
<b>Depreciation of right-of-use assets</b>			
Property		(360)	–
Equipment		(559)	–
	9	<b>(919)</b>	–
Interest expense (included in finance cost)	12	<b>(83)</b>	–

The total cash outflow for leases in 2019 was approximately HK\$1,000,000.

### (c) The Group's leasing activities and how these are accounted for

The Group leases various offices and equipment. Rental contracts are typically made for fixed periods of 3 to 5 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18 INVESTMENT IN AN INSURANCE CONTRACT

	2019 HK\$'000	2018 HK\$'000
As at 1 January	2,177	2,114
Gain on investment in an insurance contract (Note 8)	65	63
As at 31 December	<b>2,242</b>	2,177

Investment in an insurance contract represents a management life insurance policy (the "Insurance Policy"). The Group is the beneficiary of the Insurance Policy. The Insurance Policy was pledged to a bank to secure certain banking facilities granted to the Group as set out in Note 26 to the consolidated financial statements. Changes in value of the investment in an insurance contract are recorded in "other gains, net" in the consolidated statement of comprehensive income.

## 19 RECEIVABLES, CONTRACT ASSETS, PREPAYMENTS AND DEPOSITS

	2019 HK\$'000	2018 HK\$'000
Non-current:		
Retention money receivables (Note i)	1,964	2,019
Rental deposit	–	116
	<b>1,964</b>	2,135
Current:		
Trade receivables	64,986	75,873
Contract assets (Note ii)	14,969	12,223
	<b>79,955</b>	88,096
Utilities deposits	368	525
Rental deposits	116	–
Prepaid insurance	2,865	3,973
Prepayment	592	528
Other receivables	1,427	1,921
Total current prepayments, deposits and other receivables	<b>5,368</b>	6,947
	<b>85,323</b>	95,043
Total receivables, contract assets, prepayments and deposits	<b>87,287</b>	97,178

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19 RECEIVABLES, CONTRACT ASSETS, PREPAYMENTS AND DEPOSITS *(Continued)*

Notes:

- (i) In accordance with the service contracts with the customer and the common practice in the industry, the customer withholds a portion of the payments in relation to the project management services for maintenance works rendered by the Group as retention money. The retention money normally represents 5% of the service income of the project management services for maintenance works and is accumulated until the sum retained reaches the limit stated in the service contracts. The retention money will be released to the Group according to the terms and conditions of the service contracts. The balances are regularly reviewed by management with reference to the historical default rates or forfeiture rate. There is no history of forfeiture and default of these balances during the year ended 31 December 2018 and 2019. The carrying amounts of retention money receivables approximate their fair values as the impact of discounting is not significant.
- (ii) Contract assets include receivables for project management fees for work performed but yet to be billed; and the project management fee to be billed for completed project management services of maintenance work. Billings to customers will normally be issued when the contractors for the maintenance work submit their final billings. These balances are reviewed regularly by management. No allowance for impairment of contract assets is considered necessary by the directors with reference to the historical experience in collection of these balances once billed and the financial capability of the customer.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables and deposits mentioned above. The Group does not hold any collateral as security.

The trade receivables are generally on credit terms ranging from 30 to 60 days.

The following is an ageing analysis of trade receivables, presented based on the invoice date at the end of the reporting period:

	2019 HK\$'000	2018 HK\$'000
Contract assets <i>(Note ii)</i>	<b>14,969</b>	12,223
Trade receivables:		
Up to 30 days	<b>30,283</b>	33,222
31 to 60 days	<b>21,449</b>	29,799
61 to 90 days	<b>13,254</b>	12,852
	<b>79,955</b>	88,096

The Group applies the simplified approach under HKFRS 9 to measure expected credit losses which uses a lifetime expected loss allowance for trade receivables and contract assets. See Note 3 for more details.

The carrying amounts of retention money receivables, trade receivables, contract assets, other receivables and deposits approximate their fair values. Retention money receivables, trade receivables, contract assets, other receivables and deposits are mainly denominated in HK\$.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20 PLEDGED BANK DEPOSITS

Pledged bank deposits represent deposits pledged to a bank to secure performance bonds as set out in Note 30 and the banking facilities granted to the Group as set out in Note 26 to the consolidated financial statements. The Group's pledged bank deposits are denominated in US\$ (2018: HK\$) and earn interest at a rate of 1.54% as at 31 December 2019 (2018: 1.41%).

## 21 SHORT-TERM BANK DEPOSIT

	2019 HK\$'000	2018 HK\$'000
Short-term bank deposit with maturities over three months and less than one year	<b>12,570</b>	–

The carrying amount of the Group's short-term bank deposit approximate their respective fair value and is denominated in US\$.

Short-term bank deposit as at 31 December 2019 bears interest at an average rate of 1.49% (2018: nil) per annum with maturity in February 2020 (2018: nil).

## 22 CASH AND BANK BALANCES

	2019 HK\$'000	2018 HK\$'000
Cash at banks and on hand	<b>15,444</b>	30,208
Maximum exposure to credit risk	<b>15,223</b>	29,945

Cash at banks earns interest income of floating rates based on daily bank deposit rates and mainly denominated in HK\$.

Cash and bank balances and bank overdrafts include the following for purposes of the consolidated statement of cash flows:

	2019 HK\$'000	2018 HK\$'000
Cash at banks and on hand	<b>15,444</b>	30,208
Bank overdrafts ( <i>Note 26</i> )	–	(3,845)
Cash and cash equivalents	<b>15,444</b>	26,363

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 23 SHARE CAPITAL AND RESERVES

### (a) Share capital and premium

	No. of shares	Nominal value of ordinary shares HK\$'000	Share premium HK\$'000
<b>Authorised:</b>			
At 31 December 2018, 1 January 2019 and 31 December 2019	2,000,000,000	20,000	–
<b>Issued and fully paid:</b>			
At 31 December 2018, 1 January 2019 and 31 December 2019	800,000,000	8,000	42,776

### (b) Contribution reserve

Contribution reserve in the consolidated balance sheet represents contribution from the then shareholders of the Company as a result of a reorganisation upon the Listing.

### (c) Share-based payment reserves

The Share Option Scheme was approved and conditionally adopted by the then shareholders of the Company by way of a written resolution on 24 October 2017 for the primary purpose of recognising and acknowledging the contribution of the Directors, employees and other eligible parties who have made valuable contribution to the Group.

The maximum number of shares which may be issued under the Share Option Scheme and any other schemes must not, in aggregate, exceed 80,000,000 Shares, being 10% the shares of the Company. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes involving the issue or grant of options or similar rights over shares or other securities by the Company must not, in aggregate, exceed 30% of the shares in issue from time to time.

The total number of shares issued and to be issued upon exercise of options granted to each eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue unless approved in advance by the shareholders of the Company in general meeting.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board of Directors may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

Details of the share-based payment are disclosed in Note 24.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24 SHARE-BASED PAYMENT

Set out below are summaries of options granted under the Share Option Scheme:

	2019		2018	
	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
As at 1 January	–	–	–	–
Granted during the year	<b>HK\$0.177</b>	<b>32,000,000</b>	–	–
As at 31 December	<b>HK\$0.177</b>	<b>32,000,000</b>	–	–
Vested and exercisable at 31 December		–		–

No options expired during the periods covered by the above tables.

