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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2021

FINANCIAL HIGHLIGHTS

- The Group recorded a total revenue for the year ended 31 March 2021 of approximately HK\$256.5 million, representing an increase of approximately 30.8% as compared to the year ended 31 March 2020.
- The Group recorded a profit attributable to owners of the Company for the year ended 31 March 2021 of approximately HK\$79.9 million, representing an increase of approximately 67.2% as compared to the year ended 31 March 2020.
- The Board has recommended a final dividend of HK2.0 cents per share for the year ended 31 March 2021, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company.

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Kato (Hong Kong) Holdings Limited (the “**Company**”) hereby present the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 March 2021 (the “**Year**”) together with the comparative figures for the year ended 31 March 2020 (the “**Previous Year**”), as follows:

Consolidated Statement of Profit or Loss

For the year ended 31 March 2021

| | <i>Note</i> | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|--|-------------|--------------------------------|-------------------------|
| Revenue | 3 | 256,531 | 196,098 |
| Other income and other gains, net | | 1,370 | 59 |
| Depreciation of property and equipment | | (5,332) | (4,188) |
| Employee benefit expenses, net | | (82,443) | (65,491) |
| Depreciation of right-of-use assets | | (26,691) | (23,858) |
| Property rental and related expenses | | (3,073) | (5,562) |
| Food and beverage costs | | (8,067) | (7,536) |
| Utility expenses | | (4,188) | (4,460) |
| Supplies and consumables | | (3,535) | (2,057) |
| Repair and maintenance | | (968) | (1,168) |
| Subcontracting fees, net | | (2,411) | (2,334) |
| Laundry expenses | | (2,280) | (2,061) |
| Medical fees and related expenses | | (2,621) | (1,616) |
| Donations | | (600) | (1,491) |
| Legal and professional fees | | (6,128) | (2,349) |
| Other operating expenses | | (10,663) | (6,651) |
| Listing expenses | | — | (5,513) |
| Finance costs, net | | (4,923) | (1,133) |
| | | <hr/> | <hr/> |
| Profit before taxation | 4 | 93,978 | 58,689 |
| Income tax expense | 5 | (14,476) | (10,824) |
| | | <hr/> | <hr/> |
| Profit for the year | | <u>79,502</u> | <u>47,865</u> |

Consolidated Statement of Profit or Loss (continued)

For the year ended 31 March 2021

| | Note | 2021 HK\$'000 | 2020 HK\$'000 |
|---|------|------------------|------------------|
| Profit for the year attributable to: | | | |
| Owners of the Company | | 79,874 | 47,865 |
| Non-controlling interests | | (372) | — |
| | | <u>79,502</u> | <u>47,865</u> |
| Earnings per share attributable to the owners of the Company (in HK cents) | | | |
| Basic earnings per share | 7 | <u>7.99</u> | <u>5.04</u> |
| Diluted earnings per share | 7 | <u>7.99</u> | <u>5.04</u> |

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2021

| | 2021 | 2020 |
|--|------------------------|----------------------|
| <i>Note</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit for the year | 79,502 | 47,865 |
| Other comprehensive income: | | |
| <i>Item that will not be reclassified to profit or loss</i> | | |
| Fair value changes of financial assets at fair value through other comprehensive income | <u>85</u> | <u>—</u> |
| Other comprehensive income for the year, net of tax | <u>85</u> | <u>—</u> |
| Total comprehensive income for the year | <u>79,587</u> | <u>47,865</u> |
| Total comprehensive income for the year attributable to: | | |
| Owners of the Company | 79,959 | 47,865 |
| Non-controlling interests | <u>(372)</u> | <u>—</u> |
| | <u>79,587</u> | <u>47,865</u> |

