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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

FINANCIAL HIGHLIGHTS

- The Group recorded a total revenue for the six months ended 30 September 2020 of approximately HK\$115.6 million, representing an increase of approximately 20.7% as compared to the six months ended 30 September 2019.
- The Group recorded a profit attributable to owners of the Company for the six months ended 30 September 2020 of approximately HK\$33.7 million, representing an increase of approximately 62.0% as compared to the six months ended 30 September 2019.
- The Board declared an interim dividend of HK2.0 cents per share.

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Director(s)**”) of Kato (Hong Kong) Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 September 2020 (the “**Period**”), together with the comparative figures for the six months ended 30 September 2019 (the “**Previous Period**”) as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2020

		For the six months ended 30 September	
		2020	2019
	<i>Note</i>	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	4	115,638	95,820
Other income		336	—
Employee benefit expenses, net		(38,559)	(31,801)
Depreciation of property and equipment		(2,275)	(2,053)
Depreciation of right-of-use assets		(12,822)	(9,696)
Property rental and related expenses		(1,345)	(4,258)
Food and beverage costs		(3,868)	(3,699)
Utility expenses		(2,394)	(2,784)
Supplies and consumables		(1,984)	(977)
Repair and maintenance		(489)	(569)
Subcontracting fees, net		(1,029)	(1,017)
Laundry expenses		(1,144)	(970)
Medical fees and related expenses		(592)	(703)
Donations		(500)	(1,000)
Other operating expenses		(5,609)	(3,746)
Listing expenses		—	(5,860)
Finance costs, net		(1,835)	(124)
		<hr/>	<hr/>
Profit before taxation	5	41,529	26,563
Income tax expense	6	(7,980)	(5,725)
		<hr/>	<hr/>
Profit and total comprehensive income for the period		<u>33,549</u>	<u>20,838</u>
Profit/(loss) and total comprehensive income for the period attributable to			
— owners of the Company		33,718	20,838
— non-controlling interest		(169)	—
		<hr/>	<hr/>
		<u>33,549</u>	<u>20,838</u>
Earnings per share attributable to the owners of the Company			
— Basic (HK cents)	8	3.37	2.31
— Diluted (HK cents)	8	3.37	2.31
		<hr/>	<hr/>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

		As at 30 September 2020 (Unaudited) <i>HK\$'000</i>	As at 31 March 2020 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
ASSETS			
NON-CURRENT ASSETS			
Property and equipment		16,800	8,918
Right-of-use assets		211,861	138,510
Deferred tax assets		1,970	2,065
Prepayment and deposits		4,292	9,311
Financial assets at fair value through other comprehensive income		173	—
Total non-current assets		<u>235,096</u>	<u>158,804</u>
CURRENT ASSETS			
Trade receivables	9	4,580	3,487
Prepayments, deposits and other receivables		5,549	2,839
Short-term bank deposits		133,924	140,493
Cash and cash equivalents		71,880	43,245
Total current assets		<u>215,933</u>	<u>190,064</u>
Total assets		<u>451,029</u>	<u>348,868</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	10	10,000	10,000
Reserves		196,390	182,672
		<u>206,390</u>	<u>192,672</u>
Non-controlling interests		<u>131</u>	<u>—</u>
Total equity		<u>206,521</u>	<u>192,672</u>

		As at 30 September 2020 (Unaudited) <i>HK\$'000</i>	As at 31 March 2020 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
LIABILITIES			
NON-CURRENT LIABILITIES			
Accruals and other payables	<i>11</i>	3,570	3,120
Lease liabilities		191,162	121,790
		<hr/>	<hr/>
Total non-current liabilities		194,732	124,910
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and other payables	<i>11</i>	16,958	12,755
Contract liabilities	<i>4</i>	963	1,184
Amount due to a related company		182	179
Lease liabilities		23,086	16,466
Income tax payable		8,587	702
		<hr/>	<hr/>
Total current liabilities		49,776	31,286
		<hr/>	<hr/>
Total liabilities		244,508	156,196
		<hr/>	<hr/>
Total equity and liabilities		451,029	348,868
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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.

