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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 2020

FINANCIAL HIGHLIGHTS

- The Group recorded a total revenue for the year ended 31 March 2020 of approximately HK\$196.1 million, representing an increase of approximately 12.2% as compared to the year ended 31 March 2019.
- The Group recorded a profit attributable to owners of the Company for the year ended 31 March 2020 of approximately HK\$47.9 million, representing an increase of approximately 26.4% as compared to the year ended 31 March 2019.
- The Board has recommended a final dividend of HK2.0 cents per share for the year ended 31 March 2020, 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**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 March 2020 (the “**Year**”) together with the comparative figures for the year ended 31 March 2019 (the “**Previous Year**”), as follows:

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2020

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	3	196,098	174,752
Other income		59	—
Employee benefit expenses		(65,491)	(55,801)
Depreciation of property and equipment		(4,188)	(5,779)
Depreciation of right-of-use assets		(23,858)	—
Property rental and related expenses		(5,562)	(29,647)
Food and beverage costs		(7,536)	(6,992)
Utility expenses		(4,460)	(4,454)
Supplies and consumables		(2,057)	(1,805)
Repair and maintenance		(1,168)	(1,244)
Subcontracting fees, net		(2,334)	(1,723)
Laundry expenses		(2,061)	(1,949)
Medical fees and related expenses		(1,616)	(1,845)
Donations		(1,491)	—
Other operating expenses		(9,000)	(4,350)
Listing expenses		(5,513)	(11,102)
Finance costs, net		(1,133)	(560)
Profit before taxation	4	58,689	47,501
Income tax expense	5	(10,824)	(9,619)
Profit and total comprehensive income for the year attributable to the owners of the Company		<u>47,865</u>	<u>37,882</u>
Earnings per share attributable to the owners of the Company (in HK cents)			
Basic earnings per share	7	<u>5.04</u>	<u>5.05</u>
Diluted earnings per share	7	<u>5.04</u>	<u>5.05</u>

Consolidated Statement of Financial Position

As at 31 March 2020

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
ASSETS			
NON-CURRENT ASSETS			
Property and equipment		8,918	9,987
Right-of-use assets		138,510	—
Deferred tax assets		2,065	2,258
Prepayments and deposits		9,311	—
		<hr/>	<hr/>
Total non-current assets		158,804	12,245
		<hr/>	<hr/>
CURRENT ASSETS			
Trade receivables	8	3,487	2,675
Prepayments, deposits and other receivables		2,839	11,400
Short-term bank deposits		140,493	—
Cash and cash equivalents		43,245	48,092
		<hr/>	<hr/>
Total current assets		190,064	62,167
		<hr/>	<hr/>
Total assets		<u>348,868</u>	<u>74,412</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	9(a)	10,000	—
Capital reserve	9(b)	36	36
Share premium		126,440	—
Retained earnings		56,196	28,331
		<hr/>	<hr/>
Total equity		<u>192,672</u>	<u>28,367</u>

Consolidated Statement of Financial Position (continued)

As at 31 March 2020

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
LIABILITIES			
NON-CURRENT LIABILITIES			
Accruals and other payables	10	3,120	2,231
Lease liabilities		121,790	—
Total non-current liabilities		124,910	2,231
CURRENT LIABILITIES			
Trade and other payables	10	12,755	16,600
Contract liabilities	3	1,184	1,602
Amount due to a related company		179	169
Bank borrowings		—	23,438
Lease liabilities		16,466	—
Income tax payable		702	2,005
Total current liabilities		31,286	43,814
Total liabilities		156,196	46,045
Total equity and liabilities		348,868	74,412

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 the listing of the Company’s shares on the Stock Exchange, 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 (the “**Listing**”) 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, 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 2018.

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 2019:

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

Except for the adoption of HKFRS 16, as disclosed in Note 2(c), the adoption of other new and amended standards did not have any material impact on the current period or any prior periods.

(b) New standards and amendments to standards issued but not yet effective

A number of new standards and amendments to standards 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
HKAS 1 and HKAS 8 (Amendments)	Definition of material	1 January 2020
HKFRS 3 (Amendments)	Definition of a business	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting	1 January 2020
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be announced by HKICPA
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge accounting	1 January 2020

The directors of the Company have assessed the financial impact on the Group of the adoption of the above new standards and amendments to existing standards. 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 and amendments to existing standards when they become effective.