Share options outstanding at the end of the year have the following expiry date and exercise price:

Grant date	Expiry date	Exercise price	Share options 31 December 2019
17 June 2019	16 June 2022	HK\$0.177	32,000,000

Weighted average remaining contractual life of options outstanding at end of the year 2.5 years

In June 2019, the Company granted 32,000,000 options to certain employees, whereby 50% of the options are vested in one year and the remaining in two years. The options are exercisable for a period of one to two years upon vesting.

### Fair value of options granted

The assessed fair value of options granted at grant date was HK\$0.166 per option. The fair value at grant date is independently determined using the Binomial Model. The significant model inputs included an expected price volatility of 48.77%, an expected life of three years, an expected dividend yield of 2.69%, a risk-free interest rate of 1.63% and an exercise multiple of 2.8 times.

The expected price volatility is based on the historic volatility and the remaining life of the options, adjusted for any expected changes to future volatility due to publicly available information.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25 TRADE PAYABLES, OTHER PAYABLES AND ACCRUED LIABILITIES

	2019 HK\$'000	2018 HK\$'000
Trade payables	196	368
Provision for long service payment ( <i>Note 28</i> )	10,572	5,998
Provision for unutilised annual leave	2,397	2,843
Accrued wages, salaries and pensions	20,153	21,180
Other accrued expenses and payables	4,311	4,687
Total other payables and accrued liabilities	37,433	34,708
Total trade and other payables and accrued liabilities	37,629	35,076

At 31 December 2018 and 2019, the ageing analysis of the trade payables based on invoice date was as follows:

	2019 HK\$'000	2018 HK\$'000
0–30 days	196	368

The carrying amounts of the Group's trade payables are denominated in HK\$.

The carrying amounts of trade and other payables and accrued liabilities approximate their fair values due to their short maturities.

## 26 BORROWINGS

	2019 HK\$'000	2018 HK\$'000
<b>Non-current</b>		
Finance lease liabilities ( <i>Note b</i> )	–	913
<b>Current</b>		
Bank borrowings ( <i>Note a</i> )	–	12,415
Finance lease liabilities ( <i>Note b</i> )	–	526
	–	12,941
Total borrowings	–	13,854

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 BORROWINGS (Continued)

Notes:

### (a) Bank borrowings

	2019 HK\$'000	2018 HK\$'000
Bank overdrafts	–	3,845
Bank loans due for repayment within one year	–	8,570
	–	12,415

As at 31 December 2018, the bank borrowings bear interest at floating rates and the effective interest rates are as follows:

	2018
Bank overdrafts	5.13%
Bank loans and factoring loans	2.15%–4.51%

The fair values of the borrowings approximate their carrying amounts, as their interest rates are considered current market rates.

As at 31 December 2018, the bank borrowings are denominated in HK\$.

As at 31 December 2018, the Group's bank borrowings were repayable (based on the scheduled repayment dates as set out in the loan agreements and ignore the effect of any repayment on demand clause) as follows:

	2018 HK\$'000
Within 1 year	12,415

As at 31 December 2019, the banking facilities granted to the Group are secured by:

- (i) The Group's Insurance Policy of HK\$2,242,000 (2018: HK\$2,177,000) (Note 18);
- (ii) The Group's pledged bank deposits of HK\$32,845,000 (2018: HK\$28,668,000) (Note 20);
- (iii) The corporate guarantee executed by the Company.

### (b) Finance lease liabilities

	2019 HK\$'000	2018 HK\$'000
Gross finance lease liabilities — minimum lease payments		
No later than 1 year	–	580
Later than 1 year and no later than 5 years	–	950
Future finance charges on finance leases	–	1,530
Present value of finance lease liabilities	–	(91)
	–	1,439
The present value of finance lease liabilities is as follows:		
No later than 1 year	–	526
Later than 1 year and no later than 5 years	–	913
	–	1,439

As at 31 December 2018, finance lease liabilities were secured by certain office equipment (Note 16).

Finance lease liabilities were included in borrowings until 31 December 2018, but were reclassified to lease liabilities on 1 January 2019 in the process of adopting HKFRS 16. See note 2.2 for further information about the change in accounting policy for leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27 DEFERRED TAXATION

Deferred income taxes are calculated in respect of temporary differences under the liability method using the tax rates enacted or substantively enacted by the reporting date.

	2019 HK\$'000	2018 HK\$'000
Deferred tax liabilities		
– to be settled after more than 12 months	<b>117</b>	369

The movement of deferred tax liabilities are as follows:

	Accelerated depreciation HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2018	535	–	535
Credit to profit or loss ( <i>Note 13</i> )	(166)	–	(166)
At 31 December 2018	369	–	369
Adjustment on adoption of HKFRS 16 ( <i>Note 2.2</i> )	(87)	87	–
At 1 January 2019 (restated)	282	87	369
Credit to profit or loss ( <i>Note 13</i> )	(142)	(110)	(252)
At 31 December 2019	140	(23)	117

At 31 December 2018 and 2019, the Group has no significant unrecognised deferred tax assets.

## 28 EMPLOYEE BENEFIT OBLIGATIONS — LONG SERVICE PAYMENT

Under the Hong Kong Employment Ordinance, the Operating Subsidiary is obligated to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Operating Subsidiary. The amount payable is dependent on the employees' final salary and years of service, and is reduced by entitlements accrued under the Operating Subsidiary's retirement plan that are attributable to contributions made by the Operating Subsidiary. The Group does not set aside any assets to fund any remaining obligations. The long service payments are paid out from the Group's cash in hand when such payments are required.

The latest actuarial valuation as at 31 December 2018 and 2019 specifically designated for the Group's employees was completed by a qualified actuary, Roma Appraisals Limited, using projected unit credit method.

(a) The amounts recognised in the consolidated balance sheet are as follows:

	2019 HK\$'000	2018 HK\$'000
Present value of employee benefit obligations	<b>10,572</b>	5,998

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28 EMPLOYEE BENEFIT OBLIGATIONS — LONG SERVICE PAYMENT *(Continued)*

(b) Movements in the net liability recognised in the consolidated balance sheet position are as follows:

	2019 HK\$'000	2018 HK\$'000
At 1 January	5,998	4,709
Expenses recognised in the consolidated statement of comprehensive income	765	394
Losses recognised in the other comprehensive loss	3,809	895
At 31 December	<b>10,572</b>	5,998

(c) Expenses recognised in the consolidated statement of comprehensive income is as follows:

	2019 HK\$'000	2018 HK\$'000
Current service cost	592	281
Interest cost	173	113
	<b>765</b>	394

(d) Loss recognised in the other comprehensive loss is as follows:

	2019 HK\$'000	2018 HK\$'000
Actuarial loss — demographic assumptions	<b>3,809</b>	895

(e) The principal actuarial assumptions used as at 31 December 2018 and 2019 (expressed as weighted average) are as follows:

	2019	2018
Discount rate	<b>1.71%</b>	1.97%
Future salary increment	<b>2.50%</b>	2.50%