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 24 November 2020.

This interim condensed consolidated financial information has not been audited.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 September 2020 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 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”).

The interim condensed consolidated financial information have been prepared under the historical cost convention, except for the financial assets at fair value through other comprehensive income (“**FVOCI**”), which are measured at fair values.

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 March 2020, as described in those annual consolidated financial statements, except for financial assets at FVOCI and the adoption of new and amended standards as set out below.

3.1 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (“OCI”) or through profit or loss), and
- those to be measured at amortised cost.

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

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

(ii) Recognition and derecognition

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

(iii) Measurement

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

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

(1) Amortised cost

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

(2) FVOCI

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

(3) FVPL

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

3.2 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

3.3 Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

4 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 2020 and 2019, the Group had only one reportable operating segment, which is the provision of elderly 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 2020 and 2019, and the non-current assets of the Group were located in Hong Kong as at 30 September 2020 and 31 March 2020.

Revenue of approximately HK\$59,252,000 for the six months ended 30 September 2020 was derived from the Social Welfare Department of the Hong Kong SAR Government, which amounted to more than 10% of the Group’s revenue (six months ended 30 September 2019: HK\$42,778,000).

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	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000
Recognised over time:		
Rendering of elderly home care services	88,301	82,297
Rendering of care support services to persons under quarantine	10,085	—
Rendering of elderly community care services	1,415	—
Recognised at a point in time:		
Sales of elderly home related goods	15,837	13,523
	115,638	95,820

The Group did not recognise any revenue-related contract assets during the six months ended 30 September 2020 and 2019.

Contract liabilities

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

	As at 30 September 2020 (Unaudited) HK\$'000	As at 31 March 2020 (Audited) HK\$'000
Contract liabilities	<u>963</u>	<u>1,184</u>

The following table shows the revenue recognised during the six months ended 30 September 2020 and 2019 related to carried-forward contract liabilities:

	For the six months ended 30 September	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Revenue recognised that was included in the contract liabilities balance as at beginning of the period	<u>1,184</u>	<u>1,602</u>

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.

5 PROFIT BEFORE TAXATION

Profit before taxation is stated after charging/(crediting) the following:

	For the six months ended 30 September	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Auditors' remuneration	700	625
Depreciation	15,097	11,749
— Property and equipment	2,275	2,053
— Right-of-use assets	12,822	9,696
Employee benefit expenses, net (including directors' emoluments)	38,559	31,801
— Wages and salaries	40,801	29,113
— Retirement benefit scheme contributions	1,102	863
— Staff welfare and benefits	40	368
— Provision for long service payments	615	89
— Directors' remunerations	2,310	1,942
— Government subsidies	(6,309)	(574)
Property rental and related expenses	1,345	4,258
Legal and professional fee	1,225	1,105
Listing expenses	—	5,860
Medical fees and related expenses	592	703
Subcontracting fees, net	1,029	1,017
— Subcontracting fees	4,757	4,926
— Government subsidies	(3,728)	(3,909)

6 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 2020 and 2019.

An analysis of the income tax expenses is as follows:

	For the six months ended 30 September	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Hong Kong profits tax		
Current tax	7,885	5,547
Deferred tax	95	178
	<u>7,980</u>	<u>5,725</u>

7 DIVIDENDS

	For the six months ended 30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim dividend proposed after the end of reporting period of HK2.0 cents per share (2019: HK2.0 cents per share)	20,000	20,000

The Board has resolved to declare an interim dividend of HK2.0 cents per share for the six months ended 30 September 2020 (six months ended 30 September 2019: HK2.0 cents per share) payable on or around 18 December 2020 to owners of the Company whose names appear on the register of members of the Company on 10 December 2020. 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.

8 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 2020 and 2019.

