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萬桐園

CHINA WAN TONG YUAN (HOLDINGS) LIMITED

中國萬桐園（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 6966)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019**

The board of directors (the “Board”) of the Company hereby presents the consolidated financial results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018 as follows:

FINANCIAL HIGHLIGHTS

- The revenue of the Group amounted to approximately RMB63,377,000 for the year ended 31 December 2019 (2018: RMB43,385,000) which represented an increase of RMB19,992,000 or 46.1% as compared with the year of 2018.
- The profit attributable to owners of the Company was RMB23,551,000 for the year ended 31 December 2019 (2018: RMB28,247,000), which represented a decrease of RMB4,696,000 or 16.6% as compared with the year of 2018.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

		Year ended 31 December	
		2019	2018
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	63,377	43,385
Cost of sales and services		<u>(12,763)</u>	<u>(6,954)</u>
Gross profit		50,614	36,431
Other income	4	4,906	10,328
Other gains	5	1,061	2,461
Loss on fair value changes of financial assets at fair value through profit or loss		(245)	(2,796)
Gain on fair value changes of investment properties		350	250
Distribution and selling expenses		(6,631)	(5,648)
Administrative expenses		<u>(16,739)</u>	<u>(5,726)</u>
Profit before tax	6	33,316	35,300
Income tax expense	7	<u>(9,765)</u>	<u>(7,053)</u>
Profit and total comprehensive income for the year attributable to owners of the Company		<u>23,551</u>	<u>28,247</u>
Earnings per share			
Basic (RMB)	8	<u>0.024</u>	<u>0.028</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

		At 31 December	
		2019	2018
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		3,110	3,499
Investment properties		6,010	5,660
Cemetery assets	10	8,333	9,081
Financial assets at fair value through profit or loss		8,600	8,845
		26,053	27,085
CURRENT ASSETS			
Inventories		19,273	2,001
Prepayments and other receivables	11	738	465
Bank balances and cash		189,280	191,412
		209,291	193,878
CURRENT LIABILITIES			
Trade and other payables	12	13,409	9,470
Contract liabilities	13	7,687	9,096
Income tax payable		1,464	18,685
		22,560	37,251
NET CURRENT ASSETS		186,731	156,627
TOTAL ASSETS LESS CURRENT LIABILITIES		212,784	183,712

		At 31 December	
		2019	2018
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT LIABILITIES			
Contract liabilities	13	58,192	52,697
Deferred tax liabilities		2,111	2,085
		<u>60,303</u>	<u>54,782</u>
NET ASSETS		<u>152,481</u>	<u>128,930</u>
CAPITAL AND RESERVES			
Share capital		66,192	66,192
Reserves		86,289	62,738
Equity attributable to owners of the Company		<u>152,481</u>	<u>128,930</u>
TOTAL EQUITY		<u>152,481</u>	<u>128,930</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company				
	Share capital	Statutory surplus reserve	Other reserves	Retained earnings	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2018	66,192	4,043	1,309	29,139	100,683
Profit and total comprehensive income for the year	—	—	—	28,247	28,247
Transfer to statutory surplus reserve	—	2,723	—	(2,723)	—
At 31 December 2018	66,192	6,766	1,309	54,663	128,930
Profit and total comprehensive income for the year	—	—	—	23,551	23,551
Transfer to statutory surplus reserve	—	3,005	—	(3,005)	—
At 31 December 2019	<u>66,192</u>	<u>9,771</u>	<u>1,309</u>	<u>75,209</u>	<u>152,481</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL

China Wan Tong Yuan (Holdings) Limited (the “Company”) was incorporated and registered in the Cayman Islands on 25 January 2017 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company had been listed on GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 27 September 2017, and the listing of its shares was transferred from GEM to the Main Board of the Stock Exchange on 17 December 2019. The address of the registered office of the Company is 2nd Floor, the Grand Pavilion Commercial Centre, 802 West Bay Road, P.O. Box 10338, Grand Cayman KY1-1003, Cayman Islands. The address of its principal place of business is Baganqu North, Economic and Technological Development Area, Langfang, Hebei Province, the People’s Republic of China (the “PRC”). The principal activity of the Company is investment holding. Its subsidiaries are primarily engaged in the sale of burial plots and columbarium units, provision of other burial-related services and provision of cemetery maintenance services. The Company and its subsidiaries are collectively referred to as the “Group”.

