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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 2019**

FINANCIAL HIGHLIGHTS

- The Group recorded a total revenue for the year ended 31 March 2019 of approximately HK\$174.8 million, representing an increase of approximately 12.1% as compared to the year ended 31 March 2018.
- The Group recorded a profit attributable to owners of the Company for the year ended 31 March 2019 of approximately HK\$37.9 million, representing an increase of approximately 4.1% as compared to the year ended 31 March 2018.
- The Board does not recommend the payment of a final dividend for the year ended 31 March 2019.

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Kato (Hong Kong) Holdings Limited (the “**Company**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 March 2019 together with the comparative figures for the year ended 31 March 2018, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue	3	174,752	156,013
Other income and other loss, net		—	2,377
Depreciation		(5,779)	(6,085)
Employee benefit expenses		(55,801)	(54,823)
Property rental and related expenses		(29,647)	(28,158)
Food and beverage costs		(6,992)	(6,411)
Utility expenses		(4,454)	(4,271)
Supplies and consumables		(1,805)	(1,594)
Repair and maintenance		(1,244)	(1,217)
Subcontracting fees		(1,723)	(2,003)
Cleaning expenses		(1,949)	(2,072)
Medical fees and related expenses		(1,845)	(1,767)
Donations		—	(185)
Other operating expenses		(4,350)	(2,861)
Listing expenses		(11,102)	(2,645)
Finance costs, net		(560)	(279)
		<hr/>	<hr/>
Profit before taxation	4	47,501	44,019
Income tax expense	5	(9,619)	(7,582)
		<hr/>	<hr/>
Profit and total comprehensive income for the year		<u>37,882</u>	<u>36,437</u>
Earnings per share attributable to the owners of the Company during the year (in HK cents)			
Basic earnings per share	7	<u>5.05</u>	<u>4.86</u>
Diluted earnings per share	7	<u>5.05</u>	<u>4.86</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
ASSETS			
NON-CURRENT ASSETS			
Property and equipment		9,987	15,400
Deferred tax assets		2,258	2,184
Total non-current assets		12,245	17,584
CURRENT ASSETS			
Trade receivables	8	2,675	1,518
Prepayments, deposits and other receivables		11,400	9,494
Amounts due from shareholders		—	20,100
Amount due from a director		—	4,679
Amounts due from related companies		—	4,560
Tax recoverable		—	645
Cash and cash equivalents		48,092	30,551
Total current assets		62,167	71,547
Total assets		74,412	89,131
EQUITY AND LIABILITIES			
Equity attributable to the owners of the Company			
Share capital	9(a)	—	—
Capital reserve	9(b)	36	36
Retained earnings		28,331	42,214
Total equity		28,367	42,250
LIABILITIES			
NON-CURRENT LIABILITY			
Accruals and other payables	10	2,231	1,635
CURRENT LIABILITIES			
Trade and other payables	10	12,506	7,324
Deposits from customers	10	4,094	3,722
Contract liabilities	3	1,602	1,781
Amounts due to related companies		169	2,397
Bank borrowings		23,438	26,718
Income tax payable		2,005	3,304
Total current liabilities		43,814	45,246
Total liabilities		46,045	46,881
Total equity and liabilities		74,412	89,131

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 is situated at 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 (collectively, the “**Group**”) are principally engaged in the provision of elderly residential care services in Hong Kong (the “**Listing Business**”).

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 Listing Business mainly through six operating subsidiaries, namely Kato Kung Limited, Crawfield International Limited, Oriental Chinese Medicine Limited, Jane’s Home Limited, Tsuen Wan Elderly Centre Limited and Happy Luck Elderly Home Limited (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 (collectively, the “**Kwong and Ngai Family**” or the “**Controlling Shareholders**”) 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.

Prior to Capitalisation, the Company was directly owned as to 83.2% by Sheung Fung Limited, the ultimate holding company, which was directly owned by a trustee (the “**Trustee**”) of a family trust (the “**Family Trust**”) established by Godfrey’s Parents on 19 March 2018 in which Mr. Godfrey Ngai is the sole beneficiary, and as to 16.8% by Si Mau Limited which was directly owned by Mr. Lam Kong, Ms. Kwong Mei Ping, Mr. Kwong Wai Ping, Thomas, Mr. Ngai Chi Hang and Mr. Ngai Yiu Pan, Louis (collectively, the “**Individual Shareholders**”).

The Company’s ordinary shares were listed on the Stock Exchange on 13 June 2019.

These consolidated financial statements are presented in Hong Kong Dollar (“**HK\$**”), 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.