	Impact on employee benefit obligations		
	Change in assumption	Increase in assumption	Decrease in assumption
<b>At 31 December 2018:</b>			
Discount rate	0.25%	Decrease by 3.17%	Increase by 3.32%
Salary growth rate	0.25%	Increase by 4.87%	Decrease by 4.79%
<b>At 31 December 2019:</b>			
Discount rate	<b>0.25%</b>	<b>Decrease by 2.98%</b>	<b>Increase by 3.13%</b>
Salary growth rate	<b>0.25%</b>	<b>Increase by 4.87%</b>	<b>Decrease by 4.74%</b>

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 29 CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Cash generated from/(used in) operations

	2019 HK\$'000	2018 HK\$'000
<b>Cash flows from operating activities</b>		
Profit before income tax	8,584	14,524
Adjustments for:		
Depreciation of plant and equipment	1,692	2,232
Depreciation of right-of-use assets	919	–
Interest income	(1,619)	(255)
Finance costs	494	852
Gain on investment in an insurance contract	(65)	(63)
Gain on disposal of plant and equipment	(148)	–
Share-based payments	596	–
Provision for long service payment	765	394
<b>Operating profit before working capital changes</b>	<b>11,218</b>	17,684
Changes in working capital:		
Retention money receivables	55	(305)
Trade receivables and contract assets	8,141	(16,979)
Prepayments, deposits and other receivables	1,923	(1,868)
Trade payables	(172)	56
Other payables and accrued liabilities	(2,209)	994
<b>Cash generated from/(used in) operations</b>	<b>18,956</b>	(418)

### (b) In the consolidated statement of cash flows, proceeds from disposals of plant and equipment comprise:

	2019 HK\$'000	2018 HK\$'000
Net book amount	182	–
Gain on disposal of plant and equipment (Note 8)	148	–
Sales proceeds from disposals of plant and equipment	<b>330</b>	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 29 CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (c) Reconciliation of liabilities arising from financing activities

	Bank borrowings HK\$'000	Finance lease liabilities HK\$'000	Lease liabilities HK\$'000	Total HK\$'000
As at 31 December 2018	8,570	1,439	–	10,009
Recognised on adoption of HKFRS 16 (Note 2.2)	–	(1,439)	1,979	540
As at 1 January 2019	8,570	–	1,979	10,549
Acquisition — lease	–	–	265	265
Interest on lease liabilities	–	–	83	83
Cash flows	(8,570)	–	(1,000)	(9,570)
Total debt at 31 December 2019	–	–	1,327	1,327

## 30 CONTINGENT LIABILITIES

The Group had contingent liabilities in respect of the following:

- (i) As at 31 December 2019, the Group had entered into 40 (2018: 33) performance bonds with a bank. The aggregate amount of the performance bonds was HK\$93,070,000 (2018: HK\$61,265,000) as at 31 December 2019. The Directors do not consider it probable that a claim on the performance bonds will be made against the Group; and
- (ii) In carrying out the ordinary course of business, the Group is subject to the risk of being named as defendant in legal actions, claims and disputes in connection with its business activities. The nature of the legal proceedings initiated against the Company mainly includes claims for compensation by the Group's existing or former employees for work related injuries. The Group maintains insurance cover and, in the opinion of the Directors of the Group, based on current available evidence, any such existing claims and legal proceedings against the Company have no material financial impact to the Company as at 31 December 2019.

## 31 BANK BALANCES IN CLIENT ACCOUNTS

Certain bank accounts were opened and held in the name of the entity within the Group on behalf of a customer. Such bank accounts are regarded as client accounts held on behalf of third parties and are not recognised as assets and associated liabilities in the consolidated financial statements of the Group.

As at 31 December 2019, the Group held a total of HK\$28,494,000 (2018: HK\$122,428,000) in various trustee bank accounts on behalf of Estate Common Area Management Fund of various estates. The fund is for the purposes of the deposit of revenues collected and the making of payments in respect of daily operation of the estate common area.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32 FINANCIAL INSTRUMENTS BY CATEGORIES

	Financial assets at amortised costs HK\$'000
<b>Financial assets as per financial position</b>	
<b>As at 31 December 2019</b>	
Retention money receivables	1,964
Trade receivables and contract assets	79,955
Deposits and other receivables	1,911
Pledged bank deposits	32,845
Short-term bank deposit	12,570
Cash and bank balances	15,444
Total	<b>144,689</b>
<b>As at 31 December 2018</b>	
Retention money receivables	2,019
Trade receivables and contract assets	88,096
Deposits and other receivables	2,562
Pledged bank deposits	28,668
Cash and bank balances	30,208
Total	<b>151,553</b>

	Financial liabilities at amortised cost HK\$'000
<b>Liabilities as per financial position</b>	
<b>As at 31 December 2019</b>	
Trade payables	196
Other payables	1,970
Lease liabilities	1,327
Total	<b>3,493</b>
<b>As at 31 December 2018</b>	
Trade payables	368
Other payables	2,707
Borrowings (including finance lease liabilities)	13,854
Total	<b>16,929</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 33 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, to joint control over the party or exercise significant influence over the other party in making financial and operation decisions, or vice versa. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following related party transactions:

### (a) Key management compensation

Key management compensation are as follows:

	2019 HK\$'000	2018 HK\$'000
Basic salaries, allowances and benefits	3,522	3,488
Discretionary bonuses	123	–
Share-based payment	447	–
Employer's contribution to a defined contribution plan	108	107
	<b>4,200</b>	<b>3,595</b>

## 34 OPERATING LEASE COMMITMENTS

The Group leases office under non-cancellable operating leases expiring within 3 years. From 1 January 2019, the Group has recognised right-of-use assets for these leases, see Note 17 for further information.

	2019 HK\$'000	2018 HK\$'000
No later than 1 year	–	375
Later than 1 year and no later than 5 years	–	191
	<b>–</b>	<b>566</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

### Balance sheet of the Company

	<i>Notes</i>	As at 31 December 2019 HK\$'000	As at 31 December 2018 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	<i>a</i>	111,831	111,831
		<b>111,831</b>	111,831
<b>Current assets</b>			
Cash and bank balances		618	609
		<b>618</b>	609
<b>Total assets</b>		<b>112,499</b>	112,440
<b>EQUITY</b>			
<b>Equity attributable to the owners of the Company</b>			
Capital		8,000	8,000
Reserves	<i>b</i>	101,571	102,653
<b>Total equity</b>		<b>109,571</b>	110,653
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables and accrued liabilities		148	148
Amount due to a subsidiary		2,730	1,639
<b>Total liabilities</b>		<b>2,878</b>	1,787
<b>Total equity and liabilities</b>		<b>112,499</b>	112,440

The balance sheet of the Company was approved by the Board of Directors on 25 March 2020 and was signed on its behalf.

