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雅居物業管理
Modern Living Property Management

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8426)

ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

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

*This announcement, 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 announcement 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 announcement misleading.*

FINANCIAL HIGHLIGHTS

- For the year ended 31 December 2020, the Group's revenue amounted to approximately HK\$459.42 million (2019: approximately HK\$413.96 million), representing an increase of approximately 10.98% as compared with last year.
- For the year ended 31 December 2020, the Group's operating profit amounted to approximately HK\$22.19 million (2019: approximately HK\$7.46 million), representing an increase of approximately 197.45% as compared with last year.
- For the year ended 31 December 2020, the Group's profit for the year amounted to approximately HK\$19.44 million (2019: approximately HK\$7.19 million), representing an increase of approximately 170.38% as compared with last year.
- The board of Directors (the "**Board**") recommended the payment of a final dividend of HK\$0.015 per share, totalling HK\$12.00 million for the year ended 31 December 2020 (2019: HK\$4.00 million).

ANNUAL RESULTS

The Board is pleased to announce the consolidated results of the Group for the year ended 31 December 2020, together with the audited comparative figures for the year ended 31 December 2019. The financial information has been approved by the Board on 22 March 2021.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

| | <i>Notes</i> | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Revenue | 4 | 459,415 | 413,961 |
| Other income | | 9,046 | 248 |
| Other gains, net | | 307 | 213 |
| Employee benefits expenses | 5 | (392,667) | (376,870) |
| Subcontracting fee | 5 | (26,124) | – |
| Cleaning material costs | 5 | (6,643) | (7,472) |
| Utilities expenses | 5 | (1,993) | (2,056) |
| Depreciation of plant and equipment | 5 | (1,082) | (1,692) |
| Depreciation of right-of-use assets | 5 | (996) | (919) |
| Impairment loss on trade receivables | 5 | (811) | – |
| Other operating expenses | 5 | (16,260) | (17,954) |
| Operating profit | 5 | 22,192 | 7,459 |
| Finance income | | 261 | 1,619 |
| Finance costs | | (477) | (494) |
| Finance (costs)/income, net | 6 | (216) | 1,125 |
| Profit before income tax | | 21,976 | 8,584 |
| Income tax expense | 7 | (2,536) | (1,398) |
| Profit for the year | | 19,440 | 7,186 |
| Earnings per share | | | |
| Basic and diluted (HK cents per share) | 9 | 2.43 | 0.90 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Profit for the year | 19,440 | 7,186 |
| Other comprehensive income/(loss): <i>Items that will not be reclassified to profit or loss</i> | | |
| Remeasurement of employee benefits obligations | <u>4,768</u> | <u>(3,809)</u> |
| Other comprehensive income/(loss) for the year, net of tax | <u>4,768</u> | <u>(3,809)</u> |
| Total comprehensive income for the year | <u>24,208</u> | <u>3,377</u> |

CONSOLIDATED BALANCE SHEET

As at 31 December 2020

| | <i>Notes</i> | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Plant and equipment | | 2,550 | 1,801 |
| Right-of-use assets | | 3,683 | 1,255 |
| Retention money receivables | <i>10</i> | 2,284 | 1,964 |
| Investment in an insurance contract | | 2,308 | 2,242 |
| Rental deposit | <i>10</i> | 120 | – |
| | | <u>10,945</u> | <u>7,262</u> |
| Current assets | | | |
| Trade receivables | <i>10</i> | 91,759 | 64,986 |
| Contract assets | <i>10</i> | 16,487 | 14,969 |
| Prepayments, deposits and other receivables | <i>10</i> | 4,628 | 5,368 |
| Pledged bank deposits | | 36,731 | 32,845 |
| Short-term bank deposit | | – | 12,570 |
| Cash and bank balances | | 29,789 | 15,444 |
| | | <u>179,394</u> | <u>146,182</u> |
| Total assets | | <u><u>190,339</u></u> | <u><u>153,444</u></u> |
| EQUITY | | | |
| Equity attributable to the owners of the Company | | | |
| Share capital | | 8,000 | 8,000 |
| Reserves | | 124,678 | 103,762 |
| Total equity | | <u>132,678</u> | <u>111,762</u> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 243 | 117 |
| Lease liabilities | | 2,546 | 553 |
| | | <u>2,789</u> | <u>670</u> |
| Current liabilities | | | |
| Trade payables | <i>11</i> | 428 | 196 |
| Other payables and accrued liabilities | <i>11</i> | 49,611 | 37,433 |
| Borrowings | <i>12</i> | 2,802 | – |
| Lease liabilities | | 1,197 | 774 |
| Current income tax liabilities | | 834 | 2,609 |
| | | <u>54,872</u> | <u>41,012</u> |
| Total liabilities | | <u><u>57,661</u></u> | <u><u>41,682</u></u> |
| Total equity and liabilities | | <u><u>190,339</u></u> | <u><u>153,444</u></u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

