

Contents

| | |
|---|-----------|
| Corporate Information | 2 |
| Management Discussion and Analysis | 4 |
| Other Information | 14 |
| Interim Condensed Consolidated Statement of Comprehensive Income | 20 |
| Interim Condensed Consolidated Statement of Financial Position | 21 |
| Interim Condensed Consolidated Statement of Changes in Equity | 23 |
| Interim Condensed Consolidated Statement of Cash Flows | 24 |
| Notes to the Interim Condensed Consolidated Financial Information | 25 |

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ngai Ka Yee

Ngai Shi Shing Godfrey (*Chief Executive Officer*)

Non-executive Director

Kwong Kai To (*Chairman*)

Independent non-executive Directors

Chiu Lai Kuen Susanna

Or Kevin

Wong Vinci

REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman, KY1-1111

Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1st Floor

Tung Wai Court

No. 3 Tsing Ling Path

Tuen Mun

New Territories

Hong Kong

COMPANY WEBSITE

www.elderlyhk.com

COMPANY SECRETARY

Kwok Chi Kan (*HKICPA*)

AUTHORISED REPRESENTATIVES

Ngai Shi Shing Godfrey

Kwok Chi Kan

BOARD COMMITTEES

Audit Committee

Chiu Lai Kuen Susanna (*Chairman*)

Or Kevin

Wong Vinci

Remuneration Committee

Wong Vinci (*Chairman*)

Ngai Shi Shing Godfrey

Or Kevin

Nomination Committee

Or Kevin (*Chairman*)

Ngai Shi Shing Godfrey

Wong Vinci

Corporate Information

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR

Union Registrars Limited
Suites 3301-04, 33/F.
Two Chinachem Exchange Square
338 King's Road, North Point
Hong Kong

LEGAL ADVISER AS TO HONG KONG LAWS

Loeb & Loeb LLP
21st Floor
CCB Tower
3 Connaught Road Central
Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F Prince's Building
Central
Hong Kong

COMPLIANCE ADVISER

VMS Securities Limited
49th Floor
One Exchange Square
8 Connaught Place, Central
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
Bank of China (Hong Kong) Limited
United Overseas Bank

Management Discussion and Analysis

BUSINESS REVIEW

Kato (Hong Kong) Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) is an established operator of residential care homes for the elderly (the “**RCHEs**”) 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 plans and recreational services; and (ii) the sale of healthcare and medical goods and the provision of add-on healthcare services to the residents.

As at 30 September 2019, the Group had a network of eight care and attention homes for the elderly with 1,129 residential care places strategically located across four districts in Hong Kong. The Group’s care and attention homes for the elderly operate under the brand names of “Fai To 輝濤”, “Kato 嘉濤”, “Happy Luck Home”, “Tsuen Wan Centre” and “Pine Villa” all bearing the same logo.

The shares of the Company (the “**Shares**”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 13 June 2019 (the “**Listing Date**”) by way of a share offer (the “**Listing**”), raising net proceeds (after deducting professional fees, underwriting commissions and other fees and expenses payable by the Group in connection with the Listing and the share offer) of approximately HK\$116.9 million.

FINANCIAL HIGHLIGHTS

The Group’s customers primarily consisted of two groups, namely, (i) the Social Welfare Department (the “**SWD**”) with which the Group has entered into contractual arrangements pursuant to which the SWD purchased residential care places from the Group under the Enhanced Bought Place Scheme (the “**EBPS**”); and (ii) individual customers who settled their own residential fee entirely by themselves and those who were subsidised by the SWD under the EBPS but settled the unsubsidised portion by themselves.

Management Discussion and Analysis

The following table sets forth a summary of the basic information of the Group's RCHES as at 30 September 2019:

| | Location | Year of commencement of operation by the Group | Number of residential care places (excluding isolated beds) | | Total | Classification under the EBPS |
|---|---------------|--|---|---|-------|-------------------------------|
| | | | Under the EBPS | For individual customers not under the EBPS | | |
| Kato Home for the Elderly ("Kato Elderly Home") | Tuen Mun | 1999 | 126 | 54 | 180 | EA1 |
| Kato Home for the Aged | Tuen Mun | 1998 | 86 | 37 | 123 | EA2 |
| Fai-To Home for the Aged (On Lai) Branch ("Fai To Home (On Lai)") | Tuen Mun | 1997 | 28 | 28 | 56 | EA2 |
| Fai To Home for the Aged (Tuen Mun) Branch ("Fai To Home (Tuen Mun)") | Tuen Mun | 1995 | 47 | 43 | 90 | EA2 |
| Fai To Sino West Combined Home for the Aged ("Fai To Sino West Home") | To Kwa Wan | 2000 | 148 | 146 | 294 | EA1 |
| Happy Luck Elderly Home Limited ("Happy Luck Home") | Tsuen Wan | 2015 | 73 | 73 | 146 | EA1 |
| Tsuen Wan Elderly Centre Limited ("Tsuen Wan Centre") | Tsuen Wan | 2008 | 79 | 71 | 150 | EA1 |
| Pine Villa | Tseung Kwan O | 2013 | N/A | 90 | 90 | N/A |
| | | | 587 | 542 | 1,129 | |

Management Discussion and Analysis

The following table sets forth the average monthly occupancy rate of each respective care and attention for the elderly homes as at 30 September 2019 and 31 March 2019:

| | Average monthly occupancy rate ^(Note) | |
|------------------------|---|--------------------------------|
| | As at 30 September 2019 % | As at 31 March 2019 % |
| Kato Elderly Home | 97.2 | 99.4 |
| Kato Home for the Aged | 99.2 | 97.6 |
| Fai To Home (On Lai) | 94.6 | 98.2 |
| Fai To Home (Tuen Mun) | 100.0 | 92.2 |
| Fai To Sino West Home | 96.6 | 93.9 |
| Happy Luck Home | 99.3 | 99.3 |
| Tsuen Wan Centre | 96.7 | 98.7 |
| Pine Villa | 94.4 | 95.6 |
| Overall | 97.3 | 96.7 |

Note:

The monthly occupancy rate is calculated by dividing the number of beds occupied as at the month end by the total number of beds available at each of our care and attention homes for the elderly as at the relevant month end. The average monthly occupancy rate for the year is calculated by dividing the sum of the monthly occupancy rates by the total number of months in that year.

Management Discussion and Analysis

Revenue

The Group's revenue was principally generated from the provision of residential care services for the elderly in Hong Kong. The Group's revenue was derived from (i) rendering of elderly home care services; and (ii) sales of elderly home related goods in Hong Kong. The following table sets forth the breakdown of revenue for the Group's revenues by types of services for the six months ended 30 September 2019 (the "Period") and the six months ended 30 September 2018 (the "Previous Period"):

| | For the six months ended 30 September | | | |
|---|---------------------------------------|--------------|----------|-------|
| | 2019 | | 2018 | |
| | HK\$'000 | % | HK\$'000 | % |
| Rendering of elderly home care services | | | | |
| – residential care places purchased by the SWD under the EBPS | 42,778 | 44.6 | 36,484 | 42.4 |
| – residential care places purchased by individual customers | 39,519 | 41.2 | 37,029 | 43.0 |
| | 82,297 | 85.8 | 73,513 | 85.4 |
| Sales of elderly home related goods | 13,523 | 14.2 | 12,575 | 14.6 |
| Total | 95,820 | 100.0 | 86,088 | 100.0 |

Employee benefit expenses

Employee benefit expenses comprised of wages and salaries, retirement benefit scheme contributions, staff welfare and benefits, directors' remunerations and provision for long service payments. The employee benefits expenses slightly increased from approximately HK\$27.3 million for the Previous Period to approximately HK\$31.8 million for the Period. The increase was primarily contributed by a general salary increment and an increase in the average headcounts during the Period.