**Ng Fuk Wah**  
*Director and Chief Executive Officer*

**Sung Alfred Lee Ming**  
*Director and Chief Financial Officer*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

### (a) Particulars of subsidiaries

Company name	Place of incorporation and kind of legal entity	Issued and fully paid share capital	Principal activities and place of operation	Equity interest held as at	
				2019	2018
<b>Directly held</b>					
Modern Living Investments Limited	British Virgin Islands, limited liability company	United States dollar ("USD") 1	Investment holding in Hong Kong	100%	100%
<b>Indirectly held</b>					
Modern Living Property Management Limited	Hong Kong, limited liability company	HK\$21,460,000	Provision of property management services	100%	100%

### (b) Reserve movement of the Company

	Share premium HK\$'000	Contribution reserve HK\$'000	Share-based payment reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>As at 1 January 2018</b>	42,776	61,600	–	(224)	104,152
Loss and total comprehensive loss for the year	–	–	–	(1,499)	(1,499)
	–	–	–	(1,499)	(1,499)
<b>At 31 December 2018</b>	42,776	61,600	–	(1,723)	102,653
<b>As at 1 January 2019</b>	42,776	61,600	–	(1,723)	102,653
Profit and total comprehensive income for the year	–	–	–	2,322	2,322
Transactions with owners in their capacity as owner:					
Share-based payment	–	–	596	–	596
Dividend paid	–	–	–	(4,000)	(4,000)
	–	–	596	(4,000)	(3,404)
<b>At 31 December 2019</b>	42,776	61,600	596	(3,401)	101,571

## 36 EVENTS OCCURRING AFTER THE REPORTING PERIOD

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the region. The Group will pay attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

This report is the third Environmental, Social and Governance report (the “ESG report”) published by the Company. By reporting the policies, measures and performances in environmental, social and governance (the “ESG”) aspects, the Group aims to allow all stakeholders to understand the progress and development direction of the Group. The report is available in both English and Chinese.

## Reporting Scope and Boundary

The Group’s ESG report focuses on its property management services between 1 January 2019 and 31 December 2019 (the “reporting year”). The reporting scope has expanded this year to cover the headquarter office in Shek Mun, Shatin (the “headquarter office”) and all the management offices of public or subsidized housing estates managed by the operating subsidiary of the Company, namely Modern Living Property Management Limited (hereafter as the “operating subsidiary”).

The following table specifies the details of the management offices of the premises managed by the Company in 2019:

Management Office	Location	Number of staff as of 31 December 2019		Operation Period in 2019
		2019	2019	
Tin Yiu Estate	Tin Shui Wai	244	01 Jan–31 Dec	
Tin Ching Estate	Tin Shui Wai	165	01 Apr–31 Dec	
Tin Yat Estate	Tin Shui Wai	108	01 Apr–31 Dec	
Ping Yan Court	Tin Shui Wai	65	01 Jan–31 Dec	
Shui Pin Wai Estate	Yuen Long	85	01 Jan–31 Dec	
Kwai Fong Estate	Kwai Ching	199	01 Jan–31 Dec	
Shek Lei (I) Estate	Kwai Ching	164	01 Jan–31 Dec	
Lai Yiu Estate	Kwai Ching	107	01 Jan–31 Dec	
Shek Yam Estate	Kwai Ching	76	01 Jan–31 Dec	
Tai Yuen Estate	Tai Po	189	01 Jan–31 Dec	
Po Heung Estate	Tai Po	49	01 Jan–31 Dec	
Wan Tau Tong Estate	Tai Po	12	01 Jan–31 Dec	
Fu Heng Estate	Tai Po	7	01 Jan–31 Dec	
Fu Shin Estate	Tai Po	4	01 Jan–31 Dec	
Lung Hang Estate	Shatin	110	01 Jan–31 Dec	
Sun Tin Wai Estate	Shatin	98	01 Jan–31 Dec	
Headquarter Office	Shatin	40	01 Jan–31 Dec	
Mei Pak Court	Shatin	19	01 Jan–31 Dec	
Lee On Estate	Ma On Shan	93	01 Jan–31 Dec	
Heng On & Yiu On Estate	Ma On Shan	12	01 Jan–31 Dec	
King Tai Court	San Po Kong	22	01 Jan–31 Dec	
Hoi Lok Court	Cheung Sha Wan	75	01 Jan–31 Dec	
Kin Ming Estate	Kowloon East	–	01 Jan–30 Nov	
Ping Tin Estate	Kowloon East	–	01 Jan–31 Oct	
On Tin Estate	Kowloon East	–	01 Jan–31 Oct	
Kai Tin Estate	Kowloon East	–	01 Jan–31 Oct	
Wan Hon Estate	Kowloon East	–	01 Jan–31 Oct	
Tsui Ping (South) Estate	Kowloon East	–	01 Jan–31 Oct	
Tsui Ping (North) Estate	Kowloon East	–	01 Jan–31 Oct	
Ko Cheung Court	Kowloon East	–	01 Jan–31 Oct	

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental key performance indicators (“KPIs”) of this ESG report cover the headquarter office and offices of the above sites of operation. This is the first year of the Company to cover all our sites of operation in Hong Kong.

## Reporting Standard

This ESG report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “ESG Reporting Guide”) in Appendix 20 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The four reporting principles, namely the principles of materiality, quantitative, balance and consistency, form the backbone of this ESG report.

To provide stakeholders with an overview of the Group’s performance in ESG aspects, the report not only discloses environmental KPIs required under the “comply or explain” provisions but also reports additional social KPIs under the “recommended disclosures” as set out in the ESG Reporting Guide. A complete index is inserted in the last section of this ESG report for reference.

## Data Preparation

The Group has established internal controls and a formal review process to ensure that any information presented in this ESG report is as accurate and reliable as possible. The Board of Directors (the “Board”) of the Company has overall responsibility for the establishment and disclosure of relevant measures and KPIs. This ESG report was reviewed by the Board on 22 March 2020.

## Feedback Channel

Comments and suggestions can help define and strengthen the Group’s future ESG strategy and reporting. Stakeholders are welcome to contact the company’s Environmental, Social and Governance Committee by email at [enquiry@modernliving.com.hk](mailto:enquiry@modernliving.com.hk).

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## CHAIRMAN'S STATEMENT

Staff members are our greatest assets, and the community is the pillar of our success. As a provider of property management services, Modern Living adopts a people-centric approach towards promoting sustainability within the Group and in the community where it operates. The Group firmly believes that its actions and effort in maintaining sustainability can contribute to the United Nations' Sustainable Development Goal 11 of Sustainable Cities and Communities, and create values for stakeholders.

An Environmental, Social and Governance Committee (the "ESG Committee") formed by the Board ensures that the Group is steered in the right direction on its path towards sustainability. The ESG Committee reports to and advises the Board regarding issue identification, policy adoption and updates, risk assessment and review, and practice monitoring, across the environmental, social and governance aspects.

The Board is aware that sustainability issues may impose potential risks on business operations. By establishing the ESG Committee, the Group has refined its internal control process in terms of risk assessment of the impacts on health, safety, environment and society. Going forward, the Group will ensure that such refined system can effectively perform evaluation of imminent ESG risks, and can enable us to better prepare for societal and market changes in a timely manner.

The Group is committed to providing a pleasant environment for the community it serves. To achieve this aim, it adopts various emissions reduction measures in all of its operations. We consider environmental compliance as a starting point, and thus constantly seek ways to improve our environmental performance in other areas such as resource consumption and carbon footprint.

With a focus on people and the community, the Group focuses on building a culture of community care and environmental protection among all employees, as well as on increasing community engagement with external stakeholders. Community wellbeing is crucial to how we measure the success of our business.

Stakeholder engagement provides essential links to strengthen our sustainability efforts. By engaging internal and external stakeholders we can understand better of their opinion and expectations, which allows us to come up with plans to address the most relevant issues. Their feedback has been guiding us in the preparation of this ESG report.

By putting people first, the Group aspires to become an industry leader in sustainability and to create a caring culture with everyone in the community. We are confident that innovation and dedication, together with the support of stakeholders, would continue to guide us in our pursuit of a brighter and more livable future of the community.

