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Kato (Hong Kong) Holdings Limited

嘉濤(香港)控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2189)

DISCLOSEABLE TRANSACTIONS TENANCY AGREEMENTS

THE TENANCY AGREEMENTS

On 25 November 2019, Oriental Chinese, a wholly-owned subsidiary of the Company, entered into the Tenancy Agreements as tenant with CHCP Investment as landlord in respect of the Premises for the operation of Fai To Sino West Home for a fixed term of three years commencing on 1 August 2020 and expiring on 31 July 2023 (both days inclusive) with two options to renew for a further term of three years each commencing on 1 August 2023 and expiring on 31 July 2026 (both days inclusive) and a further term of three years commencing on 1 August 2026 and expiring on 31 July 2029.

IMPLICATION UNDER THE LISTING RULES

Pursuant to HKFRS 16, the entering into of the Tenancy Agreements will require the Group to recognise the fixed portion of the lease fee for the Premises as the right-of-use assets with a cost of approximately HK\$84.1 million at initial recognition and a corresponding lease liability which represented the present value of the future lease payments. Thus, entering into the Tenancy Agreements and the transactions contemplated thereunder will be regarded as deemed acquisition of asset by the Group.

As one of the percentage ratios calculated under Chapter 14 of the Listing Rules in respect of the Tenancy Agreements exceeds 5% but less than 25%, the transactions contemplated under the Tenancy Agreements constitutes a discloseable transaction for the Company and is therefore subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

TENANCY AGREEMENTS

On 25 November 2019, Oriental Chinese, a wholly-owned subsidiary of the Company, entered into the Tenancy Agreements as tenant with CHCP Investment as landlord in respect of the Premises for the operation of Fai To Sino West Home for a fixed term of three years commencing on 1 August 2020 and expiring on 31 July 2023 (both days inclusive) (the “**Fixed Term**”) with two options to renew for a further term of three years each commencing on 1 August 2023 and expiring on 31 July 2026 (both days inclusive) (the “**First Option Term**”) and a further term of three years commencing on 1 August 2026 and expiring on 31 July 2029 (the “**Second Option Term**”, together with the First Option Term, the “**Option Terms**”).

Set out below is a summary of the principal terms of the Tenancy Agreement A:

Date: 25 November 2019

Parties: (1) Oriental Chinese, a wholly-owned subsidiary of the Company (as tenant); and
(2) CHCP Investment (as landlord).

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, CHCP Investment and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Premises: Portion of Basement, Shop 1 on G/F, 1/F & 2/F of Chung Hwa Building & Kiu Shing Building and Flat Nos 1, 2, 7 on the 3/F with an adjoining Flat Roofs of Block A Chung Hwa Building, Nos. 3A–3C, 5, 5A–5F Ma Hang Chung Road, Nos. 55–65 Pau Chung Street, Kowloon.

Use: The Premises are currently used for the operation of the Group’s Fai To Sino West Home.

Term: Fixed term of three years commencing on 1 August 2020 and expiring on 31 July 2023 (both days inclusive) with two options to renew for a further term of three years each commencing on 1 August 2023 and expiring on 31 July 2026 (both days inclusive) and a further term of three years commencing on 1 August 2026 and expiring on 31 July 2029. CHCP Investment has granted priority to Oriental Chinese of renewal for each of the Option Terms. Oriental Chinese has the discretion to exercise the Option Terms by serving a six months’ written notice prior to the end of the respective term.

- Rental:** A monthly basic rental of:
- HK\$715,000 (inclusive of management fees) during the Fixed Term;
 - HK\$810,000 (inclusive of management fees) during the First Option Term;
 - HK\$925,000 (inclusive of management fees) during the Second Option Term.

Basis of determining the rental: The rental under the Tenancy Agreement A was determined after arm's length negotiation between the Company and the Landlord taking into account the prevailing market rent and the terms of similar premises in the proximity of the Premise A. The rental is expected to be funded through the internal resources of the Group.

