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Zhong Ao Home Group Limited

中奧到家集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1538)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

- For the year ended 31 December 2023, the revenue amounted to approximately RMB1,709.6 million, representing an increase of 0.4% as compared with 2022.
- For the year ended 31 December 2023, the gross profit amounted to approximately RMB350.6, representing a decrease of 1.9% as compared with 2022.
- For the year ended 31 December 2023, the profit for the year amounted to approximately RMB84.0 million, representing a decrease of 5.7% as compared with 2022.
- For the year ended 31 December 2023, the basic earnings per share amounted to RMB0.094 cents, representing an increase of 4.4% as compared with 2022.
- The Board of Directors has recommended a final dividend of HKD2.5 cents per share for the year ended 31 December 2023 (2022: HKD2.5 cents per share).

The board (the “**Board**”) of directors (the “**Directors**”) of Zhong Ao Home Group Limited (“the **Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2023, together with the comparative figures for the year ended 31 December 2022, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2023

	<i>Notes</i>	2023 <i>RMB’000</i>	2022 <i>RMB’000</i>
REVENUE	4	1,709,642	1,702,395
Cost of sales and services		<u>(1,359,084)</u>	<u>(1,345,040)</u>
Gross profit		350,558	357,355
Other income and gains	4	49,281	55,794
Selling and distribution expenses		(6,488)	(5,014)
Administrative expenses		(192,345)	(210,135)
Net impairment losses recognised on financial assets		(58,662)	(54,102)
Other expenses		(17,261)	(12,877)
Finance costs	6	(3,379)	(2,883)
Share of profits and losses of:			
Joint ventures		2,838	3,167
Associates		167	1,309
PROFIT BEFORE TAX	5	124,709	132,614
Income tax expenses	7	<u>(40,737)</u>	<u>(43,564)</u>
PROFIT FOR THE YEAR		<u>83,972</u>	<u>89,050</u>
Attributable to:			
Owners of the parent	9	80,054	76,907
Non-controlling interests		<u>3,918</u>	<u>12,143</u>
		<u>83,972</u>	<u>89,050</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
— For profit for the year (RMB)	9	<u>0.094</u>	<u>0.090</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2023

	2023	2022
	RMB'000	RMB'000
PROFIT FOR THE YEAR	<u>83,972</u>	<u>89,050</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>83,972</u>	<u>89,050</u>
Attributable to:		
Owners of the parent	80,054	76,907
Non-controlling interests	<u>3,918</u>	<u>12,143</u>
	<u>83,972</u>	<u>89,050</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	<i>Notes</i>	2023 RMB'000	2022 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property and equipment		112,825	118,001
Investment properties	<i>10</i>	161,005	180,713
Right-of-use assets		9,703	10,111
Goodwill		225,282	225,282
Prepayments for acquisition of properties	<i>11</i>	12,125	14,092
Investments in joint ventures		5,937	5,499
Investments in associates		8,099	7,592
Other intangible assets		41,632	50,919
Long-term deposits		17,623	14,746
Deferred tax assets		76,864	60,082
Total non-current assets		671,095	687,037
CURRENT ASSETS			
Inventories		6,253	5,588
Trade receivables	<i>12</i>	538,334	496,160
Prepayments and other receivables	<i>13</i>	317,026	314,607
Financial assets at fair value through profit or loss		2,961	7,676
Cash and cash equivalents		531,583	446,052
Total current assets		1,396,157	1,270,083
CURRENT LIABILITIES			
Trade payables	<i>14</i>	110,168	100,782
Other payables and accruals	<i>15</i>	702,730	671,489
Interest-bearing bank and other borrowings		48,990	48,990
Lease liabilities		8,082	10,528
Tax payables		127,478	108,051
Total current liabilities		997,448	939,840
NET CURRENT ASSETS		398,709	330,243
TOTAL ASSETS LESS CURRENT LIABILITIES		1,069,804	1,017,280

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)*31 December 2023*

	<i>Notes</i>	2023 RMB'000	2022 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		32,911	28,526
Lease liabilities		4,186	1,825
Total non-current liabilities		37,097	30,351
NET ASSETS		1,032,707	986,929
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital	<i>16</i>	7,082	7,082
Reserves		963,246	909,508
		970,328	916,590
Non-controlling interests		62,379	70,339
TOTAL EQUITY		1,032,707	986,929

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

Zhong Ao Home Group Limited (the “**Company**”) was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Islands Companies Law on 5 January 2015. The registered office address of the Company is P.O. Box 2681, Cricket Square, Hutchins Drive, Grand Cayman, KY1-1111, Cayman Islands.

