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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 2022

FINANCIAL HIGHLIGHTS

- The Group recorded a total revenue for the six months ended 30 September 2022 of approximately HK\$208.3 million, representing an increase of approximately 38.6% as compared to that of the six months ended 30 September 2021.
- The Group recorded a profit attributable to the owners of the Company for the six months ended 30 September 2022 of approximately HK\$57.2 million, representing an increase of approximately 29.7% as compared to that of the six months ended 30 September 2021.
- The Board declared an interim dividend of HK2.2 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 2022 (the “**Period**”), together with the comparative figures for the six months ended 30 September 2021 (the “**Previous Period**”) as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2022

	Note	For the six months ended 30 September	
		2022	2021
		(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	4	208,279	150,277
Other income and other gains, net		3,684	72
Employee benefit expenses, net		(78,067)	(54,186)
Depreciation of property and equipment		(3,157)	(2,966)
Depreciation of right-of-use assets		(17,475)	(14,213)
Property rental and related expenses		(1,695)	(1,712)
Food and beverage costs		(4,696)	(3,417)
Utility expenses		(2,927)	(2,975)
Supplies and consumables		(1,883)	(1,175)
Repair and maintenance		(639)	(1,172)
Subcontracting fees, net		(15,834)	(920)
Laundry expenses		(1,099)	(1,071)
Medical fees and related expenses		(2,434)	(1,744)
Donations		(520)	—
Other operating expenses		(9,916)	(8,635)
Finance costs, net		(3,813)	(4,264)
Profit before taxation	5	67,808	51,899
Income tax expense	6	(10,706)	(8,022)
Profit for the period		<u>57,102</u>	<u>43,877</u>
Profit/(loss) for the period attributable to			
— Owners of the Company		57,167	44,060
— Non-controlling interests		(65)	(183)
		<u>57,102</u>	<u>43,877</u>
Earnings per share attributable to the owners of the Company (in HK cents)			
— Basic	8	<u>5.72</u>	<u>4.41</u>
— Diluted	8	<u>5.72</u>	<u>4.41</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2022

	For the six months ended 30 September	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period	57,102	43,877
Other comprehensive loss:		
<i>Item that will not be reclassified to profit or loss</i>		
Fair value changes of financial assets at fair value through other comprehensive income	<u>(85)</u>	<u>(178)</u>
Other comprehensive loss for the period, net of tax	<u>(85)</u>	<u>(178)</u>
Total comprehensive income for the period	<u>57,017</u>	<u>43,699</u>
Total comprehensive income/(loss) for the period attributable to		
— Owners of the Company	57,082	43,882
— Non-controlling interests	<u>(65)</u>	<u>(183)</u>
	<u>57,017</u>	<u>43,699</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

	As at 30 September 2022 (Unaudited) <i>Note</i>	As at 31 March 2022 (Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS		
NON-CURRENT ASSETS		
Property and equipment	63,698	15,154
Investment properties	97,400	249,400
Right-of-use assets	350,727	257,630
Deferred tax assets	2,061	2,096
Prepayment and deposits	23,316	6,649
Financial assets at fair value through other comprehensive income	858	943
	<hr/>	<hr/>
Total non-current assets	538,060	531,872
CURRENT ASSETS		
Trade receivables	9 27,717	30,047
Prepayments, deposits and other receivables	14,058	1,459
Short-term bank deposits	480	203
Restricted bank deposit	6,590	6,590
Cash and cash equivalents	78,660	51,446
	<hr/>	<hr/>
Total current assets	127,505	89,745
	<hr/>	<hr/>
Total assets	665,565	621,617

		As at 30 September 2022 (Unaudited) <i>HK\$'000</i>	As at 31 March 2022 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
EQUITY AND LIABILITIES			
Equity attributable to the owners of the Company			
Share capital		10,000	10,000
Reserves		314,591	281,529
		<u>324,591</u>	<u>291,529</u>
Non-controlling interests		613	678
		<u>613</u>	<u>678</u>
Total equity		<u>325,204</u>	<u>292,207</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Accruals and other payables	10	7,464	5,132
Lease liabilities		160,764	173,234
Bank borrowing		88,291	90,828
Deferred tax liabilities		2,022	2,002
		<u>258,541</u>	<u>271,196</u>
Total non-current liabilities		<u>258,541</u>	<u>271,196</u>
CURRENT LIABILITIES			
Trade and other payables	10	34,549	23,104
Contract liabilities	4	1,346	819
Amount due to a related company		—	170
Bank borrowing		5,691	6,127
Lease liabilities		26,192	24,603
Income tax payable		14,042	3,391
		<u>81,820</u>	<u>58,214</u>
Total current liabilities		<u>81,820</u>	<u>58,214</u>
Total liabilities		<u>340,361</u>	<u>329,410</u>
Total equity and liabilities		<u>665,565</u>	<u>621,617</u>

