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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 2022**

The board (“Board”) of directors (“Directors”) of China Wan Tong Yuan (Holdings) Limited (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 2022, together with the comparative figures for the year ended 31 December 2021 as follows:

FINANCIAL HIGHLIGHTS

- The revenue of the Group amounted to approximately RMB45,738,000 for the year ended 31 December 2022 (2021: RMB43,949,000), which represented an increase of RMB1,789,000 or 4.1% as compared with the year of 2021.
- The profit attributable to owners of the Company was RMB22,030,000 for the year ended 31 December 2022 (2021: RMB18,140,000), which represented an increase of RMB3,890,000 or 21.4% as compared with the year of 2021.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: nil).

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2022

		Year ended 31 December	
		2022	2021
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	45,738	43,949
Cost of sales and services		<u>(11,613)</u>	<u>(7,554)</u>
Gross profit		34,125	36,395
Other income	4	9,458	9,725
Other gains and losses, net	5	3,682	(1,125)
Loss on fair value changes of financial assets at fair value through profit or loss		(1,257)	(734)
Gain on fair value change of investment property		20	50
Distribution and selling expenses		(7,798)	(7,644)
Administrative expenses		(9,256)	(7,984)
Other expenses	11	(434)	(3,747)
Finance costs		<u>(22)</u>	<u>(28)</u>
Profit before tax	6	28,518	24,908
Income tax expense	7	<u>(6,488)</u>	<u>(6,768)</u>
Profit and total comprehensive income for the year attributable to owners of the Company		<u>22,030</u>	<u>18,140</u>
Earnings per share			
Basic (RMB cents)	8	<u>2.2</u>	<u>1.8</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

		At 31 December	
		2022	2021
	NOTES	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		3,672	4,267
Intangible assets		232	152
Right-of-use assets		1,032	48
Investment property		6,270	6,250
Cemetery assets	10	10,251	9,837
Financial assets at fair value through profit or loss		6,909	8,166
Prepayments and other receivables	11	11,846	35,143
Deferred tax assets		481	824
		<u>40,693</u>	<u>64,687</u>
CURRENT ASSETS			
Inventories		20,005	23,834
Trade receivables		658	—
Prepayments and other receivables	11	29,650	841
Amounts due from related parties		—	105,349
Bank balances and cash		211,284	84,428
		<u>261,597</u>	<u>214,452</u>
CURRENT LIABILITIES			
Trade and other payables	12	9,656	11,938
Lease liabilities		502	15
Contract liabilities	13	5,915	7,372
Income tax payable		2,170	1,125
		<u>18,243</u>	<u>20,450</u>
NET CURRENT ASSETS		<u>243,354</u>	<u>194,002</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>284,047</u>	<u>258,689</u>

		At 31 December	
		2022	2021
	<i>NOTE</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT LIABILITIES			
Lease liabilities		530	—
Contract liabilities	13	70,727	67,261
Deferred tax liabilities		2,598	3,266
		<u>73,855</u>	<u>70,527</u>
NET ASSETS		<u>210,192</u>	<u>188,162</u>
CAPITAL AND RESERVES			
Share capital		66,192	66,192
Reserves		144,000	121,970
Equity attributable to owners of the Company		<u>210,192</u>	<u>188,162</u>
TOTAL EQUITY		<u>210,192</u>	<u>188,162</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to owners of the Company				Total RMB'000
	Share capital RMB'000	Statutory surplus reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	
At 1 January 2021	66,192	12,143	1,309	90,378	170,022
Profit and total comprehensive income for the year	—	—	—	18,140	18,140
Transfer to statutory surplus reserve	—	2,387	—	(2,387)	—
At 31 December 2021	66,192	14,530	1,309	106,131	188,162
Profit and total comprehensive income for the year	—	—	—	22,030	22,030
Transfer to statutory surplus reserve	—	1,898	—	(1,898)	—
At 31 December 2022	<u>66,192</u>	<u>16,428</u>	<u>1,309</u>	<u>126,263</u>	<u>210,192</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. GENERAL INFORMATION

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 are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). 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 in the PRC is No.48, Louzhuang Road, Langfang 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 principally engaged in the sale of burial plots and columbarium units, provision of other burial-related services and provision of cemetery maintenance services in the PRC. The Company and its subsidiaries are collectively referred to as the “Group”.