	For the six months ended 30 September	
	2020	2019
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (HK\$'000)	33,718	20,838
Weighted average number of shares deemed to be in issue (thousand shares)	1,000,000	900,273
Basic earnings per share (HK cents)	3.37	2.31

(b) Diluted

Diluted earnings per share for the six months ended 30 September 2020 and 2019 are the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

9 TRADE RECEIVABLES

	As at 30 September 2020 (Unaudited) HK\$'000	As at 31 March 2020 (Audited) HK\$'000
Trade receivables	<u>4,580</u>	<u>3,487</u>

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

	As at 30 September 2020 (Unaudited) HK\$'000	As at 31 March 2020 (Audited) HK\$'000
Within 30 days	4,126	1,759
31–60 days	35	1,447
61–180 days	358	181
Over 180 days	<u>61</u>	<u>100</u>
	<u>4,580</u>	<u>3,487</u>

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.

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 are due from SWD and a large number of diversified customers with good repayment history, there is no provision of impairment during the six months ended 30 September 2020 and 2019.

The SWD and 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.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. As at 30 September 2020 and 31 March 2020, the expected credit loss rate of trade receivables is assessed to be close to zero and considered to be not material to the consolidated financial statements, thus, no provision was made against the gross amounts of trade receivables.

10 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	<u>2,962,000,000</u>	<u>29,620</u>
As at 30 September 2019, 31 March 2020, 1 April 2020 and 30 September 2020	<u><u>3,000,000,000</u></u>	<u><u>30,000</u></u>
Issued and fully paid (note (ii))		
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	<u>250,000,000</u>	<u>2,500</u>
As at 30 September 2019, 31 March 2020, 1 April 2020 and 30 September 2020	<u><u>1,000,000,000</u></u>	<u><u>10,000</u></u>

Notes:

- (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.

(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.

11 TRADE AND OTHER PAYABLES

	As at 30 September 2020 (Unaudited) <i>HK\$'000</i>	As at 31 March 2020 (Audited) <i>HK\$'000</i>
Trade payables	1,997	1,679
Accruals and other payables	3,608	1,799
Accrued wages and salaries and retirement benefit scheme contributions	7,857	5,436
Deposits from customers	3,496	3,841
Provision for reinstatement cost	575	575
Provision for long service payments	2,995	2,545
	<u>20,528</u>	<u>15,875</u>
Less: non-current portion	<u>(3,570)</u>	<u>(3,120)</u>
Current portion	<u><u>16,958</u></u>	<u><u>12,755</u></u>

As at 30 September 2020 and 31 March 2020, 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\$.

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 2020 (Unaudited) <i>HK\$'000</i>	As at 31 March 2020 (Audited) <i>HK\$'000</i>
Within 60 days	<u><u>1,997</u></u>	<u><u>1,679</u></u>

12 CAPITAL COMMITMENT

At 30 September 2020, the Group had no capital commitments for property and equipment (31 March 2020: HK\$14.5 million).

13 CONTINGENT LIABILITIES

As at 30 September 2020 and 31 March 2020, the Group had no material contingent liabilities.

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 comprehensive 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 2020, 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.

Community care and day care services for the elderly in Hong Kong

“Ageing in place as the core, institutional care as back-up (居家安老為本，院舍照顧為後援)” is the key objective when the Government of the Hong Kong Special Administrative Region of the People’s Republic of China (the “**Government**”) formulates elderly care services. To actualise such objective, community care services for the elderly such as day care services and home-based care services have been launched by the Government through the Social Welfare Department (the “**SWD**”). In light of the above Government goals and incentives, the Group has provided (i) home-based and centre-based service; and (ii) day care services.