Management Discussion and Analysis

Property rental and related expenses

Property rental and related expenses mainly comprised of rental expenses under operating leases in relation to the RCHEs. The significant decrease of property rental and related expenses from approximately HK\$14.8 million for the Previous Period to approximately HK\$4.3 million for the Period which was mainly due to the adoption of HKFRS 16 Leases (the “**HKFRS 16**”) during the Period. The rental expenses were re-allocated between property rental and related expenses, depreciation of right-of-use assets and interest expenses on lease liabilities. The rental and related expenses payments for the care and attention home for the elderly and office amounted to approximately HK\$15.2 million in total for the Period.

In May 2019, ten of the tenancy agreements for the operation of the Group’s RCHEs and staff quarters have been renewed and will expire on 31 March 2022, with an automatic renewal of another three years until 31 March 2025, and a further automatic renewal until 31 March 2028. For further details, please refer to the Company’s prospectus dated 30 May 2019 (the “**Prospectus**”) under the section headed “Relationship with Controlling Shareholders.”

Food and beverage costs

Food and beverage costs represent costs of all food ingredients and beverages used for the provision of meals to the residents. Food and beverage costs slightly increased to approximately HK\$3.7 million for the Period (Previous Period: approximately HK\$3.4 million) which was mainly due to increase in the overall occupancy rate.

Listing expenses

Listing expenses represented professional and other expenses in connection to the initial public offering. Listing expenses of approximately HK\$5.9 million and HK\$7.6 million were recorded during the Period and the Previous Period, respectively.

Profit for the period

The profit for the Period increased by approximately 23.1% to approximately HK\$20.8 million for the Period as compared to approximately HK\$16.9 million for the Previous Period. Such increase was mainly due to the increase in average monthly residential fee and overall average occupancy rate during the Period.

Management Discussion and Analysis

INTERIM DIVIDEND

The Board (the “**Board**”) of Directors (the “**Director(s)**”) of the Company has declared an interim dividend of HK2.0 cents per share payable on or around 7 January 2020 to owners of the Company whose names appear on the register of members of the Company (the “**Register of Members**”) on 17 December 2019.

CLOSURE OF REGISTER OF MEMBERS

For determining entitlement of shareholders of the Company (the “**Shareholders**”) to interim dividend, the Register of Members will be closed from Monday, 16 December 2019 to Tuesday, 17 December 2019 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong not later than 4:00 p.m. on Friday, 13 December 2019.

LIQUIDITY AND FINANCIAL RESOURCES

The Group’s net assets increased to approximately HK\$185.6 million as at 30 September 2019 (31 March 2019: approximately HK\$28.4 million). Such increase was mainly a result of the cash flow from the net proceeds generated from the Listing and cash inflow from operating activities during the Period. As at 30 September 2019, the Group’s net current assets was approximately HK\$150.4 million (31 March 2019: approximately HK\$18.4 million), including cash and cash equivalents of approximately HK\$181.9 million (31 March 2019: approximately HK\$48.1 million) which were denominated in Hong Kong Dollar.

The current ratio, which is calculated as the total current assets divided by the total current liabilities, was approximately 4.5 times as at 30 September 2019 (31 March 2019: approximately 1.4 times).

As at 30 September 2019, the Group had no outstanding borrowings as the Group was not in need of any material debt financing during the Period, and hence no gearing ratio was presented (31 March 2019: net cash). The gearing ratio is calculated as a percentage of net debt divided by total equity. Net debt is calculated as total bank borrowings less cash and cash equivalents.

Management Discussion and Analysis

CAPITAL COMMITMENTS

As at 30 September 2019, the Group had capital commitment in respect of property and equipment contracted amounted to approximately HK\$14.5 million (31 March 2019: nil).

CAPITAL STRUCTURE

There had been no changes in the capital structure of the Group since the Listing and up to the date of this report. As at the date of this report, the share capital of the Company only comprised of ordinary shares.

SIGNIFICANT INVESTMENTS

During the six months ended 30 September 2019, the Group did not hold any significant investment in equity interest in any other company.

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES

For the six months ended 30 September 2019, the Group did not have any material acquisition or disposal of subsidiaries, associates and joint ventures.

CONTINGENT LIABILITIES

As at 30 September 2019, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

The Group operates in Hong Kong and most of the Group's transactions and the Group's cash and cash equivalents are denominated in Hong Kong Dollar. The Group is not exposed to foreign currency risk on transaction that is in a currency other than the respective functional currency of the Group entities. Currently, the Group does not have foreign currency hedging policy, but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure where appropriate.

PLEDGE OF ASSETS

As at 30 September 2019, the Group had no pledged assets.

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICIES

The total number of full-time and part-time employees were 431 and 405 as at 30 September 2019 and 31 March 2019, respectively. The Group's employee benefit expenses mainly include salaries, discretionary bonuses, medical insurance coverage, staff quarter, other staff benefits and contributions to retirement schemes. The Group's total employee benefit expenses (including directors' emoluments) for the Period amounted to approximately HK\$31.8 million (Previous Period: approximately HK\$27.3 million).

Remuneration is determined generally with reference to the qualification, experience and work performance of the relevant employee, whereas the payment of discretionary bonus is generally subject to work performance of the relevant employee, the financial performance of the Group in that particular year and general market conditions.

COMPARISON OF BUSINESS STRATEGIES WITH ACTUAL BUSINESS PROGRESS

The following sets out a comparison of the business strategies as stated in the Prospectus with the Group's actual business progress for the six months ended 30 September 2019 and up to the date of this report:

Business strategies

as stated in the Prospectus

Expand the network of care and attention homes for the elderly in Hong Kong

Hire additional staff and continue to retain skilled workforce through systematic training and professional development

Continue to upgrade the facilities and purchase of new equipment at our network of care and attention homes for the elderly and renovate the care and attention homes for the elderly

Continue to strengthen the information systems

Actual business progress

up to the date of this report

The Group is exploring and identifying suitable locations and properties for care and attention homes for the elderly in a prudent manner.

Training have been provided to our dedicated management and workforce in relation to industry update.

The Group has appointed an interior design company for renovation of one of our existing RCHes.

The Group is searching for a consultant for information technology upgrade.

Management Discussion and Analysis

USE OF PROCEEDS

The net proceeds from the Listing after deducting listing related expenses amounted to approximately HK\$116.9 million (the “**Actual Net Proceeds**”). These proceeds were intended to be utilised over the three years from April 2019 to March 2022.