The Company’s parent company is Tai Shing International Investment Company Limited, a company incorporated in the British Virgin Islands (the “BVI”) and its ultimate holding company is Lily Charm Holding Limited, a company incorporated in the BVI. Both companies are controlled by Ms. Zhao Ying (“Ms. Zhao”, 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 AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”) for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendment to IFRS 16	Covid-19-Related Rent Concessions Beyond 30 June 2021
Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020

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

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 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback ³
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ³
Amendments to IAS 1	Non-current Liabilities with Covenants ³
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to IAS 8	Definition of Accounting Estimates ¹
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or 1 January 2024

The directors of the Company (the “Directors”) anticipate that the application of 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

	Year ended 31 December 2022		
	Sales of burial plots, columbarium units, provision of tomb relocation and other burial- related services <i>RMB'000</i>	Provision of cemetery maintenance services <i>RMB'000</i>	Total <i>RMB'000</i>
Types of goods and service			
Sales of burial plots	26,869	—	26,869
Sales of columbarium units	—	—	—
Provision of tomb relocation services	7,629	—	7,629
Provision of other burial-related services	6,280	—	6,280
Provision of cemetery maintenance services	—	4,960	4,960
Total	<u>40,778</u>	<u>4,960</u>	<u>45,738</u>
Timing of revenue recognition			
A point in time	34,498	—	34,498
Over time	6,280	4,960	11,240
Total	<u>40,778</u>	<u>4,960</u>	<u>45,738</u>

	Year ended 31 December 2021		
	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>
Types of goods and service			
Sales of burial plots	30,356	—	30,356
Sales of columbarium units	4,874	—	4,874
Provision of other burial-related services	4,188	—	4,188
Provision of cemetery maintenance services	—	4,531	4,531
Total	<u>39,418</u>	<u>4,531</u>	<u>43,949</u>
Timing of revenue recognition			
A point in time	35,230	—	35,230
Over time	4,188	4,531	8,719
Total	<u>39,418</u>	<u>4,531</u>	<u>43,949</u>

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 Directors 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 customer obtains control of the burial plot, being at the point that the burial plot is transferred to customer and the payment of the transaction price is due immediately at the point the customer purchases the burial plots.

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.

(ii) **Performance obligations for contracts with customers**

Sales of columbarium units

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 Directors 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 customer obtains control of the columbarium unit, being at the point that the columbarium units is transferred to customers and the payment of the transaction price is due immediately at the point the customer purchases the columbarium units.

Provision of tomb relocation services

In 2022, the Group provided tomb relocation services in relation to Ten Village Street Tomb Relocation Project in the Langfang Linkong Economic Zone. According to the agreement between Langfang Guangyang District Housing and Urban-Rural Development Bureau and the Group, the Group concluded that the Group does not have an enforceable right to payment prior to the proper relocation of all tombs as requested in the agreement. Accordingly, revenue from provision of tomb relocation services is recognised at a point in time when all tombs have been properly relocated and accepted by the customer.

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 as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

(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 2022 and the expected timing of recognising revenue are as follows:

	Sales of burial plots RMB'000	Provision of cemetery maintenance services RMB'000	Provision of other burial- related services RMB'000	Total RMB'000
Within one year/on demand	—	5,355	560	5,915
More than one year but not more than two years	—	5,492	185	5,677
More than two years	—	65,050	—	65,050
	—	75,897	745	76,642

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2021 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>	Provision of other burial- related services <i>RMB'000</i>	Total <i>RMB'000</i>
Within one year/on demand	1,007	5,567	798	7,372
More than one year but not more than two years	—	4,972	505	5,477
More than two years	—	61,599	185	61,784
	<u>1,007</u>	<u>72,138</u>	<u>1,488</u>	<u>74,633</u>

Operating segments

The Group determines its operating segments based on the reports reviewed by executive directors of the Company, being the chief operating decision makers (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 reportable segments are (i) sales of burial plots, columbarium units and provision of tomb relocation and other burial-related services; and (ii) provision of cemetery maintenance services in the PRC.