(i) Home-based and centre-based services under the Pilot Scheme on Community Care Service Voucher for the elderly launched by the SWD

The Pilot Scheme on Community Care Service Voucher (the “**CCSV**”) for the elderly launched by the SWD with the adoption of the “money-following-the-user” funding mode. Elderly persons who are eligible for applying for the CCSV Pilot Scheme should have been assessed by the Standardised Care Need Assessment Mechanism for Elderly Services, which was implemented by the SWD in November 2000, under which, Minimum Data Set-Home Care, an internationally recognised assessment tool, is adopted to ascertain the care needs of elderly and match them with appropriate services, and wait listing for subsidised community care services and/or residential care services on the Central Waiting List without any kind of residential care services or subsidised community care services being received.

The CCSV Pilot Scheme consisted of two phases. The first phase was launched in September 2013 and ended in August 2017, with a total of 1,200 CCSV granted. The second phase was launched in October 2016, with a total of 6,000 CCSV granted. In the 2018–19 fiscal year, an addition of 1,000 vouchers have been added by the Government to increase the total number of vouchers granted under the second phase of the CCSV Pilot Scheme to 7,000. The CCSV Pilot Scheme is operated under the Co-payment Arrangement based on the “affordable users pay” principle, which means the less that the elderly person can afford, the more the Government subsidises.

Since May 2020, the Group has expanded its scope of community care services by offering home-based services. As at the date of this announcement, Fai To Sino West Home, Ka Shui Garden Day Care Centre, Kato Elderly Home and Pine Villa are the recognised service providers under the CCSV Pilot Scheme, covering four contract homes, with a total capacity of centre-based services of 100 places and home-based services of 800 voucher holders.

(ii) Day care service

Day-care centres for elderly provide on-site elderly care services during daytime, which generally exclude overnight care services. To fully utilise resources and expertise, and enhance operation efficiency, day care services operators provides home-based care services for the elderly as well. CCSV holders can apply for mixed mode services, i.e. a combination of day care services and home-based care service, which best fit their needs.

To extend the Group’s reach to non-residents, since May 2020 the Group has been providing day care services to elderly, covering a range of centre-based care and support services during daytime to enable the day care service users who suffer from moderate to severe level of impairment to achieve optimal level of functioning, develop their potential, improve their quality of life, and continue to live in their own homes wherever feasible and possible. As at the date of this announcement, two of the Group’s care and attention homes for the elderly were entitled to offer day care services with a total of 30 subsidised day care places pursuant to the Bought Place Scheme Day Care Units for the Elderly (the “**BPS**”).

Following the outbreak of Coronavirus Disease 2019 (the “**COVID-19 Outbreak**”) in early 2020, the World Health Organisation has characterised the COVID-19 Outbreak as a pandemic. The Group mainly engaged in provision of elderly residential care services in Hong Kong where the elderly residential care places is always in a shortage. As previously mentioned in the Company’s 2020 annual report, the Group has implemented a series of precautionary and control measures, including the restrictions on visitors and increase the frequency of cleaning and sanitising residential care homes, etc., in order to maintain a clean and hygienic environment and safeguard the health of the elderly. Given the stable revenue structure and precautionary measures implemented by the Group, the Directors are of the opinion that the COVID-19 Outbreak did not have any material adverse effects on the financial position and operating results of the Group. The management of the Group will continuously monitor the situation of the COVID-19 Outbreak, assess and react actively to its impacts on the financial position and operating results of the Group for the year ending 31 March 2021. The Group is deeply moved by its staff’s professionalism and dedication to the elderly during this challenging time, and the Group would like to take this opportunity to thank them for their tireless efforts, in particular, for their perseverance in taking care of the Group’s elderly residents in the pandemic.

To cope with the COVID-19 Outbreak in residential care homes for the elderly and in view of the logistical issues and unsuitability of arranging special medical equipment and facilities to be sent to general quarantine centres, the Government has invited various RCHE players to participate in setting up quarantine and community treatment facilities in AsiaWorld-Expo. The Company was selected and participated in setting up a temporary quarantine centre for residents of residential care homes for the elderly, housing nursing staffs on duty round the clock and designated staffs responsible for assisting elderly residents’ needs.