As at 30 September 2019, an adjusted allocation as adjusted in the same manner and same proportions as shown in the Prospectus and the actual use of the Actual Net Proceeds are as follows:

| | Actual Net Proceeds HK\$'million | Incurred up to 30 September 2019 HK\$'million |
|--|--|---|
| Establishment of new care and attention homes for the elderly | 86.3 | — |
| Renew and upgrade facilities of existing RCHes | 27.2 | 6.5 |
| Upgrade information technology infrastructure | 1.5 | — |
| General working capital | 1.9 | 0.5 |
| | 116.9 | 7.0 |

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry.

The unutilised net proceeds have been placed as interest bearing deposits with banks in Hong Kong.

Management Discussion and Analysis

FUTURE PROSPECTS

The demand for residential care home services for the elderly in Hong Kong remain surging due to a sizeable and ageing population, an increased prevalence of chronic diseases among the elderly and a high institutionalisation rate. It is expected that this trend will continue in the next few decades and will contribute further to the growing market in the elderly residential care home industry.

According to the 2019–20 Budget of the Hong Kong Government, the government will provide additional 1,000 subsidised care-and-attention places for the elderly under the EBPS each year for five years from 2019–20 to 2023–24 as well as increase the subsidy amount of all the purchase places under the EBPS, thereby increasing the supply of subsidised residential care places for the elderly and enhancing the overall service quality of private RCHes. Also, additional government expenditure will be provided on strengthening the community care and support services for the frail elderly through the additional provision of 2,000 service quota under the Enhanced Home and Community Care Services, around 120 day care places in Day Care Units for the Elderly to be set up at qualified private and self-financing RCHes, and designated residential respite places in private RCHes participating in the EBPS.

As reflected in the Company's motto "Quality Service; Respecting and Positive; People-oriented; and Full Dedication (優質服務 · 敬老樂業 · 以人為本 · 全身投入)", the Group is committed to providing quality residential care home services to the residents. As part of our continuing effort to maintain a high quality of our services, the Group has implemented standardised management and operational procedures and quality controls across the network of care and attention homes for the elderly.

Building on the strength of the Group's established reputation, the size of the Group and the financial resources, as well as the Group's proven track record in operating a network of care and attention homes for the elderly, the Directors believe that the Group is poised to reproduce its current to further capture new market opportunities driven by the strong demand for residential care home services in Hong Kong.

In November 2019, the SWD accepted the application of two of our Group's care and attention homes for the elderly, Tsuen Wan Centre and Pine Villa, to operate as a qualified private and self-financing day care centre under the Bought Place Scheme on Day Care Units for the Elderly.

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATIONS

As at 30 September 2019, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), were as follows:

| Name of Directors | Nature of interests | Number of Shares held ⁽¹⁾ | Percentage of shareholding in the Company's issued share capital ⁽³⁾ |
|--|-------------------------------|--------------------------------------|---|
| Mr. Kwong Kai To (“Mr. Kwong”) | Settlor of a family trust | 624,000,000(L) ⁽²⁾ | 62.4 |
| Ms. Ngai Ka Yee (“Ms. Ngai”) | Settlor of a family trust | 624,000,000(L) ⁽²⁾ | 62.4 |
| Mr. Ngai Shi Shing Godfrey (“Mr. Ngai”) | Beneficiary of a family trust | 624,000,000(L) ⁽²⁾ | 62.4 |

Other Information

Notes:

- (1) The letter “L” denotes a long position in the Shares.
- (2) These Shares are held by Sheung Fung Limited (“**Sheung Fung**”), which is wholly owned by Shi Fung (PTC) Limited (the “**Trustee**”), the trustee of a family trust, namely, The Kwong and Ngai Family Trust which was established pursuant to the trust deed dated 19 March 2018 as amended and supplemented by a deed of variation of removal of beneficiaries dated 17 July 2018 (the “**Family Trust**”). Mr. Kwong and Ms. Ngai are the settlors of the Family Trust and Mr. Ngai is the sole beneficiary of the Family Trust. By virtue of the SFO, Mr. Kwong, Ms. Ngai and Mr. Ngai are deemed to be interested in the Shares held by Sheung Fung.
- (3) The approximate percentages were calculated based on 1,000,000,000 shares in issue as at the date of this report.

Save as disclosed above, as at 30 September 2019, none of the Directors nor chief executive of the Company has registered an interests and short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Other Information

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS OF THE COMPANY AND OTHER PERSONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATIONS

So far as the Directors are aware, as at 30 September 2019, the following persons (not being Directors or chief executive of the Company) will have or be deemed or taken to have an interest or short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO:

| Name of Shareholders | Nature of interests | Number of Shares held ⁽¹⁾ | Percentage of shareholding in the Company's issued share capital ⁽⁵⁾ |
|---------------------------------|------------------------------------|--------------------------------------|---|
| Sheung Fung | Beneficial owner | 624,000,000(L) | 62.4 |
| Trustee | Trustee | 624,000,000(L) ⁽²⁾ | 62.4 |
| Ms. Wei Xiaoling ⁽³⁾ | Interest of spouse | 624,000,000(L) | 62.4 |
| Si Mau Limited ("Si Mau") | Beneficial owner | 126,000,000(L) | 12.6 |
| Mr. Lam Kong ("Mr. Lam") | Interest in controlled corporation | 126,000,000(L) ⁽⁴⁾ | 12.6 |

Notes:

- (1) The letter "L" denotes a long position in the Shares.
- (2) These Shares are held by Sheung Fung, which is wholly owned by the Trustee. Mr. Kwong and Ms. Ngai are the settlors of the Family Trust and Mr. Ngai is the sole beneficiary of the Family Trust. By virtue of the SFO, the Trustee, Mr. Kwong, Ms. Ngai and Mr. Ngai are deemed to be interested in the Shares held by Sheung Fung.
- (3) Ms. Wei Xiaoling is the spouse of Mr. Ngai and is deemed to be interested in the Shares which are interested by Mr. Ngai under the SFO.

Other Information

- (4) These Shares are held by Si Mau, which is held as to 62.7% by Mr. Lam. By virtue of the SFO, Mr. Lam is deemed to be interested in the Shares held by Si Mau.
- (5) The approximate percentages were calculated based on 1,000,000,000 shares in issue as at the date of this report.

Save as disclosed above, as at 30 September 2019, the Directors were not aware of any other persons who had any interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO, and/or who are directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Shares were first listed on the Main Board of the Stock Exchange on the Listing Date. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the period from the Listing Date and up to the date of this report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its code of conduct regarding dealings in the securities of the Company by the Directors and the Company's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company's securities. Upon specific enquiry, all Directors have confirmed that they have complied with the Model Code during the period from the Listing Date and up to 30 September 2019. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Company during the period from the Listing Date and up to 30 September 2019.

Other Information

SHARE OPTION SCHEME

The share option scheme (the “**Share Option Scheme**”) was conditionally approved and adopted in compliance with Chapter 17 of the Listing Rules by written resolutions of all the Shareholders passed on 20 May 2019.

No share options were granted since the adoption of the Share Option Scheme and there are no outstanding share options as at 30 September 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board has adopted the principles and the code provisions of the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules to ensure that the Company’s business activities and decision making processes are regulated in a proper and prudent manner. The Company is committed to maintain high standards of corporate governance to safeguard interest of the Shareholders and ensure the quality of the constitution of the Board and transparency and accountability to the Shareholders. The Company had complied with all the provisions in the CG Code during the period from the Listing Date up to 30 September 2019.