Consolidated Statement of Financial Position

As at 31 March 2021

| | <i>Note</i> | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|--|-------------|--------------------------------|-------------------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property and equipment | | 16,733 | 8,918 |
| Investment properties | | 244,100 | — |
| Right-of-use assets | | 217,555 | 138,510 |
| Deferred tax assets | | 1,907 | 2,065 |
| Prepayments and deposits | | 4,343 | 9,311 |
| Financial assets at fair value through other comprehensive income | | 704 | — |
| | | <hr/> | <hr/> |
| Total non-current assets | | 485,342 | 158,804 |
| | | <hr/> | <hr/> |
| CURRENT ASSETS | | | |
| Trade receivables | 8 | 6,269 | 3,487 |
| Prepayments, deposits and other receivables | | 1,871 | 2,839 |
| Short-term bank deposits | | 1,002 | 140,493 |
| Cash and cash equivalents | | 108,116 | 43,245 |
| | | <hr/> | <hr/> |
| Total current assets | | 117,258 | 190,064 |
| | | <hr/> | <hr/> |
| Total assets | | 602,600 | 348,868 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | 10,000 | 10,000 |
| Reserves | | 222,631 | 182,672 |
| | | <hr/> | <hr/> |
| | | 232,631 | 192,672 |
| Non-controlling interests | | 528 | — |
| | | <hr/> | <hr/> |
| Total equity | | 233,159 | 192,672 |
| | | <hr/> <hr/> | <hr/> <hr/> |

Consolidated Statement of Financial Position (continued)

As at 31 March 2021

| | Note | 2021 HK\$'000 | 2020 HK\$'000 |
|-------------------------------------|------|------------------|------------------|
| LIABILITIES | | | |
| NON-CURRENT LIABILITIES | | | |
| Accruals and other payables | 9 | 3,197 | 3,120 |
| Lease liabilities | | 197,624 | 121,790 |
| Bank borrowing | | 112,960 | — |
| Deferred tax liabilities | | 1,740 | — |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 315,521 | 124,910 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 9 | 16,380 | 12,755 |
| Contract liabilities | 3 | 909 | 1,184 |
| Amount due to a related company | | 202 | 179 |
| Bank borrowing | | 7,040 | — |
| Lease liabilities | | 24,423 | 16,466 |
| Income tax payable | | 4,966 | 702 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 53,920 | 31,286 |
| | | <hr/> | <hr/> |
| Total liabilities | | 369,441 | 156,196 |
| | | <hr/> | <hr/> |
| Total equity and liabilities | | 602,600 | 348,868 |
| | | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and together with its subsidiaries (collectively, the “**Group**”) are principally engaged in the provision of residential care services and day care services for the elderly in Hong Kong.

These consolidated financial statements are presented in thousands of Hong Kong Dollar (“**HK\$’000**”), unless otherwise stated.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, except for the financial assets at fair value through other comprehensive income and revaluation of investment properties, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

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

The Group has applied the following new and amended standards, improvements and interpretation for the first time for their annual reporting period commencing 1 April 2020:

| | |
|---|--|
| HKFRS 3 (Amendments) | Definition of a business |
| HKAS 1 and HKAS 8 (Amendments) | Definition of material |
| Conceptual Framework for Financial Reporting 2018 | Revised conceptual framework for financial reporting |
| HKAS 9, HKAS 39 and HKFRS 7 (Amendments) | Interest rate benchmark reform |

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards, amendments to standards, interpretations and accounting guidelines issued but not yet effective

A number of new standards, amendments to standards, interpretations and accounting guidelines have been issued but not effective during the year and have not been early adopted by the Group in preparing these consolidated financial statements:

| | | Effective for annual periods beginning on or after |
|--|--|---|
| Amendments to HKFRS 16 HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments) | Covid-19-related rent concessions Interest rate benchmark reform — phase 2 | 1 June 2020 1 April 2021 |
| Annual Improvements Project (Amendments) | Annual improvements 2018–2020 cycle | 1 April 2022 |
| Accounting Guideline 5 (Revised) | Revised accounting guideline 5 — Merger accounting for common control combination | 1 April 2022 |
| HKFRS 3, HKAS 16 and HKAS 37 (Amendments) | Narrow-scope amendments | 1 April 2022 |
| HKAS 1 (Amendments) | Classification of liabilities as current or non-current | 1 April 2023 |
| HKFRS 17 | Insurance contracts | 1 April 2023 |
| HKFRS 17 (Amendments) | Amendments to HKFRS 17 | 1 April 2023 |
| Hong Kong Interpretation 5 (2020) | Classification by the borrower of a term loan that contains a repayment on demand clause | 1 April 2023 |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or contribution of assets between an investor and its associate or joint venture | To be determined |