Immediately prior to the Reorganisation and during the years ended 31 March 2019 and 2018, the Listing Business is mainly conducted through the Operating Subsidiaries which were controlled by Godfrey’s Parents.

Pursuant to the Reorganisation, the Operating Subsidiaries and the Listing Business are transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a recapitalisation of the Listing Business with no change in management of such business and the Controlling Shareholders of the Listing Business remain the same.

The Group resulting from the Reorganisation is regarded as a continuation of the Group's business under the Operating Subsidiaries. Accordingly, the consolidated financial statements have been prepared and presented as a continuation of the Group's business as if the Group structure has existed as at 1 April 2017.

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.

The Group has adopted HKFRS 9 "*Financial Instruments*", HKFRS 15 "*Revenue from Contracts with Customers*" and HKFRS 15 (Amendments) "*Clarifications to HKFRS 15*" consistently throughout the years ended 31 March 2019 and 2018 with the practical expedients permitted under the standards.

(a) New standards, interpretations, improvements and amendments to standards and interpretations not yet adopted

A number of new standards, interpretations, improvements and amendments to standards and interpretations 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
Annual improvements Project 2017	Annual Improvements 2015–2017 Cycle	1 January 2019
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HKFRS 3 (Amendments)	Definition of Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 (Amendments)	Long-term Interests in an Associates or Joint Ventures	1 January 2019
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

The directors of the Company have assessed the financial impact on the Group of the adoption of the above new standards, interpretations, improvements and amendments to existing standards. Except for HKFRS 16, there are no other standards that are not yet effective and that would be 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, interpretations, improvements and amendments to existing standards when they become effective.

HKFRS 16 “Leases”

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group has reviewed all of the leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group’s operating leases. As at 31 March 2019, the Group had non-cancellable operating lease commitments of approximately HK\$43.3 million and most of these leases had an original lease term of over one year.

The Group expects the recognition of right-of-use assets and lease liabilities will result in significant increase in non-current assets and both current and non-current financial liabilities in the consolidated statement of financial position. Overall net current assets will be lower due to the presentation of a portion of the lease liabilities as current liabilities.

In the consolidated statement of comprehensive income, leases will be recognised in the future as depreciation and will no longer recorded as property rental and related expenses. Interest expense on the lease liabilities will be presented separately from depreciation under finance costs. As a result, the property rental and related expenses under otherwise identical circumstances will decrease, while depreciation and interest expense will increase. The combination of a straight-line depreciation of the right-to-use asset and the effective interest rate method applied to the lease liabilities will result in a higher total charge to profit or loss in the initial year of the lease, and decreasing expenses in the latter part of the lease term. Operating cash outflows will decrease and the financing cash outflows will increase as the repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities, but the total cash flows of the Group would not be affected upon adoption of HKFRS 16.

The adoption of HKFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply HKFRS 16 to all contracts entered into before 1 April 2019 and identified as leases in accordance with existing standard and interpretation.

3 REVENUE AND SEGMENT INFORMATION

The executive Directors, 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 that are used to make strategic decisions.

During the year ended 31 March 2019, the Group had only one reportable operating segment, which was the provision of elderly home care services (2018: one reportable operating segment). 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 2019 and 2018, and the non-current assets of the Group were located in Hong Kong as at 31 March 2019 and 2018.

Revenue of approximately HK\$73,447,000 for the year ended 31 March 2019 was derived from the Social Welfare Department under the Enhanced Bought Place Scheme, which amounted to more than 10% of the Group’s revenue (2018: HK\$67,109,000).

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

	2019	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>
Recognised over time:		
Rendering of elderly home care services	149,403	132,515
Recognised at a point in time:		
Sales of elderly home related goods	<u>25,349</u>	<u>23,498</u>
	<u>174,752</u>	<u>156,013</u>

The Group did not recognise any revenue-related contract assets during the years ended 31 March 2019 and 2018.

(a) Contract liabilities

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

	2019	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>
Contract liabilities	<u>1,602</u>	<u>1,781</u>

The following table shows the revenue recognised during the years ended 31 March 2019 and 2018 related to carried-forward contract liabilities:

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue recognised that was included in the contract liabilities balance as at beginning of the year	<u>1,781</u>	<u>1,823</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

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditors' remuneration	450	210
Depreciation	5,779	6,085
Employee benefit expenses	55,801	54,823
Wages and salaries	52,671	50,701
Retirement benefit scheme contributions	1,578	2,094
Staff welfare and benefits	477	957
Provision for long service payments	634	219
Directors' remunerations	1,818	1,818
Government subsidies	(1,377)	(966)
Lease payments under operating leases	27,396	26,004
Legal and professional fee	633	130
Listing expenses	11,102	2,645
Medical fees and related expenses	1,845	1,767
Subcontracting fees, net	1,723	2,003
Subcontracting fees	8,327	9,147
Government subsidies	(6,604)	(7,144)

5 INCOME TAX EXPENSE

Hong Kong profits tax had been provided on the estimated assessable profit at a rate of 16.5% for the year ended 31 March 2018.