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**”) principally engage in the provision of elderly residential care services and day care services for the elderly in Hong Kong.

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 15 November 2022.

This interim condensed consolidated financial information has not been audited.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 September 2022 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 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”).

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

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 March 2022, as described in those annual consolidated financial statements, except for the adoption of new and amended standards as set out below.

3.1 New and amended standards adopted by the Group

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

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

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

4 REVENUE AND SEGMENT INFORMATION

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

During the six months ended 30 September 2022, the CODM has continuously reassess their internal reports in order to allocate resources and evaluate the Group’s performance and the CODM considered that the Group’s operations are generally operated and managed as a single segment, which was mainly the provision of elderly home care services, care support services to person under quarantine and elderly community care service (30 September 2021: same). The Group also engaged in the property investment, provision of management services and provision of the medial and laboratory services during the six months ended 30 September 2022 which CODM considered that these services are only incidental to the activities of the Group and are not operating segments. Since the Group had only one operating segment, no further operating segment analysis thereof is presented. The CODM evaluates the performance of the operating segment mainly based on segment revenue as a whole.

The Group’s revenue was derived solely from its operations in Hong Kong during the six months ended 30 September 2022 and 2021, and all the non-current assets of the Group were located in Hong Kong as at 30 September 2022 and 31 March 2022.

Revenue of approximately HK\$146,789,000 for the six months ended 30 September 2022 (six months ended 30 September 2021: HK\$81,002,000) was derived from the government of HKSAR (the “Government”) under the Enhanced Bought Place Scheme (“EBPS”), Bought Place Scheme Day Care Units for the Elderly (the “BPS”) and care support services to persons under quarantine, which amounted to more than 10% of the Group’s revenue.

An analysis of revenue is as follows:

	For the six months ended	
	30 September	
	2022	2021
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from contracts with customers within the scope of HKFRS 15:		
<i>Recognised over time:</i>		
Rendering of elderly home care services	85,624	92,450
Rendering of care support services to persons under quarantine	96,232	30,896
Rendering of elderly community care services	3,882	3,226
Management fee income and car park revenue	573	1,058
<i>Recognised at a point in time:</i>		
Sales of elderly home related goods	19,110	19,239
Rendering of medical and laboratory services	226	—
Revenue arising from operating lease within the scope of HKFRS 16:		
Fixed	2,591	3,408
Variable	41	—
	208,279	150,277

The Group did not recognise any revenue-related contract assets during the six months ended 30 September 2022 and 2021.

Contract liabilities

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

	As at	As at
	30 September	31 March
	2022	2022
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract liabilities	1,346	819

The following table shows the revenue recognised during the six months ended 30 September 2022 and 2021 related to carried-forward contract liabilities:

	For the six months ended 30 September	
	2022	2021
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue recognised that was included in the contract liabilities balance as at beginning of the period	<u>819</u>	<u>909</u>

Due to the short-term nature of the related service contracts, the entire contract liabilities balance at the end of reporting period would be recognised into revenue in the next period. As permitted under HKFRS 15, the transaction price allocated to those unsatisfied contracts which have an original expected duration of one year or less is not disclosed.

5 PROFIT BEFORE TAXATION

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

	For the six months ended 30 September	
	2022	2021
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Depreciation	20,632	17,179
— Property and equipment	3,157	2,966
— Right-of-use assets	17,475	14,213
Employee benefit expenses, net	78,067	54,186
— Wages and salaries	63,492	50,678
— Retirement benefit scheme contributions	1,050	1,035
— Staff welfare and benefits	7,654	440
— Provision for long service payments	2,000	230
— Directors' remunerations	3,662	2,356
— Share-based payment expenses for senior management and employee	655	—
— Government subsidies	(446)	(553)
Property rental and related expenses	1,695	1,712
Legal and professional fee	1,215	1,398
Medical fees and related expenses	2,434	1,744
Subcontracting fees, net	15,834	920
— Subcontracting fees	19,831	5,014
— Government subsidies	(3,997)	(4,094)

6 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the two-tiered rate of 8.25% for the first HK\$2,000,000 of the estimated assessable profits of the qualifying group entity and 16.5% on the remaining estimated assessable profit of the Group for the six months ended 30 September 2022 and 2021.