Segment revenue and results

Year ended 31 December 2022

	Sales of burial plots, columbarium units, provision of tomb relocation and other burial-related services	Provision of cemetery maintenance services	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue	<u>40,778</u>	<u>4,960</u>	<u>45,738</u>
Segment results	29,637	4,488	<u>34,125</u>
Other income			9,458
Other gains and losses, net			3,682
Loss on fair value changes of financial assets at fair value through profit or loss (“FVTPL”)			(1,257)
Gain on fair value change of investment property			20
Distribution and selling expenses			(7,798)
Administrative expenses			(9,256)
Other expense			(434)
Finance costs			<u>(22)</u>
Profit before tax			<u><u>28,518</u></u>

Year ended 31 December 2021

	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	39,418	4,531	43,949
Segment results	32,414	3,981	36,395
Other income			9,725
Other gains and losses, net			(1,125)
Loss on fair value changes of financial assets at FVTPL			(734)
Gain on fair value change of investment property			50
Distribution and selling expenses			(7,644)
Administrative expenses			(7,984)
Other expense			(3,747)
Finance costs			(28)
Profit before tax			<u>24,908</u>

Segment results represent the gross profit attributable to each segment without allocation of other income, other gains and losses, loss on fair value changes of financial assets at FVTPL, gain on fair value change of investment property, distribution and selling expenses, administrative expenses, other expenses and finance costs. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment. There was 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.

Geographical information

All of the Group's revenue is generated from sale of burial plots, columbarium units and provision of tomb relocation and other burial-related services, and provision of cemetery maintenance services 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. Therefore, no geographical information is presented.

Information about major customers

Revenue from provision of tomb relocation services in the amount of RMB7,629,000 (2021: revenue from sales of columbarium units in the amount of RMB4,874,000) from a single customer accounted for over 10% of the Group's revenue for the year ended 31 December 2022.

4. OTHER INCOME

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income on bank deposits	720	1,956
Dividend income from financial assets at FVTPL	700	700
Rental income	190	190
Interest income on amounts due from related parties	5,634	5,989
Imputed interest income on interest-free advance payment and deposit paid	2,214	890
	<u>9,458</u>	<u>9,725</u>

5. OTHER GAINS AND LOSSES, NET

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Gain on disposal of property, plant and equipment	—	19
Foreign exchange gains/(losses), net	3,596	(1,209)
Government grants	86	—
Gain on disposal of financial assets at FVTPL	—	65
	<u>3,682</u>	<u>(1,125)</u>

6. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Auditors' remuneration	1,050	1,050
Depreciation of property, plant and equipment	967	980
Depreciation of right-of-use assets	701	575
Amortisation of intangible assets	15	—
Amortisation of cemetery assets (included in cost of sales and services)	574	447
Total depreciation and amortisation	<u>2,257</u>	<u>2,002</u>
Cost of inventories recognised as an expense	3,864	5,295
Staff costs, including directors' remuneration:		
Salaries, wages and other benefits	7,477	6,159
Retirement benefit scheme contributions	593	427
Total staff costs	<u>8,070</u>	<u>6,586</u>

7. INCOME TAX EXPENSE

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current enterprise income tax	6,778	6,668
Under/(over) provision in prior year	35	(108)
Deferred tax	(325)	208
	<u>6,488</u>	<u>6,768</u>

Income tax expense for the year can be reconciled to profit before tax as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Profit before tax	28,518	24,908
Tax at the applicable tax rate of 25% (2021: 25%)	7,130	6,227
Tax effect of expenses not deductible for tax purpose	282	434
Tax effect of income not taxable for tax purpose	(1,081)	(182)
Under/(over) provision in respect of prior years	35	(108)
Tax effect of tax losses not recognized	519	397
Utilisation of tax losses previously not recognised	(397)	—
Income tax expense	6,488	6,768

Note:

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulations of the EIT Law, the tax rate applicable to the PRC subsidiaries is 25%.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

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	
	2022	2021
	RMB'000	RMB'000
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	22,030	18,140
Numbers of shares:		
Numbers of ordinary shares for the purpose of calculating basic earnings per share	1,000,000,000	1,000,000,000

No diluted earnings per share for the year ended 31 December 2022 and 2021 were presented as there were no potential ordinary shares in issue for both years.

9. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2022, nor has any dividend been proposed since the end of the reporting period (2021: nil).

10. CEMETERY ASSETS

	At 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Leasehold land	3,874	4,015
Landscape facilities	6,009	5,437
Development costs	368	385
	<u>10,251</u>	<u>9,837</u>

The carrying amount of leasehold land is measured under IFRS 16 at cost less accumulated amortisation and any impairment losses. The leasehold land is 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 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 leasehold land over the lease term).

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

11. PREPAYMENTS AND OTHER RECEIVABLES

	At 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current		
Staff advance	30	30
Prepayments	1,224	398
Others (<i>note (b)</i>)	28,396	413
	<u>29,650</u>	<u>841</u>
Non-current		
Guarantee deposit and payments for a cemetery project (<i>note (a)</i>)	8,846	8,437
Other receivables (<i>note (b) & (c)</i>)	3,000	26,706
	<u>11,846</u>	<u>35,143</u>

Notes:

- (a) The amount represents the interest-free guarantee deposit paid to a minority shareholder, Langfang Xinhangcheng Real Estate Development Co., Limited (廊坊市新航城房地產開發有限公司, “Xinhangcheng”) for development of a new cemetery project located in Langfang relocation and settlement zone, Beijing, and should there be no breach on the part of Langfang Wantong Cemetery Co., Ltd. (“Langfang Wantong”, a subsidiary of the Company) before the official commencement of operation of the cemetery, Xinhangcheng shall within 90 days therefrom refund the guarantee deposit to Langfang Wantong. The difference between the nominal amount and the fair value of the guarantee deposit at initial recognition was regarded as payments for a cemetery project.
- (b) The balance mainly represents an interest-free advance payment of RMB30,000,000 to Baijiawu Office (白家務辦事處, a local government department) for the land demolition relating to the development of a new cemetery project located in Langfang relocation and settlement zone, Beijing. Pursuant to the agreement entered into between Langfang Wantong and Langfang Xinhangcheng and the arrangement among the Guangyang district government, Baijiawu Office and Langfang Linkong Wantong Cemetery Co., Ltd. (廊坊臨空萬桐公墓有限公司, “Linkong Wantong”, a subsidiary of the Company), the Guangyang district government will coordinate the relevant parties to return the advance payment to the Group and the Directors expected that the advance payment will be recovered within 2 years (at the end of 31 December 2023). The difference between the nominal amount and the fair value of the advance payment was recognized as other expenses.
- (c) The amount as at 31 December 2022 represents an interest-bearing advance payment to Langfang Funeral Parlour (廊坊市殯儀館, a business unit under Langfang Civil Affairs Bureau). Pursuant to the agreement entered into between Langfang Wantong and Langfang Funeral Parlour in 2022, Langfang Wantong was entrusted to provide certain extended funeral services in Langfang Funeral Parlour. In accordance with the agreement, Langfang Wantong advanced an amount of RMB3,000,000 to Langfang Funeral Parlour, which bears interest based on prevailing bank loan interest rate for the corresponding period. The principal and interest are repayable within 2 years.