(c) Changes in accounting policy

This note explains the impact of the adoption of HKFRS 16 “Leases” on the Group’s financial statements.

As indicated in note 2(a) above, the Group has adopted HKFRS 16 Leases retrospectively from 1 April 2019, but has not restated comparatives for the financial year ended 31 March 2019, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening 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. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as at 1 April 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 2.9%.

(i) *Practical expedients applied*

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

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 April 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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 Interpretation 4 Determining whether an Arrangement contains a Lease.

(ii) *Measurement of lease liabilities*

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 consolidated statement of financial position as at 1 April 2019 is as follows:

	<i>HK\$'000</i>
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	<u>(7,056)</u>
Lease liabilities recognised as at 1 April 2019	<u><u>30,578</u></u>
Of which are:	
— Current lease liabilities	13,188
— Non-current lease liabilities	<u>17,390</u>
	<u><u>30,578</u></u>

(iii) *Measurement of right-of-use assets*

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid lease payments relating to that lease recognised as at 1 April 2019.

The refundable rental deposits are accounted under HKFRS 9 “Financial Instruments” (“**HKFRS 9**”) and initially measured at fair value.

(iv) *Impact of the adoption of HKFRS 16 on the Group's consolidated statement of financial position on 1 April 2019*

	Carrying amount at 31 March 2019	Impact of HKFRS 16	Carrying amount at 1 April 2019
Consolidated statement of financial position			
(extract)			
Prepayment, deposits and other receivables	2,661	(2,661)	—
Right-of-use assets	—	33,239	33,239
	<u>2,661</u>	<u>30,578</u>	<u>33,239</u>
Lease liabilities (Current)	—	13,188	13,188
Lease liabilities (Non-current)	—	17,390	17,390
	<u>—</u>	<u>30,578</u>	<u>30,578</u>

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 2020, the Group had one reportable operating segment, which was the provision of elderly home care services (2019: same). 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 year ended 31 March 2020 (2019: same), and all non-current assets of the Group were located in Hong Kong as at 31 March 2020 and 2019.

Revenue of approximately HK\$89,077,000 (2019: HK\$73,447,000) for the year ended 31 March 2020 was derived from the Social Welfare Department (“**SWD**”) under the Enhanced Bought Place Scheme (“**EBPS**”), which amounted to more than 10% of the Group’s revenue.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Recognised over time:		
Rendering of elderly home care services	168,275	149,403
Recognised at a point in time:		
Sales of elderly home related goods	<u>27,823</u>	<u>25,349</u>
	<u>196,098</u>	<u>174,752</u>

The Group did not recognise any revenue-related contract assets during the year ended 31 March 2020 (2019: nil).

(a) Contract liabilities

As at 31 March 2020 and 2019, the balances represent the receipt in advance from customers. The Group recognised the following revenue-related contract liabilities:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Contract liabilities	<u>1,184</u>	<u>1,602</u>

The following table shows the revenue recognised during the years ended 31 March 2020 and 2019 related to carried-forward contract liabilities:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue recognised that was included in the contract liabilities balance as at beginning of the year	<u>1,602</u>	<u>1,781</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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Auditor's remuneration	1,250	450
Depreciation of property and equipment	4,188	5,779
Depreciation of right-of-use assets	23,858	—
Property rental and related expenses	5,562	29,647
Lease payments under operating leases	—	27,396
Lease payments for short-term leases	2,987	—
Loss on remeasurement of lease liabilities as at termination of leases	132	—
Building management fees and rates	2,443	2,251
Employee benefit expenses	65,491	55,801
Wages and salaries	60,155	52,671
Retirement benefit scheme contributions	1,742	1,578
Staff welfare and benefits	410	477
Provision for long-service payments	888	634
Directors' remunerations	3,766	1,818
Government subsidies	(1,470)	(1,377)
Legal and professional fee	2,349	633
Subcontracting fees, net	2,334	1,723
Subcontracting fees	9,818	8,327
Government subsidies	(7,484)	(6,604)

5 INCOME TAX EXPENSE

Hong Kong profits tax had been provided on the estimated assessable profits at a rate of 16.5% for the year ended 31 March 2020 (2019: 16.5%).