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 and 16.5% on the remaining estimated assessable profit of the Group for the year ended 31 March 2019.

An analysis of the income tax expense is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Hong Kong profits tax		
Current year	9,693	7,548
Deferred tax	(74)	34
	<u>9,619</u>	<u>7,582</u>
Income tax expense	<u>9,619</u>	<u>7,582</u>

6 DIVIDENDS

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Dividends declared	<u>51,765</u>	<u>16,680</u>

The Board does not recommend the payment of a final dividend for the year ended 31 March 2019.

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 deemed to be in issue during the years ended 31 March 2019 and 2018.

	2019	2018
Profit attributable to the owners of the Company (<i>HK\$'000</i>)	37,882	36,437
Weighted average number of shares deemed to be in issue (<i>Shares</i>)	<u>750,000,000</u>	<u>750,000,000</u>
Basic earnings per share (<i>in HK cents</i>)	<u>5.05</u>	<u>4.86</u>

The weighted average number of shares deemed to be in issue for the years ended 31 March 2019 and 2018 for the purpose of earnings per share 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 749,990,000 shares issued under the Capitalisation Issue on 13 June 2019 (Note 9(a)).

(b) Diluted

Diluted earnings per share for the years ended 31 March 2019 and 2018 are the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

8 TRADE RECEIVABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade receivables	<u>2,675</u>	<u>1,518</u>

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, as at 31 March 2019 and 2018 are as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 30 days	1,951	1,123
31–60 days	590	178
61–180 days	<u>134</u>	<u>217</u>
	<u>2,675</u>	<u>1,518</u>

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

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 contained impaired assets.

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

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. As at 31 March 2019 and 2018, the expected credit loss rate of trade receivables is assessed to be close to zero and considered to be not material to the consolidated financial statements, thus, no provision were made against the gross amounts of trade receivables.

9 SHARE CAPITAL AND RESERVE

(a) Share capital of the Company

	Number of ordinary shares	Equivalent nominal value of ordinary share HK\$
Authorised:		
38,000,000 shares of HK\$0.01 each (<i>Note</i>)	38,000,000	380,000
Issued and fully paid:		
As at 19 April 2018 (date of incorporation)	1	—
Issuance of ordinary shares of HK\$0.01 each for acquisition of subsidiaries upon Reorganisation	9,999	100
As at 31 March 2019	10,000	100

Note: On 19 April 2018 (date of incorporation), the authorised and issued paid-up capital of the Company is 38,000,000 shares and 1 share of HK\$0.01 each, respectively. 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. On 20 May 2019, the authorised share capital of the Company was increased from 38,000,000 shares of HK\$0.01 each to 3,000,000,000 shares of HK\$0.01 each.

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 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 Stock Exchange on 13 June 2019.

(b) Reserves

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

10 TRADE AND OTHER PAYABLES AND DEPOSITS FROM CUSTOMERS

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	1,715	1,931
Accruals and other payables	926	473
Accrued wages and salaries and retirement benefit scheme contributions	4,715	4,736
Listing expenses payable	5,150	184
Deposits from customers	4,094	3,722
Provision for reinstatement cost	575	575
Provision for long service payments	1,656	1,060
	18,831	12,681
Less: non-current portion	(2,231)	(1,635)
Current portion	16,600	11,046

As at 31 March 2019 and 2018, the carrying amounts of trade and other payables and deposits from customers approximate to their fair values, as the impact of discounting is not significant, and are denominated in HK\$.

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

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 60 days	1,715	1,931

11 EVENTS AFTER THE REPORTING PERIOD

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 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).

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is an established operator of residential care homes for the elderly (the “RCHE”) 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 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 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.