| | Share Capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Contribution reserves <i>HK\$'000</i> | Share- based payment reserves <i>HK\$'000</i> | Retained earnings <i>HK\$'000</i> | Total equity <i>HK\$'000</i> |
|--|-------------------------------------|-------------------------------------|---|---|---|------------------------------------|
| Balance at 1 January 2019 | 8,000 | 42,776 | 22,270 | – | 38,743 | 111,789 |
| 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) |
| Balance at 31 December 2019 | <u>8,000</u> | <u>42,776</u> | <u>22,270</u> | <u>596</u> | <u>38,120</u> | <u>111,762</u> |
| Balance at 1 January 2020 | <u>8,000</u> | <u>42,776</u> | <u>22,270</u> | <u>596</u> | <u>38,120</u> | <u>111,762</u> |
| Profit for the year | – | – | – | – | 19,440 | 19,440 |
| Other comprehensive income: Remeasurement of employee benefits obligations | – | – | – | – | 4,768 | 4,768 |
| Total comprehensive income | – | – | – | – | 24,208 | 24,208 |
| Transactions with owners in their capacity as owners: | | | | | | |
| Share-based payment | – | – | – | 708 | – | 708 |
| Dividend paid | – | – | – | – | (4,000) | (4,000) |
| Total transactions with owners in their capacity as owners | – | – | – | 708 | (4,000) | (3,292) |
| Balance at 31 December 2020 | <u>8,000</u> | <u>42,776</u> | <u>22,270</u> | <u>1,304</u> | <u>58,328</u> | <u>132,678</u> |

NOTES

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 Windward 3, Regatta Office Park, PO Box 1350, 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 GEM of The Stock Exchange of Hong Kong Limited on 10 November 2017 (the “**Listing**”).

2. 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 have 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 2020:

| | |
|---|--|
| HKFRS 3 | Definition of a Business (Amendments) |
| HKAS 1 and HKAS 8 | Definition of Material (Amendments) |
| HKAS 39, HKFRS 7 and HKFRS 9 | Hedge Accounting (Amendments) |
| Conceptual Framework for Financial Reporting 2018 | Revised Conceptual Framework for Financial Reporting |

The 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.

(ii) **New standard and interpretations not yet adopted**

| | | Effective for accounting periods beginning on or after |
|--------------------------------|---|---|
| HKFRS 16 | COVID-19-Related Rent Concessions (Amendments) | 1 June 2020 |
| Annual Improvements Project | Annual Improvements to HKFRSs 2018–2020 (Amendments) | 1 January 2022 |
| HKAS 16 | Property, plant and equipment — proceeds before intended use (Amendments) | 1 January 2022 |
| HKAS 37 | Onerous contracts — cost of fulfilling a contract (Amendments) | 1 January 2022 |
| HKFRS 3 | Reference to the conceptual framework (Amendments) | 1 January 2022 |
| HKAS 1 | Classification of Liabilities as Current or Non-current (Amendments) | 1 January 2023 |
| HKFRS 17 | Insurance Contracts | 1 January 2023 |
| HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments) | To be determined |

The above new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 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.

3. **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 2019 and 2020, 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 2019 and 2020. 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:

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|------------|-------------------------|-------------------------|
| Customer A | <u>459,415</u> | <u>412,565</u> |

No other single customers contributed 10% or more to the Group's revenue for the year ended 31 December 2019 and 2020.