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 year ended 31 March 2020 (2019: same).

An analysis of the income tax expense is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong profits tax		
— Current year	10,639	9,693
— Overprovision in prior year	(8)	—
	<u>10,631</u>	<u>9,693</u>
Deferred tax	<u>193</u>	<u>(74)</u>
Income tax expense	<u>10,824</u>	<u>9,619</u>

6 DIVIDENDS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interim dividend declared and paid (HK2.0 cents per share)	20,000	—
Dividends declared	<u>—</u>	<u>51,765</u>
	<u>20,000</u>	<u>51,765</u>

For the year ended 31 March 2019, 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.

On 22 November 2019, the Board has declared an interim dividend of HK2.0 cents per share, amounting to a total dividend of HK\$20,000,000 and was fully paid by 7 January 2020.

A final dividend in respect of the year ended 31 March 2020 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/deemed to be in issue during the year ended 31 March 2020 (2019: same).

	2020	2019
Profit attributable to the owners of the Company (HK\$'000)	47,865	37,882
Weighted average number of ordinary shares in issue/ deemed to be in issue (shares)	<u>950,136,612</u>	<u>750,000,000</u>
Basic earnings per share (in HK cents)	<u><u>5.04</u></u>	<u><u>5.05</u></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 (Note 9(a)) has been retrospectively adjusted from 1 April 2018.

(b) Diluted

Diluted earnings per share for the year ended 31 March 2020 are the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued (2019: same).

8 TRADE RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	<u><u>3,487</u></u>	<u><u>2,675</u></u>

The Group's trading terms are payment in advance. Generally, there is no credit term granted to customers. However, in practice, customers settled their outstanding balances shortly after the date when the amounts are due. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management. In view of the aforementioned and the fact that the Group's trade receivables are due from SWD of the Hong Kong Government and a large number of diversified customers with good repayment history, there is no provision of impairment loss for the year.

The ageing analysis of the Group's trade receivables, based on invoice date, as at 31 March 2020 and 2019 are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 30 days	1,759	1,951
31–60 days	1,447	590
61–180 days	181	134
Over 180 days	100	—
	<u>3,487</u>	<u>2,675</u>

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

9 SHARE CAPITAL AND RESERVE

(a) Share capital of the Company

	Number of ordinary shares	Share capital <i>HK\$'000</i>
Authorised: (Note (i))		
As at 19 April 2018 (date of incorporation) and 31 March 2019	38,000,000	380
Increase in authorised share capital	<u>2,962,000,000</u>	<u>29,620</u>
As at 31 March 2020	<u>3,000,000,000</u>	<u>30,000</u>
Issued and paid:		
As at 19 April 2018 (date of incorporation)	1	—
Issuance of shares for acquisition of subsidiaries upon Reorganisation (Note (ii))	<u>9,999</u>	<u>—</u>
As at 31 March 2019 and 1 April 2019	10,000	—
Issuance of shares under Capitalisation Issue (Note (iii))	749,990,000	7,500
Issuance of shares upon initial public offering (Note (iv))	<u>250,000,000</u>	<u>2,500</u>
As at 31 March 2020	<u>1,000,000,000</u>	<u>10,000</u>

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 by creating 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.
- (iii) 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.
- (iv) 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

Upon completion of the Reorganisation, the Company became the holding company and the combined capital of the underlying subsidiaries was transferred to capital reserve.

10 TRADE AND OTHER PAYABLES

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	1,679	1,715
Accruals and other payables	1,799	926
Accrued wages and salaries and retirement benefit scheme contributions	5,436	4,715
Listing expenses payable	—	5,150
Deposits from customers	3,841	4,094
Provision for reinstatement cost	575	575
Provision for long-service payments	2,545	1,656
	15,875	18,831
Less: non-current portion	(3,120)	(2,231)
Current portion	12,755	16,600

As at 31 March 2020 and 2019, 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:

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 60 days	<u>1,679</u>	<u>1,715</u>

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 31 March 2020, the Group had a network of eight care and attention homes for the elderly with 1,129 residential care places (2019: 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.