The directors of the Company have assessed the financial impact on the Group of the adoption of the above new standards, amendments to existing standards, interpretations and accounting guideline. These standards and amendments are not expected to have a material impact on the Group in the future reporting periods and on foreseeable future transactions. The Group intends to adopt the above new standards, amendments to existing standards interpretations and accounting guideline when they become effective.

3 REVENUE AND SEGMENT INFORMATION

The executive directors, who are 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 that are used to make strategic decisions.

During the years ended 31 March 2021 and 2020, the Group had one reportable operating segment, which was mainly the provision of elderly home care services, care support services to person under quarantine and elderly community care service. 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 years ended 31 March 2021 and 2020, and the non-current assets of the Group were located in Hong Kong as at 31 March 2021 and 2020.

Revenue of approximately HK\$141,559,000 (2020: HK\$89,077,000) for the year ended 31 March 2021 was derived from the Government of the Hong Kong Special Administrative Region ("Government of HKSAR") under the Enhanced Bought Place Scheme ("EBPS"), Bought Place Scheme ("BPS") and care support services to persons under quarantine, which amounted to more than 10% of the Group's revenue.

An analysis of revenue is as follows:

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Revenue from contracts with customers within the scope of HKFRS 15: | | |
| <i>Recognised over time:</i> | | |
| Rendering of elderly home care services | 177,139 | 168,275 |
| Rendering of care support services to persons under quarantine | 42,147 | — |
| Rendering of elderly community care services | 3,949 | — |
| Management fee income | 185 | — |
| Car park revenue | 107 | — |
| <i>Recognised at a point in time:</i> | | |
| Sales of elderly home related goods | 32,443 | 27,823 |
| Revenue arising from operating lease within the scope of HKFRS 16: | | |
| Fixed | 556 | — |
| Variable | 5 | — |
| | <u>256,531</u> | <u>196,098</u> |

The Group did not recognise any revenue-related contract assets during the years ended 31 March 2021 and 2020.

(a) **Contract liabilities**

As at 31 March 2021 and 2020, the balances represent the receipt in advance from customers. The Group recognised the following revenue-related contract liabilities:

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|----------------------|--------------------------------|-------------------------|
| Contract liabilities | <u>909</u> | <u>1,184</u> |

The following table shows the revenue recognised during the years ended 31 March 2021 and 2020 related to carried-forward contract liabilities:

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Revenue recognised that was included in the contract liabilities balance as at beginning of the year | <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 year end 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.

4 PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Depreciation of property and equipment | 5,332 | 4,188 |
| Depreciation of right-of-use assets | 26,691 | 23,858 |
| Property rental and related expenses | 3,073 | 5,562 |
| Lease payments for short-term leases | 410 | 2,987 |
| Loss on lease modification | 425 | — |
| Loss on remeasurement of lease liabilities as at termination of leases | — | 132 |
| Building management fees and rates | 2,238 | 2,443 |
| Employee benefit expenses, net | 82,443 | 65,491 |
| Wages and salaries | 85,274 | 60,155 |
| Retirement benefit scheme contributions | 2,132 | 1,742 |
| Staff welfare and benefits | 147 | 410 |
| Provision for long service payments | 72 | 888 |
| Directors' remunerations | 5,200 | 3,766 |
| Government subsidies | (10,382) | (1,470) |
| Legal and professional fees | 6,128 | 2,349 |
| Subcontracting fees, net | 2,411 | 2,334 |
| Subcontracting fees | 10,009 | 9,818 |
| Government subsidies | (7,598) | (7,484) |
| Auditor's remuneration | 1,500 | 1,250 |
| Accommodation | 1,819 | — |
| Insurance expenses | 795 | 623 |

5 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 profit of the qualifying group entity and 16.5% on the remaining estimated assessable profit of the Group for the years ended 31 March 2021 and 2020.