**Ho Chu Ming**

*Chairman and Executive Director*

25 March 2020

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ESG GOVERNANCE

The Board has the responsibility to oversee the Group's policies, initiatives and performance on sustainability matters, principally in respect of employment, community investment, environmental protection and operational responsibility. It also defines the Group's sustainability strategies, sets objectives and approves targets.

The ESG Committee reports to the Board on a monthly basis. To further strengthen corporate sustainability governance, the Group has developed the Terms of Reference for the ESG committee setting out its powers and authority delegated by the Board, as well as its scope of work and resources allocated. The ESG Committee also invites staff members of the Group and its subsidiary to attend meetings and ask them for comments to ensure that the Group's sustainability targets are communicated at all levels.

## Performance & Risk Management

The Group considers risk management as an integral part of daily management process and good corporate governance. The Board has overall responsibility for the oversight of the Group's risk management and internal control systems. Since the Group's primary business is property management of housing estates contracted by the HA, we strictly complies with government regulations and other international standards required by the contracts.

1. The company's business operation is audited and monitored by the HA, with monthly as well as quarterly performance reports;
2. The company undertakes ISO 9001, ISO 10002, ISO 14001 and OHSAS 18001 on our environmental, societal and occupational practices performance; and
3. The company employs an external independent consultancy to conduct an annual review on internal control.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## STAKEHOLDER ENGAGEMENT

The Group understand the need of heeding our stakeholders’ concerns and meeting these needs. Stakeholders’ feedback leads the Group to identify material ESG issues and manage the relevant risks and opportunities. In the reporting year, the Group has engaged our key stakeholders via multiple channels to gather their feedback and strives for continuous improvement. Meetings, workshops and other communicative events were held across sites of operations for internal and external stakeholder groups. The following is the major engagement between the Group and various type of Stakeholders:

Employees	Customers/ Tenants/Residents	Suppliers	Government	Communities
A wide range of initiatives to promote healthy workplace, living and well-being amongst our employees	Conducting on-site review quarterly to identify areas for improvement and to meet with their expectation;  Organising estate-based activities with resident representatives	Setting specifications and requirements with annual evaluation to ensure the quality of materials purchased	Participating in training courses provided by the government to understand community issues	Supporting the community through encouraging employees to participate in charity activities and volunteer services

### Identifying Material Issues

Key to the business management of the Group, stakeholder participation helps the Group review potential risks and business opportunities, and also facilitates the mitigation of these risks as well as the identification of opportunities. Understanding stakeholders’ views allow the Group to better fulfil their needs and expectations with its business practice and manage different stakeholders’ opinions.

Combining the insights of the management interview and expert advice, the Group has identified three material issues from the 11 environmental and social aspects of the ESG Reporting Guide to be the focuses of this ESG report. These three issues are **health and safety, development and training**, as well as **community investment**.

### Moving Forward on Stakeholder Engagement

Adopting a people-centric approach towards promoting sustainability within the Group and in the community, the Group is keen to learn more about the expectations and interests of our stakeholders in order to ensure their feedback is effectively considered in the development of our sustainability strategy. To carry out engagement activities on a systematic and regular basis, the Group is planning to develop a more comprehensive engagement strategy (for instance, with reference to the AA1000 Stakeholder Engagement Standard), which includes detailed planning of yearly stakeholder engagement activities, annual assessment as well as review of material issues through stakeholder surveys.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## CARING FOR OUR EMPLOYEES

As a caring and responsible employer, Modern Living is devoted to providing a quality workplace for its employees. At Modern Living, it is not only about fostering a safe and healthy working environment for our employees, but also providing opportunities to develop and realise their potential as they move along the career path. As part of our employee management system, the Group has established a set of policy statements and guidelines to outline its commitments to fostering a respectful, safe and healthy working environment and promoting life-long learning.

### Health and Safety

The presence of any hazardous substances, physical and chemical hazards, at the workplace put employees at risk. Modern Living acknowledges its responsibility to look after their employees and considers risk management as a critical success factor in occupational health and safety (OHS) management in the Employment and Labour Practices Policy Statement. As part of the Group's risk management system, the Safety Committee is responsible for identifying work tasks with high risks, providing sufficient guidance, training and personal protective equipment and conducting regular risk assessment to ensure and maintain a safe working environment for all employees.

During the reporting year, there were no cases of workplace fatalities. While 32 incidents of work-related injuries recorded in the reporting year, the figure has fallen drastically from 48 incidents in 2018. The work-related injuries cases involved cleaners and security guards, incurred due to accidents in regular work activities (e.g. patrols) or on the way to work (e.g. tripping over on the road). Investigations and follow-up actions were immediately undertaken within the Group.

The Group has taken a series of new initiatives and measures in the reporting year to strengthen OHS management, for instances:

- Establishing safety committee at every operation site with representatives from headquarter, estate management office and estate management advisory committee (EMAC);
- Teaming up with healthcare NGOs to design special warm-up exercise for workers;
- Giving incentives and awards for staff who maintain good OHS practices and zero work-related injuries during the quarter/year;
- Enhancing and revamping high-risk locations, for example designing safety steps on podium and rooftop, installing anchorage systems for safety belts;
- Tailor-making a fire-alarm simulation system to enhance the authenticity of fire drills; and
- Organising safety trainings for all front-line staff with topics covering especially high-risk conditions, such as fire safety, proper use of personal protective equipments, hazard prevention & control, workplace violence prevention, safe working practices etc.

Our effort in improving OHS performance and raising OHS standards was reflected not only in the significant decrease in work-related injuries, but also in OHS awards. Shek Lei (I) Estate, one of the public housing estates managed by the Group, attained the bronze award in Best Safety Enhancement Program of the Best Property Safety Management Award organised by Occupational Health & Safety Council. It is the first public housing estate in Hong Kong ever to win this award.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Development and Training

Investing in employee learning and development is the key driver for building a talented and engaged workforce. Through learning and development opportunities, our employees are able to acquire professional knowledge and skills to enhance competencies in terms of career growth and development. This commitment is underlined in our Employment and Labour Practices Policy Statement, which prescribes the allocation of resources to staff development and training.

During the reporting year, the Group continues to encourage employees to attend seminars and talks organised by the HA as well as other government departments. At the same time we reviewed and redesigned the training programme by taking reference to social circumstances and how well our employees understand and respond to certain social issues. The table below shows some of the areas where employees receive education and training:

Training Themes	Content Highlights
Employment & labour practices	<ul style="list-style-type: none"><li>• Labour benefits</li><li>• Occupational health and safety practices in office</li></ul>
Operating Practices	<ul style="list-style-type: none"><li>• Prevention of bribery</li><li>• Handling personal data</li><li>• Regulations &amp; policies on tenants of public housing</li><li>• Security &amp; guarding ordinance &amp; regulations</li><li>• Pest control</li><li>• Tree management</li><li>• Horticulture management &amp; green roof planting</li><li>• Technical updates on site operation</li><li>• Energy management system</li><li>• Maintenance of flats</li><li>• Maintenance of lifts &amp; elevators</li></ul>
Community & Social Issues	<ul style="list-style-type: none"><li>• Identifying &amp; supporting elderly people with dementia</li><li>• Handling issues &amp; incidents related to District Council Election</li></ul>

## Employment System

Modern Living respects every employee and recognises the value of diversity and equality. In addition to the Group's Employment and Labour Practices Policy Statement, the operating subsidiary has issued a Staff Handbook, which includes detailed guidelines on recruitment, promotion, dismissal, working hours, rest periods, compensation, benefits and welfare, equal opportunities, diversity and anti-discrimination as to ensure that employees understand their rights and duties. For a fair, respectful and inclusive working environment, employees are entitled to equal opportunity in promotion decisions given their qualification, experience and work performance.