12. TRADE AND OTHER PAYABLES

	At 31 December	
	2022	2021
	RMB'000	RMB'000
Trade payables	5,785	8,819
Accrued expenses	3,871	3,119
	<u>9,656</u>	<u>11,938</u>

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

	At 31 December	
	2022	2021
	RMB'000	RMB'000
Less than 1 year	1,078	7,739
1 to 2 years	4,570	27
2 to 3 years	27	965
Over 3 years	110	88
	<u>5,785</u>	<u>8,819</u>

13. CONTRACT LIABILITIES

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

	At 31 December	
	2022	2021
	RMB'000	RMB'000
Sales of burial plots	—	1,007
Provision of cemetery maintenance services (<i>note</i>)	75,897	72,138
Provision of other burial-related services	745	1,488
	<u>76,642</u>	<u>74,633</u>
Current	5,915	7,372
Non-current	70,727	67,261
	<u>76,642</u>	<u>74,633</u>

Note: The increase in contract liabilities in the current year was mainly due to the long-term advances received from customers. 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.

The following table presented the amounts of revenue recognised in profit or loss which were included in contract liabilities carried forward from prior periods.

Year ended 31 December 2022

	Sales of burial plots RMB'000	Provision of cemetery maintenance services RMB'000	Provision of other burial- related services RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	<u>1,007</u>	<u>4,828</u>	<u>798</u>

Year ended 31 December 2021

	Sales of burial plots RMB'000	Provision of cemetery maintenance services RMB'000	Provision of other burial- related services RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	<u>1,213</u>	<u>4,331</u>	<u>657</u>

The Group receives all the contract amounts when signing the contracts with customers on sales of burial plots and provision of cemetery maintenance services. Transaction price is allocated between sales of burial plots and the maintenance services on a relative standalone selling price basis. The transaction price allocated to these services is recognised as a contract liability at the time of the initial sales transaction. The Group considers the advance payment does not contain significant financing component and accordingly the amount of consideration is not adjusted for the effects of the time value of money taking into consideration that the payment terms were not structured primarily for the provision of finance to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

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

Burial services were the largest component of our revenue, representing 89.2% of our revenue for the year ended 31 December 2022 (2021: 89.7%).

The burial services market in Langfang is concentrated. Demand for our burial services 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 RMB5.0 million for the year ended 31 December 2022 (2021: RMB4.5 million).

BUSINESS OUTLOOK AND RECENT DEVELOPMENT

The months around the Qing Ming Festival, a traditional festival for tomb sweeping, including February, March and April, have always been the peak seasons for the sales of the Group's burial services. In addition to the customers with normal demands of purchasing burial plots for interment after their relatives passed away and being cremated, we expect that there will be demands for burial plots and funeral rites for those deceased during the outbreak of the pandemic, to be materialised in 2023 and 2024. Also, there will be customers who need to relocate columbarium or graves in the process of urban demolition and renovation to purchase a burial plots or choose a columbarium storage service tailored to their needs. The Group will continue to uphold its belief, improve supporting environmental facilities, enrich product offerings and enhance quality, and persist in upgrading our "Cloud Tomb-sweeping" services. On top of ensuring stable and ordered operation, we will continue to innovate and enhance our cemetery operations 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.

Focus on developing the JV Cemetery Project

The joint venture cemetery project (the “JV Cemetery Project”) between the Group and Langfang Xinhangcheng Real Estate Development Co., Limited (廊坊市新航城房地產開發有限公司, “Xinhangcheng”) is one of the major development projects of the Group. The Group will continue its proactive development and keep communicating with related governmental departments regarding matters concerning land expropriation and land use planning, and make every effort to facilitate the approval procedures for the operating cemeteries. The Directors believe that the implementation and the continued development of and investment into the JV Cemetery Project will facilitate the Group in consolidating and expanding its market position in Langfang and the Jing-Jin-Ji megalopolis.

Looking forward, the Group will continue 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’s selection criteria are based 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 prioritise 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 explore potential 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.

Strengthen the market position in Langfang

Apart from the above JV Cemetery Project which facilitate the Group in further consolidating its market position and reputation 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 will launch various product types at different price point and optimize its funeral services. Meanwhile, the Group will continuously upgrade, optimise and further develop its cemetery, especially the environment in cemeteries, with a view to upgrading its facilities and diversifying its service offerings. In addition to the further development of its cemetery as mentioned above, in terms of our funeral services, the Group will add more professional and diverse services. The Group will also boost its effort in promotion and marketing, utilising online sales platforms to promote the services of the Group through multiple channels.