The ultimate holding company and immediate holding company of the Company is Tai Shing International Investment Company Limited (“Tai Shing International”), a company incorporated in the British Virgin Islands (the “BVI”) and ultimately controlled by Ms. Zhao Ying (the “Ultimate Controlling Shareholder”).

The consolidated financial statements are presented in Renminbi (“RMB”) which is also the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousand (‘000) unless otherwise indicated.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”) for the first time in the current year:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 IFRS 16 *Leases*

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Leases* (“IAS 17”), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with any cumulative effect recognised at the date of initial application, 1 January 2019.

Effective from 1 January 2019, leasehold lands which were classified as cemetery assets are measured under IFRS 16 at cost less any accumulated depreciation and any impairment losses.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts ¹
Amendments to IFRS 3	Definition of a Business ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ⁵
Amendments to IAS 1 and IAS 8	Definition of Material ⁴
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 January 2022

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company (the “Directors”) anticipate that the application of all the new and amendments to IFRSs above will have no material impact on the consolidated financial statements in the foreseeable future.

3. REVENUE AND OPERATING SEGMENTS

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2019	
	Sales of burial plots, columbarium units and provision of other burial- related services <i>RMB'000</i>	Provision of cemetery maintenance services <i>RMB'000</i>
Types of goods and service		
Sales of burial plots	30,228	—
Sales of columbarium units	24,886	—
Provision of other burial-related services	4,472	—
Provision of cemetery maintenance services	—	3,791
	<hr/>	<hr/>
Total	59,586	3,791

	For the year ended 31 December 2019	
	Sales of burial plots, columbarium units and provision of other burial- related services <i>RMB'000</i>	Provision of cemetery maintenance services <i>RMB'000</i>
Timing of revenue recognition		
A point in time	55,114	—
Over time	4,472	3,791
	<hr/>	<hr/>
Total	59,586	3,791

All of the Group's revenue is from contracts with customers and generated in the PRC based on where goods are sold or services are rendered, and substantially all of the Group's identifiable assets and liabilities are located in the PRC.

	For the year ended 31 December 2018	
	Sales of burial plots, columbarium units and provision of other burial- related services <i>RMB'000</i>	Provision of cemetery maintenance services <i>RMB'000</i>
Types of goods and service		
Sales of burial plots	33,242	—
Sales of columbarium units	4,145	—
Provision of other burial-related services	2,619	—
Provision of cemetery maintenance services	—	3,379
	<hr/>	<hr/>
Total	40,006	3,379
	<hr/>	<hr/>

	For the year ended 31 December 2018	
	Sales of burial plots, columbarium units and provision of other burial- related services <i>RMB'000</i>	Provision of cemetery maintenance services <i>RMB'000</i>
Timing of revenue recognition		
A point in time	37,387	—
Over time	2,619	3,379
	<hr/>	<hr/>
Total	40,006	3,379
	<hr/>	<hr/>

All of the Group's revenue is from contracts with customers and generated in the PRC based on where goods are sold or services are rendered, and substantially all of the Group's identifiable assets and liabilities are located in the PRC.

(ii) Performance obligations for contracts with customers

Sales of burial plots with maintenance services (multiple performance obligations)

For contracts entered into with customers on sales of burial plots, the relevant burial plots specified in the contracts have no alternative use to the Group. Taking into consideration of the relevant contract terms, the legal environment and relevant legal precedent, the Group concluded that the Group does not have an enforceable right to payment prior to transfer of the burial plots to customers. Revenue from sales of burial plots is therefore recognised at a point in time when the burial plot is transferred to customers, being at the point that the customer obtains the control of the burial plots and the Group has present right to payment and collection of the consideration is probable.

The cemetery maintenance service is considered to be a distinct service. Transaction price is allocated between sales of burial plots and the maintenance services on a relative stand-alone selling price basis. Revenue relating to the maintenance services is recognised over time. The transaction price allocated to these services is recognised as a contract liability at the time of the initial sales transaction and is released on a straight line basis over the period of service.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

Sales of columbarium units (revenue recognised at a point in time)

For contracts entered into with customers on sales of columbarium units, the relevant columbarium units specified in the contracts have no alternative use to the Group. Taking into consideration of the relevant contract terms, the legal environment and relevant legal precedent, the Group concluded that the Group does not have an enforceable right to payment prior to transfer of the columbarium units to customers. Revenue from sales of columbarium units is therefore recognised at a point in time when the columbarium unit is transferred to customers, being at the point that the customer obtains the control of the columbarium units and the Group has present right to payment and collection of the consideration is probable.