Other Information

AUDIT COMMITTEE

The Board has set up an audit committee on 20 May 2019 (the “**Audit Committee**”) with written terms of reference in compliance with Rules 3.21 of the Listing Rules and paragraph C.3 of the CG Code. The primary duties of the Audit Committee include, but are not limited to, the following: (i) making recommendations to the Board on the appointment and removal of the external auditor; (ii) reviewing the financial statements of the Group and monitoring the integrity of such financial statements; and (iii) overseeing the financial reporting system and internal control procedures. The Audit Committee comprises of three members, namely Ms. Chiu Lai Kuen Susanna, Mr. Or Kevin and Mr. Wong Vinci. The chairman of the Audit Committee is Ms. Chiu Lai Kuen Susanna, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The unaudited condensed consolidated financial statements of the Group for the Period have been reviewed by the Audit Committee.

On behalf of the Board

Kwong Kai To

Chairman and non-executive Director

Hong Kong, 22 November 2019

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2019

| | Note | For the six months ended 30 September | |
|--|------|--|---------------------------------|
| | | 2019 (Unaudited) HK\$'000 | 2018 (Unaudited) HK\$'000 |
| Revenue | 5 | 95,820 | 86,088 |
| Depreciation | | | |
| — Property and equipment | 11 | (2,053) | (2,803) |
| — Right-of-use assets | 12 | (9,696) | — |
| Employee benefit expenses | | (31,801) | (27,301) |
| Property rental and related expenses | | (4,258) | (14,759) |
| Food and beverage costs | | (3,699) | (3,409) |
| Utility expenses | | (2,784) | (2,516) |
| Supplies and consumables | | (977) | (933) |
| Repair and maintenance | | (569) | (752) |
| Subcontracting fees | | (1,017) | (794) |
| Laundry expenses | | (970) | (957) |
| Medical fees and related expenses | | (703) | (972) |
| Donations | | (1,000) | — |
| Other operating expenses | | (3,746) | (1,843) |
| Listing expenses | | (5,860) | (7,603) |
| Finance costs, net | 6 | (124) | (296) |
| Profit before taxation | 7 | 26,563 | 21,150 |
| Income tax expense | 8 | (5,725) | (4,265) |
| Profit and total comprehensive income for the period attributable to the owners of the Company | | 20,838 | 16,885 |
| Earnings per share attributable to the owners of the Company | | | |
| — Basic (HK cents) | 10 | 2.31 | 2.25 |
| — Diluted (HK cents) | 10 | 2.31 | 2.25 |

The above interim condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Statement of Financial Position

As at 30 September 2019

| | <i>Note</i> | As at 30 September 2019 (Unaudited) HK\$'000 | As at 31 March 2019 (Audited) HK\$'000 |
|---|-------------|---|--|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property and equipment | 11 | 8,877 | 9,987 |
| Right-of-use assets | 12 | 149,071 | — |
| Prepayment for property and equipment | 14 | 6,500 | — |
| Deferred tax assets | | 2,080 | 2,258 |
| Total non-current assets | | 166,528 | 12,245 |
| CURRENT ASSETS | | | |
| Trade receivables | 13 | 2,504 | 2,675 |
| Prepayments, deposits and other receivables | 14 | 8,656 | 11,400 |
| Cash and cash equivalents | | 181,864 | 48,092 |
| Total current assets | | 193,024 | 62,167 |
| Total assets | | 359,552 | 74,412 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 16(a) | 10,000 | — |
| Reserves | | 175,639 | 28,367 |
| Total equity | | 185,639 | 28,367 |

Interim Condensed Consolidated Statement of Financial Position

As at 30 September 2019

| | <i>Note</i> | As at 30 September 2019 (Unaudited) HK\$'000 | As at 31 March 2019 (Audited) HK\$'000 |
|-------------------------------------|-------------|---|--|
| LIABILITIES | | | |
| NON-CURRENT LIABILITIES | | | |
| Accruals and other payables | 17 | 2,320 | 2,231 |
| Lease liabilities | 12 | 129,001 | — |
| Total non-current liabilities | | 131,321 | 2,231 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 17 | 9,164 | 12,506 |
| Deposits from customers | 17 | 3,962 | 4,094 |
| Contract liabilities | 5 | 1,665 | 1,602 |
| Amount due to a related company | 15(a) | 168 | 169 |
| Bank borrowings | 18 | — | 23,438 |
| Lease liabilities | 12 | 20,081 | — |
| Income tax payable | | 7,552 | 2,005 |
| Total current liabilities | | 42,592 | 43,814 |
| Total liabilities | | 173,913 | 46,045 |
| Total equity and liabilities | | 359,552 | 74,412 |

The above interim condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2019

| | Unaudited | | | | |
|--|---------------------------------------|------------------|---------------------|----------------------|----------------|
| | Attributable to owners of the Company | | | | |
| | Share capital | Share premium | Capital reserve | Retained earnings | Total |
| <i>Note</i> | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | <i>(Note 16(a))</i> | | <i>(Note 16(b))</i> | | |
| For the six months ended | | | | | |
| 30 September 2018 | | | | | |
| At 1 April 2018 | — | — | 36 | 42,214 | 42,250 |
| <i>Comprehensive income:</i> | | | | | |
| Profit and total comprehensive income for the period | — | — | — | 16,885 | 16,885 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | |
| Dividends paid | <i>9</i> | — | — | (26,600) | (26,600) |
| At 30 September 2018 | — | — | 36 | 32,499 | 32,535 |
| For the six months ended | | | | | |
| 30 September 2019 | | | | | |
| At 1 April 2019 | — | — | 36 | 28,331 | 28,367 |
| <i>Comprehensive income:</i> | | | | | |
| Profit and total comprehensive income for the period | — | — | — | 20,838 | 20,838 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | |
| Allotment of shares pursuant to the Reorganisation | <i>16(a)(ii)</i> | — | — | — | — |
| Share issued under the capitalisation issue | <i>16(a)(ii)</i> | 7,500 | (7,500) | — | — |
| Share issued pursuant to the initial public offering | <i>16(a)(ii)</i> | 2,500 | 133,934 | — | 136,434 |
| At 30 September 2019 | | 10,000 | 126,434 | 36 | 49,169 |
| | | | | 185,639 | |

The above interim condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2019

| | | For the six months ended 30 September | |
|---|-------------|--|---------------------------------|
| | <i>Note</i> | 2019 (Unaudited) HK\$'000 | 2018 (Unaudited) HK\$'000 |
| Cash flows from operating activities | | | |
| Cash generated from operations | 19 | 33,366 | 37,044 |
| Hong Kong profits tax paid | | — | (1,044) |
| Interest received | | 1,214 | 1 |
| Interest paid | | (142) | (297) |
| Net cash generated from operating activities | | 34,438 | 35,704 |
| Cash flow from investing activities | | | |
| Capital expenditure | | (7,443) | (236) |
| Increase in amounts due from shareholders | | — | (7,100) |
| Net cash used in investing activities | | (7,443) | (7,336) |
| Cash flows from financing activities | | | |
| Advances from a director | | — | 9,058 |
| Repayments of bank borrowings | | (23,438) | (2,655) |
| Payment of principal elements of lease liabilities | | (10,881) | — |
| Proceeds from issuance of ordinary shares pursuant to the initial public offering | 16(a)(ii) | 150,000 | — |
| Payment of professional fee in connection with the initial public offering | | (8,904) | (7,586) |
| Dividends paid to shareholders | | — | (26,600) |
| Net cash generated from/(used in) financing activities | | 106,777 | (27,783) |
| Net increase in cash and cash equivalents | | 133,772 | 585 |
| Cash and cash equivalents at the beginning of period | | 48,092 | 30,551 |
| Cash and cash equivalents at the end of period | | 181,864 | 31,136 |

The above interim condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Interim Condensed Consolidated Financial Information

1 GENERAL INFORMATION

Kato (Hong Kong) Holdings Limited (the **"Company"**) was incorporated in the Cayman Islands on 19 April 2018 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961 as combined and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and together with its subsidiaries (the **"Group"**) engage in the provision of elderly residential care services in Hong Kong.