Following the outbreak of Coronavirus Disease 2019 (the “**COVID-19 Outbreak**”) in early 2020, the World Health Organisation has characterised the COVID-19 Outbreak as a pandemic. The Group mainly engaged in provision of elderly residential care services in Hong Kong where the elderly residential care places is always in a shortage. The overall average occupancy rate of the Group’s elderly homes remained stable at approximately 97% for both years ended 31 March 2019 and 2020, of which 45% of the Group’s revenue is derived from the EBPS. The Group has implemented a series of precautionary and control measures, including the restrictions on visitors and increase the frequency of cleaning and sanitising residential care homes, etc., in order to maintain a clean and hygienic environment and safeguard the health of the elderly. Given the stable revenue structure and precautionary measures implemented by the Group, the directors are of the opinion that the COVID-19 Outbreak did not have any material adverse effects on the financial position and operating results of the Group. The management will keep continuous attention on the situation of the COVID-19 Outbreak, assess and react actively to its impacts on the financial position and operating results of the Group for the year ending 31 March 2021.

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 the Group under the Enhanced Bought Place Scheme (the "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 2020:

	Location	Year of commencement of operations by the Group	Number of residential care places (excluding isolated beds) as at 31 March 2020			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		2020 %	2019 %
Kato Home for the Elderly	Tuen Mun	1999	126	54	180	EA1	94.4	99.4
Kato Home for the Aged	Tuen Mun	1998	86	37	123	EA2	98.4	97.6
Fai-To Home for the Aged (On Lai) Branch	Tuen Mun	1997	28	28	56	EA2	94.6	98.2
Fai To Home for the Aged (Tuen Mun) Branch	Tuen Mun	1995	47	43	90	EA2	97.8	92.2
Fai To Sino West Combined Home for the Aged	To Kwa Wan	2000	148	146	294	EA1	98.6	93.9
Happy Luck Elderly Home Limited	Tsuen Wan	2015	75	71	146	EA1	98.6	99.3
Tsuen Wan Elderly Centre Limited	Tsuen Wan	2008	79	71	150	EA1	98.7	98.7
Pine Villa	Tseung Kwan O	2013	N/A	90	90	N/A	88.9	95.6
			<u>589</u>	<u>540</u>	<u>1,129</u>			

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 the Group's revenue by types of services for the Year and the Previous Year:

	2020		2019	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Rendering of elderly home care services				
— residential care places purchased by the SWD under the EBPS	89,077	45.4	73,447	42.0
— residential care places purchased by individual customers	79,198	40.4	75,956	43.5
	168,275	85.8	149,403	85.5
Sales of elderly home related goods	27,823	14.2	25,349	14.5
Total	196,098	100.0	174,752	100.0

The total revenue of the Group increased by approximately HK\$21.3 million or 12.2% from approximately HK\$174.8 million for the Previous Year to approximately HK\$196.1 million for the Year, which was mainly due to the increase in average monthly residential fee.

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\$55.8 million for the Previous Year to approximately HK\$65.5 million for the Year, which was mainly due to the increase in number of staff serving for compliance purpose and enhancing our quality service.

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 decreased by approximately HK\$24.0 million or 81.2% from approximately HK\$29.6 million for the Previous Year to approximately HK\$5.6 million for the Year. Such decrease was mainly attributable to the initial adoption of HKFRS 16 Leases during the Year and that only lease payments associated with short-term leases and variable lease payments that do not meet the definition of a liability for the Group as lessee were included in property rental and related expenses for 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\$1.6 million for the Year (2019: approximately HK\$1.8 million).

Listing expenses

Listing expenses represented professional and other expenses in connection to the initial public offering. Listing expenses of approximately HK\$5.5 million and HK\$11.1 million were recorded during the Year and the Previous Year, respectively.

Profit for the Year

The profit for the Year increased by approximately 26.4% to approximately HK\$47.9 million for the Year as compared to HK\$37.9 million for the Previous Year. Such increase was mainly due to the increase in average monthly residential fee during the Year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's net assets increased to approximately HK\$192.7 million as at 31 March 2020 (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 Year. As at 31 March 2020, the Group's net current assets was approximately HK\$158.8 million (2019: approximately HK\$18.4 million), including cash and cash equivalents of approximately HK\$43.2 million (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 6.1 times as at 31 March 2020 (2019: approximately 1.4 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 the sum of bank borrowings 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 2020 and 2019 were as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Bank borrowings	—	23,438
Lease liabilities	138,256	—
	<u>138,256</u>	<u>23,438</u>
Less: Cash and cash equivalents	(43,245)	(48,092)
Short-term bank deposits	(140,493)	—
	<u>(183,738)</u>	<u>(48,092)</u>
Net cash	<u>(45,482)</u>	<u>(24,654)</u>
Total equity	<u>192,672</u>	<u>28,367</u>
Gearing ratio	<u>Net Cash</u>	<u>Net Cash</u>

Lease liabilities was included in the calculation of gearing ratio upon the adoption of HKFRS 16 Lease. See note 2(c) to the consolidated financial statement in this announcement for further information.