FINANCIAL HIGHLIGHTS

The Group's customers primarily consisted of three groups, namely, (i) 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"); (ii) day care units under the BPS; and (iii) individual customers who settled their own residential fee and community care services fee entirely by themselves and those who were subsidised by the SWD under the EBPS and the BPS but settled the unsubsidised portion by themselves.

The following table sets forth a summary of the basic information of the Group's RCHEs as at 30 September 2020:

	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	75	71	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
			<u>589</u>	<u>540</u>	<u>1,129</u>	

The following table sets forth the average monthly occupancy rate of each respective RCHEs as at 30 September 2020 and 31 March 2020:

	Average monthly occupancy rate ^(Note)	
	As at 30 September 2020 %	As at 31 March 2020 %
Kato Elderly Home	97.8	94.4
Kato Home for the Aged	97.6	98.4
Fai To Home (On Lai)	92.9	94.6
Fai To Home (Tuen Mun)	97.8	97.8
Fai To Sino West Home	95.9	98.6
Happy Luck Home	98.6	98.6
Tsuen Wan Centre	94.7	98.7
Pine Villa	95.6	88.9
Overall	<u>96.5</u>	<u>96.9</u>

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.

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; (ii) sales of elderly home related goods; (iii) rendering of elderly community care services; and (iv) rendering of care support services to persons under quarantine. 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 2020 (the "Period") and the six months ended 30 September 2019 (the "Previous Period"):

	For the six months ended 30 September			
	2020		2019	
	HK\$'000	%	HK\$'000	%
Rendering of elderly home care services				
— residential care places purchased by the SWD under the EBPS	47,933	41.5	42,778	44.6
— residential care places purchased by individual customers	40,368	34.9	39,519	41.2
	<u>88,301</u>	<u>76.4</u>	<u>82,297</u>	<u>85.8</u>
Sales of elderly home related goods	15,837	13.7	13,523	14.2
Rendering of elderly community care services	1,415	1.2	—	—
Rendering of care support services to persons under quarantine	10,085	8.7	—	—
	<u>115,638</u>	<u>100.0</u>	<u>95,820</u>	<u>100.0</u>
Total	<u>115,638</u>	<u>100.0</u>	<u>95,820</u>	<u>100.0</u>

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 increased from approximately HK\$31.8 million for the Previous Period to approximately HK\$38.6 million for the Period. The increase was primarily due to the (i) increase in headcounts from the Group's participation in the Asia World-Expo community treatment facility which led to the significant increase in wages and salaries; and (ii) general salary increment, which was partially offset by increase in wage subsidies from government.

Property rental and related expenses

Property rental and related expenses comprised lease payments for short-term lease, building management fee and rates for RCHEs, day care centres, staff quarters and motor vehicles. Property rental and related expenses decreased from HK\$4.3 million for the Previous Period to HK\$1.3 million for the Period due to decrease in lease payments associated with short-term leases and variable lease payments that do not meet the definition of lease liability for the Group as lessee under HKFRS 16 for the Period.

Food and beverage costs

Food and beverage costs are food ingredients and beverages costs used for the provision of meals to the residents. Food and beverage costs slightly increased to approximately HK\$3.9 million for the Period (Previous Period: approximately HK\$3.7 million).

Profit for the Period

The profit for the Period significantly increased by approximately 61.0% to approximately HK\$33.5 million as compared to approximately HK\$20.8 million for the Previous Period. Such increase was mainly due to (i) increase in revenue from the provision of elderly home care services and elderly community care services; (ii) the receipt of wage subsidies from the Government under the anti-epidemic fund scheme of approximately HK\$5.2 million; (iii) the non-recurring listing expenses of approximately HK\$5.9 million incurred in the Previous Period, while no such expenses were incurred in the Period; and (iv) participation in establishing the Asia World-Expo community treatment center project which is non-recurring in nature.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's net assets increased to approximately HK\$206.5 million as at 30 September 2020 (31 March 2020: approximately HK\$192.7 million). Such increase was mainly a result of the operating profits during the Period. As at 30 September 2020, the Group's net current assets was approximately HK\$166.1 million (31 March 2020: approximately HK\$158.8 million), including cash and cash equivalents of approximately HK\$71.9 million (31 March 2020: approximately HK\$43.2 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 4.3 times as at 30 September 2020 (31 March 2020: approximately 6.1 times).