In case of suspected violation of the employment and labour practices, employees are encouraged to report them to the Group via internal whistle-blowing channels. A dedicated email was set up by the CEO office to handle reported cases. For each complaint received, a committee comprising the CEO, the Operations Director, the HR Director and the Property Manager of the sites of operations concerned will be set up. This ad-hoc committee should conduct investigation through interviews with the informant(s), the victim(s) and other involved parties wherever applicable. For each case investigated, a report should be prepared and will be circulated among senior executives of the company. In case of suspected criminal offence, the Company will alert the police and other relevant government departments immediately.

The Group is also concerned with job satisfaction and exit arrangement for staff. Managers of the sites of operations review regularly on the hiring of suitable talents for middle and senior management posts, as well as reasons for staff to resign. In the reporting year, the Group's operating subsidiary received one new contract and two contract terminations. Close discussions with ex- and new contractors were conducted to ensure a smooth transition of the operation so as to help staff from ex-contractors to be transferred to the Group and for our staff to be transferred to their new employers if they so desire.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Labour Standards

Modern Living adopts a zero-tolerance policy against the use of child labour and forced labour. Measures are taken to ensure adherence to the Employment and Labour Practices Policy Statement. During recruitment process, the Human Resources Department is required to inspect the proof of identity of all applicants (to both full-time and part-time positions) such as Hong Kong Identity Card and valid work visa labels. Guidelines regarding overtime work, allowances and compensation leave are specified in the Staff Handbook, to reduce the risks of forced labour.

The Group abides by labour-related laws and regulations, including but not limited to the Employment Ordinance and the Occupational Safety and Health Ordinance of Hong Kong. In the reporting year, no cases of non-compliance in relation to employment, health and safety and labour standards were reported.

## COMMUNITY INVESTMENT

The Group believes in creating social value with our territory-wide operations. Supporting the communities where we operate is one of our opportunities to create such value, and we strive to build an inclusive community. Our Community Investment Policy Statement underlines the importance of engaging and supporting communities. The Group contributes to the communities by encouraging its employees to take part in volunteer services, as well as sponsoring community projects.

In the reporting year, our community initiatives are designed to focus on three main areas, namely **harmonious community, caring for the elderly**, and **promoting hygiene and cleanliness**. Apart from cash sponsorship, the Group encourages employees to proactively take part in events and collaborate with NGOs and charities to organise related activities for residents of the housing estates managed by the Group. The table below shows some highlights of the events organised:

Theme	Event	Details
Harmonious community	Multiculturalism in Action Carnival	The Group teams up with the Multiculturalism in Action Project Team of CUHK to organise a series of carnivals in the housing estates. Groups and individuals of different ethnic backgrounds residing in Hong Kong were invited to set up booths in estate plazas to promote their cultures and celebrations. Residents and staff members have the chance to mingle with their neighbours of different cultural backgrounds through games, costume dressing and performances.
Caring for the elderly	Dementia Friendly Community Campaign cum Support for Carers Project	To promote a caring culture within the Group, the Group arranged a series of training activities with the Social Welfare Department for frontline staff and management team to gain first-hand experiences of how to identify elderly tenants with possible signs of Alzheimer's Disease, and how to reach out for support in the community. It also helped participants learn about elderly needs.
Promoting hygiene and cleanliness	"Tai Ping Tei"	Maintaining a clean and hygienic environment is one of the keys to a healthy livelihood. Each housing estate organises a thorough sweeping and cleaning within the residential building and public spaces regularly to keep the environment clean. During the exercise staff will also share health tips and environmental tips to residents.

Our community investment endeavours in 2019 have received multiple external recognitions. The Group has been recognised as a Caring Company for 9 consecutive years, and is awarded the Social Capital Builder Awards (the "SCB"), issued by the Community Investment and Inclusion Fund since 2018. In future, the Group will continue to refine its community investment projects and make greater contributions to the sustainable development of the community.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## PROTECTING THE ENVIRONMENT

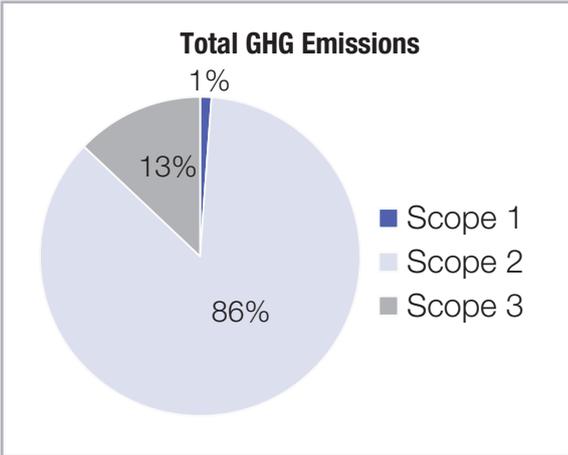
Recognising that climate change can bring risks and opportunities to businesses and communities, we are committed to reducing our environmental impact associated with our activities. The Group has in place an Environmental Protection Policy Statement which outlines our commitment to protecting the environment and minimising the environmental impact of our business operations, while guidelines are provided for employees to encourage environmental-friendly practices.

### Energy and Air Emission Management

The Group’s Environmental Protection Policy Statement prescribes actions to promote energy conservation, to reduce waste, and to mitigate pollution, including greenhouse gas (the “GHG”) emissions and discharges into water and land.

As the first step in establishing a carbon reduction strategy, the Group diligently conducts a carbon assessment to quantify the GHG emissions (or “carbon emissions”) for our operations during their corresponding operation period in the reporting year. The quantification process is in accordance with the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong, with reference to other international standards such as the ISO 14064 standard and the GHG Protocol. The following table illustrates the energy consumption and emission information of the Group during the reporting year:

Total GHG emissions	Total energy consumption	GHG emissions per employee
841.37 tCO <sub>2</sub> -e	1417.8 MWh	0.41 tCO <sub>2</sub> -e



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The total GHG emissions of our headquarter office as well as our offices in the sites of operation were 841.37 tonnes. Purchased electricity accounts for a major part of the total GHG emissions, we therefore have established a set of guidelines regarding energy efficiency in the headquarter office and offices in the sites of operation. The practices prescribed in these guidelines include:

Air conditioning & ventilation	Lighting
<ul style="list-style-type: none"> <li>— Maintain indoor air-conditioning temperature at 25.5 Celsius;</li> <li>— Improve air circulation to achieve cooling effects;</li> <li>— Turn off some air conditioners during lunch and off-hours;</li> <li>— Put up double-layer bamboo blinds for windows that face strong sunlight, to cool down the indoor temperature and reduce pressures on air conditioning;</li> <li>— Manage and monitor energy consumption, with monthly inspections to identify abnormal use and to carry out remedial actions.</li> </ul>	<ul style="list-style-type: none"> <li>— Remove unnecessary light pipes, light bulbs and decorative lights;</li> <li>— Phasing out old light tubes or bulbs and replacing them with more energy-efficient LED light tube or bulb;</li> <li>— Adjust timers of automatic lighting system according to the sunshine time;</li> <li>— Manage and monitor energy consumption, with monthly inspections to identify abnormal switches (premature lighting, late lighting) and to carry out remedial actions.</li> </ul>

During the reporting year, the air pollutants from our operations include NO<sub>x</sub>, SO<sub>x</sub> and RSP, which were generated by passenger cars deployed by the Group. For operational reasons and environmental concerns we have cut down the number of passenger cars of the Group from 2 to 1. The Group will continue to assess our environmental performance to better understand the use of resources and develop specific action plans and develop more comprehensive carbon and other air emission reduction targets.

