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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 2019

FINANCIAL HIGHLIGHTS

- The Group recorded a total revenue for the six months ended 30 September 2019 of approximately HK$95.8 million, representing an increase of approximately 11.3% as compared to the six months ended 30 September 2018.
- The Group recorded a profit attributable to owners of the Company for the six months ended 30 September 2019 of approximately HK$20.8 million, representing an increase of approximately 23.1% as compared to the six months ended 30 September 2018.
- 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 2019 (the "**Period**"), together with the comparative figures for the six months ended 30 September 2018 (the "**Previous Period**") as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2019

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

	Note	As at 30 September 2019 (Unaudited) *HK$'000*	As at 31 March 2019 (Audited) *HK$'000*
ASSETS			
NON-CURRENT ASSETS			
Property and equipment		**8,877**	9,987
Right-of-use assets		**149,071**	—
Prepayment for property and equipment		**6,500**	—
Deferred tax assets		**2,080**	2,258
Total non-current assets		**166,528**	12,245
CURRENT ASSETS			
Trade receivables	*8*	**2,504**	2,675
Prepayments, deposits and other receivables		**8,656**	11,400
Cash and cash equivalents		**181,864**	48,092
Total current assets		**193,024**	62,167
Total assets		**359,552**	74,412
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	*9*	**10,000**	—
Reserves		**175,639**	28,367
Total equity		**185,639**	28,367
LIABILITIES			
NON-CURRENT LIABILITIES			
Accruals and other payables	*10*	**2,320**	2,231
Lease liabilities		**129,001**	—
Total non-current liabilities		**131,321**	2,231
CURRENT LIABILITIES			
Trade and other payables	*10*	**9,164**	12,506
Deposits from customers	*10*	**3,962**	4,094
Contract liabilities	*3*	**1,665**	1,602
Amount due to a related company		**168**	169
Bank borrowings		**—**	23,438
Lease liabilities		**20,081**	—
Income tax payable		**7,552**	2,005
Total current liabilities		**42,592**	43,814
Total liabilities		**173,913**	46,045
Total equity and liabilities		**359,552**	74,412

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**") engages in the provision of elderly residential care services in Hong Kong.

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

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

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

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

This interim condensed consolidated financial information has not been audited.

Key events during the six months ended 30 September 2019

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

2 BASIS OF PREPARATION

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

2.1 Summary of significant accounting policies

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

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

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

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

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

Change in accounting policy

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

(i) Accounting policy applied from 1 April 2019

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

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

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

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

(ii) Impact of adoption

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

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

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

(i) to use a single discount rate to a portfolio of leases with reasonable similar characteristics;

(ii) the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases; and

(iii) the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application.

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

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

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

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

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

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

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

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

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

3 REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

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

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

Contract liabilities

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

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

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

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

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.

4 PROFIT BEFORE TAXATION

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

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 profits of the qualifying group entity and 16.5% on the remaining estimated assessable profit of the Group for the six months ended 30 September 2019 and 2018.

An analysis of the income tax expenses is as follows:

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

6 DIVIDENDS

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

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

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

7 EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic

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

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

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

(b) Diluted

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

8 TRADE RECEIVABLES

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

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

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

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

The Group's trade receivables are denominated in Hong Kong Dollar. The carrying amounts of trade receivables approximate to their fair values due to their short maturities.

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

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

9 SHARE CAPITAL

	Number of ordinary shares	Equivalent nominal value of ordinary share of HK$0.01 each *HK$'000*
Authorised *(note (i))*		
As at 19 April 2018 (date of incorporation)	38,000,000	380
Increase in authorised share capital	2,962,000,000	29,620
As at 30 September 2019	3,000,000,000	30,000
Issued and fully paid *(note (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	250,000,000	2,500
As at 30 September 2019	1,000,000,000	10,000

Note:

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

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

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

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

10 TRADE AND OTHER PAYABLES AND DEPOSITS FROM CUSTOMERS

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

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

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

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

11 CAPITAL COMMITMENT

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

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

12 CONTINGENT LIABILITIES

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

FINANCIAL HIGHLIGHTS

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

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

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

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

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

Note:

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

Revenue

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

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

Employee benefit expenses

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

Property rental and related expenses

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

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

Food and beverage costs

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

Listing expenses

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

Profit for the period

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

CAPITAL COMMITMENTS

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

CAPITAL STRUCTURE

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

SIGNIFICANT INVESTMENTS

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

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES

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

CONTINGENT LIABILITIES

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

FOREIGN EXCHANGE EXPOSURE

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

PLEDGE OF ASSETS

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

EMPLOYEES AND REMUNERATION POLICIES

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

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

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

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

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

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

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

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 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

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 C3 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 7 January 2020 to Shareholders whose names appear on the register of members of the Company (the "**Register of Members**") on 17 December 2019.

CLOSURE OF REGISTER OF MEMBERS

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

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 of the Company and published on the above websites in due course.

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

Hong Kong, 22 November 2019

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