Prior to the incorporation of the Company and the completion of a reorganisation (the **"Reorganisation"**) in preparation for the listing of the Company's share on the Main Board of The Stock Exchange of Hong Kong Limited (the **"Stock Exchange"**), Ms. Ngai Ka Yee, Mr. Kwong Kai To and Mr. Ngai Shi Shing, Godfrey (**"Mr. Godfrey Ngai"**) directed the economic activities of the provision of elderly residential care services in Hong Kong mainly through six operating subsidiaries (the **"Operating Subsidiaries"**), which were ultimately controlled by Mr. Kwong Kai To and Ms. Ngai Ka Yee (collectively, **"Godfrey's Parents"**) through Kato Elderly Group Limited. Mr. Godfrey Ngai and Godfrey's Parents are the ultimate controlling party of the Group. The Reorganisation was completed on 7 September 2018 and since then, the Company became the holding company of the Operating Subsidiaries now comprising the Group.

The Company's shares were listed on the Main Board of Stock Exchange on 13 June 2019.

This interim condensed consolidated financial information is presented in thousands of units of Hong Kong Dollar (**"HK\$'000"**), unless otherwise stated.

This interim condensed consolidated financial information was approved for issue by the Board of Directors of the Company on 22 November 2019.

This interim condensed consolidated financial information has not been audited.

Key events during the six months ended 30 September 2019

On 13 June 2019, the Company issued 749,990,000 ordinary shares upon capitalisation of certain amounts standing to the credit of the share premium account of the Company (the **"Capitalisation Issue"**). The Company issued 250,000,000 ordinary shares at a price of HK\$0.60 each in the initial public offering and raised a cash proceeds of HK\$150,000,000 (before netting off related transaction costs).

Notes to the Interim Condensed Consolidated Financial Information

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 September 2019 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This interim condensed consolidation financial information does not include all the notes of the type normally included in annual consolidated financial statements. Accordingly, this interim condensed consolidated financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 March 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

2.1 Summary of significant accounting policies

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 March 2019, as described in those annual consolidated financial statements, except for the adoption of HKFRS 16 “Leases” as set out below.

(a) *New standards, amendments to standards and interpretation adopted by the Group*

A number of new standards, amendment to standards and interpretation became applicable for the current reporting period, and the Group has changed its accounting policies and made retrospective adjustments as a result of adopting HKFRS 16 Leases (“HKFRS 16”).

| | |
|---|---|
| Amendments to Annual Improvements Project | Annual improvements 2015–2017 cycle |
| HKFRS 9 (Amendment) | Prepayment features with negative compensation |
| HKFRS 16 | Leases |
| HKAS 19 (Amendment) | Plan amendment, curtailment or settlement |
| HKAS 28 (Amendment) | Long-term interests in associates or joint ventures |
| HK(IFRIC)-Int 23 | Uncertainty over income tax treatments |

The impact of the adoption of the leasing standard and the new accounting policy is disclosed below. The other new standards, amendments to standards and interpretation did not have material impact on the Group’s accounting policies and did not require any adjustments.

Change in accounting policy

The below explains the impact of adoption of HKFRS 16 on the Group’s interim condensed consolidated financial information and also discloses the new accounting policy that has been applied from 1 April 2019.

Notes to the Interim Condensed Consolidated Financial Information

2 BASIS OF PREPARATION (CONTINUED)

2.1 Summary of significant accounting policies (Continued)

(a) *New standards, amendments to standards and interpretation adopted by the Group (Continued)*

(i) *Accounting policy applied from 1 April 2019*

From 1 April 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are depreciated over the shorter of the assets' useful lives and the lease terms on a straight-line basis and stated at initially recognised amount less depreciation and impairment losses.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed lease payments. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

- the amount of the initial measurement of lease liability;
- prepayment; and
- any initial direct costs.

Notes to the Interim Condensed Consolidated Financial Information

2 BASIS OF PREPARATION (CONTINUED)

2.1 Summary of significant accounting policies (Continued)

(a) *New standards, amendments to standards and interpretation adopted by the Group (Continued)*

(ii) *Impact of adoption*

The Group has adopted HKFRS 16 by modified retrospective approach from 1 April 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provision in the standard. The adjustments and reclassification arising from the new leasing rules are therefore recognised in the opening of the interim condensed consolidated statement of financial position on 1 April 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 “*Leases*” (“**HKAS 17**”). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 April 2019 (date of initial application of HKFRS 16). The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 2.5%.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by this standard.

- (i) to use a single discount rate to a portfolio of leases with reasonable similar characteristics;
- (ii) the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases; and
- (iii) the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application.

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

Notes to the Interim Condensed Consolidated Financial Information

2 BASIS OF PREPARATION (CONTINUED)

2.1 Summary of significant accounting policies (Continued)

(a) *New standards, amendments to standards and interpretation adopted by the Group (Continued)*

(ii) *Impact of adoption (Continued)*

The reconciliation between the operating lease commitments as disclosed by applying HKAS 17 as at 31 March 2019 and lease liabilities recognised in the opening of the interim condensed consolidated statement of financial position as at 1 April 2019 is as follows:

| | Unaudited HK\$'000 |
|---|-----------------------|
| Operating lease commitments disclosed as at 31 March 2019 | 43,333 |
| Less: discounted using the lessee's incremental borrowing rate at the date of initial application | (5,699) |
| Less: short-term or low-value leases recognised on a straight-line basis as expenses | (7,056) |
| <hr/> Lease liabilities recognised as at 1 April 2019 | <hr/> 30,578 |
| Of which are: | |
| — Current lease liabilities | 13,188 |
| — Non-current lease liabilities | 17,390 |
| | <hr/> 30,578 |

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised as at 1 April 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy resulted in the recognition of both right-of-use assets and lease liabilities of HK\$30,578,000 in the opening of the interim condensed consolidated statement of financial position on 1 April 2019.

The recognised right-of-use assets of HK\$30,578,000 are related to property leases of elderly centres and staff quarters.

Notes to the Interim Condensed Consolidated Financial Information

2 BASIS OF PREPARATION (CONTINUED)

2.1 Summary of significant accounting policies (Continued)

(b) *The following new standards, amendments to standards and interpretation have been issued, but are not effective for the financial year beginning on 1 April 2019 and have not been early adopted.*

| | | Effective for annual periods beginning on or after |
|--|--|---|
| HKFRS 3 (Amendments) | Definition of Business | 1 January 2020 |
| HKFRS 17 | Insurance Contracts | 1 January 2021 |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material | 1 January 2020 |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |
| Conceptual Framework for Financial Reporting 2018 | Framework for Financial Reporting | 1 January 2020 |

These new standards, amendments to standards and interpretation are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions. The Group intends to adopt the above new standards, amendments to standards and interpretation to existing standards when they become effective.