4. REVENUE

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|-------------------------------------|-------------------------|-------------------------|
| Property management services income | <u>459,415</u> | <u>413,961</u> |

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

5. EXPENSES BY NATURE

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

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---------------------------------------|-------------------------|-------------------------|
| Auditor's remuneration | 1,080 | 1,080 |
| Cleaning material costs | 6,643 | 7,472 |
| Depreciation of plant and equipment | 1,082 | 1,692 |
| Depreciation of right-of-use assets | 996 | 919 |
| Employee benefits expenses | 392,667 | 376,870 |
| Entertainment and travelling expenses | 882 | 967 |
| Estate maintenance expenses | 944 | 976 |
| Guarantee fee | 1,502 | 1,141 |
| Insurance fee | 5,432 | 6,283 |
| Impairment loss on trade receivables | 811 | – |
| Office supplies | 1,513 | 1,591 |
| Professional fee | 1,521 | 1,817 |
| Security expenses | 541 | 669 |
| Subcontracting fee | 26,124 | – |
| Uniform & laundry | 573 | 566 |
| Utilities expenses | 1,993 | 2,056 |
| Other expenses | <u>2,272</u> | <u>2,864</u> |
| | <u>446,576</u> | <u>406,963</u> |

6. FINANCE (COSTS)/INCOME, NET

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--------------------------------|--------------------------------|-------------------------|
| Bank interest income | 261 | 1,619 |
| Interests on borrowings | (390) | (411) |
| Interests on lease liabilities | (87) | (83) |
| | <u>(477)</u> | <u>(494)</u> |
| | <u>(216)</u> | <u>1,125</u> |

7. INCOME TAX EXPENSE

Hong Kong profits tax is calculated at the rate of 16.5% (2019: 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 income statement represents:

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|------------------------------|--------------------------------|-------------------------|
| Hong Kong profits tax: | | |
| Current income tax | 2,468 | 1,672 |
| Over provision in prior year | (58) | (22) |
| | <u>2,410</u> | <u>1,650</u> |
| Deferred income tax | 126 | (252) |
| | <u>2,536</u> | <u>1,398</u> |

8. DIVIDENDS

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Proposed final dividend of HK\$0.015 (2019: HK\$0.005) per ordinary share | <u>12,000</u> | <u>4,000</u> |

A final dividend for the year ended 31 December 2020 of HK\$0.015 (2019: HK\$0.005) per ordinary share, totalling approximately HK\$12,000,000 (2019: 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 2020.

9. 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.

| | 2020 | 2019 |
|---|---------------------------|--------------------|
| Profit attributable to owners of the Company (HK\$'000) | 19,440 | 7,186 |
| Weighted average number of ordinary shares in issue | <u>800,000,000</u> | <u>800,000,000</u> |
| Earnings per share (HK cents) | <u>2.43</u> | <u>0.90</u> |

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 (2019: one) category of dilutive potential ordinary shares: share options (2019: one). 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 and 2020 are 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.

10. RECEIVABLES, CONTRACT ASSETS, PREPAYMENTS AND DEPOSITS

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Non-current: | | |
| Retention money receivables (<i>Note i</i>) | 2,284 | 1,964 |
| Rental deposit | 120 | – |
| | <u>2,404</u> | <u>1,964</u> |
| Current: | | |
| Trade receivables | 92,570 | 64,986 |
| Less: Provision of impairment | (811) | – |
| | <u>91,759</u> | <u>64,986</u> |
| Contract assets (<i>Note ii</i>) | 16,487 | 14,969 |
| | <u>108,246</u> | <u>79,955</u> |
| Utilities deposits | 447 | 368 |
| Rental deposit | – | 116 |
| Prepaid insurance | 2,914 | 2,865 |
| Prepayment | 610 | 592 |
| Other receivables | 657 | 1,427 |
| | <u>4,628</u> | <u>5,368</u> |
| Total current prepayments, deposits and other receivables | <u>112,874</u> | <u>85,323</u> |
| | <u>115,278</u> | <u>87,287</u> |

Note:

- (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 2019 and 2020. 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:

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|------------------------------------|--------------------------------|-------------------------|
| Contract assets (<i>Note ii</i>) | <u>16,487</u> | <u>14,969</u> |
| Trade receivables: | | |
| Up to 30 days | 48,113 | 30,283 |
| 31 to 60 days | 41,907 | 21,449 |
| 61 to 90 days | <u>2,550</u> | <u>13,254</u> |
| | <u>92,570</u> | <u>64,986</u> |
| Less: Provision of impairment | <u>109,057</u> <u>(811)</u> | 79,955 <u>–</u> |
| | <u>108,246</u> | <u>79,955</u> |

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.