Provision of other burial-related services

Other burial-related services represented revenues from miscellaneous services such as the organisation and conducting of burial rituals, the design and landscaping of the burial sites and additional engraving fees. Revenue relating to these burial-related services is recognised over time.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 and the expected timing of recognising revenue are as follows:

	Sales of burial plots <i>RMB'000</i>	Provision of cemetery maintenance services <i>RMB'000</i>
Within one year/on demand	2,437	5,250
More than one year but not more than two years	—	4,441
More than two years	—	53,751
	2,437	63,442

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Sales of burial plots <i>RMB'000</i>	Provision of cemetery maintenance services <i>RMB'000</i>
Within one year/on demand	4,037	5,059
More than one year but not more than two years	—	3,801
More than two years	—	48,896
	4,037	57,756

Operating segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision makers, including Ms. Li Xingying, the general manager of Langfang Wantong Cemetery Co., Ltd. (“Langfang Wantong”), Mr. Huang Guangming and Mr. Yu Minghua, the deputy general managers of Langfang Wantong (collectively, the “CODM”), that are used to make strategic decisions. Information reported to the CODM is based on the products and services delivered or provided by the Group.

The Group’s operating and reporting segments are (i) sales of burial plots, columbarium units and provision of other burial-related services; and (ii) provision of cemetery maintenance services in the PRC.

Segment revenue and results

Year ended 31 December 2019

	Sales of burial plots, columbarium units and provision of other burial-related services <i>RMB’000</i>	Provision of cemetery maintenance services <i>RMB’000</i>	Total <i>RMB’000</i>
Segment revenue	<u>59,586</u>	<u>3,791</u>	<u>63,377</u>
Segment results	<u>47,436</u>	<u>3,178</u>	<u>50,614</u>
Other income			4,906
Other gains			1,061
Loss on fair value changes of financial assets at fair value through profit or loss (“FVTPL”)			(245)
Gain on fair value changes of investment properties			350
Distribution and selling expenses			(6,631)
Administrative expenses			<u>(16,739)</u>
Profit before tax			<u><u>33,316</u></u>

Year ended 31 December 2018

	Sales of burial plots, columbarium units and provision of other burial-related services <i>RMB'000</i>	Provision of cemetery maintenance services <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	<u>40,006</u>	<u>3,379</u>	<u>43,385</u>
Segment results	<u>33,421</u>	<u>3,010</u>	<u>36,431</u>
Other income			10,328
Other gains			2,461
Loss on fair value changes of financial assets at FVTPL			(2,796)
Gain on fair value changes of investment properties			250
Distribution and selling expenses			(5,648)
Administrative expenses			<u>(5,726)</u>
Profit before tax			<u><u>35,300</u></u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the gross profit attributable to each segment without allocation of other income, other gains, loss on fair value changes of financial assets at FVTPL, gain on fair value changes of investment properties, distribution and selling expenses, administrative expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment. There were no inter-segment revenue during the current and prior years. No analysis of segment assets and liabilities is presented as it is not regularly reviewed by the CODM.

Information about major customers

Revenue from sales of columbarium units amounting to RMB24,886,000 from a customer accounted for over 10% of the Group's revenue for 2019 (2018: nil).

4. OTHER INCOME

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income on bank deposits	1,916	950
Dividend income from financial assets at FVTPL	800	6,104
Government grants	2,000	3,084
Rental income	190	190
	<u>4,906</u>	<u>10,328</u>

5. OTHER GAINS

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Foreign exchange gains, net	<u>1,061</u>	<u>2,461</u>

6. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Auditors' remuneration	1,180	930
Professional service fees for listing transfer from GEM to Main Board of the Stock Exchange	10,041	—
Depreciation of property, plant and equipment	784	677
Amortisation of cemetery assets (included in cost of sales and services)	384	356
Total depreciation and amortisation	<u>1,168</u>	<u>1,033</u>
Cost of inventories recognised as an expense	<u>9,327</u>	<u>5,462</u>
Expense relating to short-term leases	<u>493</u>	<u>131</u>
Staff costs, including Directors' and chief executive's remuneration:		
Salaries, wages and other benefits	6,134	4,751
Retirement benefit scheme contributions	<u>427</u>	<u>318</u>
Total staff costs	<u>6,561</u>	<u>5,069</u>

7. INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Current enterprise income tax	9,739	11,363
Deferred tax	<u>26</u>	<u>(4,310)</u>
	<u>9,765</u>	<u>7,053</u>

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	<u>23,551</u>	<u>28,247</u>
Numbers of shares:		
Weighted average numbers of ordinary shares for the purpose of calculating basic earnings per share	<u>1,000,000,000</u>	<u>1,000,000,000</u>

No diluted earnings per share for both 2019 and 2018 were presented as there were no potential ordinary shares in issue for both 2019 and 2018.

9. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during 2019 (2018: nil).

10. CEMETERY ASSETS

	At 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Land costs	4,300	5,292
Landscape facilities	3,617	3,277
Development costs	<u>416</u>	<u>512</u>
	<u>8,333</u>	<u>9,081</u>

Effective from 1 January 2019, the carrying amount of leasehold lands is measured under IFRS 16 at cost less any accumulated depreciation and any impairment losses. The land costs are amortised on a straight-line basis over the lease term of 50 years.

Landscape facilities represent the construction cost of arbors and bridges in the mausoleum. Amortisation for landscape facilities is provided on a straight-line basis over the shorter of the remaining lease term of land and estimated useful life of 20 years.

Development costs represent the costs paid for the foundation work and putting the land into the condition ready for development of cemetery business. Amortisation for development costs is provided on a straight-line basis over the estimated useful life (same as land costs over the lease term).

Upon commencement of development of an area within the cemetery, the proportionate cemetery assets are transferred to inventories.

11. PREPAYMENTS AND OTHER RECEIVABLES

	At 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Staff advance	30	30
Prepayments	471	106
Others	237	329
	<u>738</u>	<u>465</u>

12. TRADE AND OTHER PAYABLES

	At 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	2,180	1,043
Accrued expenses	11,229	8,427
	<u>13,409</u>	<u>9,470</u>

The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	At 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 1 year	2,041	922
1 to 2 years	51	25
Over 3 years	88	96
	<u>2,180</u>	<u>1,043</u>

13. CONTRACT LIABILITIES

Contract liabilities represent the obligations to transfer burial plots and cemetery maintenance services in accordance with the revenue recognition policy and the nature of the business.

	At 31 December 2019 <i>RMB'000</i>	At 31 December 2018 <i>RMB'000</i>
Sales of burial plots	2,437	4,037
Provision of cemetery maintenance services	<u>63,442</u>	<u>57,756</u>
	<u>65,879</u>	<u>61,793</u>
Current	7,687	9,096
Non-current	<u>58,192</u>	<u>52,697</u>
	<u>65,879</u>	<u>61,793</u>

As at 1 January 2018, contract liabilities amounted to RMB60,848,000.

Customers who purchase burial services are required to make advance payments for maintenance fees, relating to the on-going cemetery maintenance services of their burial plots and memorials over 20 years, and such amounts are generally paid together with the purchase of burial plots.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the year, the Group was principally engaged in the sale of burial plots and columbarium units, provision of other burial-related services and provision of cemetery maintenance services in Langfang.

Sales of burial plots and columbarium units and provision of other burial-related services

Burial services were the largest component of our revenue, representing 94.0% of our revenue for the year ended 31 December 2019 (2018: 92.2%).

The burial services market in Langfang is concentrated. Demand for our burial service and growth in our revenue are driven by the overall demand for burial services in Langfang and the Jing-Jin-Ji megalopolis at large. We believe our reputation, quality of services, and well-maintained and conveniently located facilities allow us to compete effectively in Langfang. The Company is optimistic that this operation will be continuously developed and expanded.

Provision of cemetery maintenance services

We provide ongoing cemetery maintenance services as an integral part of our burial services to maintain our beautiful landscaped cemetery. Customers pay for maintenance fees upfront when they sign the sales contracts to purchase the burial plots. Our revenue from cemetery maintenance was RMB3.8 million for the year ended 31 December 2019 (2018: RMB3.4 million).

BUSINESS OUTLOOK AND RECENT DEVELOPMENT

The sales of the Group's burial services used to peak during February and March and around the Qing Ming Festival in the prior years. Due to the impact of the recent outbreak of the novel coronavirus, the Group is facing significant challenges in its business development. With that said, the Group will continue to uphold its belief and cooperate with the government on the anti-epidemic work and consistently improve the operations of the cemetery and provide quality services to our customers.

The Group aspires to strengthen its market position in Langfang and expand its business in the Jing-Jin-Ji megalopolis and beyond through the following strategies.

