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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 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED

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 (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 2018, the Group's revenue amounted to approximately HK\$371.21 million (2017: approximately HK\$356.44 million), representing an increase of approximately 4.14%.
- For the year ended 31 December 2018, the Group's operating profit amounted to approximately HK\$15.12 million (2017: approximately HK\$2.01 million), representing an increase of approximately 652.24% as compared with last year. Excluding the non-recurring listing expenses of approximately HK\$15.92 million for the year ended 31 December 2017, the Group's operating profit was approximately HK\$15.12 million (2017: HK\$17.93 million), representing a decrease of approximately 15.67% as compared with last year.
- For the year ended 31 December 2018, the Group's profit for the year amounted to approximately HK\$12.14 million (2017: loss for the year of approximately HK\$2.16 million), as compared with approximately HK\$13.76 million for the year ended 31 December 2017, (excluding the non-recurring listing expenses of approximately HK\$15.92 million), representing a decrease of approximately 11.77%.
- The board of Directors (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 2018 (2017: Nil).

ANNUAL RESULTS

The Board is pleased to announce the consolidated results of the Group for the year ended 31 December 2018, together with the audited comparative figures for the year ended 31 December 2017. The financial information has been approved by the Board on 22 March 2019.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	Year ended 31 December	
		2018 HK\$'000	2017 HK\$'000
Revenue	4	371,208	356,441
Other income		347	246
Other gains, net		63	61
Employee benefits expenses		(330,477)	(319,376)
Cleaning material costs		(5,596)	(4,536)
Utilities expenses		(1,836)	(1,937)
Depreciation		(2,232)	(2,164)
Other operating expenses		(16,356)	(10,804)
Listing expenses		–	(15,924)
Operating profit	5	<u>15,121</u>	<u>2,007</u>
Finance income		255	4
Finance costs		(852)	(1,440)
Finance costs, net	6	<u>(597)</u>	<u>(1,436)</u>
Profit before income tax		14,524	571
Income tax expense	7	<u>(2,382)</u>	<u>(2,731)</u>
Profit/(loss) for the year		<u>12,142</u>	<u>(2,160)</u>
Other comprehensive (loss)/income:			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of employee benefit obligations		(895)	326
Other comprehensive (loss)/income for the year, net of tax		<u>(895)</u>	<u>326</u>
Total comprehensive income/(loss) for the year		<u>11,247</u>	<u>(1,834)</u>
Earnings/(loss) per share			
Basic and diluted (HK cents per share)	9	<u>1.52</u>	<u>(0.34)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

		As at 31 December	
	<i>Notes</i>	2018	2017
		<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Plant and equipment		4,177	5,701
Retention money receivables	10	2,019	1,714
Investment in an insurance contract		2,177	2,114
Rental deposit	10	116	116
		8,489	9,645
Current assets			
Trade and unbilled receivables	10	75,873	71,117
Contract assets	10	12,223	–
Prepayments, deposits and other receivables	10	6,947	5,079
Pledged bank deposits		28,668	36,768
Cash and bank balances		30,208	58,163
		153,919	171,127
Total assets		162,408	180,772
EQUITY			
Equity attributable to the owners of the Company			
Share capital	11	8,000	8,000
Reserves		103,789	92,542
Total equity		111,789	100,542
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		369	535
Borrowings	13	913	1,440
		1,282	1,975
Current liabilities			
Trade payables	12	368	312
Other payables and accrued liabilities	12	34,708	31,035
Borrowings	13	12,941	46,038
Current income tax liabilities		1,320	870
		49,337	78,255
Total liabilities		50,619	80,230
Total equity and liabilities		162,408	180,772