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

Movements on the provision for impairment of trade receivables are as follows:

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--------------------------|--------------------------------|-------------------------|
| As at 1 January | – | – |
| Provision for impairment | <u>811</u> | <u>–</u> |
| As at 31 December | <u>811</u> | <u>–</u> |

11. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED LIABILITIES

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Trade payables | <u>428</u> | <u>196</u> |
| Provision for long service payment | 5,161 | 10,572 |
| Provision for unutilised annual leave | 3,665 | 2,397 |
| Accrued wages, salaries and pensions | 35,840 | 20,153 |
| Other accrued expenses and payables | <u>4,945</u> | <u>4,311</u> |
| Total other payables and accrued liabilities | <u>49,611</u> | <u>37,433</u> |
| Total trade and other payables and accrued liabilities | <u>50,039</u> | <u>37,629</u> |

At 31 December 2019 and 2020, the ageing analysis of the trade payables based on invoice date was as follows:

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|-----------|--------------------------------|-------------------------|
| 0–30 days | <u>428</u> | <u>196</u> |

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.

12. BORROWINGS

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Bank loans due for repayment within one year | <u>2,802</u> | <u>–</u> |

As at 31 December 2020, the bank borrowings bear interest at floating rates and the effective interest rates are as follows:

| | 2020 |
|------------|--------------------|
| Bank loans | <u>1.41%–3.54%</u> |

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

As at 31 December 2020, the bank borrowings are denominated in HK\$.

As at 31 December 2020, 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:

| | |
|---------------|--------------------------------|
| | 2020 HK\$'000 |
| Within 1 year | 2,802 |

The Group has the following floating rate undrawn borrowing facilities:

| | | |
|-----------------------|--------------------------------|-------------------------|
| | 2020 HK\$'000 | 2019 <i>HK\$'000</i> |
| Unutilised facilities | 36,500 | 37,500 |

As at 31 December 2020, the banking facilities granted to the Group are secured by:

- (i) The Group's Insurance Policy of HK\$2,308,000 (2019: HK\$2,242,000);
- (ii) The Group's pledged bank deposits of HK\$36,731,000 (2019: HK\$32,845,000); and
- (iii) The corporate guarantee executed by the Company.

13. CONTINGENT LIABILITIES

The Group had contingent liabilities in respect of the following:

- (i) As at 31 December 2020, the Group had entered into 37 (2019: 40) performance bonds with a bank. The aggregate amount of the performance bonds was HK\$100,928,000 (2019: HK\$93,070,000) as at 31 December 2020. 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 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 2020, Hong Kong Housing Authority (“HA”) was the Group’s sole customer and contributed all 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 10.98% from approximately HK\$413.96 million for the year ended 31 December 2019 to approximately HK\$459.42 million for the year ended 31 December 2020. The increase was primarily attributable to (i) increase in pricing of new property management service contracts; 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 2020.

| Types of properties | Number of estates/ contracts |
|--|---|
| (1) Public housing estates (excluding HOS estates) | 28 |
| (2) HOS estates | 3 |

Other Income

Other income increased by approximately HK\$8.80 million from approximately HK\$0.25 million for the year ended 31 December 2019 to approximately HK\$9.05 million for the year ended 31 December 2020. The increase was mainly due to (i) increase in the administrative fee received on distribution of the anti-epidemic subsidies for employees for the year; and (ii) receipt of the government's subsidies under the Employment Support Scheme (“ESS”) set up by the Government.