Set out below is a summary of the principal terms of the Tenancy Agreement B:

Date: 25 November 2019

Parties: (1) Oriental Chinese, a wholly-owned subsidiary of the Company (as tenant); and

(2) CHCP Investment (as landlord).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, CHCP Investment and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Premises: Unit 1, 2/F, Chung Hwa Building & Kiu Shing Building, Nos. 3A-3C, 5, 5A-5F Ma Hang Chung Road, 55-65 Pau Chung Street, Kowloon.

Use: The Premises are currently used for the operation of the Group's Fai To Sino West Home.

Term: Fixed term of three years commencing on 1 August 2020 and expiring on 31 July 2023 (both days inclusive) with two options to renew for a further term of three years each commencing on 1 August 2023 and expiring on 31 July 2026 (both days inclusive) and a further term of three years commencing on 1 August 2026 and expiring on 31 July 2029. CHCP Investment has granted priority to Oriental Chinese of renewal for each of the Option Terms. Oriental Chinese has the discretion to exercise the Option Terms by serving a six months' written notice prior to the end of the respective term.

Rental: A monthly basic rental of:

- HK\$85,000 (exclusive of management fees) during the Fixed Term;
- HK\$90,000 (exclusive of management fees) during the First Option Term;
- HK\$95,000 (exclusive of management fees) during the Second Option Term.

Basis of determining the rental: The rental under the Tenancy Agreement B was determined after arm's length negotiation between the Company and the Landlord taking into account the prevailing market rent and lease terms of similar premises in the proximity of the Premise B. The rental is expected to be funded through the internal resources of the Group.

REASONS FOR AND BENEFITS OF ENTERING INTO THE TENANCY AGREEMENTS

The Group is engaged in the operation of residential care homes for the elderly in Hong Kong.

The Premises has been rented by Oriental Chinese since 2000 for the operation of the Group's Fai To Sino West Home. The existing tenancy agreements for the Premises will expire on 31 July 2020. As such the Directors consider that entering into the Tenancy Agreements will save considerable expenses resulting from relocation of the elderly residential care home.

Based on the above, the Directors are of the view that the terms and conditions of the Tenancy Agreements are fair and reasonable, and the leasing of the Premises is in the interests of the Company and its shareholders as a whole.

INFORMATION OF THE PARTIES

The Group and Oriental Chinese

The Group is an established operator of residential care homes for the elderly in Hong Kong offering a wide range of residential care services for the elderly including (i) the provision of accommodation, professional nursing and care-taking services, nutritional management, medical services, physiotherapy and occupational therapy services, psychological and social care services, individual care plan and recreational services; and (ii) the sale of healthcare and medical goods and the provision of add-on healthcare services to the residents.

Oriental Chinese is a wholly-owned subsidiary of the Company which is the operational entity of the Group's Fai To Sino West Home.

The Landlord

The Landlord is a company incorporated in Hong Kong with limited liabilities. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries:

- (i) the Landlord is principally engaged in property investment; and
- (ii) the Landlord and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules)

IMPLICATION UNDER THE LISTING RULES

Pursuant to HKFRS 16, the entering into of the Tenancy Agreements will require the Group to recognise the fixed portion of the lease fee for the Premises as the right-of-use assets with a cost of approximately HK\$84.1 million at initial recognition and a corresponding lease liability which represented the present value of the future lease payments. Thus, the entering into the Tenancy Agreements and the transactions contemplated thereunder will be regarded as deemed acquisition of asset by the Group.