Strengthen the market position in Langfang

The Company believes that a more elegant environment of the cemetery with warmer, more diversified and person-centered services would enable the Company to address the customers' various needs and preferences. Thus, the Group has continuously upgraded and planned to further develop its cemetery, especially the environment in cemetery, upgrade its facilities and diversify its service offerings. For example, the Group upgraded the main entrance of the cemetery, commenced to develop "Pine Garden" (松園) and further developed its sectioned burial areas for artistic burial plots. In 2020, in addition to the further development of its cemetery as mentioned above, the Group plans to design and provide other types of burial services, for example, wall burial (壁葬), sea burial (海葬) and tree burial (樹葬). Moreover, the Group intends to promote its reputation and services through contact and communications with more prospective customers, communities and institutions of elderly services, for example, to invite more prospective customers to the Group's events and to organize recreation and sports events for the elderly.

In addition, in view of the rapid development of Langfang, which is benefited from the overall development of the Jing-Jin-Ji megalopolis, the local government has been carrying out the urban planning and construction. During this process, it may involve the migration of the villagers and resettlement of the cremains of their deceased relatives. As a licensed and well established cemetery, in possession of both capability and capacity, the Group provides columbarium collective storage services to meet the demand arising from the local government's city development plan on one hand, and broaden its income source on the other. Further to the sale of columbarium units in 2018, the Group plans to actively cooperate with and support the local government's city development plan, and provide columbarium collective storage services for the removed cremains in the areas under the development plan in the future. In light of further demand of such columbarium collective storage services induced by the government's city planning, the Group has invested approximately RMB21.4 million and completed the construction of another three buildings in its cemetery as columbaria, with the real estate certificate (不動產權證) obtained in September 2019. The Group will make good use of its new columbaria to continuously support the government's city development plan.

The Directors believe that the above will further strengthen the Group's market position in Langfang.

Expand the business scope to provide funeral services

The Group generated substantially all of its revenue from burial services and has also forged stable business relationship with a number of local funeral services providers which refer customers to the Group. The Directors believe, however, that one-stop-shop services integrating funeral and burial services are able to confer a significant competitive advantage, as bereaved families generally prefer dealing with fewer services providers to ensure a seamless and smooth experience at each stage of the process. The Group has set up service sites at Langfang Funeral Parlor (廊坊市殯儀館), and assigned specialists to introduce cemetery-related services, deal with pre-service business and promote to and identify prospective customers.

In the future, the Group plans to offer the following customized funeral services: (i) providing its customers with consultations on funeral arrangements and suggesting certain funeral services packages for them; (ii) liaising with the families of the deceased, the funeral parlor and crematorium for transportation arrangements of the deceased; making up and dressing up the deceased in accordance with the wishes of the customers; (iii) providing wreaths and flower arrangements, and specially-prepared decorations for display at the funeral; and (iv) arranging for and conducting the performance of funeral rituals or ceremonies as required by the customers.

The Group will continue to expand its services from provision of burial services only to provision of integrated funeral and burial services.

Tap further into the burial services market in the Jing-Jin-Ji megalopolis

Leveraging on the Group's strategic location in Langfang and proximity to regional hubs in the Jing-Jin-Ji megalopolis, the Group continues to pay effort to tap further into the burial services market in this region, especially in Beijing, where affordable burial plots have become increasingly sparse and local residents become increasingly mobile with the integration of communities and the construction of a web of high-speed intercity transportation infrastructure. The Group plans to devote more marketing resources to serving the neighboring cities and further develop cooperation with local funeral services providers as its business partners. The Group targets to establish cooperative relationships with more Beijing-based funeral services providers in 2020 to promote its burial services locally. Meanwhile, the Group plans to cooperate with local funeral homes and hospital mortuaries to access bereaved families in a more direct and more prompt way, so that the Group can react immediately to provide high-quality one-stop-shop services integrating funeral and burial services for its prospective customers.

Pursue strategic alliance and acquisition opportunities

The Group is developing its business primarily through organic growth. Going forward, the Group intends to selectively acquire, invest in or enter into strategic partnerships with other death care services providers, including funeral services providers and cemetery operators. The Group bases its selection criteria on, among other things, brand name, location, land cost, land reserves and profitability. The Group generally favors cemeteries located in wealthy and densely populated provinces, where there is a higher demand for high-quality death care services. In particular, the Group seeks to prioritize business expansion opportunities with death care services providers in the Jing-Jin-Ji megalopolis and bring synergy to its current operations. Meanwhile, it will also explore potential acquisition or investment in other regions. In addition to the downstream industry of burial services, the Group is also committed to seeking development in the upstream industry, for example, palliative care services, to expand its business opportunities and to identify strategic alliance. Therefore, the Directors believe that the Group will achieve industrial integration from aging to burial for a diverse range of customers.