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 hand. The Group will continue to cooperate with and support the local government's city development plan, providing funeral services and columbarium storage services and undertaking tomb moving projects and adding columbarium storage services for multiple villages at Beijing New Airport Zone (Langfang Region).

The Directors believe that, with the brand power and the well-established reputation of the Group accumulated over a long time, as well as the continued development of the projects above, we will further consolidate and 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 relationships with a number of local funeral services providers which refer customers to the Group. The Group also successfully won the bid of the Langfang Funeral Parlour's outsourcing project for extended burial services during the previous year, offering one-stop-shop funeral services to the customers, including etiquettes, rules, wake and farewell ceremony, which will continue to provide a stable source of customers for the Group in the next two to three years. The Directors believe that one-stop-shop services integrating funeral and burial services are able to confer a significant competitive advantage, while also ensuring a seamless and smooth experience at each stage of the process. In addition, the Group's staffs providing extended burial services in Langfang Funeral Parlour (廊坊市殯儀館) can introduce cemetery-related services to customers and deal with pre-service business. The Group will continue to provide professional and general skill training for its employees and recruit funeral service specialists, in order to provide more professional and comprehensive services to our customers.

The Group will step up from providing only burial services to providing integrated funeral services and burial services, where we will launch different product types at different price points and add more professional and diverse extended services in aspects such as burial plot maintenance, burial and tomb-sweeping, so as to expand and enhance our service package. Meanwhile, the Group will proactively negotiate with the government and related departments of Langfang concerning the future cooperation plans, in order to provide more services for the locals and our customers, including the provision of burial services, funeral services and columbarium storage services, expanding our coverage through multiple channels.

The Group believes that the active progression and development of the JV Cemetery Project together with the bid of the Langfang extended funeral services can further strengthen the brand power and reputation of the Group and allow for further recognition from the local government, which will facilitate the Group in competing for cooperation and expansion opportunities, and generate significant revenue for the Group.

Tapping further into the burial market in the Jing-Jin-Ji megalopolis

Leveraging 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. 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.

Pursuing strategic alliance and acquisition opportunities

Since the GEM listing, the Group has performed preliminary site visits and researched for some potential acquisition opportunities for the purpose of pursuing strategic alliance and acquisition opportunities according to the future plans set out in the prospectus. Langfang Wantong Public Cemetery Co., Limited (廊坊市萬桐公墓有限公司, "Langfang Wantong"), an indirect wholly-owned subsidiary of the Company, successfully won the bid of the JV Cemetery Project in 2020 and entered into a formal joint venture agreement with Xinhangcheng to jointly establish Langfang Linkong Wantong Public Cemetery Co., Limited (廊坊臨空萬桐公墓有限公司), which is responsible for land resumption, construction and operations and management of the JV Cemetery Project. From 2021 to 2022, the Group tapped into the funeral market in the Jing-Jin-Ji megalopolis, continued the comprehensive development of the JV Cemetery Project in an active manner, and made periodic progress in planning and design, land acquisition and relocation. Meanwhile, the Group will continue to explore other suitable opportunities for strategic alliance and acquisition in the future.

Major and Connected Transaction

The Group entered into a loan agreement with China VAST Industrial Urban Development Company Limited (中國宏泰產業市鎮發展有限公司) ("China VAST") on 7 May 2021, pursuant to which the Group has provided the loan in the principal amount of RMB100,000,000 (or its equivalent in Hong Kong dollars) to China VAST for a term of one year at an interest rate of 12% per annum.

On 16 May 2022, the Company and China VAST entered into the deed of extension (the “Deed of Extension”), pursuant to which the parties have conditionally agreed that, among others, with effect from 2 July 2022, the original repayment date (i.e. 1 July 2022) shall be extended for a period of 24 months, and all the material terms and conditions of the Loan Agreement shall remain in full force and effect.