As one of the percentage ratios calculated under Chapter 14 of the Listing Rules in respect of the Tenancy Agreements exceeds 5% but less than 25%, the transactions contemplated under the Tenancy Agreements constitutes a discloseable transaction for the Company and is therefore subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following expressions have the following meanings:

“Board”	the Board of Directors;
“care and attention home for the elderly”	care and attention homes for the elderly provide residential care, meals, personal care and limited nursing care for elderly persons who suffer from poor health or physical/mild mental disabilities with deficiency in activities of daily living but are mentally suitable for communal living, and are assessed to be of moderate impairment level under the Standardised Care Need Assessment Mechanism for Elderly Services;
“CHCP Investment”	CHCP INVESTMENT CO. LIMITED (中商置業有限公司), a company incorporated in Hong Kong with limited liability;
“Company”	Kato (Hong Kong) Holdings Limited (嘉濤 (香港) 控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 19 April 2018;
“Director(s)”	the director(s) of the Company;
“Fai To Sino West Home”	Fai To Sino West Combined Home for the Aged (輝濤中西結合安老院), our care and attention home for the elderly with LORCHE No. 0923, the operating address of which is at Part of Shop 1 on G/F, 1/F & 2/F, (3A–3C), 5A–5F Ma Hang Chung Road & 55–65 Pau Chung Street, To Kwa Wan, Kowloon, Hong Kong;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“HKFRS 16”	Hong Kong Financial Reporting Standard 16 “Leases” which include standards and interpretations promulgated by the Hong Kong Institute of Certified Public Accountants;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Landlord”	CHCP Investment;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;

“LORCHE”	Licensing Office of Residential Care Homes for the Elderly, which is established by the SWD for the administration of the licensing scheme under the RCH(EP)O, the RCH(EP)R and the RCHE Code of Practice;
“Oriental Chinese”	Oriental Chinese Medicine Limited (東方中醫藥有限公司), a company incorporated in Hong Kong with limited liability on 1 March 2000 and an indirect wholly-owned subsidiary of our Company and the licence holder of Fai To Sino West Home;
“Premise A”	Portion of Basement, Shop 1 on G/F, 1/F & 2/F of Chung Hwa Building & Kiu Shing Building and Flat Nos 1, 2, 7 on the 3/F with an adjoining Flat Roofs of Block A Chung Hwa Building, Nos. 3A–3C, 5, 5A–5F Ma Hang Chung Road, Nos. 55–65 Pau Chung Street, Kowloon;
“Premise B”	Unit 1, 2/F, Chung Hwa Building & Kiu Shing Building, Nos. 3A–3C, 5, 5A–5F Ma Hang Chung Road, 55–65 Pau Chung Street, Kowloon;
“Premises”	Premise A and Premise B;
“RCH(EP)O”	the Residential Care Homes (Elderly Persons) Ordinance (Chapter 459 of the Laws of Hong Kong);
“RCH(EP)R”	the Residential Care Homes (Elderly Persons) Regulation (Chapter 459A of the Laws of Hong Kong);
“RCHE Code of Practice”	the Code of Practice for Residential Care Homes (Elderly Persons) issued by the SWD under section 22 of the RCH(EP)O;
“Shareholder(s)”	holder(s) of the Shares;
“Shares”	ordinary issued share(s) of HK\$0.01 each in the share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“SWD”	the Social Welfare Department of the Hong Kong Government;
“Tenancy Agreement A”	the tenancy agreements dated 25 November 2019 and entered into between Oriental Chinese as tenant and CHCP Investment as landlord in respect of the Premise A;

“Tenancy Agreement B” the tenancy agreements dated 25 November 2019 and entered into between Oriental Chinese as tenant and CHCP Investment as landlord in respect of the Premise B;

“Tenancy Agreements” Tenancy Agreement A and Tenancy Agreement B; and

“%” per cent.

By order of the Board
Kato (Hong Kong) Holdings Limited
Kwong Kai To
Chairman and non-executive Director

Hong Kong, 25 November 2019

As at the date of this announcement, the executive Directors are Ms. Ngai Ka Yee and Mr. Ngai Shi Shing Godfrey; the non-executive Director is Mr. Kwong Kai To; and the independent non-executive Directors are Ms. Chiu Lai Kuen Susanna, Mr. Or Kevin and Mr. Wong Vinci.