An analysis of the income tax expense is as follows:

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|-----------------------------|-------------------------|-------------------------|
| Hong Kong profits tax | | |
| Current year | 14,557 | 10,639 |
| Overprovision in prior year | (260) | (8) |
| | <u>14,297</u> | <u>10,631</u> |
| Deferred tax | <u>179</u> | <u>193</u> |
| | <u>14,476</u> | <u>10,824</u> |

6 DIVIDENDS

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| 2020 interim dividend paid (HK2.0 cents per share) | — | 20,000 |
| 2020 final dividend paid (HK2.0 cents per share) | 20,000 | — |
| 2021 interim dividend paid (HK2.0 cents per share) | 20,000 | — |
| | <u>40,000</u> | <u>20,000</u> |

A final dividend in respect of the year ended 31 March 2021 of HK2.0 cents per share, amounting to a total dividend of HK\$20,000,000, is to be proposed for approval at the forecoming annual general meeting. The proposed final dividend has not been recognised as a liability in these consolidated financial statements.

7 EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 March 2021 and 2020.

| | 2021 | 2020 |
|---|------------------|----------------|
| Profit attributable to the owners of the Company (HK\$'000) | 79,874 | 47,865 |
| Weighted average number of shares in issue (thousand shares) | <u>1,000,000</u> | <u>950,137</u> |
| Basic earnings per share (in HK cents) | <u>7.99</u> | <u>5.04</u> |

For the calculation of the weighted average number of shares in issue/deemed to be in issue, 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 the Reorganisation on 7 September 2018 and 749,990,000 shares issued under the Capitalisation Issue on 13 June 2019 has been retrospectively adjusted from 1 April 2018.

(b) Diluted

Diluted earnings per share for the years ended 31 March 2021 and 2020 are the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

8 TRADE RECEIVABLES

| | 2021 HK\$'000 | 2020 HK\$'000 |
|-------------------|------------------|------------------|
| Trade receivables | <u>6,269</u> | <u>3,487</u> |

The ageing analysis of the Group's trade receivables, based on invoice date, as at 31 March 2021 and 2020 are as follows:

| | 2021 HK\$'000 | 2020 HK\$'000 |
|----------------|------------------|------------------|
| Within 30 days | 3,025 | 1,759 |
| 31–60 days | 2,498 | 1,447 |
| 61–180 days | 662 | 181 |
| Over 180 days | <u>84</u> | <u>100</u> |
| | <u>6,269</u> | <u>3,487</u> |

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

9 TRADE AND OTHER PAYABLES

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Trade payables | 2,704 | 1,679 |
| Accruals and other payables | 3,274 | 1,799 |
| Accrued wages and salaries and contributions to MPF schemes | 5,620 | 5,436 |
| Deposits from customers | 3,631 | 3,841 |
| Rental deposits received | 1,370 | — |
| Provision for reinstatement cost | 575 | 575 |
| Provision for long service payments | 2,403 | 2,545 |
| | <u>19,577</u> | <u>15,875</u> |
| Less: non-current portion | <u>(3,197)</u> | <u>(3,120)</u> |
| Current portion | <u><u>16,380</u></u> | <u><u>12,755</u></u> |

As at 31 March 2021 and 2020, the carrying amounts of trade and other payables 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:

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|----------------|-------------------------|-------------------------|
| Within 60 days | <u><u>2,704</u></u> | <u><u>1,679</u></u> |

10 EVENTS AFTER THE REPORTING PERIOD

In May 2021, Si Mau Limited, an indirect wholly-owned subsidiary of the Company, entered into a provisional sale and purchase agreement with Upper Caterings Group Limited, a third party independent to the Company, in relation to the acquisition of four pieces of land in Yuen Long at a cash consideration of HK\$65 million.