The Group monitors its capital on the basis of the gearing ratio. As at 30 September 2020, the Group's gearing ratio was approximately 4.1%. As at 31 March 2020, the Group had net cash position and hence no gearing ratio was presented. The gearing ratio is calculated as a percentage of net debt divided by total equity. Net debt is calculated as total bank borrowings and lease liabilities less cash and cash equivalents.

CAPITAL COMMITMENTS

At 30 September 2020, the Group had no capital commitments for property and equipment (31 March 2020: HK\$14.5 million).

CAPITAL STRUCTURE

There had been no changes in the capital structure of the Group during the Period. As at the date of this announcement, the share capital of the Company only comprised of ordinary shares.

SIGNIFICANT INVESTMENTS

During the Period, 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 Period, the Group did not have any material acquisition or disposal of subsidiaries, associates or joint ventures.

CONTINGENT LIABILITIES

As at 30 September 2020, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

The Group solely operates in Hong Kong and the majority 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. The Group did not resort to any foreign currency hedging facilities during the Period, but the management will continuously monitor foreign exchange exposure and will consider hedging significant foreign currency exposure where appropriate.

PLEDGE OF ASSETS

As at 30 September 2020, the Group had no pledged assets.

EMPLOYEES AND REMUNERATION POLICIES

The total number of full-time and part-time employees were 531 and 443 as at 30 September 2020 and 31 March 2020, 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\$38.6 million (Previous Period: approximately HK\$31.8 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.

EVENT AFTER REPORTING PERIOD

There had been no material events affecting the Group which have occurred since the end of the reporting period and up the date of this announcement.

FUTURE PROSPECTS

The demand for residential care home services for the elderly in Hong Kong remains 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (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. 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.

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 of the Company (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 2020.

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.

Mr. Ngai Shi Shing Godfrey (“**Mr. Ngai**”) is the chief executive officer of the Company and was appointed the chairman of the Board on 15 October 2020. Although this deviates from the practice under code provision A.2.1 of the CG Code, where it provides that the two positions should be held by two different individuals, as Mr. Ngai has considerable experience in the enterprise operation and management of the Company, the Board believes that it is in the best interests of the Company and its shareholders as a whole to have Mr. Ngai as chairman of the Board so that it can benefit from his experience and capability in leading the Board in the long-term development of the Company and for more effective planning and execution of business strategies. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board believes that there are adequate safeguards in place to ensure sufficient balance of powers within the Board.

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.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK2.0 cents per share payable on or around 18 December 2020 to owners of the Company whose names appear on the register of members of the Company (the “**Register of Members**”) on 10 December 2020.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement of the Shareholders to the interim dividend, the Register of Members will be closed from Wednesday, 9 December 2020 to Thursday, 10 December 2020 (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 Tuesday, 8 December 2020.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement of the Group for the Period is available for viewing on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.elderlyhk.com.

The interim report of the Group for the Period, containing all the information required by the Listing Rules, will be despatched to the Shareholders and published on the above websites in due course.

By order of the Board
Kato (Hong Kong) Holdings Limited
Ngai Shi Shing Godfrey
Chairman and executive Director

Hong Kong, 24 November 2020

As at the date of this announcement, the executive Directors are Ms. Ngai Ka Yee and Mr. Ngai Shi Shing Godfrey; the non-executive Directors are Mr. Cheng Man Tak Richard and Mr. Poon Kai Kit Joe; and the independent non-executive Directors are Ms. Chiu Lai Kuen Susanna, Mr. Or Kevin and Mr. Wong Vinci.