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share Capital HK\$'000 (Note 11)	Share premium HK\$'000 (Note 11)	Contribution reserves HK\$'000 (Note 11)	Retained earnings HK\$'000	Total equity HK\$'000
Balance at 1 January 2017	21,460	–	810	39,330	61,600
Loss for the year	–	–	–	(2,160)	(2,160)
Other comprehensive income: Remeasurements of employee benefit obligations	–	–	–	326	326
Total comprehensive loss	–	–	–	(1,834)	(1,834)
Transactions with owners in their capacity as equity owners:					
Shares issued pursuant to the Reorganisation	(21,460)	–	21,460	–	–
Shares issued pursuant to the Capitalisation	6,000	(6,000)	–	–	–
Shares issued pursuant to the Listing	2,000	58,000	–	–	60,000
Listing expenses charged to share premium	–	(9,224)	–	–	(9,224)
Dividends paid (Note 8)	–	–	–	(10,000)	(10,000)
	(13,460)	42,776	21,460	(10,000)	40,776
Balance at 31 December 2017	<u>8,000</u>	<u>42,776</u>	<u>22,270</u>	<u>27,496</u>	<u>100,542</u>
Balance at 1 January 2018	<u>8,000</u>	<u>42,776</u>	<u>22,270</u>	<u>27,496</u>	<u>100,542</u>
Profit for the year	–	–	–	12,142	12,142
Other comprehensive loss: Remeasurements of employee benefit obligations	–	–	–	(895)	(895)
Total comprehensive income	–	–	–	11,247	11,247
Balance at 31 December 2018	<u>8,000</u>	<u>42,776</u>	<u>22,270</u>	<u>38,743</u>	<u>111,789</u>

NOTES

1. GENERAL INFORMATION AND REORGANISATION

1.1 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 (the “**Listing Business**”).

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. These consolidated financial statements have been approved for issue by the Board on 22 March 2019.

The Company has listed its shares on GEM of the Stock Exchange on 10 November 2017 (the “**Listing**”).

1.2 Reorganisation

Pursuant to the Reorganisation as fully explained in the paragraph headed “Reorganisation” in the section headed “History and Development” of the Prospectus, the Company became the holding company of the companies now comprising the Group on 24 October 2017. Immediately prior to and after the Reorganisation, the companies now comprising the Group was controlled by the Controlling Shareholders. The Reorganisation is merely a reorganisation of the companies now comprising the Group with no change in management in such business and the ultimate owner of the business.

The consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows include the results and cash flows of the companies now comprising the Group have been prepared as if the current group structure upon completion of the Reorganisation had been in existence throughout the reporting period or since their respective date of incorporation, where there is a shorter period.

2 BASIS OF PREPARATION

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.

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) Amendments to standards adopted by the Group

The Group has applied the following amendments to standards for the first time for their annual reporting period commencing 1 January 2018:

- Classification and Measurement of Share-based Payment Transactions — Amendments to HKFRS 2
- Financial Instruments — HKFRS 9
- Revenue from Contracts with Customers — HKFRS 15
- Transfers to Investment Property — Amendments to HKAS 40
- Foreign Currency Transactions and Advance Consideration — HK (IFRIC) 22
- Annual Improvements 2014–2016 cycle

The Group had to change its accounting policies following the adoption of HKFRS 9 and HKFRS 15. For details, please refer to Note 2(iii). The other amendment listed above did not have any significant impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(ii) *New standards and amendments to existing standards that have been issued but are not effective and have not been early adopted by the Group*

		Effective for annual periods beginning on or after
Annual Improvements Project	Annual improvements 2015–2017 cycle	1 January 2019
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 1 and HKAS 8 (Amendment)	Definition of Material	1 January 2020
HKAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement	1 January 2019
HKFRS 3 (Amendment)	Definition of a Business	1 January 2020
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance Contract	1 January 2021
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019

The above new standards, amendments to existing standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group intends to adopt the above new standards, amendments to existing standards and interpretation when they become effective.