FINANCIAL REVIEW

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 our 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 RCHE as at 31 March 2019 and 2018:

	Location	Year of commencement of operations by the Group	Number of residential care places (excluding isolated beds)			Classification under the EBPS	Occupancy rate of residential care places as at 31 March	
			Under the EBPS	For individual customers not under the EBPS	Total		2019	2018
Kato Elderly Home	Tuen Mun	1999	126	54	180	EA1	99.4%	94.2%
Kato Home for the Aged	Tuen Mun	1998	86	37	123	EA2	97.6%	95.1%
Fai To Home (On Lai)	Tuen Mun	1997	28	28	56	EA2	98.2%	92.9%
Fai To Home (Tuen Mun)	Tuen Mun	1995	47	43	90	EA2	92.2%	94.4%
Fai To Sino West Home	To Kwa Wan	2000	140	154	294	EA1	93.9%	91.2%
Happy Luck Home	Tsuen Wan	2015	73	73	146	EA1	99.3%	100.0%
Tsuen Wan Centre	Tsuen Wan	2008	79	71	150	EA1	98.7%	96.7%
Pine Villa	Tseung Kwan O	2013	N/A	90	90	N/A	95.6%	95.6%
			579	550	1,129			

Revenue

The Group's revenue was principally generated from the provision of residential care services for the elderly in Hong Kong. Our 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 our Group's revenues by types of services for the years ended 31 March 2019 (the "Year") and 2018 (the "Previous Year"):

	2019		2018	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
<i>Rendering of elderly home care services</i>				
— residential care places purchased by the SWD under the EBPS	73,447	42.0	67,109	43.0
— residential care places purchased by individual customers	<u>75,956</u>	<u>43.5</u>	<u>65,406</u>	<u>41.9</u>
	149,403	85.5	132,515	84.9
<i>Sales of elderly home related goods</i>	<u>25,349</u>	<u>14.5</u>	<u>23,498</u>	<u>15.1</u>
Total	<u><u>174,752</u></u>	<u><u>100.0</u></u>	<u><u>156,013</u></u>	<u><u>100.0</u></u>

The total revenue of the Group increased by approximately HK\$18.8 million or 12.1% from approximately HK\$156.0 million for the Previous Year to approximately HK\$174.8 million for the Year, which was mainly due to the increase in average monthly residential fee and overall average occupancy rate.

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\$54.8 million for Previous Year to approximately HK\$55.8 million for the Year, which was mainly due to the increase in wages and salaries.

Property rental and related expenses

Property rental and related expenses mainly comprised of rental expenses under operating leases in relation to the RCHes. The property rental and related expenses increased by approximately HK\$1.4 million or 5.0% from approximately HK\$28.2 million for the Previous Year to approximately HK\$29.6 million for the Year which was mainly due to the increase in monthly rental expense for certain RCHes in accordance with the terms of the tenancy agreements during the Year.

Medical fees and related expenses

Medical fees and related expenses mainly represented expenses incurred for medical consumables such as insulin injection, feeding bags and oxygen. Medical fees and related expenses remained stable which amounted to approximately HK\$1.8 million for the Year (2018: approximately HK\$1.8 million).

Listing expenses

Listing expenses represented professional and other expenses in connection to the listing. Listing expenses of approximately HK\$11.1 million and HK\$2.6 million were recorded during the Year and Previous Year respectively.

Profit for the Year

The profit for the Year increased by approximately 4.1% to approximately HK\$37.9 million for the Year compared to HK\$36.4 million for the Previous Year. It was mainly due to the increase in average number of total customers, which was partly offset by the non-recurring listing expenses during the Year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's net assets decreased to approximately HK\$28.4 million as at 31 March 2019 (2018: approximately HK\$42.3 million) which was mainly due to the combined effects of the operating profit and payment of dividends during the Year. As at 31 March 2019, the Group's net current assets was approximately HK\$18.4 million (2018: approximately HK\$26.3 million), including cash and cash equivalents of approximately HK\$48.1 million (2018: approximately HK\$30.6 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 1.4 times as at 31 March 2019 (2018: approximately 1.6 times).

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 total bank borrowings less cash and cash equivalents. Capital represents total equity as shown on the consolidated statement of financial position of the Group.

The gearing ratio as at 31 March 2019 and 2018 were as follows:

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings	23,438	26,718
Less: cash and cash equivalents	<u>(48,092)</u>	<u>(30,551)</u>
Net cash	<u>(24,654)</u>	<u>(3,833)</u>
Total equity	<u>28,367</u>	<u>42,250</u>
Gearing ratio	<u>Net Cash</u>	<u>Net Cash</u>

Since the amount of cash and cash equivalents exceeded that of bank borrowings, the Group is at net cash position as at 31 March 2019 and 2018. Thus, the gearing ratio was not applicable as at 31 March 2019 and 2018.