Financial Review

Revenue

Our revenue for the year ended 31 December 2019 was substantially generated from: (i) sale of burial plots, which includes the right to use the burial plots and headstones and other ancillary products to be used on the burial plots; (ii) sale of columbarium units, which includes the right to use the columbarium units and other ancillary products to be used on columbarium units; (iii) other burial-related services such as the organization and conducting of interment rituals, the design, construction and landscaping of the burial plots, and the engraving of inscriptions and ceramic photographs on the headstones; and (iv) cemetery maintenance services. The table below sets forth a breakdown of our revenue:

	Year ended 31 December			
	2019		2018	
	Revenue (RMB'000)	% of total revenue %	Revenue (RMB'000)	% of total revenue %
Burial Services				
Sales of burial plots	30,228	47.7%	33,242	76.6%
Sale of columbarium units	24,886	39.3%	4,145	9.6%
Provision of other burial-related services	4,472	7.0%	2,619	6.0%
	59,586	94.0%	40,006	92.2%
Provision of cemetery maintenance services	3,791	6.0%	3,379	7.8%
	63,377	100.0%	43,385	100.0%

Benefiting from the regional economic growth, we have grown substantially since our inception in 2007. Further to the sale of certain columbarium units (288 square metres) in 2018, the Group continued to actively cooperate with and support the local government's city development plan, and provide columbarium collective storage services for the removed cremains in the areas under the development plans. In 2019, the Group recognized a revenue in the amount of RMB24.9 million from the sale of certain columbarium units (1,481 square metres), which contributed to the substantial increase in total revenue for the year. The Group's revenue was increased by 46.1% from RMB43.4 million for the year ended 31 December 2018 to RMB63.4 million for the year ended 31 December 2019.

Cost of sales and services

Cost of sales and services consist primarily of the costs we incur in relation to the provision of our services. Our cost of sales and services was at RMB12.8 million in 2019 (2018: RMB7.0 million), with an increase of 83.5%.

	Year ended 31 December			
	2019		2018	
	Cost of sales and services (RMB'000)	% of total cost of sales and services %	Cost of sales and services (RMB'000)	% of total cost of sales and services %
Burial services	12,150	95.2%	6,585	94.7%
Cemetery maintenance	613	4.8%	369	5.3%
	<u>12,763</u>	<u>100.0%</u>	<u>6,954</u>	<u>100.0%</u>

The Group's cost of sales and services consist primarily of the costs it incurred in relation to the provision of its services, including the headstone cost, construction cost of columbaria, land acquisition cost, cemetery maintenance cost, burial-related cost and others.

The Group's cost of sales and services for burial service increased significantly by 84.5% from RMB6.6 million in 2018 to RMB12.2 million in 2019, primarily due to the increase in construction costs as a result of increased sale of the columbarium units in 2019. The Group's cost of sales and services for cemetery maintenance increased from RMB0.4 million in 2018 to RMB0.6 million in 2019.

Gross Profit and Gross Profit Margin

Gross profit represents revenue less cost of sales and services. Our gross profit for 2019 and 2018 was RMB50.6 million and RMB36.4 million, respectively.

	Year ended 31 December			
	2019		2018	
	Gross profit	Gross profit	Gross profit	Gross profit
	(RMB'000)	margin %	(RMB'000)	margin %
Burial services	47,436	79.6%	33,421	83.5%
Cemetery maintenance	3,178	83.8%	3,010	89.1%
	<u>50,614</u>	<u>79.9%</u>	<u>36,431</u>	<u>84.0%</u>

Our overall gross profit margin for 2019 and 2018 was 79.9% and 84.0%, respectively. Our relatively high gross profit margins during the year were primarily due to (i) the relatively high gross profit margins in the burial industry; (ii) our ability to provide high-quality burial services; and (iii) the relatively low land acquisition cost for our cemetery.

The lower gross profit margin percentage for 2019 is mainly due to higher construction costs of the new columbaria resulting in a lower gross profit margin for the sale of certain columbarium units in 2019. The gross profit margin percentage of the provision of cemetery maintenance services decreased by approximately 5%-point year-on-year, mainly due to the increase in other greening sporadic expenses in 2019.