(iii) *Change in accounting policies*

This note explains the impact of the adoption of HKFRS 9 “Financial Instruments” (“HKFRS 9”) and HKFRS 15 “Revenue from Contracts with Customers” (“HKFRS 15”) on the Group’s consolidated financial statements and the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

Certain of the Group’s accounting policies have been changed to comply with the adoption of HKFRS 9 and HKFRS 15. HKFRS 9 replaces the provisions of HKAS 39 Financial Instruments (“HKAS 39”) that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 “Financial Instruments — Disclosures”. HKFRS 15 replaces the provisions of HKAS 18 “Revenue” (“HKAS 18”) and HKAS 11 “Construction Contracts” (“HKAS 11”) that relate to the recognition, classification and measurement of revenue and costs.

(i) *HKFRS 9 — Impact on the consolidated financial statements of the Group*

As a result of the changes in the Group’s accounting policies, as explained below, HKFRS 9 was generally adopted without restating any comparative information. The adoption of HKFRS 9 in the current period does not result in any impact on the amounts reported in the financial statement except that, the Group has adopted the accounting policies on financial instruments with effect from 1 January 2018.

There is no impact on the Group’s accounting for financial assets and financial liabilities. The Group’s financial assets and financial liabilities previous carried at amortised costs remained to be measured at amortised costs under HKFRS 9.

(ii) *HKFRS 15 — Impact on the consolidated financial statements of the Group*

As a result of the changes in Group’s accounting policies, as explained below, except for the reclassification of the contract assets from unbilled receivables (Note 10), HKFRS 15 was generally adopted without restating any other comparative information. The adoption of HKFRS 15 in the current year does not result in any impact on the amounts reported in the consolidated financial statements except that, the Group has adopted the following accounting policies on revenues with effect from 1 January 2018.

HKFRS 15 requires that revenue from contracts with customers be recognised upon the transfer of control over goods or services to the customer. As such upon adoption, this requirement under HKFRS 15 has not resulted in any significant impact to the financial statements as the timing of revenue recognition on service income is nearly unchanged. Thus there was no impact on the Group’s consolidated statement of financial position as of 1 January 2018.

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 2017 and 2018, 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 2017 and 2018. 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:

	2018 <i>HK\$’000</i>	2017 <i>HK\$’000</i>
Customer A	<u>367,493</u>	<u>355,268</u>

No other single customers contributed 10% or more to the Group’s revenue for the year ended 31 December 2017 and 2018.

4. REVENUE

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Property management services income	<u>371,208</u>	<u>356,441</u>

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

5. EXPENSES BY NATURE

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Employee benefits expenses	330,477	319,376
Auditor's remuneration	1,200	800
Depreciation of plant and equipment	2,232	2,164
Operating lease rentals in respect of rental premises	359	358
Cleaning material costs	5,596	4,536
Insurance fee	4,696	2,597
Guarantee fee	868	781
Security expenses	707	716
Utilities expenses	1,836	1,937
Office supplies	1,435	1,138
Listing expenses	<u>–</u>	<u>15,924</u>

6. FINANCE COSTS, NET

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Bank interest income	<u>255</u>	<u>4</u>
Interests on borrowings	(775)	(1,340)
Interests on finance lease liabilities	<u>(77)</u>	<u>(100)</u>
	<u>(852)</u>	<u>(1,440)</u>
	<u>(597)</u>	<u>(1,436)</u>

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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 new 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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Hong Kong profits tax:		
Current income tax	2,595	2,845
Over provision in prior year	(47)	(31)
	2,548	2,814
Deferred income tax	(166)	(83)
	2,382	2,731

8. DIVIDENDS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Proposed final dividend	4,000	–

On 22 March 2019, the Board of Directors proposed a final dividend in respect of the year ended 31 December 2018 of HK\$4,000,000, representing HK\$0.005 per ordinary share. Such dividend is to be approved by the shareholders at the Annual General Meeting of the Company. These consolidated financial statements do not reflect this dividend payable.

During the year ended 31 December 2017, a special dividend of HK\$10,000,000 was declared on 24 October 2017 and paid to the then shareholders before the Listing. The rates of dividends and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this announcement.