## Resource and Waste Management

Using energy and water prudently is important to the Group's sustainability performance as well as conserving natural resources. Using resources in an efficient and sustainable manner is part of our operation strategy.

In terms of water efficiency, various environmental initiatives have been developed and implemented. To enhance water efficiency, employees are encouraged to use water wisely and reminders such as stickers and posters are posted at eye-catching locations around office toilets and pantries. During the reporting year, the headquarter office and offices at the sites of operations did not encounter any issues in sourcing water for property management purpose. Excluding the amount of water consumption at the headquarter office<sup>1</sup>, a total of 4144.43 m<sup>3</sup> of freshwater was consumed by the Group during the reporting year.

<sup>1</sup> There is no communal water supply to the headquarter office; it is hence unable to provide separate water consumption data to the Group for the reporting year.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As for waste management, domestic waste generated at the sites of operations are regularly collected by the refuse collection vehicles of the Food and Environmental Hygiene Department or its contractors, which are transferred to the nearest refuse collection points. Within the management offices, there are collection trays to collect papers that have only been used one side for re-using. Whereas at all properties managed by the Group, there are recycling bins to collect waste paper, waste metal, waste plastic, glass bottles and light tubes to encourage waste reduction and recycling efforts. The table below shows the amount of recyclable wastes collected during the reporting year:

Item	Paper (kg)	Aluminium cans (kg)	Plastic (kg)	Metal materials (kg)	Glass* (kg)	Light tube (qty)
Total amount collected	3,992,433	139,145	132,927	755,602	63,980	1,157

\* January-November 2019 only<sup>2</sup>

Other than within the sites of operation, the Group takes the initiative to reuse or recycle materials from communal events, for instance, recycling garden soils from the Hong Kong Flower Show, collecting and planting mandarin orange pots and flowers pots from CNY, collecting and recycling mooncake boxes.

The Group recognises the significance of accurate reporting on environmental performance data, and hence have developed a system in this reporting year to coordinate data reporting actions in all sites of operations. Meanwhile, all sites of operations are going to apply for the Source Separation of Domestic Waste Commendation Scheme developed by the Environmental Protection Department of the Hong Kong Government in the year 2019–2020.

The Group also encourages the management offices of the sites of operation to apply for different environmental certifications whenever possible. In 2019, 4 sites of operation (management offices of Shui Pin Wai Estate, Tin Yiu Estate, Lee On Estate and On Tin Estate) were awarded the title of the Hong Kong Green Organisation for their efforts in conserving energy, reducing waste and other aspects of environmental management. In addition, 5 sites of operation were awarded the EnergyWi\$e certificate and 5 sites of operation were awarded the WasteWi\$e certificate.

During the reporting year, the Group did not produce any hazardous waste in its operation.

## The Environment and Natural Resources

While Modern Living does not impose any significant direct impact on the environment and natural resources, the Group recognises that property operation would pose impacts on the surrounding environment and therefore continues to promote environmental protection in the communities.

The Group acts in accordance with relevant laws and regulations on emissions, including but not limited to the Air Pollution Control Ordinance, the Water Pollution Control Ordinance and the Waste Disposal Ordinance of Hong Kong. In the reporting year, there were no non-compliance cases in relation to the environment reported.

<sup>2</sup> The government ceased to collect recycled glass in December 2019. The above data for glass covers January to November 2019 only.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## OPERATING PRACTICES

Modern Living is committed to upholding a high standard of corporate governance and business integrity in all its business activities. The Group's Supply Chain Management, Product Responsibility and Anti-corruption Policy Statement sets out objectives and requirements regarding ethical practices in business operations.

### Supply Chain Management

By committing to responsible, fair and ethical business practices, we continue to nurture long-term business relationships with suppliers to build a fair and responsible supply chain. In addition to the HKHA's Procurement and Supplies Instructions that requires the Group to obtain prior approval for procuring products and services that exceed a set amount at the sites of operations, the Group has specified its own approach in managing environmental and social risks of the supply chain, for instances:

- consideration of suppliers' environmental and social performance in annual review
- identification of environmental and social risks in supply chain
- establishment of communication channels with suppliers

### Product Responsibility

#### Customer health and safety

As a service provider, we endeavour to maintain a safe and healthy environment for the residents and the general public who use and access the housing estates. Regular inspections into the performance of all escalators and lifts have been conducted at all sites of operations, to ensure system reliability and safety of building users. Fire drills, attended by both staff and resident representatives, are conducted yearly to ensure capability of emergency response in property management, and to raise fire safety awareness among residents. We have been working closely with government departments on the enhancement of residential and communal environment at the sites of operations, for example on pest controls.

#### Customer satisfaction

The Group seeks to improve its customer services and handle complaints with due procedures. To achieve this goal, the Group provided service in accordance with the criteria set out in the Property Service Agents Performance Assessment System Manual. The criteria cover quality standard of service provision in relation to estate management (including cleaning, security, soft landscaping etc.), and the procedures of handling complaints and requests. The service performance of the sites of operations was assessed by monthly audit and compliance checks. The monthly audit consists of 4 major parts:

1. Score table of a list of service items/standards;
2. Checklist for compliance of environmental management;
3. Assessor's comments (can be sheer description, recommendation or commendation); and
4. Photo records of the spots checked.

The sites of operations take remedial measures suggested by the audit result to optimize service provision workflows. Wherever follow-up actions are needed, the Group will endeavour to carry out remedial measures within a reasonable time frame.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Customer privacy

Modern Living is committed to protecting the personal data of our customers. With respect to client's right to privacy, the Group sets out the Guideline on Protection of Customer Data and Guidance on CCTV Surveillance, providing frontline employees with guidance and working procedures on the proper handling and protection of personal data of any individual, including residents, tenants and visitors. Tenant information is restricted to authorised personnel with designated computers and password access, while images generated from surveillance cameras are only accessible to designated persons on duties with prescribed functions of security management.

## Marketing communications

The Group provides easy-to-access information regarding our services both on our printed communication materials and digital platforms. These communication channels help stakeholders, including our customers and shareholders, make informed choices. As stated in our policy statement, we are dedicated to marketing our services responsibly in line with relevant regulatory requirements and providing trustworthy information for customers.

The Group abides by laws and regulations in relation to product responsibility, including but not limited to the Building Management Ordinance, the Personal Data (Privacy) Ordinance and the Competition Ordinance of Hong Kong. During the reporting year, no cases of non-compliance in relation to product responsibility were reported.