Other income

The Group's other income decreased by 52.5% from RMB10.3 million in 2018 to RMB4.9 million in 2019. This decrease was primarily due to a decrease in dividends income from financial assets at FVTPL in 2019.

Distribution and selling expenses

Our distribution and selling expenses increased by 17.4% from RMB5.6 million for 2018 to RMB6.6 million for 2019. This increase was primarily due to selling expenses relating to the increased sale of columbarium units in 2019.

Administrative expenses

Our administrative expenses increased significantly by 192.3% from RMB5.7 million for 2018 to RMB16.7 million for 2019. This increase was primarily due to the increase in professional fees and other expenses relating to the transfer of listing from GEM to Main Board, amounting to approximately RMB10.0 million (2018: nil).

Profit before tax

As a result of the above, our profit before tax decreased by 5.6% from RMB35.3 million for 2018 to RMB33.3 million for 2019.

Income tax expense

Our income tax expense increased by 38.5% from RMB7.1 million for 2018 to RMB9.8 million for 2019, generally consistent with the increase of our revenue.

Profit and total comprehensive income for the year

Our profit and total comprehensive income for the year decreased by 16.6% from RMB28.2 million for 2018 to RMB23.6 million for 2019. Our net profit margin decreased from 65.1% for 2018 to 37.2% for 2019, primarily due to higher professional fees and other administrative expenses incurred in connection with the application for the transfer of listing from GEM to Main Board in 2019 and the decrease in dividends income from financial assets at FVTPL in 2019; partly offset by higher revenue in 2019 with the increased sales of columbarium units.

Earnings per share

The basic earnings per share for the year ended 31 December 2019 calculated based on the weighted average number of 1,000,000,000 ordinary shares was RMB0.024 (basic earnings per share for the year ended 31 December 2018: RMB0.028).

Cash Flow

Our cash and cash equivalents decreased by RMB2.1 million to RMB189.3 million as at 31 December 2019 from RMB191.4 million as at 31 December 2018, principally attributable to the net cash outflow of RMB5.5 million from our operating activities; partially offset by the net cash inflow of RMB2.3 million from investing activities.

Pledge of assets

There was no charge on the Group's assets as at 31 December 2019 and 2018.

Inventories

Our inventories primarily consist of burial plots, columbarium units, headstones and others. The related carrying amounts of the cemetery assets attributable to the burial plots and columbarium units are transferred to inventory upon the commencement of development of cemetery assets into burial plots with the intention of sale in the ordinary course of business. Headstones are recognised as inventory when they are contracted for sale and set up in the cemetery. Inventories are transferred to cost when the customer obtains the right to use the burial plot. Our inventories increased significantly from RMB2.0 million as at 31 December 2018 to RMB19.3 million as at 31 December 2019, primarily due to certain expenditure for the construction of the three new columbaria.

Prepayments and other receivables

Our prepayments and other receivables remained relatively stable at RMB0.5 million and RMB0.7 million as at 31 December 2018 and 2019, respectively.

Trade and other payables

Our trade and other payables increased by 41.6% from RMB9.5 million as at 31 December 2018 to RMB13.4 million as at 31 December 2019, primarily due to certain professional fees in relation to the transfer of listing from GEM to Main Board were only settled in early 2020 subsequent to the successful transfer in December 2019.

Contract liabilities

Contract liabilities represent the obligations to transfer burial plots and cemetery maintenance services in accordance with the revenue recognition policy and the nature of the business.

As at 31 December 2019, current contract liabilities amounted to RMB7.7 million (as at 31 December 2018: RMB9.1 million). The decrease in current contract liabilities is mainly due to recognition of revenue during the year.

As at 31 December 2019, non-current contract liabilities amounted to RMB58.2 million (as at 31 December 2018: RMB52.7 million). The increase in non-current contract liabilities is mainly due to increase in advances from customers during the current year.

Capital structure

During the year ended 31 December 2019, there was no change to the capital structure of the Company.

Liquidity and financial resources

As at 31 December 2019, we had bank balances and cash of approximately RMB189.3 million (2018: RMB191.4 million). We have financed our working capital, capital expenditures and other capital requirements primarily through income generated from our operations. In the future, we expect to fund our capital expenditures, working capital and other capital requirements from the Group's bank balances and cash, cash generated from our operations and other borrowings.

Gearing ratio

The Directors of the Company review the capital structure on annual basis. As part of this review, the Directors of the Company consider the cost of capital and the risk associated with each class of capital. Based on the recommendations of the Directors of the Company, the Group will balance its overall capital structure through payment of dividends, issue of new shares and repurchase of shares as well as issue of new debts or the redemption of existing debts.