9 EARNINGS/(LOSS) PER SHARE

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit/(loss) attributable to owners of the Company	12,142	(2,160)
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	800,000,000	628,493,151
Earnings/(loss) per share (HK cents)	1.52	(0.34)

The weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per shares has been determined on the assumption that the Reorganisation and Capitalisation Issue as described in Note 1.2 had been effective from 1 January 2016.

No diluted earnings/(loss) per share was presented as there was no potential dilutive potential shares outstanding during the above respective periods.

10. RECEIVABLES, CONTRACT ASSETS, PREPAYMENTS AND DEPOSITS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current:		
Retention money receivables (<i>Note i</i>)	2,019	1,714
Rental deposit	116	116
	<u>2,135</u>	<u>1,830</u>
Current:		
Trade and unbilled receivables (<i>Notes ii and iii</i>)	75,873	71,117
Contract assets (<i>Note iii</i>)	12,223	–
	<u>88,096</u>	<u>71,117</u>
Utilities deposits	525	479
Prepaid insurance	3,973	2,089
Prepayment	528	235
Other receivables	1,921	2,276
	<u>6,947</u>	<u>5,079</u>
Total current prepayments, deposits and other receivables	<u>95,043</u>	<u>76,196</u>
Total receivables, contract assets, prepayments and deposits	<u>97,178</u>	<u>78,026</u>

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 of 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 2017 and 2018. The carrying amounts of retention money receivables approximate their fair values as the impact of discounting is not significant.

- (ii) The Group entered into a trade receivable factoring arrangement and transferred certain trade receivables to a bank. If the trade receivables are not paid at maturity, the bank has the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these trade receivables, it continues to recognise the full carrying amount of the receivables. As at 31 December 2018, no trade receivables that have been transferred to a bank (2017: HK\$23,085,000). The carrying amount of the factoring loans as at 31 December 2018 were HK\$Nil (2017: HK\$20,776,000).
- (iii) 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.

Unbilled receivables are reclassified as contract assets upon adoption of HKFRS 15.

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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Unbilled receivables (<i>Note iii</i>)	–	12,338
Contract assets (<i>Note iii</i>)	12,223	–
Trade receivables:		
Up to 30 days	33,222	32,398
31 to 60 days	29,799	23,537
61 to 90 days	12,852	2,844
	88,096	71,117

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 and unbilled receivables, contract assets, other receivables, and deposits approximate their fair values. Trade and unbilled receivables, contract assets, other receivables and deposits are mainly denominated in HK\$.

11. SHARE CAPITAL AND RESERVES

(a) Share capital and premium

	<i>Notes</i>	No. of shares	Nominal value of ordinary shares <i>HK\$'000</i>	Share premium <i>HK\$'000</i>
<i>Authorised:</i>				
Ordinary shares at HK\$0.01 each as at 26 June 2017 (date of incorporation)	<i>(i)</i>	38,000,000	380	–
Increase in the authorised share capital on 24 October 2017	<i>(iii)</i>	<u>1,962,000,000</u>	<u>19,620</u>	<u>–</u>
At 31 December 2017 and 1 January 2018 and 31 December 2018		<u><u>2,000,000,000</u></u>	<u><u>20,000</u></u>	<u><u>–</u></u>
<i>Issued and fully paid:</i>				
Ordinary share at HK\$0.01 each as at 26 June 2017 (date of incorporation)	<i>(i)</i>	1	–	–
Shares issued pursuant to the Reorganisation	<i>(ii)</i>	2,099	–	–
Shares issued pursuant to the Capitalisation	<i>(iv)</i>	599,997,900	6,000	(6,000)
Shares issued pursuant to the Listing	<i>(v)</i>	200,000,000	2,000	58,000
Listing expenses charged to share premium		<u>–</u>	<u>–</u>	<u>(9,224)</u>
At 31 December 2017 and 1 January 2018 and 31 December 2018		<u><u>800,000,000</u></u>	<u><u>8,000</u></u>	<u><u>42,776</u></u>