## Anti-corruption

Operating with honesty, integrity and fairness is essential to our business. Our Staff Disciplinary Code sets the standard and practices on anti-bribery and anti-corruption. As stated under the Code, directors and employees are prohibited to receive advantage from the tenants, license holders, residents, visitors, etc. when they are performing duties. Advantages can be in the form of gifts, loans, fees, rewards, employment opportunities, services or favours.

In addition, whistle-blowing procedures are set up for employees to raise concerns via dedicated email address on possible improprieties or non-compliance of employees, suppliers and business partners without fear of reprisal. Reported cases will be sent to senior management of the Group, including Chairman, Chief Executive Officers, and Directors of the human resources and operation departments. The Group should handle each reported case with due procedures and confidentiality.

The Group follows the relevant laws and regulations in relation to corruption, including but not limited to the Prevention of Bribery Ordinance of Hong Kong. During the reporting year, there were no cases of non-compliance or legal cases in relation to corruption.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SUMMARY OF KEY PERFORMANCE INDICATORS

### Environmental Performance

Air Emissions	Quantity	Unit
Nitrogen oxides (NO <sub>x</sub> )	4.44	Kilogram
Sulphur oxides (SO <sub>x</sub> )	0.05	Kilogram
Respiratory suspended particles (RSP)	0.327	Kilogram
Waste	Quantity	Unit
Total hazardous waste produced	Not available	tonnes
Total non-hazardous waste produced	12.68	tonnes
Intensity of non-hazardous waste produced (by number of employees)	0.0056	tonnes/person
Energy Use	Quantity	Unit
Total energy consumption	1417.80	MWh
Intensity of energy consumption (by number of employees)	0.62	MWh/person
Greenhouse Gas Emissions	Quantity	Unit
Scope 1 emissions	9.67	tonnes CO <sub>2</sub> -e
Scope 2 emissions	723.08	tonnes CO <sub>2</sub> -e
Scope 3 emissions	108.63	tonnes CO <sub>2</sub> -e
Total carbon emissions	841.37	tonnes CO <sub>2</sub> -e
Intensity of carbon emissions (by number of employees)	0.337	tonnes CO <sub>2</sub> -e/person
Water Use	Quantity	Unit
Total water consumption	4144.43	m <sup>3</sup>
Intensity of water consumption (by number of employees)	1.66	m <sup>3</sup> /person
Packaging materials	Quantity/Unit	
Total packaging materials used	Not applicable (The office operations and business nature of the	
Packaging materials used per unit produced	Group in the reporting scope do not involve use of packaging materials for finished products)	

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Social Performance

	Number of work-related injuries	Number of work-related injuries due to high-risk tasks	Number of lost days due to work injury
Male	10	1	876
Female	23	5	2,306
Total	33	6	3,182

Workforce	Number of Employees (as of 31 Dec 2019)
Full-time	1,940
Part-time	88
Total	2,028

Workforce (average number in 2019)	Below 30	30–40	40–50	Over 50	Total	Total	Male to female ratio
Male							
Directors (including non-executive directors)	0	0	0	9	9	883	1:1.83
Senior management	1	4	8	27	40		
Middle management	6	31	9	31	77		
General staff	98	36	46	577	757		
Female							
Directors (including non-executive directors)	0	0	0	2	2	1613	
Senior management	0	2	3	2	7		
Middle management	5	23	11	29	68		
General staff	46	69	311	1,110	1,536		
Total workforce	156	165	388	1,787	2,496		
Number of work-related fatalities							0
Rate of work-related fatalities							0

## Community Investment

Number of volunteer hours of employees in community activities	4,088
Amount of contribution (HKD)	636,936

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ESG REPORTING GUIDE CONTENT INDEX

Material Aspect	Content	Page Index/Remarks
A1. 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 air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	93–95
A1.1	The types of emissions and respective emissions data	98
	Nitrogen oxides (NO <sub>x</sub> ) (kilogram)	98
	Sulphur oxides (SO <sub>x</sub> ) (kilogram)	98
	Particulate matter (PM) (kilogram)	98
A1.2	Greenhouse gas emissions in total (tonnes)	93, 98
	Intensity of greenhouse gas emissions (tonnes CO <sub>2</sub> -e/no. of employee)	98
A1.3	Total hazardous waste produced (tonnes)	98
	Intensity of total hazardous waste produced (tonnes/no. of employee)	98
A1.4	Total non-hazardous waste produced (tonnes)	98
	Intensity of non-hazardous waste produced (tonnes/no. of employee)	98
A1.5	Description of measures to mitigate emissions and results achieved	93–95
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	94–95

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Material Aspect	Content	Page Index/Remarks
A2. General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	93–95
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (MWh).	98
	Direct energy (GJ)	–
	Indirect energy (MWh)	98
	Direct and/or indirect energy intensity by type (e.g. electricity, gas or oil) (MWh/no. of employee)	98
A2.2	Water consumption in total (m <sup>3</sup> )	94, 98
	Water intensity (m <sup>3</sup> /no. of employee)	98
A2.3	Description of energy use efficiency initiatives and results achieved	93–95
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	94
A2.5	Total packaging material used for finished products (tonnes)	–
	Packaging material intensity (tonnes/unit of product)	–
A3. General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	93–95
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	93–95
B1. 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, anti-discrimination, and other benefits and welfare.	91
B1.1	Total workforce by gender, employment type, age group and geographical region	99
B1.2	Employee turnover rate by gender, age group and geographical region	–

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Material Aspect	Content	Page Index/Remarks
B2. 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.	90
B2.1	Number and rate of work-related fatalities	99
B2.2	Lost days due to work injury	99
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	90
B3. General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	91
B4. 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.	92
B4.1	Description of measures to review employment practices to avoid child and forced labour	92
B4.2	Description of steps taken to eliminate such practices when discovered	92
B5. General Disclosure	Policies on managing environmental and social risks of the supply chain.	96
B6. 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.	96–97
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	97

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Material Aspect	Content	Page Index/Remarks
B7. 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.	97
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	–
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	97
B8. 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.	92
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	92
B8.2	Resources contributed to the focus area	92

## FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities of the Group for the last three financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below:

	For the year ended 31 December		
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000
Revenue	413,961	371,208	356,441
Other income	248	347	246
Other gains, net	213	63	61
Employee benefits expenses	(376,870)	(330,477)	(319,376)
Cleaning material costs	(7,472)	(5,596)	(4,536)
Utilities expenses	(2,056)	(1,836)	(1,937)
Depreciation of plant and equipment	(1,692)	(2,232)	(2,164)
Depreciation of right-of-use assets	(919)	–	–
Other operating expenses	(17,954)	(16,356)	(10,804)
Listing expenses	–	–	(15,924)
Operating profit	7,459	15,121	2,007
Finance income/(cost), net	1,125	(597)	(1,436)
Profit before income tax	8,584	14,524	571
Income tax expense	(1,398)	(2,382)	(2,731)
<b>Profit/(loss) for the year</b>	<b>7,186</b>	12,142	(2,160)
<b>ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	<b>7,186</b>	12,142	(2,160)

## ASSETS AND LIABILITIES

	As at 31 December		
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000
Total assets	153,444	162,408	180,772
Total liabilities	41,682	50,619	80,230