As at 31 December 2019, the gearing ratio of the Group, being total liabilities to total assets, was 35.2% (2018: 41.7%), which indicates the Group's healthy liquidity position.

Employee remuneration and relations

As at 31 December 2019, the Group had a total of 59 employees (2018: 62 employees). The Group provides employees with competitive remuneration and benefits, and the remuneration policy will be reviewed on a regular basis based on the performance and contribution of the employees and the industry remuneration level. In addition, the Group also provides various training courses to enhance the employees' skills and capabilities in all aspects.

Operating lease

As at 31 December 2019, the Group had minimum lease payments receivable of approximately RMB0.2 million (2018: RMB0.4 million).

Commitments

As at 31 December 2019, the Group had capital commitments in respect of expenditure in cemetery assets of approximately RMB0.3 million (2018: nil).

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2019 (2018: nil).

Significant Investments, Acquisitions and Disposals

During the year, there were no material acquisition or disposal of significant investment.

On 24 August 2018, Langfang Wantong Cemetery Co., Ltd. (廊坊市萬桐公墓有限公司) (the “Vendor”, an indirect wholly-owned subsidiary of the Company) and Langfang City Huanmei Landscaping Engineering Co., Ltd. (廊坊市環美園林工程有限公司) (the “Purchaser”) entered into a conditional sale and purchase agreement (the “SPA”), pursuant to which the Purchaser has conditionally agreed to acquire the sale shares, being 5.78% of the total registered capital of Suburban Rural Credit Cooperatives of Langfang City (廊坊市城郊農村信用合作聯社) (the “Target Company”), and the Vendor has agreed to sell the abovementioned sale shares (the “Disposal”) at the total consideration of RMB76,000,000.

Completion of the Disposal took place on the completion date in accordance with terms and conditions of the SPA. Immediately after the completion, the Group ceased to hold any interest in the Target Company.

Further details of the Disposal were set out in the announcement of the Company dated 24 August 2018 and the circular of the Company dated 24 September 2018.

Foreign currency risk

The Group’s business is principally denominated in Renminbi. As certain bank deposits are denominated in Hong Kong dollars, therefore, the Group is exposed to foreign currency exchange risk. No currency hedging arrangement had been made by the Group during the year. The Directors have positive attitude to regular monitor the exposure to foreign exchange so as to reduce the foreign exchange rate risk to minimal.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor its subsidiaries have purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2019.

CORPORATE GOVERNANCE

The Company is committed to establish and maintain good corporate governance practices and procedures. For the year ended 31 December 2019, the Board has adopted its own code on corporate governance practices which incorporate all the code provisions in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Directors of the Company will continue to review its corporate governance practices in order to enhance its corporate governance standard and ensure further standards be put in place by reference to the recommended best practices whenever suitable and appropriate. The Directors confirm that the Company have complied with the code provisions of the Corporate Governance Code and this code on corporate governance practices of the Company during the year ended 31 December 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its own code of conduct for Directors' and employees' securities transactions ("Securities Dealing Code"). Having made specific enquiry of all the Directors and members of the senior management, they have confirmed their compliance with required standard set out in the Securities Dealing Code during the year.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's consolidated financial statements for the year ended 31 December 2019, including the accounting principles and practices adopted by the Group with the opinion that such statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made, and recommended to the Board for approval.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu 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 Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year ended 31 December 2019 is scheduled to be held on Monday, 22 June 2020 (the “AGM”). A notice convening the AGM will be issued and disseminated to shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 17 June 2020 to Monday, 22 June 2020 (both days inclusive) during which no transfer of shares will be effected. In order to be eligible to attend and vote at the forthcoming AGM of the Company, all completed transfer documents accompanying with the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. (Hong Kong time) on Tuesday, 16 June 2020.

By order of the Board
China Wan Tong Yuan (Holdings) Limited
Zhao Ying
Chairman

Hong Kong, 24 March 2020

As at the date of this announcement, the Board of the Company comprises the chairman and non-executive Director of the Company, namely Ms. Zhao Ying, two executive Directors of the Company, namely Ms. Li Xingying and Mr. Huang Guangming, and three independent non-executive Directors of the Company, namely Mr. Cheung Ying Kwan, Dr. Wong Wing Kuen, Albert and Mr. Choi Hon Keung, Simon.