Other Gains, Net

Other gains increased by approximately HK\$0.10 million from approximately HK\$0.21 million for the year ended 31 December 2019 to approximately HK\$0.31 million for the year ended 31 December 2020. The amount is represented by the disposals of plant and equipment for the year ended 31 December 2020.

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 2020, the Group had a total of 2,293 employees (2019: 2,028 employees). The increase in number of employees was mainly attributable to the increase of the new property management services contracts of the public housing estates commenced during the year.

The total employee benefits expenses amounted to approximately HK\$392.67 million (2019: HK\$376.87 million) for the year ended 31 December 2020, representing approximately 85.47% (2019: 91.04%) of the Group's revenue. The total employee benefits expenses increased by approximately 4.19% for the year ended 31 December 2020 from last year. Such increase was mainly attributable to (i) the salaries and wages for the additional staff employed for the new property management services contracts of public housing estates awarded by the HA in 2020; and (ii) the annual increase in salaries and wages.

Cleaning Material Costs

The cleaning material costs amounted to approximately HK\$6.64 million for the year ended 31 December 2020 (2019: HK\$7.47 million), representing a decrease of 11.11% as compared with last year. The decrease was mainly attributable to the outsourcing of cleaning services of three public estates managed by the Group from July 2020.

Other Operating Expenses

Other operating expenses amounted to approximately HK\$16.26 million (2019: HK\$17.95 million) for the year ended 31 December 2020, representing a decrease of approximately 9.42% 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 decrease in other operating expenses was mainly attributable to (i) decrease in the hostings of estates community functions due to coronavirus epidemic; (ii) decrease in various compliance costs; and (iii) decrease in insurance expense and guarantee fees.

The breakdown of other operating expenses recorded for the year ended 31 December 2020 together with the comparative figures for the year ended 31 December 2019 is as follow:

| | For the year ended 31 December 2020 HK\$ ('000) | For the year ended 31 December 2019 HK\$ ('000) |
|--------------------------------------|--|---|
| Auditor's remuneration | 1,080 | 1,080 |
| Insurance and guarantee expense | 6,934 | 7,424 |
| Office supplies | 1,513 | 1,591 |
| Security charges | 541 | 669 |
| Entertainment and travelling expense | 882 | 967 |
| Estate maintenance expense | 944 | 976 |
| Community function | 126 | 628 |
| Telecommunication charges | 379 | 358 |
| Professional fee | 1,521 | 1,817 |
| Uniform & laundry | 573 | 566 |
| Others | 1,767 | 1,878 |
| | <hr/> | <hr/> |
| Total | 16,260 | 17,954 |
| | <hr/> <hr/> | <hr/> <hr/> |

Finance Costs/Income, net

Net finance costs amounted to approximately HK\$0.22 million (2019: net finance income of HK\$1.13 million) for the year ended 31 December 2020. The net finance costs was mainly attributable to the decrease in the amount of bank fixed deposits and interest rate during the year ended 31 December 2020.

Income Tax Expense

Income tax expense amounted to approximately HK\$2.54 million for the year ended 31 December 2020 (2019: HK\$1.40 million). Profit before income tax amounted to approximately HK\$21.98 million for the year ended 31 December 2020 compared with approximately HK\$8.58 million for the year ended 31 December 2019.

Profit and total comprehensive income attributable to owners of the Company

Profit for the year increased from approximately HK\$7.19 million for the year ended 31 December 2019 to approximately HK\$19.44 million, mainly due to (i) increase in pricing of new property management service contracts; (ii) the upward adjustment on service fee for some of the Group's existing contracts in according with the adjustment mechanism as stipulated in those contracts; (iii) closer monitoring over both the employee benefit expense and various other operating expense items; and (iv) receipt of the government's subsidies under the anti-epidemic fund set up by the Hong Kong Government. Total comprehensive income for the year ended 31 December 2020 amounted to approximately HK\$24.21 million as compared with approximately HK\$3.38 million for the year ended 31 December 2019. Such increase was mainly due to the increase in profit for the year and decrease in remeasurements of employee benefit obligations.

Dividends

The Board recommended the payment of a final dividend of HK\$0.015 per share, totalling HK\$12.00 million for the year ended 31 December 2020 (2019: HK\$4.00 million).