Save as disclosed above and elsewhere in this announcement, there is no other material event after the reporting period and up to the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Elderly home care services

The Group is an established operator of residential care homes for the elderly (the “**RCHE(s)**”) 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 31 March 2021, the Group had a network of eight (2020: eight) care and attention homes for the elderly with 1,129 residential care places (2020: 1,129 residential care places) strategically located across four districts in Hong Kong. The Group’s care and attention homes 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 Group’s customers primarily consisted of two groups, namely, (i) the Social Welfare Department (the “**SWD**”) with which entered into contractual arrangements pursuant to which the SWD purchased residential care places from the Group under the Enhanced Bought Place Scheme (“**EBPS**”); and (ii) individual customers who settled their own residential fee and those who were subsidised by the SWD under the EBPS 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 31 March 2021 and 2020:

| | Location | Year of commencement of operations by the Group | Number of residential care places (excluding isolated beds) | | | Classification under the EBPS |
|--|---------------|---|--|---|--------------|-------------------------------|
| | | | Under the EBPS | For individual customers not under the EBPS | Total | |
| 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 care and attention homes as at 31 March 2021 and 2020:

| | Average monthly occupancy rate^(Note) as at 31 March | |
|------------------------|---|--------------------|
| | 2021 | 2020 |
| | % | % |
| Kato Elderly Home | 97.2 | 94.4 |
| Kato Home for the Aged | 99.2 | 98.4 |
| Fai To Home (On Lai) | 92.9 | 94.6 |
| Fai To Home (Tuen Mun) | 98.9 | 97.8 |
| Fai To Sino West Home | 95.6 | 98.6 |
| Happy Luck Home | 98.6 | 98.6 |
| Tsuen Wan Centre | 92.7 | 98.7 |
| Pine Villa | 98.9 | 88.9 |
| | <hr/> | <hr/> |
| Overall | <u>96.6</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 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.

Community care and day care services for the elderly

(i) Home-based and centre-based services

Since May 2020, the Group has expanded its scope to community care by offering home-based services under the pilot scheme on Community Care Service Voucher (the “CCSV”) for the elderly launched by the SWD, which aim to help families in need of home care services while relieving their financial and caregiving pressures, services including hospital outpatient and discharge escort, caregiver training, home safety assessment, physiotherapy, nursing support, etc.

As at 31 March 2021, Fai To Sino West Home, Ka Shui Garden Day Care Centre (Hung Hom), Ka Shui Garden Day Care Centre (Tsuen Wan), Kato Elderly Home and Pine Villa are the recognised service providers under the Pilot Scheme on CCSV, covering five contract homes, with a total capacity of centre-based services of 120 places and home-based services of 1,000 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 extend the Group's reach to non-residents, since May 2020, the Group has commenced 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 31 March 2021, 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").

Care support services to persons under quarantine

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 invited various RCHE players to participate in setting up quarantine and community treatment facilities. During the year ended 31 March 2021 (the "Year"), 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 REVIEW

Revenue

The Group's revenue was principally generated from the provision of residential care services and day 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; (iv) rendering of care support services to persons under quarantine; and (v) rental and management fee income. The following table sets forth the breakdown of revenue for the Group's revenues by types of services for the Year and year ended 31 March 2020 (the "Previous Year"):

| | 2021 | | 2020 | |
|---|-----------------------|---------------------|-----------------------|---------------------|
| | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % |
| Rendering of elderly home care services | | | | |
| — residential care places purchased by the SWD under the EBPS | 95,723 | 37.3 | 89,077 | 45.4 |
| — residential care places purchased by individual customers | 81,416 | 31.8 | 79,198 | 40.4 |
| Sales of elderly home related goods | 32,443 | 12.6 | 27,823 | 14.2 |
| | 209,582 | 81.7 | 196,098 | 100.0 |
| Rendering of elderly community care services | 3,949 | 1.5 | — | — |
| Rendering of care support services to persons under quarantine | 42,147 | 16.4 | — | — |
| Rental and management fee income | 853 | 0.4 | — | — |
| Total | <u>256,531</u> | <u>100.0</u> | <u>196,098</u> | <u>100.0</u> |