At the extraordinary general meeting held on 30 June 2022, the resolution in relation to the Deed of Extension was voted on by way of poll. As the resolution was not passed by a majority of more than 50% of the votes, the transaction under the Deed of Extension lapsed. The principal and interest on the loan was fully repaid by China VAST in July 2022.

Financial Review

Revenue

Our revenue for the year ended 31 December 2022 was substantially generated from: (i) sale of burial plots, which includes the control of the burial plots and headstones and other ancillary products to be used on the burial plots; (ii) sale of tomb relocation services and other ancillary products; (iii) other burial-related services such as the organisation 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			
	2022	Percentage of total revenue	2021	Percentage of total revenue
	Revenue (RMB'000)	%	Revenue (RMB'000)	%
Burial business				
Sales of burial plots	26,869	58.7%	30,356	69.1%
Sale of columbarium units	—	0.0%	4,874	11.1%
Provision of tomb relocation services	7,629	16.7%	—	—
Provision of other burial-related services	6,280	13.7%	4,188	9.5%
	<u>40,778</u>	<u>89.2%</u>	<u>39,418</u>	<u>89.7%</u>
Provision of cemetery maintenance services	4,960	10.8%	4,531	10.3%
	<u>45,738</u>	<u>100%</u>	<u>43,949</u>	<u>100%</u>

Cost of sales and services

Cost of sales and services consists primarily of the costs we incurred in relation to the sales and provision of our services. Our cost of sales and services was RMB11.6 million in 2022 (2021: RMB7.6 million), with an increase of 52.6%.

	Year ended 31 December			
	2022	Percentage of total cost of sales and services	2021	Percentage of total cost of sales and services
	Cost of sales and services (RMB'000)	%	Cost of sales and services (RMB'000)	%
Burial business	11,141	95.9%	7,004	92.7%
Cemetery maintenance	472	4.1%	550	7.3%
	<u>11,613</u>	<u>100%</u>	<u>7,554</u>	<u>100%</u>

The Group's cost of sales and services consists 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 services increased by 58.6% from RMB7.0 million in 2021 to RMB11.1 million in 2022, primarily due to the increase in revenue from the provision of tomb relocation services in 2022. The Group's cost of sales and services for cemetery maintenance decreased from RMB0.6 million in 2021 to RMB0.5 million in 2022.

Gross Profit and Gross Profit Margin

Gross profit represents revenue less cost of sales and services. Our gross profit for 2022 and 2021 was RMB34.1 million and RMB36.4 million, respectively.

	Year ended 31 December			
	2022		2021	
	Gross profit (RMB'000)	Gross profit margin %	Gross profit (RMB'000)	Gross profit margin %
Burial business	29,637	72.7%	32,414	82.2%
Cemetery maintenance	4,488	90.5%	3,981	87.9%
	<u>34,125</u>	<u>74.6%</u>	<u>36,395</u>	<u>82.8%</u>

Our overall gross profit margin for 2022 and 2021 was 74.6% and 82.8%, 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 in burial business for 2022 was mainly due to higher costs of tomb relocation business resulting in a lower gross profit margin for the sale of tomb relocation services in 2022. The gross profit margin percentage of the provision of cemetery maintenance services increased by approximately 2.6% year-on-year, mainly due to the lower cost of cemetery maintenance resulting from the decrease in staff turnover affected by the epidemic.

Other income

The Group's other income decreased slightly by 2.1% from RMB9.7 million in 2021 to RMB9.5 million in 2022.

Distribution and selling expenses

Our distribution and selling expenses increased by 2.6% from RMB7.6 million for 2021 to RMB7.8 million for 2022. This increase was primarily due to higher commission and disbursements for promoting the sales of burial plots during the year.

Administrative expenses

Our administrative expenses increased by 16.3% from RMB8.0 million for 2021 to RMB9.3 million for 2022.

Profit before tax

As a result of the above, our profit before tax increased by 14.5% from RMB24.9 million for 2021 to RMB28.5 million for 2022.

Income tax expense

Our income tax expense decreased by 4.4% from RMB6.8 million for 2021 to RMB6.5 million for 2022, generally consistent with the decrease of our gross profit.