Liquidity and Financial Resources

| | 2020 | 2019 |
|--|-------------------|------------|
| | HK\$'000 | HK\$'000 |
| Financial position | | |
| Current assets | 179,394 | 146,182 |
| Current liabilities | 54,872 | 41,012 |
| Net current assets | 124,522 | 105,170 |
| Total assets | 190,339 | 153,444 |
| Total liabilities | 57,661 | 41,682 |
| Borrowings | 2,802 | – |
| Cash and bank balances | 29,789 | 15,444 |
| Pledged bank deposits | 36,731 | 32,845 |
| Total equity | 132,678 | 111,762 |
| Key financial ratios | | |
| Return on equity ^(Note 1) | 14.65% | 6.43% |
| Return on total assets ^(Note 2) | 10.21% | 4.68% |
| Current ratio ^(Note 3) | 3.27 times | 3.56 times |
| Gearing ratio ^(Note 4) | 4.93% | 1.19% |

Notes:

1. Return on equity is calculated as the profit for the year divided by total equity.
2. Return on total assets is calculated as the profit for the year divided by total assets.
3. Current ratio is calculated as total current assets divided by total current liabilities.
4. 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 2020 was 3.27 times as compared to that of 3.56 times as at 31 December 2019. The decrease was mainly due to the increase in borrowings and lease liabilities during the year ended 31 December 2020.

As at 31 December 2020, the Group's cash and bank balances were approximately HK\$29.79 million (2019: approximately HK\$15.44 million). As at 31 December 2020, the Group's borrowings were HK\$2.80 million, which bear interest at 1.41%–3.54% per annum (2019: nil). Further details and the maturities of the Group's total borrowings are set out in note 12 to this announcement.

The gearing ratio increased to approximately 4.93% as at 31 December 2020 from approximately 1.19% as at 31 December 2019, mainly due to increase the borrowings and lease liabilities during the year ended 31 December 2020. 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.

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 2020, 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 2020.

Commitment

The Group has no material capital commitment as at 31 December 2020.

Segment Information

Segment information is disclosed in note 3 of the notes to this announcement.

Future Plans for Material Investments and Capital Assets

As at 31 December 2020, 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 2020.

Significant Investment

The Group held investment in an insurance contract of approximately HK\$2.31 million as at 31 December 2020 (2019: HK\$2.24 million). The gain on investment in an insurance contract amounted to approximately HK\$0.07 million for the year ended 31 December 2020 (2019: HK\$0.07 million). Other than the insurance contract as mentioned above, the Group did not have other significant investment as at 31 December 2020.

Contingent Liabilities

Save as disclosed in note 13 to this announcement, as at 31 December 2020 and 2019, 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 2020.

Charge of Group's Assets

As at 31 December 2020, the Group has pledged its bank deposits of approximately HK\$36.73 million (2019: approximately HK\$32.85 million) and investment in an insurance contract of approximately HK\$2.31 million (2019: approximately HK\$2.24 million) to a bank for securing its performance bonds of approximately HK\$100.93 million (2019: approximately HK\$93.07 million) and bank borrowings of HK\$2.80 million (2019: nil) under certain banking facilities.

Employees and Remuneration Policies

As at 31 December 2020, the Group had a total of 2,293 employees (2019: 2,028 employees). The increase in number of employees was mainly attributable to the additional staff employed for the new public housing estates awarded by the HA during the year. The Group's employee benefits expenses for the year ended 31 December 2020 amounted to approximately HK\$392.67 million (2019: HK\$376.87 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.

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the Listing, after deducting listing-related expenses of HK\$25.15 million, were approximately HK\$34.85 million. 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:

| Uses of the Net Proceeds | Planned Use of Net Proceeds <i>HK\$ million</i> | Remaining balance of the Net Proceeds as at 31 December 2019 <i>HK\$ million</i> | Utilised Net Proceeds during the year ended 31 December 2020 <i>HK\$ million</i> | Remaining balance of the Net Proceeds as at 31 December 2020 <i>HK\$ million</i> |
|--|--|---|---|---|
| Satisfying the additional working capital requirement by the Housing Authority and additional cash to be deposit as collateral of the performance bond for tendering for additional property management service contracts from the Housing Authority | 25.80 | 3.95 | 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 Housing Authority | <u>9.05</u> | <u>9.05</u> | <u>9.05</u> | <u>–</u> |
| | <u><u>34.85</u></u> | <u><u>13.00</u></u> | <u><u>13.00</u></u> | <u><u>–</u></u> |

As at 31 December 2020, all net proceeds from the Listing have been fully utilised.