The total revenue of the Group significantly increased by approximately HK\$60.4 million or 30.8% from approximately HK\$196.1 million for the Previous Year to approximately HK\$256.5 million for the Year, which was mainly due to participation of elderly community care services and care support services to persons under quarantine during the Year.

Revenue from elderly home care services mainly represent (i) the rendering of elderly home care services (such as, residence, professional nursing and caretaking services, nutritional management, medical services, psychological and social care and individual care plans); and (ii) sales of elderly home related goods which include the sale of diapers, nutritional milk, wipes, and blood glucose test strips to our residents on an as-needed basis. The increase in revenue from elderly home care services from approximately HK\$196.1 million in Previous Year to approximately HK\$209.6 million mainly attributed to (i) increase in base rate charge per residential care place purchased by the SWD under the EBPS for rendering of elderly home care services; and (ii) increase in average price of sales of elderly home related goods.

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\$65.5 million for the Previous Year to approximately HK\$82.4 million for the Year, which was mainly due to the increase in number of staff for rendering care support services to persons under quarantine, which partially offset by wage subsidies from the Government of Hong Kong SAR under the anti-epidemic fund scheme of approximately HK\$8.3 million.

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 and staff quarters. Property rental and related expenses decreased from approximately HK\$5.6 million for the Previous Year to approximately HK\$3.1 million for the Year 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 Year.

Listing expenses

Listing expenses represented professional and other expenses in connection to the initial public offering. No listing expenses were recorded during the Year (Previous Year: approximately HK\$5.5 million).

Profit for the Year

The profit for the Year significantly increased by approximately 66.0% to approximately HK\$79.5 million for the Year as compared to HK\$47.9 million for the Previous Year. Such increase has mainly due to (i) an increase in revenue from the provision of elderly home care services, elderly community care services and care support services to persons under quarantine; (ii) the receipt of wage subsidies from the Government of Hong Kong SAR under the anti-epidemic fund scheme of approximately HK\$8.3 million; and (iii) the non-recurring listing expenses of approximately HK\$5.5 million incurred in the Previous Year, while no such expenses were incurred in the Year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's net assets increased to approximately HK\$233.2 million as at 31 March 2021 (2020: approximately HK\$192.7 million). Such increase was mainly a result of the cash inflow from operating activities during the Year. As at 31 March 2021, the Group's net current assets was approximately HK\$63.3 million (2020: approximately HK\$158.8 million), including cash and cash equivalents of approximately HK\$108.1 million (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 2.2 times as at 31 March 2021 (2020: approximately 6.1 times).

The Group has established a treasury policy with the objective of lowering cost of funds. Therefore, funding for all its operations have been centrally reviewed and monitored at the Group level. To manage the Group's exposure to fluctuations in interest rates, appropriate funding policies will be applied including the use of bank borrowings or placing of new shares. The management will continue its efforts in obtaining the most privileged rates and favourable terms available to the Group for its financing.

The Group monitors its capital on the basis of the gearing ratio, which is expressed as a percentage of net debt divided by total capital. Net debt is calculated as the sum of bank borrowing and lease liabilities less the sum of cash and cash equivalents and short-term bank deposits. Total capital represents total equity as shown on the consolidated statement of financial position of the Group.