Profit and total comprehensive income for the year

Our profit and total comprehensive income for the year increased by 21.5% from RMB18.1 million for 2021 to RMB22.0 million for 2022. Our net profit margin increased from 41.3% for 2021 to 48.2% for 2022.

Earnings per share

The basic earnings per share for the year ended 31 December 2022 calculated based on the number of 1,000,000,000 ordinary shares was RMB0.022 (basic earnings per share for the year ended 31 December 2021: RMB0.018).

Cash Flow

Our cash and cash equivalents increased by RMB108.1 million, which was increased to RMB181.3 million as at 31 December 2022 from RMB73.2 million as at 31 December 2021, principally attributable to the net cash inflow of RMB100 million withdrawal from investing activities.

Pledge of assets

There was no charge on the Group's assets as at 31 December 2022 and 2021.

Inventories

Our inventories primarily consist of burial plots, columbarium units, tombstones 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. Tombstones are recognised as inventory when they are set up in the cemetery and accepted by the Group. Inventories are transferred to cost when the customer obtains the control of the burial plot. Our inventories decreased from RMB23.8 million as at 31 December 2021 to RMB20.0 million as at 31 December 2022, mainly due to the sale of the burial plots.

Prepayments and other receivables

Our prepayments and other receivables increased from RMB36.0 million as at 31 December 2021 to RMB41.5 million as at 31 December 2022, mainly due to the advance payment to Langfang Funeral Parlour for the extended funeral services outsourcing project of RMB3 million.

Trade and other payables

Our trade and other payables decreased by 18.5% from RMB11.9 million as at 31 December 2021 to RMB9.7 million as at 31 December 2022, the decrease is mainly due to the payment of tombstones to suppliers.

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 2022, current contract liabilities amounted to RMB5.9 million (31 December 2021: RMB7.4 million). The decrease is mainly due to the columbarium storage service fees not received in advance.

As at 31 December 2022, non-current contract liabilities amounted to RMB70.7 million (31 December 2021: RMB67.3 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 2022, there was no change to the capital structure of the Company.

Liquidity and financial resources

As at 31 December 2022, we had bank balances and cash of approximately RMB211.3 million (2021: RMB84.4 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 review the capital structure on annual basis. As part of this review, the Directors consider the cost of capital and the risk associated with each class of capital. Based on the recommendations of the Directors, 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 2022, the gearing ratio of the Group, being total liabilities to total assets, was 30.5% (2021: 32.6%), which indicated the Group's healthy liquidity position.

Employee remuneration and relations

As at 31 December 2022, the Group had a total of 57 employees (2021: 57 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 2022, the Group had no operating lease (2021: RMB0.2 million).

Commitments

As at 31 December 2022, the Group had RMB0.5 million capital commitments in respect of expenditure in intangible assets (2021: nil).

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2022 (2021: nil).

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 2022.

EVENTS AFTER THE END OF THE REPORTING PERIOD

The Board is not aware of any significant events affecting the Group, which have occurred subsequent to 31 December 2022 and up to the date of this announcement.

DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 December 2022 (2021: Nil).

CORPORATE GOVERNANCE

The Company is committed to establishing and maintaining good corporate governance practices and procedures. For the year ended 31 December 2022, the Board has adopted its own code on corporate governance practices which incorporates 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 has complied with the code provisions of the Corporate Governance Code and the code on corporate governance practices of the Company during the year ended 31 December 2022.

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 2022, including the accounting principles and practices adopted by the Group with the opinion that such statements comply with the applicable accounting standards, the Listing Rules 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 and the related notes thereto for the year ended 31 December 2022 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 audited consolidated financial statements of the Group for the year as approved by the Board of Directors on 29 March 2023. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion 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 2022 is scheduled to be held on Friday, 23 June 2023 (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 Tuesday, 20 June 2023 to Friday, 23 June 2023 (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 Monday, 19 June 2023.

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

Hong Kong, 29 March 2023

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, three executive Directors of the Company, namely Ms. Li Xingying, Ms. Wang Wei and Mr. Huang Peikun, 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.