Although the Group has endeavoured to adhere to the implementation plan for the use of proceeds as disclosed in the Prospectus by making tenders to the HA periodically, the Group was not awarded by the HA any new property management service contract for public estates during the financial year ended 31 December 2018, which departs from the implementation plan for the use of proceeds as disclosed in the Prospectus. Other than the property management service contracts for public estates, the Group was awarded one property management service contract for the Home Ownership Scheme and one stand-alone security contract from the URA during the financial year ended 31 December 2018. Since the HA evaluates tenders based on different financial and non-financial considerations, the Directors believed that the Group's failure to tender for the two expected property management service contracts as disclosed in the Prospectus was attributable to the tenders submitted by other market players carrying lower margin out of the expectation of the Directors. The Directors also considered that submitting tenders with exceptionally lower margin would not be in the interest of the Group as it affects the financial performance and position of the Group in the long run.

However, although there is a delay in the use of proceeds, the Company has fully applied the net proceeds for other contracts awarded by the HA and complies with the manners as set out in the disclosure in the Prospectus during the year ended 31 December 2020.

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 2020 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.

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 2020 and up to the date of this announcement, 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.

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 year ended 31 December 2020. The Company was not aware of any non-compliance with the Model Code by the Directors during the year ended 31 December 2020 and up to the date of this announcement.

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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Directors confirm that since the Listing Date and up to the date of this announcement, there has been no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (“**2021 AGM**”) will be held at 2:30 p.m. on Wednesday, 5 May 2021, the notice of which shall be sent to the shareholders of the Company in accordance with the articles of association of the Company, the GEM Listing Rules and other applicable laws and regulations.

PROPOSED FINAL DIVIDEND

The Directors recommended the payment of a final dividend of HK\$0.015 per share for the year ended 31 December 2020. The proposed dividend payment is subject to approval by the shareholders of the Company at the 2021 AGM. Upon shareholders' approval for the payment of the final dividend at the 2021 AGM is obtained, the proposed final dividend is expected to be paid on Monday, 12 July 2021 to shareholders whose names appear on the register of members of the Company on Wednesday, 23 June 2021.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the forthcoming annual general meeting to be held on Wednesday, 5 May 2021, the register of members of the Company will be closed from Friday, 30 April 2021 to Wednesday, 5 May 2021 (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 no later than 4:30 p.m. on Thursday, 29 April 2021.

In order to establish the entitlement to the final dividend, the register of members of the Company will be closed from Friday, 18 June 2021 to Wednesday, 23 June 2021 (both dates inclusive), during which period no transfer of the shares will be registered. In order to qualify entitlement to the final dividend, 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 no later than 4:30 p.m. on Thursday, 17 June 2021.

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.

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 annual results for the year ended 31 December 2020 have been reviewed by the Audit Committee.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with the Hong Kong Standards on Auditing, the Hong Kong Standards on Review Engagements or the Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the this announcement.

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.

By order of the Board
Modern Living Investments Holdings Limited
Ho Chu Ming
Chairman and Executive Director

Hong Kong, 22 March 2021

As at the date of this announcement, the Board comprises Mr. Ho Chu Ming, Mr. Ng Fuk Wah, Mr. Sung Alfred Lee Ming and Mr. Tang Kong Fuk as executive Directors, Ms. Tam Mo Kit as non-executive Director, and Dr. Chan Man Wai, Mr. Wong Siu Fai Albert and Mr. Ng Kee Fat Ronny as independent non-executive Directors.

This announcement will remain on the "Latest Company Announcements" page of the GEM website (www.hkgem.com) for at least 7 days from the date of its publication and on the website of the Company (www.modernliving.com.hk).