As at 31 March 2019, the Group's bank borrowings were denominated in Hong Kong Dollar and bore floating interest rates. The maturity profile for the Group's bank borrowings is set out as follows:

	<i>HK\$'000</i>
Within 1 year	1,250
2nd year	1,250
3rd to 5th year	3,750
Over 5 years	<u>17,188</u>
	<u>23,438</u>

CAPITAL COMMITMENTS

As at 31 March 2019 and 2018, the Group had no significant capital commitment.

CAPITAL STRUCTURE

The ordinary shares of the Company (the “**Shares**”) have been successfully 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**”). There have been no changes in the capital structure of the Group since then. The share capital of the Company only comprises of ordinary shares.

SIGNIFICANT INVESTMENTS

The Group had no significant investments during the Year.

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 7 September 2018, the Group completed the group reorganisation undertaken by the Group in the preparation for the Listing (the “**Reorganisation**”), details of which are set out in note 1 to the consolidated financial statements in this announcement and the section headed “History, Development and Reorganisation — Reorganisation” in the prospectus of the Company dated 30 May 2019 (the “**Prospectus**”).

Subsequent to the completion of the Reorganisation and up to the date of this announcement, the Group did not have any acquisitions or disposals of subsidiaries, associates or joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as those disclosed under the the section headed “Future Plans and Use of Proceeds” in the Prospectus, the Group currently has no other plan for material investments and capital assets.

CONTINGENT LIABILITIES

The Group did not have material contingent liabilities as at 31 March 2019 and 2018.

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 31 March 2019 and 2018, none of the Group’s assets had been pledged.

EMPLOYEES AND REMUNERATION POLICIES

The total number of full-time and part-time employees were 405 and 383 as at 31 March 2019 and 2018, respectively. The Group’s employee benefit expenses mainly included salaries, discretionary bonuses, medical insurance coverage, other staff benefits and

contributions to retirement schemes. For the years ended 31 March 2019 and 2018, the Group's total employee benefit expenses (including Directors' emoluments) amounted to approximately HK\$55.8 million and HK\$54.8 million, respectively.

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.

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 the 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 minimise these impacts if possible.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Shares have been successfully listed on the Stock Exchange on the Listing Date. The net proceeds from the Listing, after deducting listing related expenses, were approximately HK\$118.4 million. After the Listing, these proceeds will be used for the purpose in accordance with that as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

Since the Company was only listed on the Stock Exchange after the year ended 31 March 2019, the Company has not applied any proceeds for any purpose as at 31 March 2019.

FUTURE PROSPECTS

The Shares were successfully listed on the Stock Exchange on 13 June 2019. The Board considers that such public listing status has impacted the perception of customers towards the Group. The Board believes that a public listing status is a form of complementary advertising which will further enhance the corporate profile, assist in reinforcing the brand awareness and market reputation, enhance the credibility with the public and potential business partners and offer the Company a broader shareholder base which will provide

liquidity in the trading of the Shares. In addition, the Board believes that the Listing will enable the Group to gain access to the capital market for future fund raising both at the time of Listing and at later stages which would inevitably assist the Group in the future business development.

There is a surging demand for residential care home services for the elderly in Hong Kong 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.

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, the management believes that the Group is poised to reproduce the success of the care and attention homes 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 does not recommend the payment of a final dividend to the shareholders of the Company for the Year.

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. In response to the specific enquiry made by the Company, all the Directors confirmed that they had complied with the Model Code throughout the period from the Listing Date to the date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on the principles of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules. The Company is committed to maintain high standards of corporate governance to safeguard interest of the Shareholders and ensure a quality board and transparency and accountability to Shareholders.

The Company complied with all code provisions in the CG Code during the period from the Listing Date to the date of this announcement.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Company's audit committee has reviewed the accounting policies adopted by the Group and the consolidated financial statements for the year ended 31 March 2019.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's draft consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 March 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft 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 Standard 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 the 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 Company's 2019 annual report will be despatched to shareholders of the Company and available on the above websites in due course.

CHANGE OF CHAIRMAN OF THE NOMINATION COMMITTEE

The Board hereby announces that with effect from 28 June 2019, Mr. Or Kevin has been re-designated as the chairman of the nomination committee of the Company (the "Nomination Committee") and Mr. Ngai Shi Shing Godfrey remains as a member of the Nomination Committee.

As a result of the above change, the Nomination Committee comprises of Mr. Or Kevin as chairman and Mr. Ngai Shi Shing Godfrey and Mr. Wong Vinci as members.

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

Hong Kong, 28 June 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.