Notes:

- (i) The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 26 June 2017 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each, of which one share was allotted and issued as fully paid to an initial nominee subscriber, and was subsequently transferred to R5A Group Limited on the date of incorporation.
- (ii) Pursuant to the Reorganisation as set out in Note 1.2 to the announcement, on 10 July 2017, the Shareholders transferred their respective holding of shares of the Operating Subsidiary, representing the entire share capital, to Modern Living Investments Limited in consideration of the Company allotting and issuing 1,719 shares, 200 shares, 120 shares, 40 shares and 20 shares (all credited as fully paid) to R5A Group Limited, Ms. Yeung, Ms. Lok, Mr. Yun and Mr. K. T. Ho respectively.
- (iii) On 24 October 2017, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each to HK\$20,000,000 by creation of an additional 1,962,000,000 shares of HK\$0.01 each.

- (iv) Pursuant to the written resolutions passed by the shareholders on 24 October 2017, conditional upon Listing and subject to the share premium account of the Company being credited as a result of the share offer, the directors of the Company are authorised to allot and issue a total of 599,997,900 shares credited as fully paid at par to the Shareholders by way of capitalisation of HK\$5,999,979 standing to the credit of the share premium account of the Company.

On 10 November 2017, the shares of the Company was listed on GEM of the Hong Kong Stock Exchange Limited and the aforementioned conditions were fulfilled. Accordingly, the said amount was capitalised standing to the credit of the share premium account of the Company by applying such sum to pay up in full at par a total of 599,997,900 shares for allotment and issue to the Shareholders.

- (v) On 10 November 2017, upon the completion of the Listing, the Company has issued a total of 200,000,000 ordinary share of HK\$0.01 each at a price of HK\$0.30 per share for a total consideration of HK\$60,000,000.

(b) Contribution reserve

As at 31 December 2017 and 2018, contribution reserve in the consolidated statement of financial position represents (i) the contribution made by the Shareholders for 2,099 shares of the Company as part of the Reorganisation and 1 share on the date of its incorporation, totalled to HK\$21,460,000, and (ii) the difference between the nominal value of the unsecured, interest-free loans from the then shareholders of HK\$17,388,000 and their fair values of HK\$16,578,000, amounting to HK\$810,000. Such difference was regarded as contribution from the then shareholders and credit to contribution reserve at the issuance date of the interest-free loans from the then shareholders.

(c) Share option scheme

A share option scheme (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 may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

As of the date of this announcement, no option has been granted, agreed to be granted, exercised, cancelled or lapsed under the Share Option Scheme.

12. TRADE AND OTHER PAYABLES AND ACCRUED LIABILITIES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade payables	368	312
Provision for long service payment	5,998	4,709
Provision for unutilised annual leave	2,843	3,264
Accrued wages, salaries and pensions	21,180	20,221
Other accrued expenses and payables	4,687	2,841
Total other payables and accrued liabilities	<u>34,708</u>	<u>31,035</u>
Total trade and other payables and accrued liabilities	<u>35,076</u>	<u>31,347</u>

At 31 December 2017 and 2018, the ageing analysis of the trade payables based on invoice date was as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0–30 days	<u>368</u>	<u>312</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.

13. BORROWINGS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current		
Finance lease liabilities	913	1,440
Current		
Bank borrowings	12,415	45,525
Finance lease liabilities	526	513
	<u>12,941</u>	<u>46,038</u>
Total borrowings	<u>13,854</u>	<u>47,478</u>

As at 31 December 2018, bank borrowings and the banking facilities granted to the Group are secured by:

- (i) The Group's Insurance Policy of HK\$2,177,000 (2017: HK\$2,114,000);
- (ii) The Group's pledged bank deposits of HK\$28,668,000 (2017: HK\$36,768,000);
- (iii) The Group's trade receivables of HK\$Nil (2017: HK\$23,085,000) (Note 10 (ii)); and
- (iv) The corporate guarantee executed by the Company.