Notes to the Interim Condensed Consolidated Financial Information

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to variety financial risks: market risk (cash flow interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 March 2019.

As a result of adoption of HKFRS 16, the Group recognised lease liabilities of HK\$30,578,000 as at 1 April 2019 and HK\$149,082,000 as at 30 September 2019. The table below analyses the Group's lease liabilities into relevant maturity grouping based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | As at 30 September 2019 (Unaudited) HK\$'000 | As at 1 April 2019 (Unaudited) HK\$'000 |
|-----------------------|---|---|
| Less than 1 year | 20,081 | 13,188 |
| Between 1 and 5 years | 129,001 | 17,390 |
| | 149,082 | 30,578 |

There have been no other significant changes in the risk management policies since 31 March 2019.

3.2 Fair value estimation

The carrying values of the Group's financial assets, including trade receivables, deposits and other receivables and cash and cash equivalents, and financial liabilities, including trade and other payables, deposits from customers, and amount due to a related company and bank borrowings, approximate to their fair values due to their short-term maturities. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments, unless the discounting effect is insignificant.

Notes to the Interim Condensed Consolidated Financial Information

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2019.

5 REVENUE AND SEGMENT INFORMATION

The executive directors of the Company, who are the chief operating decision-maker (the "CODM") of the Group, review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on reports reviewed by the executive directors of the Company that are used to make strategic decisions.

During the six months ended 30 September 2019 and 2018, the Group had only one reportable operating segment, which is the provision of elderly home care services. Since this is the only operating segment of the Group, no further operating segment analysis thereof is presented.

The Group's revenue was derived solely from its operations in Hong Kong during the six months ended 30 September 2019 and 2018, and the non-current assets of the Group were located in Hong Kong as at 30 September 2019 and 31 March 2019.

Revenue of approximately HK\$42,778,000 for the six months ended 30 September 2019 was derived from the Social Welfare Department under Enhanced Bought Place Scheme, which amounted to more than 10% of the Group's revenue (Six months ended 30 September 2018: HK\$36,484,000).

Notes to the Interim Condensed Consolidated Financial Information

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Revenue, which is also the Group's turnover, represented amounts received and receivable from the operation of elderly home care services in Hong Kong. An analysis of revenue is as follows:

| | For the six months ended 30 September | |
|---|---------------------------------------|---------------------------------|
| | 2019 (Unaudited) HK\$'000 | 2018 (Unaudited) HK\$'000 |
| Recognised over time: | | |
| Rendering of elderly home care services | 82,297 | 73,513 |
| Recognised at a point in time: | | |
| Sales of elderly home related goods | 13,523 | 12,575 |
| | 95,820 | 86,088 |

The Group did not recognise any revenue-related contract assets during the six months ended 30 September 2019 and 2018.

Contract liabilities

The balances represent the receipt in advance from customers. The Group recognised the following revenue-related contract liabilities:

| | As at 30 September 2019 (Unaudited) HK\$'000 | As at 31 March 2019 (Audited) HK\$'000 |
|----------------------|--|--|
| Contract liabilities | 1,665 | 1,602 |

The following table shows the revenue recognised during the six months ended 30 September 2019 and 2018 related to carried-forward contract liabilities:

| | For the six months ended 30 September | |
|--|---------------------------------------|---------------------------------|
| | 2019 (Unaudited) HK\$'000 | 2018 (Unaudited) HK\$'000 |
| Revenue recognised that was included in the contract liabilities balance as at beginning of the period | 1,602 | 1,781 |

Notes to the Interim Condensed Consolidated Financial Information

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Contract liabilities (Continued)

Due to the short-term nature of the related service contracts, the entire contract liabilities balance at the end of reporting period would be recognised into revenue in the next period. As permitted under HKFRS 15, the transaction price allocated to those unsatisfied contracts which have an original expected duration of one year or less is not disclosed.

6 FINANCE COSTS, NET

| | For the six months ended 30 September | |
|--|---------------------------------------|---------------------------------|
| | 2019 (Unaudited) HK\$'000 | 2018 (Unaudited) HK\$'000 |
| Interest income | 1,214 | 1 |
| Interest expenses on borrowings | (142) | (297) |
| Interest expenses on lease liabilities | (1,196) | — |
| | (124) | (296) |

Notes to the Interim Condensed Consolidated Financial Information

7 PROFIT BEFORE TAXATION

| | For the six months ended 30 September | |
|--|---------------------------------------|---------------------------------|
| | 2019 (Unaudited) HK\$'000 | 2018 (Unaudited) HK\$'000 |
| Auditors' remuneration | 625 | 225 |
| Depreciation | 11,749 | 2,803 |
| — Property and equipment | 2,053 | 2,803 |
| — Right-of-use assets | 9,696 | — |
| Employee benefit expenses (including directors' emoluments) | 31,801 | 27,301 |
| — Wages and salaries | 29,113 | 25,798 |
| — Retirement benefit scheme contributions | 863 | 838 |
| — Staff welfare and benefits | 368 | 113 |
| — Provision for long service payments | 89 | — |
| — Directors' remunerations | 1,942 | 909 |
| — Government subsidies | (574) | (357) |
| Property rental and related expenses | 4,258 | 14,759 |
| Legal and professional fee | 1,105 | 55 |
| Listing expenses | 5,860 | 7,603 |
| Medical fees and related expenses | 703 | 972 |
| Subcontracting fees | 1,017 | 794 |
| — Subcontracting fees | 4,926 | 2,411 |
| — Government subsidies | (3,909) | (1,617) |

Notes to the Interim Condensed Consolidated Financial Information

8 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the two-tiered rate of 8.25% for the first HK\$2,000,000 of the estimated assessable profits of the qualifying group entity and 16.5% on the remaining estimated assessable profit of the Group for the six months ended 30 September 2019 and 2018.

An analysis of the income tax expenses is as follows:

| | For the six months ended 30 September | |
|-----------------------|---------------------------------------|---------------------------------|
| | 2019 (Unaudited) HK\$'000 | 2018 (Unaudited) HK\$'000 |
| Hong Kong profits tax | | |
| Current year | 5,547 | 4,265 |
| Deferred tax | 178 | — |
| | 5,725 | 4,265 |

9 DIVIDENDS

| | For the six months ended 30 September | |
|--|---------------------------------------|---------------------------------|
| | 2019 (Unaudited) HK\$'000 | 2018 (Unaudited) HK\$'000 |
| Dividends declared by the Operating Subsidiaries | — | 26,600 |
| Interim dividend proposed after the end of reporting period of HK2.0 cents per share (2018: N/A) | 20,000 | — |

Dividends declared by the Operating Subsidiaries prior to the completion of the Reorganisation were paid or payable to the then shareholders of the Operating Subsidiaries. The rates for dividends and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this interim condensed consolidated financial information.