Since the amount of cash and cash equivalents and short-term bank deposits exceeded that of lease liabilities and bank borrowings, the Group is at net cash position as at 31 March 2020 and 2019. Thus, the gearing ratio was not applicable as at 31 March 2020 and 2019.

COMMITMENTS

As at 31 March 2020, the Group had capital commitment in respect of property and equipment contracted amounted to approximately HK\$14.5 million (2019: nil). As at 31 March 2020, there was a lease with right-of-use assets and lease liabilities of HK\$84,134,000 committed but not commenced. For details, please refer to the announcement of the Company dated 25 November 2019.

CAPITAL STRUCTURE

There have been no changes in the capital structure of the Group since the Listing and up to the date of this announcement. The share capital of the Company solely comprises of ordinary shares as at the date of this announcement.

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

During the Year, the Group did not conduct any material acquisitions or disposals of subsidiaries, associates and joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group did not have any plans for material investments and capital assets as at 31 March 2020.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 March 2020 and 2019.

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 2020 and 2019, none of the Group's assets had been pledged.

EMPLOYEES AND REMUNERATION POLICIES

The total number of full-time and part-time employees were 443 and 405 as at 31 March 2020 and 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. During the Year, the Group's total employee benefit expenses (including Directors' emoluments) amounted to approximately HK\$65.5 million (2019: approximately HK\$55.8 million).

Remuneration is determined generally with reference to the qualification, experience and work performance of the relevant employee, whereas the payment of discretionary bonus is generally subject to work performance of the relevant employee, the financial performance of the Group 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 reduce such impacts.

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 2020–21 Budget of the Hong Kong Government, the government will provide a total of 3,000 additional service quota under the Integrated Home Care Services for frail elderly persons in the two years, while an additional 1,000 service vouchers under the Pilot Scheme on Community Care Service Voucher for the Elderly will be issued to elderly persons with moderate or severe impairment in 2020–21.

In addition to residential care home services, two of our RCHEs, Tsuen Wan Centre and Pine Villa, will provide day care services in mid-2020. Day Care Centre is a type of community support services providing a range of 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 day care services enable the Group to utilize the existing resources more efficiently and provide a 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 Directors believe that the Group is poised to reproduce its current to further capture new market opportunities driven by the strong demand for residential care home services in Hong Kong.

PURCHASE, SALE OR REDEMPTION OF 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 shares for the year ended 31 March 2020 (2019: nil) 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 Friday, 28 August 2020 to the shareholders of the Company whose names appear on the register of members of the Company on Wednesday, 19 August 2020.

An interim dividend of HK2.0 cents per share was paid by the Company on 7 January 2020 (2019: the Operating Subsidiaries of the Company declared dividends totalling HK\$26,600,000 to the then shareholders of the Operating Subsidiaries. Further dividends of HK\$25,165,000 were declared by the Company and settled by netting off the outstanding balances of the current accounts with the shareholders of the Company).

ANNUAL GENERAL MEETING

An annual general meeting of the Company (the "AGM") is scheduled to be held on Tuesday, 11 August 2020, 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 Thursday, 6 August 2020 to Tuesday, 11 August 2020, 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 Wednesday, 5 August 2020.

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 Tuesday, 18 August 2020 to Wednesday, 19 August 2020, 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 Monday, 17 August 2020.

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 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 has complied with the code provisions in the CG Code during the Year.

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 comprehensive income and the related notes thereto for the year ended 31 March 2020 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
Kwong Kai To
Chairman and non-executive Director

Hong Kong, 12 June 2020

As at the date of this announcement, the executive Directors are Ms. Ngai Ka Yee and Mr. Ngai Shi Shing Godfrey; the non-executive 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.