14. CONTINGENT LIABILITIES

The Group had contingent liabilities in respect of the following:

- (i) As at 31 December 2018, the Group had entered into 33 (2017: 30) performance bonds with a bank. The aggregate amount of the performance bonds was HK\$61,265,000 (2017: HK\$58,518,000) as at 31 December 2018. The directors do not consider it is 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 2017 and 2018.

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 2018, the Hong Kong Housing Authority (“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. 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 4.14% from approximately HK\$356.44 million for the year ended 31 December 2017 to approximately HK\$371.21 million for the year ended 31 December 2018. The increase was primarily attributable to (i) the additional service fee income from one new Home Ownership Scheme (“HOS”) estate awarded by HA and one new stand-alone security service contract awarded by the Urban Renewal Authority (“URA”) during the year; 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 at the end of the reporting period.

Types of properties	Number of estates/ contracts
(1) Public estates (excluding HOS estates)	26
(2) HOS estates	3
(3) Stand-alone service contracts	4

Other Income

Majority of other income mainly represented cleaning services to ancillary facilities within the estates managed by the Group. Other income increased by approximately HK\$0.1 million from approximately HK\$0.25 million for the year ended 31 December 2017 to approximately HK\$0.35 million for the year ended 31 December 2018. The increase was mainly due to increase in the cleaning services income from the estates for the year ended 31 December 2018.

Other Gains, Net

Other gains remained stable at approximately HK\$0.06 million for the year ended 31 December 2017 and 2018, respectively.

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 2018, the Group had a total of 2,410 employees (2017: 2,362 employees).

The total employee benefits expenses amounted to approximately HK\$330.48 million and HK\$319.38 million for the years ended 31 December 2018 and 31 December 2017, respectively; representing approximately 89.03% and 89.6% respectively of the Group's revenue. The total employee benefits expenses increased by approximately 3.48% for the year ended 31 December 2018 from the previous year, such increase was mainly attributable to (i) the salaries and wages for the additional staff employed for the two new contracts awarded by HA and URA during the year; and (ii) the annual increase in salaries and wages.

Cleaning Material Costs

The cleaning material costs incurred was approximately HK\$5.6 million for the year ended 31 December 2018 (2017: HK\$4.54 million), representing an increase of 23.35% as compared with last year. The increase was mainly due to the construction waste disposal charge paid to the sub-contractor for the new HOS estate commenced during the year.

Other Operating Expenses

Other operating expenses amounted to approximately HK\$16.36 million (2017: HK\$10.8 million) for the year ended 31 December 2018, representing an increase of approximately 51.48% from the previous 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 general expenses such as ISO accreditation, advertising; (ii) increase in various compliance costs; (iii) increase in office supply, uniform and laundry; and (iv) increase in insurance expense and guarantee fees.

Finance Costs

Finance costs decreased by approximately HK\$0.84 million from approximately HK\$1.44 million for the year ended 31 December 2017 to approximately HK\$0.6 million for the year ended 31 December 2018. The decrease was mainly due to decrease in the average amount of factoring loans and bank overdrafts used during the year ended 31 December 2018.

Income Tax Expense

Income tax expense remained stable at approximately HK\$2.38 million for the year ended 31 December 2018 (2017: 2.73 million). Profit before income tax amounted to approximately HK\$14.52 million for the year ended 31 December 2018 compared with approximately HK\$16.5 million for the year ended 31 December 2017 (excluding the non-recurring listing expenses approximately HK\$15.92 million).