On 22 November 2019, the Board has declared an interim dividend of HK2.0 cents per share payable on or around 7 January 2020 to owners of the Company whose names appear on the register of members of the Company on 17 December 2019. The amount of interim dividend declared was calculated based on the number of ordinary shares in issue at the date of approval of the interim condensed consolidated financial information. The interim dividend has not been recognised as a liability in this interim condensed consolidated financial information.

Notes to the Interim Condensed Consolidated Financial Information

10 EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares deemed to be in issue during the six months ended 30 September 2019 and 2018.

| | For the six months ended 30 September | |
|--|---------------------------------------|---------------------|
| | 2019 (Unaudited) | 2018 (Unaudited) |
| Profit attributable to owners of the Company (HK\$'000) | 20,838 | 16,885 |
| Weighted average number of shares deemed to be in issue (thousand shares) | 900,273 | 750,000 |
| Basic earnings per share (HK cents) | 2.31 | 2.25 |

The weighted average number of shares deemed to be in issue for the six months ended 30 September 2018 for the purpose of earnings per shares computation has been retrospectively adjusted for the effect of the 1 ordinary share issued on 19 April 2018 (date of incorporation), 9,999 shares allotted for exchange of shares of the subsidiaries of the Group upon Reorganisation on 7 September 2018 and the 749,990,000 shares issued under the Capitalisation Issue on 13 June 2019 (Note 16(a)(ii)).

(b) Diluted

Diluted earnings per share for the six months ended 30 September 2019 and 2018 are the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

Notes to the Interim Condensed Consolidated Financial Information

11 PROPERTY AND EQUIPMENT

| | Unaudited HK\$'000 |
|---|-----------------------|
| Six months ended 30 September 2018 | |
| Net book value as at 1 April 2018 | 15,400 |
| Additions | 236 |
| Depreciation | (2,803) |
| Net book value as at 30 September 2018 | 12,833 |
| Six months ended 30 September 2019 | |
| Net book value as at 1 April 2019 | 9,987 |
| Additions | 943 |
| Depreciation | (2,053) |
| Net book value as at 30 September 2019 | 8,877 |

12 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The interim condensed consolidated statement of financial position shows the following amounts relating to the leases in respect of elderly centres and staff quarters:

| | As at 30 September 2019 (Unaudited) HK\$'000 | As at 1 April 2019 (Unaudited) HK\$'000 |
|----------------------------|--|---|
| Right-of-use assets | | |
| Non-current | 149,071 | 30,578 |
| Lease liabilities | | |
| Non-current | 129,001 | 17,390 |
| Current | 20,081 | 13,188 |
| | 149,082 | 30,578 |

Additions to the right-of-use assets during the six months ended 30 September 2019 were approximately HK\$144,659,000.

Notes to the Interim Condensed Consolidated Financial Information

12 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

The interim condensed consolidated statement of comprehensive income shows the following amounts relating to the leases in respect of elderly centers:

| | For the six months ended 30 September 2019 (Unaudited) HK\$'000 |
|--|--|
| Depreciation of right-of-use assets <i>(Note 7)</i> | 9,696 |
| Interest expenses on lease liabilities <i>(Note 6)</i> | 1,196 |

During the six months ended 30 September 2019, total cash outflow for leases of approximately HK\$10.9 million was included in net cash generated from financing activities.

13 TRADE RECEIVABLES

| | As at 30 September 2019 (Unaudited) HK\$'000 | As at 31 March 2019 (Audited) HK\$'000 |
|-------------------|---|--|
| Trade receivables | 2,504 | 2,675 |

The Group's trading terms with its customers are mainly payment in advance. Generally, there is no credit term granted to customers. However, in practice, customers settled their outstanding balances shortly after the date when the amounts are due. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Notes to the Interim Condensed Consolidated Financial Information

13 TRADE RECEIVABLES (CONTINUED)

The ageing analysis of the Group's trade receivables, based on invoice date are as follows:

| | As at 30 September 2019 (Unaudited) HK\$'000 | As at 31 March 2019 (Audited) HK\$'000 |
|----------------|---|--|
| Within 30 days | 2,295 | 1,951 |
| 31–60 days | 85 | 590 |
| 61–180 days | 120 | 134 |
| Over 180 days | 4 | — |
| | 2,504 | 2,675 |

The Group's trade receivables are denominated in HK\$. The carrying amounts of trade receivables approximate to their fair values due to their short maturities.

These relate to a number of independent customers for whom there is no recent history of default. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The ageing analysis of the trade receivables which are past due but not impaired is as above as there is no credit term granted. The Group's trade receivables balance does not contain impaired assets.

The maximum exposure to credit risk at the end of reporting period was the carrying amounts of trade receivables mentioned above. The Group did not hold any collateral as security.

Notes to the Interim Condensed Consolidated Financial Information

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at 30 September 2019 (Unaudited) HK\$'000 | As at 31 March 2019 (Audited) HK\$'000 |
|---------------------------------------|--|--|
| Non-current | | |
| Prepayment for property and equipment | 6,500 | — |
| Current | | |
| Prepayments | 2,335 | 67 |
| Prepaid rent | — | 5,674 |
| Prepaid listing expenses | — | 5,012 |
| Deposits | 6,321 | 647 |
| | 8,656 | 11,400 |

Financial assets included in the above balances relate to receivables for which there was no recent history of default. The Group did not hold any collateral as security. The carrying amounts of deposits and other receivables approximate to their fair values due to their short maturities and are denominated in HK\$.

15 RELATED PARTY BALANCES AND TRANSACTIONS

(a) Balance with a related company

| | As at 30 September 2019 (Unaudited) HK\$'000 | As at 31 March 2019 (Audited) HK\$'000 |
|---------------------------------|--|--|
| Amount due to a related company | | |
| Stand Harvest Limited | 168 | 169 |

Amount due to Stand Harvest Limited is unsecured, interest-free, trade in nature and repayable within 30 days from invoice date.

The carrying amount of the balance with a related company approximates to its fair value due to its short maturity and is denominated in HK\$.

Notes to the Interim Condensed Consolidated Financial Information

15 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(b) Significant transactions with related parties

The Group had the following significant transactions with related parties in the ordinary course of business:

| | | For the six months ended 30 September | |
|------------------------------------|--|--|---------------------------------|
| | | 2019 (Unaudited) HK\$'000 | 2018 (Unaudited) HK\$'000 |
| Nature | | | |
| Related parties: | | | |
| – Ms. Ngai Ka Yee | Interest expense on and repayment of lease liabilities | 235 | – |
| | Property rental | – | 262 |
| – Mr. Ngai Shi Shing, Godfrey | Interest expense on and repayment of lease liabilities | 51 | – |
| | Property rental | – | 72 |
| Related companies: | | | |
| – Classic Mate Limited | Interest expense on and repayment of lease liabilities | 629 | – |
| | Property rental | – | 600 |
| – Kato Elderly Affairs Limited | Interest expense on and repayment of lease liabilities | 1,702 | – |
| | Property rental | – | 2,400 |
| – Kato Property Limited | Interest expense on and repayment of lease liabilities | 832 | – |
| | Property rental | – | 1,200 |
| – Perfect Cheer Investment Limited | Interest expense on and repayment of lease liabilities | 997 | – |
| | Property rental | – | 960 |
| – Shing Kong Limited | Interest expense on and repayment of lease liabilities | 1,017 | – |
| | Property rental | – | 1,515 |
| – Smarts Corporation Limited | Interest expense on and repayment of lease liabilities | 954 | – |
| | Property rental | – | 699 |
| – Stand Harvest Limited | Laundry expenses | 970 | 957 |

Interest expense on and repayment of lease liabilities, property rental and laundry expenses were conducted in normal course of business and charged at terms mutually agreed by the relevant parties.