An analysis of the income tax expenses is as follows:

	For the six months ended 30 September	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Hong Kong profits tax		
Current tax	10,651	7,813
Deferred tax	55	209
	<u>10,706</u>	<u>8,022</u>

7 DIVIDENDS

	For the six months ended 30 September	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Interim dividend proposed after the end of reporting period of HK2.2 cents per share (2021: HK2.0 cents per share)	<u>22,000</u>	<u>20,000</u>

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 proposed interim dividend has not been recognised as a liability in this interim condensed consolidated financial information.

8 EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 September 2022 and 2021.

	For the six months ended 30 September	
	2022 (Unaudited)	2021 (Unaudited)
Profit attributable to the owners of the Company (HK\$'000)	57,167	44,060
Weighted average number of shares in issue (thousand shares)	<u>1,000,000</u>	<u>1,000,000</u>
Basic earnings per share (HK cents)	<u><u>5.72</u></u>	<u><u>4.41</u></u>

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Shares issuable under the share option schemes are the only dilutive potential ordinary shares. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average daily quoted market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

For the six months ended 30 September 2022, dilutive earnings per share was of the same amount as the basic earnings per share as the share options were anti-dilutive (2021: there were no potentially dilutive ordinary shares issued).

9 TRADE RECEIVABLES

	As at 30 September 2022 (Unaudited) HK\$'000	As at 31 March 2022 (Audited) HK\$'000
Trade receivables	28,229	30,559
Less: loss allowance	<u>(512)</u>	<u>(512)</u>
Trade receivables	<u><u>27,717</u></u>	<u><u>30,047</u></u>

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

	As at 30 September 2022 (Unaudited) HK\$'000	As at 31 March 2022 (Audited) HK\$'000
Within 30 days	26,646	22,785
31–60 days	27	6,922
61–180 days	742	243
Over 180 days	814	609
	<u>28,229</u>	<u>30,559</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.

10 TRADE AND OTHER PAYABLES

	As at 30 September 2022 (Unaudited) HK\$'000	As at 31 March 2022 (Audited) HK\$'000
Trade payables	10,464	3,029
Accruals and other payables	4,020	5,033
Accrued wages and salaries and contributions to MPF scheme	16,992	10,469
Deposits from customers	2,366	3,259
Rental deposits received	1,799	2,074
Provision for reinstatement cost	575	575
Provision for long service payments	5,797	3,797
	<u>42,013</u>	<u>28,236</u>
Less: Non-current portion	<u>(7,464)</u>	<u>(5,132)</u>
Current portion	<u>34,549</u>	<u>23,104</u>

As at 30 September 2022 and 31 March 2022, 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:

	As at 30 September 2022 (Unaudited) HK\$'000	As at 31 March 2022 (Audited) HK\$'000
Within 60 days	<u>10,464</u>	<u>3,029</u>

11 CAPITAL COMMITMENT

As at 30 September 2022, the Group had no material capital commitments for property and equipment.

As at 31 March 2022, the Group had capital commitments for property and equipment, amounting to approximately HK\$2.0 million after netting off the prepayment for the purchase of property and equipment.

12 CONTINGENT LIABILITIES

As at 30 September 2022 and 31 March 2022, the Group had no material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Elderly home care services

Kato (Hong Kong) Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) is an established operator of residential care homes for the elderly (the “**RCHE(s)**”) in Hong Kong offering a comprehensive range of residential care services for the elderly including (i) the provision of accommodation, professional nursing and care-taking services, nutritional management, medical services, physiotherapy and occupational therapy services, psychological and social care services, individual care plans and recreational services; and (ii) the sale of healthcare and medical goods and the provision of add-on healthcare services to the residents.