Profit/(loss) and total comprehensive income/(loss) attributable to owners of the Company

As disclosed in the Prospectus, the non-recurring listing expenses had a significant financial impact on the Group's financial performance. Total comprehensive income for the year ended 31 December 2018 was approximately HK\$11.25 million as compared to the total comprehensive loss of approximately HK\$1.83 million for the year ended 31 December 2017. Such increase in profit was mainly due to listing expenses not being incurred during the year ended 31 December 2018 as compared to the non-recurring listing expenses of approximately HK\$15.92 million as mentioned above. Profit for the year ended 31 December 2018 was approximately HK\$12.14 million, as compared with HK\$13.76 million for the year ended 31 December 2017 (excluding the non-recurring listing expenses), representing a decrease of approximately 11.77%. Such a decrease was mainly due to the increase in various compliance costs and increase in insurance expense for the year ended 31 December 2018.

Dividends

On 24 October 2017, the Company declared special dividends totalling HK\$10 million to the then shareholders of the Company prior to the Listing.

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 2018 (2017: Nil).

Liquidity and Financial Resources

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial position		
Current assets	153,919	171,127
Current liabilities	49,337	78,255
Net current assets	104,582	92,872
Total assets	162,408	180,772
Borrowings	13,854	47,478
Cash and bank balances	30,208	58,163
Pledged bank deposits	28,668	36,768
Total equity	111,789	100,542
Key financial ratios		
Return on equity (<i>Note 1</i>)	10.86%	-2.15%
Return on total assets (<i>Note 2</i>)	7.48%	-1.19%
Current ratio (<i>Note 3</i>)	3.12	2.19
Gearing ratio (<i>Note 4</i>)	12.39%	47.22%

Notes:

1. Return on equity is calculated as the profit/(loss) for the year divided by total equity.
2. Return on total assets is calculated as the profit/(loss) 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 bank borrowings and finance lease liabilities.

The current ratio as at 31 December 2018 was 3.12 times as compared to that of 2.19 times as at 31 December 2017. The increase was mainly due to increase in repayment of bank borrowings during the year ended 31 December 2018.

As at 31 December 2018, the Group's cash and bank balances were approximately HK\$30.21 million (2017: approximately HK\$58.16 million). As at 31 December 2018, the Group's bank borrowings were approximately HK\$12.42 million, which bear interest at 2.15%–5.13% per annum (2017: HK\$45.53 million, which bear interest at 2.74%–5.05% per annum).

The gearing ratio stood at approximately 12.39% as at 31 December 2018 (2017: approximately 47.22%). 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 Company's listing on GEM of the Stock Exchange on 10 November 2017, there has been no change in the capital structure of the Company. The share capital of the Group only comprises of ordinary shares.

As at 31 December 2018, 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 2018.

Commitment

The operating lease commitment of the Group was related to the lease of its office premise. The Group's operating lease commitment amounted to approximately HK\$0.57 million as at 31 December 2018 (2017: HK\$0.95 million).

Segment Information

Segment information is disclosed in Note 3 to this announcement.

Future Plans for Material Investments and Capital Assets

As at 31 December 2018, 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 2018.

Significant Investment

The Group held investment in an insurance contract of approximately HK\$2.18 million as at 31 December 2018 (2017: HK\$2.11 million). The gain on investments in the insurance contract amounted to approximately HK\$0.06 million for the year ended 31 December 2018 (2017: HK\$0.06 million). Other than the insurance contract as mentioned above, the Group did not have other significant investment as at 31 December 2018.

Contingent Liabilities

Save as disclosed in Note 14 to this announcement, as at 31 December 2018 and 2017, the Group did not have other material contingent liabilities.

Exposure to Exchange Rate Fluctuation

The Group's revenue generating operations are mainly transacted in HK\$. The Directors consider that the impact of foreign exchange exposure to the Group is minimal.

Charge of Group's Assets

As at 31 December 2018, the Group has pledged its bank deposits of approximately HK\$28.67 million (2017: approximately HK\$36.77 million) and investment in an insurance contract of approximately HK\$2.18 million (2017: approximately HK\$2.11 million) to a bank for securing its performance bonds of approximately HK\$61.27 million (2017: approximately HK\$58.52 million) and bank borrowings of approximately HK\$12.42 million (2017: approximately HK\$45.53 million) under certain banking facilities. The Group no longer pledged its trade receivables as security as at 31 December 2018 (2017: approximately HK\$23.09 million).