(c) Key management compensation

Key management included the directors and senior management of the Group.

| | For the six months ended 30 September | |
|---|---------------------------------------|---------------------------------|
| | 2019 (Unaudited) HK\$'000 | 2018 (Unaudited) HK\$'000 |
| Salaries and other short-term employee benefits | 3,236 | 1,686 |
| Retirement benefit scheme contribution | 32 | 36 |
| | 3,268 | 1,722 |

Notes to the Interim Condensed Consolidated Financial Information

16 SHARE CAPITAL AND RESERVE

(a) Share capital of the Company

| | Number of ordinary shares | Equivalent nominal value of ordinary share of HK\$0.01 each HK\$'000 |
|---|------------------------------|--|
| Authorised (note (i)) | | |
| As at 19 April 2018 (date of incorporation) | 38,000,000 | 380 |
| Increase in authorised share capital | 2,962,000,000 | 29,620 |
| As at 30 September 2019 | 3,000,000,000 | 30,000 |
| Issued and fully paid (note (iii)) | | |
| As at 19 April 2018 (date of incorporation) | 1 | — |
| Issuance of shares for acquisition of subsidiaries upon Reorganisation | 9,999 | — |
| Issuance of shares under Capitalisation Issue | 749,990,000 | 7,500 |
| Issuance of shares upon initial public offering | 250,000,000 | 2,500 |
| As at 30 September 2019 | 1,000,000,000 | 10,000 |

Note:

- (i) As of the date of incorporation, the initial authorised share capital of the Company was HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each.

On 20 May 2019, the authorised share capital was increased from HK\$380,000 to HK\$30,000,000 divided into 2,962,000,000 ordinary shares of HK\$0.01 each.

- (ii) On 19 April 2018, the issued paid-up capital of the Company was 1 share of HK\$0.01 each. On 7 September 2018, as part of the Reorganisation, the Company issued 9,999 new ordinary shares as the consideration for acquisition of the subsidiaries now comprising the Group.

Pursuant to the Capitalisation Issue, on 13 June 2019, the Company issued 749,990,000 ordinary shares upon capitalisation of certain amounts standing to the credit of the share premium account of the Company. The Company issued 250,000,000 ordinary shares of HK\$0.01 each at a price of HK\$0.60 per share pursuant to the initial public offering and listing of the Company's shares on the Main Board of the Stock Exchange on 13 June 2019.

Notes to the Interim Condensed Consolidated Financial Information

16 SHARE CAPITAL AND RESERVE (CONTINUED)

(b) Capital reserves

The capital reserve of the Group represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired and the nominal value of the share capital of the Company issued in exchange through share swap pursuant to the Reorganisation.

17 TRADE AND OTHER PAYABLES AND DEPOSITS FROM CUSTOMERS

| | As at 30 September 2019 (Unaudited) HK\$'000 | As at 31 March 2019 (Audited) HK\$'000 |
|---|--|--|
| Non-current | | |
| Provision for reinstatement cost | 575 | 575 |
| Provision for long service payments | 1,745 | 1,656 |
| | 2,320 | 2,231 |
| Current | | |
| Trade payables | 1,634 | 1,715 |
| Accruals and other payables | 848 | 926 |
| Accrued wages and salaries and retirement benefit scheme contributions | 5,160 | 4,715 |
| Listing expenses payable | 1,522 | 5,150 |
| Deposits from customers | 3,962 | 4,094 |
| | 13,126 | 16,600 |

As at 30 September 2019 and 31 March 2019, the carrying amounts of trade and other payables and deposits from customers approximate to their fair values, as the impact of discounting is not significant, and are denominated in HK\$.

Notes to the Interim Condensed Consolidated Financial Information

17 TRADE AND OTHER PAYABLES AND DEPOSITS FROM CUSTOMERS (CONTINUED)

Trade payables are unsecured, non-interest bearing and repayable in accordance with contractual terms. The ageing analysis of trade payables by invoice date is as follows:

| | As at 30 September 2019 (Unaudited) HK\$'000 | As at 31 March 2019 (Audited) HK\$'000 |
|----------------|---|---|
| Within 60 days | 1,634 | 1,715 |

18 BANK BORROWINGS

The bank borrowings were term loans drawn by the Group. The Group's borrowings, after taking into account of repayable on demand clause, were repayable as follows:

| | As at 30 September 2019 (Unaudited) HK\$'000 | As at 31 March 2019 (Audited) HK\$'000 |
|--------------------------------|---|---|
| Bank borrowings | | |
| — Within one year or on demand | — | 23,438 |

The carrying amount of the Group's bank borrowings as at 31 March 2019 were exposed to interest rate changes and the contractual re-pricing-dates were within 3 months.

The Group's bank borrowings were denominated in HK\$.

The Group's bank borrowings were secured by the land and buildings of related companies and unlimited corporate guarantees from related companies.

Certain of the Group's bank borrowings were guaranteed by a subsidiary of the Group and were secured by personal guarantee of a shareholder and director of the Company, Mr. Ngai Shi Shing, Godfrey.

Bank borrowings borne effective interest rate of 2.4% and 2.5% per annum for the six months ended 30 September 2019 and 2018, respectively.

All personal guarantee provided by Mr. Ngai Shi Shing, Godfrey and corporate guarantees and land and buildings provided by related companies was released upon the Listing.

Notes to the Interim Condensed Consolidated Financial Information

19 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Cash generated from operations

| | Note | For the six months ended 30 September | |
|--|------|---------------------------------------|---------------------------------|
| | | 2019 (Unaudited) HK\$'000 | 2018 (Unaudited) HK\$'000 |
| Profit before taxation | | 26,563 | 21,150 |
| Adjustments for: | | | |
| Interest income | 6 | (1,214) | (1) |
| Interest expenses on borrowings | 6 | 142 | 297 |
| Interest expenses on lease liabilities | | 1,196 | — |
| Depreciation | 7 | | |
| — Property and equipment | | 2,053 | 2,803 |
| — Right-of-use assets | | 9,696 | — |
| Operating profit before working capital change | | 38,436 | 24,249 |
| Changes in working capital: | | | |
| Trade receivables | | 171 | 291 |
| Prepayments, deposits and other receivables | | (1,918) | (633) |
| Trade and other payables | | (3,253) | 12,985 |
| Deposits from customers | | (132) | 541 |
| Contract liabilities | | 63 | (151) |
| Balances with related companies | | (1) | (238) |
| Cash generated from operations | | 33,366 | 37,044 |

20 CAPITAL COMMITMENT

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

| | As at 30 September 2019 (Unaudited) HK\$'000 | As at 31 March 2019 (Audited) HK\$'000 |
|------------------------|--|--|
| Property and equipment | 14,500 | — |

21 CONTINGENT LIABILITIES

As at 30 September 2019 and 31 March 2019, the Group had no material contingent liabilities.