As at 30 September 2022 and 31 March 2022, 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 Group’s customers primarily consisted of two groups, namely, (i) the Social Welfare Department (the “**SWD**”) with which we 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 30 September 2022 and 31 March 2022:

	Location	Year of commencement of operation by the Group	Number of residential care places (excluding isolated beds)			Classification under the EBPS
			Under the EBPS	For individual customers not under the EBPS	Total	
Kato Home for the Elderly ("Kato Elderly Home")	Tuen Mun	1999	126	54	180	EA1 ⁽¹⁾
Kato Home for the Aged	Tuen Mun	1998	86	37	123	EA2 ⁽²⁾
Fai-To Home for the Aged (On Lai) Branch ("Fai To Home (On Lai)")	Tuen Mun	1997	28	28	56	EA2 ⁽²⁾
Fai To Home for the Aged (Tuen Mun) Branch ("Fai To Home (Tuen Mun)")	Tuen Mun	1995	47	43	90	EA2 ⁽²⁾
Fai To Sino West Combined Home for the Aged ("Fai To Sino West Home")	To Kwa Wan	2000	148	146	294	EA1 ⁽¹⁾
Happy Luck Elderly Home Limited ("Happy Luck Home")	Tsuen Wan	2015	75	71	146	EA1 ⁽¹⁾
Tsuen Wan Elderly Centre Limited ("Tsuen Wan Centre")	Tsuen Wan	2008	79	71	150	EA1 ⁽¹⁾
Pine Villa	Tseung Kwan O	2013	N/A	90	90	N/A
			<u>589</u>	<u>540</u>	<u>1,129</u>	

Notes:

1. Being one of the two categories under the EBPS. EA1 homes have higher requirements in terms of staffing and per capita net floor space as compared to EA2 homes. As required under the EBPS, the staffing requirement for an EA1 home with 40 places is 21.5, calculated on the basis of eight working hours per staff per day including relief staff and its per capita net floor area is 9.5 m².
2. Being one of the two categories under the EBPS. EA2 homes have lower requirements in terms of staffing and per capita net floor area as compared to EA1 homes. As required under the EBPS, the staffing requirement for an EA2 home with 40 places is 19, calculated on the basis of eight working hours per staff per day, including relief staff, and its per capita floor net area is 8 m².

The following table sets forth the average monthly occupancy rate of each respective RCHEs as at 30 September 2022 and 31 March 2022:

	Average monthly occupancy rate ^(Note)	
	As at 30 September 2022 %	As at 31 March 2022 %
Kato Elderly Home	89.6	98.5
Kato Home for the Aged	90.0	97.9
Fai To Home (On Lai)	76.8	91.2
Fai To Home (Tuen Mun)	80.6	95.6
Fai To Sino West Home	79.7	93.1
Happy Luck Home	87.3	92.0
Tsuen Wan Centre	84.0	94.4
Pine Villa	94.6	96.5
	<hr/>	<hr/>
Overall	<u>85.1</u>	<u>94.9</u>

Note:

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

Community care and day care services for the elderly

(i) Home-based and centre-based services

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

As at 30 September 2022 and 31 March 2022, Fai To Sino West Home, Ka Shui Garden Day Care Centre (Hung Hom), Ka Shui Garden Day Care Centre (Tsuen Wan), Kato Elderly Home and Pine Villa are the recognised service providers under the pilot scheme on CCSV, covering five contract homes, with a total capacity of centre-based services of 120 places and home-based services of 1,000 voucher holders.

(ii) Day care service

Day-care centres for elderly provide on-site elderly care services during daytime, which generally exclude overnight care services. To extend the Group's reach to non-residents, since May 2020, the Group has commenced providing day care services to elderly, covering a range of centre-based care and support services during daytime to enable the day care service users who suffer from moderate to severe level of impairment to achieve optimal level of functioning, develop their potential, improve their quality of life, and continue to live in their own homes wherever feasible and possible. As at 30 September 2022 and 31 March 2022, two of the Group's care and attention homes for the elderly were entitled to offer day care services with a total of 30 subsidised day care places pursuant to the Bought Place Scheme Day Care Units for the Elderly (the "BPS").