Employees and Remuneration Policies

As at 31 December 2018, the Group had a total of 2,410 employees (2017: 2,362 employees). The Group's employee benefits expenses for the year ended 31 December 2018 amounted to approximately HK\$330.48 million (2017: HK\$319.38 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.

Events after the Reporting Period

There are no material subsequent events undertaken by the Company or by the Group after 31 December 2018 and up to the date of this announcement.

Use of Proceeds from the Listing

The final offer price for the Listing was HK\$0.3 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	Actual utilised amounts as at 31 December 2018	Unutilised amount out of the planned amount as at 31 December 2018
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Satisfying the additional working capital requirement by the HA and additional cash to be deposit as collateral of the performance bond for tendering for additional property management service contracts from the HA	25.80	3.36	22.44
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:	<u>34.85</u>	<u>3.36</u>	<u>31.49</u>

From the Listing Date to 31 December 2018, HK\$2.75 million and HK\$0.61 million were utilised as performance bond and working capital respectively to secure a new HOS contract 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” of the Prospectus. As at 31 December 2018, the unutilised portion of the proceeds of approximately HK\$31.49 million was placed in interest bearing account with bank and partially paid down the bank borrowings in accordance with the disclosure in the Prospectus.

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 2018 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.
Development a mobile application for the use of the staff	The Group has commenced to streamline its day-to-day management system.
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 shares of the Company were listed on GEM of the Stock Exchange on 10 November 2017, the Group has commenced to incur expenditure to implement the above business strategies during the year ended 31 December 2018.

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 and complied with the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules. During the year ended 31 December 2018, 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 2018. The Company was not aware of any non-compliance with the Model Code by the Directors since the Listing Date 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 (“**2019 AGM**”) will be held at 10:00 a.m. on Wednesday, 22 May 2019, 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 have recommended the payment of a final dividend of HK\$0.005 per share for the year ended 31 December 2018. The proposed dividend payment is subject to approval by the shareholders of the Company at the 2019 AGM. Upon shareholders' approval for the payment of the final dividend at the 2019 AGM is obtained, the proposed final dividend will be paid on Friday, 12 July 2019 to shareholders whose names appear on the register of members of the Company on Friday, 21 June 2019.

CLOSURE OF REGISTER OF MEMBERS

(i) For determining eligibility to attend and vote at 2019 AGM:

In order to establish entitlement to attend and vote at the forthcoming annual general meeting to be held on Wednesday, 22 May 2019, the register of members of the Company will be closed from Friday, 17 May 2019 to Wednesday, 22 May 2019 (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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 16 May 2019.

(ii) For determining entitlement to the final dividend:

The register of members of the Company will be closed from Tuesday, 18 June 2019 to Friday, 21 June 2019 (both dates inclusive), during which period no transfer of the shares will be registered for ascertaining the entitlement of the final dividend of the shareholders.

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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 17 June 2019.

AUDIT COMMITTEE

The Company has 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 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, and to oversee the risk management and internal control procedures of the Company. The annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee.

EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2018 and up to the date of this announcement.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Group'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 Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or 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

On behalf of the Board, I would like to extend our sincere thanks to our shareholders, business partners and customers for their utmost support to the Group. I would also like to take this opportunity to thank all management members and staff for their hard work and dedication throughout the year.

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

Hong Kong, 22 March 2019

As at the date of this announcement, the chairman and the executive Director of the Company is Mr. Ho Chu Ming; the executive Director of the Company are Mr. Ng Fuk Wah, Mr. Sung Alfred Lee Ming and Mr. Tang Kong Fuk; the non-executive Directors of the Company are Ms. Tam Mo Kit and Mr. Tam Kam Cheung Patrick; and independent non-executive Directors of the Company are Dr. Chan Man Wai, Mr. Wong Siu Fai Albert and Mr. Ng Kee Fat Ronny.

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