The gearing ratio as at 31 March 2021 and 2020 were as follows:

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|---------------------------------|--------------------------------|-------------------------|
| Bank borrowing | 120,000 | — |
| Lease liabilities | 222,047 | 138,256 |
| | <u>342,047</u> | <u>138,256</u> |
| Less: Cash and cash equivalents | (108,116) | (43,245) |
| Short-term bank deposits | (1,002) | (140,493) |
| | <u>(109,118)</u> | <u>(183,738)</u> |
| Net debt/(cash) | <u>232,929</u> | <u>(45,482)</u> |
| Total equity | <u>233,159</u> | <u>192,672</u> |
| Gearing ratio | <u>99.9%</u> | <u>Net Cash</u> |

As at 31 March 2021, the gearing ratio of the Group was increased to 99.9% due to the drawdown of bank borrowing of HK\$120 million for acquisition of assets in February 2021.

Since the amount of cash and cash equivalents and short-term bank deposits exceeded that of lease liabilities and bank borrowing, the Group is at net cash position as at 31 March 2020. Thus, the gearing ratio was not applicable as at 31 March 2020.

As at 31 March 2021, bank borrowing of the Group bore floating interest rates and denominated in HK\$, the maturity profile are set out as follows:

| | <i>HK\$'000</i> |
|---|-----------------------|
| Within 1 year | 7,040 |
| More than 1 year but less than 2 years | 7,166 |
| More than 2 years but less than 5 years | 22,277 |
| More than 5 years | <u>83,517</u> |
| | <u><u>120,000</u></u> |

COMMITMENTS

As at 31 March 2021, the Group did not have any material capital commitment.

As at 31 March 2020, the Group had capital commitments for property and equipment, amounting to approximately HK\$14.5 million after netting off the prepayment for the purchase of property and equipment and a lease with right-of-use assets and lease liabilities of approximately HK\$84.1 million committed but not commenced.

SIGNIFICANT INVESTMENTS

During the Year and Previous Year, the Group had no significant investment in equity interest in any other company.

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES

On 26 January 2021, the Group entered into the sale and purchase agreement to acquire the entire equity interest in a property holding company with the property located in New Kowloon Inland Lot No. 6377 comprising of (i) cooked food stalls and commercial complex of Hing Tin Estate (the “**Estate**”); (ii) the integrated HA accommodation; and (iii) car park spaces of the Estate, at a total consideration of approximately HK\$240 million, for establishment of a care and attention home. The consideration was financed by internal resources, bank borrowing of HK\$120 million and proceeds from the listing under part of the Company’s plan of using such proceeds on the acquisition of a suitable property for establishment of a care and attention home. The vendors are third parties independent of and not connected to the company and any of its connected persons or any of their respective associates and the consideration was determined under arm’s length negotiation with reference to the prevailing market value of comparable properties available in the vicinity. The acquisition was completed on 26 February 2021. For further details, please refer to the circular of the Company dated 26 May 2021.

Except for the aforementioned transaction, the Group did not conduct any material acquisition or disposal of subsidiaries, associates and joint ventures during the Year.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

In May 2021, Si Mau Limited, an indirect wholly-owned subsidiary of the Company, entered into a provisional sale and purchase agreement with Upper Caterings Group Limited, a third party independent to the Company, in relation to the acquisition of four pieces of land in Yuen Long at a cash consideration of HK\$65 million.

Save as disclosed above and elsewhere in this announcement, the Group did not have any plans for material investments and capital assets as at 31 March 2021 and up to the date of this announcement.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 March 2021 and 2020.

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 Year, but the management will continuously monitor foreign exchange exposure and will consider hedging significant foreign currency exposure where appropriate.

PLEDGE OF ASSETS

As at 31 March 2021, investment properties with carrying amount of approximately HK\$244.1 million (2020: Nil) were pledged to secure banking facilities granted to the Group. Save for the above, the Group had no other pledge of assets as at 31 March 2021.