Care support services to persons under quarantine

To cope with the COVID-19 outbreak in RCHEs and in view of the logistical issues and unsuitability of arranging special medical equipment and facilities to be sent to general quarantine centres, the government of the HKSAR (the "Government") invited various RCHE players to participate in setting up quarantine and community treatment facilities. The Company was selected and participated in operation of temporary quarantine centres for residents of RCHEs, housing nursing staffs on duty round the clock and designated staffs responsible for assisting elderly residents' needs. The facility helped to triage patients from public hospitals and allowed public hospitals to concentrate their manpower and resources on taking care of patients who needed more healthcare services.

FINANCIAL HIGHLIGHTS

Revenue

The Group's revenue was principally generated from the provision of residential care services and day care services for the elderly in Hong Kong. The Group's revenue was derived from (i) rendering of elderly home care services; (ii) sales of elderly home related goods; (iii) rendering of elderly community care services; (iv) rendering of care support services to persons under quarantine; (v) rendering of medical and laboratory services; and (vi) rental and management fee income. The following table sets forth the breakdown of revenue for the Group's revenues by types of services for the six months ended 30 September 2022 (the "Period") and the six months ended 30 September 2021 (the "Previous Period"):

	For the six months ended 30 September			
	2022		2021	
	HK\$'000	%	HK\$'000	%
Rendering of elderly home care services				
— residential care places purchased by the SWD under the EBPS	48,751	23.4	48,316	32.2
— residential care places purchased by individual customers	36,873	17.7	44,134	29.4
Sales of elderly home related goods	<u>19,110</u>	<u>9.2</u>	<u>19,239</u>	<u>12.8</u>
	104,734	50.3	111,689	74.4
Rendering of elderly community care services	3,882	1.9	3,226	2.1
Rendering of care support services to persons under quarantine	96,232	46.2	30,896	20.5
Rendering of medical and laboratory services	226	0.1	—	—
Rental and management fee income	<u>3,205</u>	<u>1.5</u>	<u>4,466</u>	<u>3.0</u>
Total	<u><u>208,279</u></u>	<u><u>100.0</u></u>	<u><u>150,277</u></u>	<u><u>100.0</u></u>

The revenue increased from HK\$150.3 million for the Previous Period to approximately HK\$208.3 million for the Period mainly due to active participation in care support services to persons under quarantine, which was partially offset by the decrease in revenue from rendering elderly home care services attributed by the decrease in average monthly occupancy rate.

Employee benefit expenses

Employee benefit expenses comprised of wages and salaries, retirement benefit scheme contributions, staff welfare and benefits, directors' remunerations, provision for long service payments and share-based payment expense. The employee benefits expenses increased from approximately HK\$54.2 million for the Previous Period to approximately HK\$78.1 million for the Period. The increase was primarily due to the (i) increase in number of staff for rendering care support services to persons under quarantine as the Group has participated into an additional quarantine centre since January 2022; and (ii) general salaries increment for staff.

Property rental and related expenses

Property rental and related expenses comprised lease payments for short-term lease, building management fee and rates for RCHEs, day care centres, staff quarters. Property rental and related expenses remained relatively stable of approximately HK\$1.7 million for the Period and the Previous Period.

Food and beverage costs

Food and beverage costs are food ingredients and beverages costs used for the provision of meals to the residents. Food and beverage costs increased to approximately HK\$4.7 million for the Period (Previous Period: approximately HK\$3.4 million) due to the ever rising food prices.

Subcontracting fees, net

Subcontracting fees, net mainly comprised of outsourcing labour costs since July 2022 for rendering care support services to persons under quarantine. The significant increase from HK\$0.9 million for the Previous Period to HK\$15.8 million for the Period mainly attributed by active participation in quarantine support services for an additional quarantine centre since 2022.

Profit for the Period

As a result of the foregoing, the profit for the Period increased by approximately 30.1% to approximately HK\$57.1 million as compared to approximately HK\$43.9 million for the Previous Period.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK2.2 cents per share (“**Share**”) payable on or around 9 December 2022 to the owners of the Company whose names appear on the register of members of the Company (the “**Register of Members**”) on 1 December 2022.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement of the shareholders of the Company (the “Shareholders”) to the interim dividend, the Register of Members will be closed from 30 November 2022 to 1 December 2022 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong not later than 4:00 p.m. on 29 November 2022.

LIQUIDITY AND FINANCIAL RESOURCES

The Group’s net assets increased to approximately HK\$325.2 million as at 30 September 2022 (31 March 2022: approximately HK\$292.2 million). Such increase was mainly a result of the operating profits during the Period. As at 30 September 2022, the Group’s net current assets was approximately HK\$45.7 million (31 March 2022: approximately HK\$31.5 million), including short-term bank deposits, restricted bank deposit and cash and cash equivalents of approximately HK\$85.7 million (31 March 2022: approximately HK\$58.2 million) which were denominated in Hong Kong Dollar.

The current ratio, which is calculated as the total current assets divided by the total current liabilities, was approximately 1.6 times as at 30 September 2022 (31 March 2022: approximately 1.5 times).

The Group monitors its capital on the basis of the gearing ratio. As at 30 September 2022, the Group’s gearing ratio was approximately 60.0% (31 March 2022: 81.0%). The gearing ratio is calculated as a percentage of net debt divided by total equity. Net debt is calculated as the sum of bank borrowing and lease liabilities less the sum of cash and cash equivalents, short-term bank deposits and restricted bank deposit.

As at 30 September 2022, bank borrowing of the Group bore floating interest rate and was denominated in HK\$, the maturity profile are set out as follows:

	<i>HK\$’000</i>
Within 1 year	5,691
More than 1 year but less than 2 years	5,864
More than 2 years but less than 5 years	18,748
More than 5 years	63,679
	<hr/>
	93,982
	<hr/> <hr/>

CAPITAL COMMITMENTS

As at 30 September 2022, the Group had no material capital commitments for property and equipment.

As at 31 March 2022, the Group had capital commitments for property and equipment, amounting to approximately HK\$2.0 million after netting off the prepayment for the purchase of property and equipment.

CAPITAL STRUCTURE

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

SIGNIFICANT INVESTMENTS

During the Period, the Group did not hold any significant investment in equity interest in any other company.

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES

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

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed elsewhere in this announcement, the Group did not have any plans for material investments and capital assets as at 30 September 2022.

CONTINGENT LIABILITIES

As at 30 September 2022 and 31 March 2022, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

The Group solely operates in Hong Kong and the majority of the Group's transactions and the Group's cash and cash equivalents are denominated in Hong Kong Dollar. The Group is not exposed to foreign currency risk on transaction that is in a currency other than the respective functional currency of the group entities. The Group did not resort to any foreign currency hedging facilities during the Period, but the management will continuously monitor foreign exchange exposure and will consider hedging significant foreign currency exposure where appropriate.

PLEDGE OF ASSETS

As at 30 September 2022, certain portion of properties, land and investment properties with carrying amount of approximately HK\$221.8 million (31 March 2022: investment properties with carrying amount of approximately HK\$221.8 million) were pledged to secure banking facilities granted to the Group. Save for the above, the Group had no other pledge of assets as at 30 September 2022 and 31 March 2022.

EMPLOYEES AND REMUNERATION POLICIES

The total number of full-time and part-time employees was 456 as at 30 September 2022 (31 March 2022: 596). The Group's employee benefit expenses mainly include salaries, discretionary bonuses, medical insurance coverage, staff quarter, other staff benefits and contributions to retirement schemes. Share options are granted to certain Directors and other eligible employees of the Group to reward their contributions under the share option scheme of the Company. The Group's total employee benefit expenses (including directors' emoluments) for the Period amounted to approximately HK\$78.1 million (Previous Period: approximately HK\$54.2 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.

PROSPECTS

Our principal business objectives are to solidify our established market position in the private RCHE industry in Hong Kong and enhance our market position in the care and attention homes sector. Also, the Group will continue to participate in various community care related programmes for the provision of accessible, comprehensive, co-ordinated and person-centered care services to the community.

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 our 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 our network of care and attention homes for the elderly. With the Group's experienced management team and reputation in the market, the Group will continue to expand its network of RCHE in strategic locations in Hong Kong to serve more elderly residents when there are suitable opportunities.

The economic recovery in Hong Kong encountered downward pressure due to the resurgence of the pandemic, which brought various new challenges to the industry. As with any crisis, there are always new opportunities and possibilities. Having considered the surge in available properties in the market and significant decrease in property prices, in February 2021, the Group completed the acquisition of a property in Lam Tin to establish a care and attention home for provision of approximately 250 residential care places, which is expected to commence operation in the fourth quarter of 2023. In July 2021, the Group completed the acquisition of four pieces of lands in Yuen Long for establishment of another new care and attention home, which is anticipated to provide approximately 280 residential care places and expected to commence operation at the end of 2025.