EMPLOYEES AND REMUNERATION POLICIES

The total number of full-time and part-time employees were 498 and 443 as at 31 March 2021 and 2020, respectively. The Group's employee benefit expenses mainly includes salaries, discretionary bonuses, medical insurance coverage, staff quarter, other staff benefits and contributions to retirement schemes. During the Year, the Group's total employee benefit expenses (including Directors' emoluments) amounted to approximately HK\$82.4 million (2020: approximately HK\$65.5 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 and general market conditions.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and that the risks of non-compliance with such requirements. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Group has complied with all relevant laws and regulations in Hong Kong in all material respects during the Year.

The Group also complies with the requirements under Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”) for the disclosure of information and corporate governance.

ENVIRONMENTAL POLICY

The Group recognises its responsibility to protect the environment from its business activities. The Group continually seeks to identify and manage environmental impacts attributable to its operational activities in order to reduce such impacts.

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.

Not only for business growth, but for the wellness and sustainability of the community, we take an active role during the Year in various community initiatives in the area of elderly care and disadvantaged community. With support and in-line with the Government's initiative in promotion of “ageing-in-place” and “money follows the person”, the Group started to have participated in the CCSV Scheme to provide assistance to elderly with needs. In May 2020, the Group provide a range of home-based and centre-based care and support services during daytime to enable frail elders including the demented suffering from moderate or severe level of impairment to maintain their optimal level of functioning, develop their potential, improve their quality of life and to enable them to live in their own homes wherever feasible and possible. The Directors believe that provision of community care services enables the Group to utilise its existing resources more efficiently and provide more comprehensive services to the elderly.

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 residential care homes for the elderly, the Group will continue to expand its network of elderly residential care homes in strategic locations in Hong Kong to serve more elderly residents when there are suitable opportunities. The Directors believe that the Group is poised to further capture new market opportunities driven by the strong demand for residential care home services in Hong Kong.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the Year and up to the date of this announcement.

DIVIDEND

The Board has recommended the declaration of a final dividend of HK2.0 cents per share for the year ended 31 March 2021 (2020: HK2.0 cents) to the shareholders of the Company. The proposed final dividend, subject to the approval of the shareholders of the Company, is expected to be paid on Tuesday, 7 September 2021 to the shareholders of the Company whose names appear on the register of members of the Company on Thursday, 26 August 2021.

An interim dividend of HK2.0 cents per share amounting HK\$20 million was declared and paid by the Company on 18 December 2020.

ANNUAL GENERAL MEETING

An annual general meeting of the Company (the "AGM") is scheduled to be held on Wednesday, 18 August 2021, notice of which will be published and despatched to the shareholders as soon as practicable in accordance with the Company's articles of association and the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

For determining shareholders' entitlement to attend and vote at AGM, the register of members of the Company will be closed from Friday, 13 August 2021 to Wednesday, 18 August 2021, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer of the shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar 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 Thursday, 12 August 2021.

For determining shareholders' entitlement to the proposed final dividend (subject to approval by the shareholders at the AGM), the register of members of the Company will be closed from Wednesday, 25 August 2021 to Thursday, 26 August 2021, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar 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, 24 August 2021.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transaction by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**"). In response to the specific enquiry made by the Company, all the Directors have confirmed that they had complied with the required standards as set out in the Model Code during the Year.

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. Save as disclosed below, the Company had complied with all the provisions in the CG Code during the Year.

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.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The audit committee of the Company (the “**Audit Committee**”) has reviewed the accounting policies adopted by the Group and the consolidated financial statements for the Year. The Audit Committee is satisfied that the audited consolidated financial statements of the Group for the Year were prepared in accordance with the applicable accounting standards and fairly present the Group’s financial position and results for the Year.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 March 2021 as set out in this preliminary announcement have been agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s audited consolidated financial statements for the Year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the Company's website at www.elderlyhk.com and the website of the Stock Exchange at www.hkexnews.hk. The annual report of the Company for the Year containing all the information required under the Listing Rules will be published on the aforesaid websites of the Company and the Stock Exchange and will be despatched to the Company's shareholders in due course.

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

Hong Kong, 11 June 2021

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.