During the Period, the Group tapped into medical diagnostic and imaging and health check markets in Hong Kong to raise public awareness of the power of preventive healthcare and regular check-ups. We provide a variety of services to meet incremental, preventive and other health-related needs of the users, including but not limited to health check-ups, mammography, ultrasound, DEXA Bone Densitometry and various laboratory tests. With the ageing population and the increase in health awareness of the public in Hong Kong, we believe our Group could seize the opportunity to gradually expand its operation in this industry.

The Group are confident for its sustainable growth and believes that its management team with extensive industry experience and its agile operations team are able to adapt to the rapid changes of the demand from the community, adjust the business strategy in accordance with market trends.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of listed issuers (the “**Model Code**”) as set out in Appendix 10 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) as its code of conduct regarding dealings in the securities of the Company by the Directors and the Company’s senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company’s securities. Upon specific enquiry, all Directors have confirmed that they have complied with the Model Code during the Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Company during the Period.

SHARE OPTION SCHEME

The share option scheme (the “**Share Option Scheme**”) was conditionally approved and adopted in compliance with Chapter 17 of the Listing Rules by written resolutions of all the Shareholders passed on 20 May 2019.

Movements in the outstanding share options granted under the Share Option Scheme during the Period are set out below:

Date of Grant (dd/mm/yyyy)	Name of Grantees	Position/Capacity	Number of Shares over which Share Options are Exercisable					Balance as at 30 September 2022	Exercise Price Per Share (Note 1)	Vested Date (dd/mm/yyyy)	Expiry Date (dd/mm/ yyyy)
			Balance as at 1 April 2022	Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled/ Forfeited during the Period				
22/03/2022	Mr. Ngai Shi Shing Godfrey (“Mr. Ngai”)	Chairman of the Board, Executive Director, chief executive officer and substantial Shareholder	10,000,000	—	—	—	—	10,000,000	HK\$0.6	22/03/2025	22/03/2032
22/03/2022	Ms. Ngai Ka Yee	Executive Director and substantial Shareholder	10,000,000	—	—	—	—	10,000,000	HK\$0.6	22/03/2025	22/03/2032
22/03/2022		Other eligible employees	40,000,000	—	—	—	—	40,000,000	HK\$0.6	22/03/2025	22/03/2032
			<u>60,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>60,000,000</u>			

Note:

- (1) The closing price of the Company’s shares immediately before the date on which the share options were granted (i.e. 22 March 2022) was HK\$0.6 per share.

During the Period, no share option was granted, exercised, lapsed, cancelled or forfeited under the Share Option Scheme, and as at 30 September 2022, 60,000,000 share options were granted to the Directors and other eligible employees.

As of 30 September 2022 and the date of this announcement, the total number of shares available for issue under the Share Option Scheme is 40,000,000 shares, representing 4.0% of the total number of issued Shares.

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 Part 2 of 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 complied with all the code provisions in the CG Code during the Period, except for the code provision of the CG Code as noted hereunder.

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

AUDIT COMMITTEE

The Board has set up an audit committee on 20 May 2019 (the “**Audit Committee**”) with written terms of reference in compliance with Rules 3.21 of the Listing Rules and paragraph D.3 of the CG Code. The primary duties of the Audit Committee include, but are not limited to, the following: (i) making recommendations to the Board on the appointment and removal of the external auditor; (ii) reviewing the financial statements of the Group and monitoring the integrity of such financial statements; and (iii) overseeing the financial reporting system and internal control procedures. The Audit Committee comprises of four members, namely, Mr. Or Kevin, Mr. Wong Vinci, Ms. Wu Wing Fong and Ms. Lo Ning. The chairman of the Audit Committee is Mr. Or Kevin, 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.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

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

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

Hong Kong, 15 November 2022

As at the date of this announcement, the executive Directors are Ms. Ngai Ka Yee and Mr. Ngai Shi Shing Godfrey; and the independent non-executive Directors are Mr. Or Kevin, Mr. Wong Vinci, Ms. Wu Wing Fong and Ms. Lo Ning.