The Company’s subsidiaries are principally engaged in the provision of property management services, provision of cleaning and greening services and other services in the People’s Republic of China (the “**PRC**”). The Company’s immediate and ultimate holding company is Qichang International Limited (“**Qichang**”), a limited liability company incorporated in the British Virgin Islands (the “**BVI**”).

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, financial assets at fair value through profit or loss (“**FVTPL**”) and other long-term payables which have been measured at fair value. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2023. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform — Pillar Two Model Rules</i>

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The nature and the impact of the new and revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.
- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.
- (c) Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets and lease liabilities separately, which have been reflected in the reconciliation disclosed in note 15 to the financial statements. However, they did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualified for offsetting under HKAS 12.

- (d) Amendments to HKAS 12 International Tax Reform — Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on different lines of services rendered in the PRC as follows:

- (a) The Group primarily provides property developers and property owners with a broad range of property management services for mainly residential properties, and commercial and government buildings. Services provided by the Group include standard property management services and ancillary services;
- (b) The Group provides property developers and property owners with a series of indoor and outdoor environmental cleaning, greening and maintenance services. This business division also provides services to the property developers and property owners of the property management business division. Accordingly, segment results of cleaning and greening division are evaluated by the Group's management on services as subcontracted from the property management business division; and
- (c) Other businesses comprise sales of elevators and installation services, provision of security services, real estate consulting and agency services, sales assistance services, engineering services, catering services and the sale of engineering spare parts.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment revenue and profit (which is a measure of adjusted profit before tax). The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, other interest income from financial assets at fair value through profit or loss, changes in fair value of investment properties, fair value adjustment of contingent consideration, net foreign exchange loss, share of profits of joint ventures, share of profits of associates, net foreign exchange gains, non-lease-related finance income/costs as well as head corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, cash and cash equivalents, financial assets at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings (other than lease liabilities), other long-term payables, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

3. OPERATING SEGMENT INFORMATION (Continued)

Operating segments

The following table provides an analysis of the Group's revenue and results based on the types of business:

	Property management business <i>RMB'000</i>	Cleaning and greening business <i>RMB'000</i>	Other businesses <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended 31 December 2023				
Segment revenue (note 4)				
Sales to external customers	1,285,503	263,440	160,699	1,709,642
Intersegment sales	8,251	146,083	66,778	221,112
	<u>1,293,754</u>	<u>409,523</u>	<u>227,477</u>	<u>1,930,754</u>
<i>Reconciliation:</i>				
Elimination of intersegment sales				<u>(221,112)</u>
Revenue				<u><u>1,709,642</u></u>
Segment results	95,976	49,665	22,329	167,970
<i>Reconciliation:</i>				
Bank interest income				8,504
Other interest income from financial assets at fair value through profit or loss				1,171
Changes in fair value of investment properties				(1,556)
Fair value adjustment of contingent consideration				(4,715)
Net foreign exchange gain				1,898
Corporate expenses				(48,874)
Share of profits of joint ventures				2,838
Share of profits of associates				167
Finance costs (other than interest on lease liabilities)				<u>(2,694)</u>
Profit before tax				<u><u>124,709</u></u>

3. OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

	Property management business RMB'000	Cleaning and greening business RMB'000	Other businesses RMB'000	Total RMB'000
31 December 2023				
Segment assets	2,050,979	247,971	172,208	2,471,158
<i>Reconciliation:</i>				
Elimination of intersegment receivables				(993,262)
Corporate and other unallocated assets				<u>589,356</u>
Total assets				<u><u>2,067,252</u></u>
Segment liabilities	1,193,385	160,209	117,368	1,470,962
<i>Reconciliation:</i>				
Elimination of intersegment payables				(993,262)
Corporate and other unallocated liabilities				<u>556,845</u>
Total liabilities				<u><u>1,034,545</u></u>
Other segment information				
Share of profits and losses of:				
Joint ventures	2,838	-	-	2,838
Associates	167	-	-	167
Net impairment losses recognised in profit or loss	53,768	6,515	4,525	64,808
Depreciation and amortisation				
Unallocated				1,405
Segment	33,780	3,960	2,750	40,490
Investments in associates	8,099	-	-	8,099
Investment in joint ventures	5,937	-	-	5,937
Capital expenditure*				
Unallocated				112
Segment	24,393	2,726	1,893	29,012

* Capital expenditure consists of additions to property and equipment, investment properties, intangible assets and prepayments for acquisition of properties.

3. OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

The following table provides an analysis of the Group's revenue and results based on the types of business:

	Property management business <i>RMB'000</i>	Cleaning and greening business <i>RMB'000</i>	Other businesses <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended 31 December 2022				
Segment revenue (note 4)				
Sales to external customers	1,322,093	216,691	163,611	1,702,395
Intersegment sales	<u>10,038</u>	<u>96,084</u>	<u>84,325</u>	<u>190,447</u>
	1,332,131	312,775	247,936	1,892,842
<i>Reconciliation:</i>				
Elimination of intersegment sales				<u>(190,447)</u>
Revenue				<u><u>1,702,395</u></u>
Segment results	112,951	40,623	20,082	173,656
<i>Reconciliation:</i>				
Bank interest income				6,510
Other interest income from financial assets at fair value through profit or loss				931
Changes in fair value of investment properties				(49)
Fair value adjustment of contingent consideration				(4,452)
Net foreign exchange loss				(727)
Corporate expenses				(45,278)
Share of profits of joint ventures				3,167
Share of profits of associates				1,309
Finance costs (other than interest on lease liabilities)				<u>(2,453)</u>
Profit before tax				<u><u>132,614</u></u>

3. OPERATING SEGMENT INFORMATION (Continued)

Operating segments (Continued)

	Property management business RMB'000	Cleaning and greening business RMB'000	Other businesses RMB'000	Total RMB'000
31 December 2022				
Segment assets	1,991,702	218,300	193,083	2,403,085
<i>Reconciliation:</i>				
Elimination of intersegment receivables				(978,833)
Corporate and other unallocated assets				532,868
Total assets				<u>1,957,120</u>
Segment liabilities	1,160,891	146,558	126,334	1,433,783
<i>Reconciliation:</i>				
Elimination of intersegment payables				(978,833)
Corporate and other unallocated liabilities				515,241
Total liabilities				<u>970,191</u>
Other segment information				
Share of profits and losses of:				
Joint ventures	3,167	–	–	3,167
Associates	1,309	–	–	1,309
Net impairment losses recognised in profit or loss	46,278	1,151	6,673	54,102
Depreciation and amortisation				
Unallocated				1,413
Segment	33,732	3,693	3,268	40,693
Investments in associates	7,592	–	–	7,592
Investment in joint ventures	5,499	–	–	5,499
Capital expenditure*				
Unallocated				96
Segment	19,004	2,080	3,004	24,088

* Capital expenditure consists of additions to property and equipment, investment properties, intangible assets and prepayments for acquisition of properties.

Geographical information

Since 100% of the Group's revenue and operating profit were generated in Mainland China and over 90% of the Group's non-current assets were located in Mainland China, no geographical information is presented in accordance with HKFRS 8 *Operating Segments*.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Revenue from contracts with customers		
Rendering of services	1,700,505	1,692,927
Sales of goods	<u>9,137</u>	<u>9,468</u>
	<u><u>1,709,642</u></u>	<u><u>1,702,395</u></u>

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2023

<u>Segments</u>	Property management business <i>RMB'000</i>	Cleaning and greening business <i>RMB'000</i>	Other businesses <i>RMB'000</i>	Total <i>RMB'000</i>
Types of goods or services				
Rendering of services	1,285,503	263,440	151,562	1,700,505
Sale of goods	<u>–</u>	<u>–</u>	<u>9,137</u>	<u>9,137</u>
Total revenue from contracts with customers	<u><u>1,285,503</u></u>	<u><u>263,440</u></u>	<u><u>160,699</u></u>	<u><u>1,709,642</u></u>
Geographical markets				
Mainland China	<u><u>1,285,503</u></u>	<u><u>263,440</u></u>	<u><u>160,699</u></u>	<u><u>1,709,642</u></u>
Timing of revenue recognition				
Revenue recognised over time	1,285,503	263,440	140,108	1,689,051
Revenue recognised at a point of time	<u>–</u>	<u>–</u>	<u>20,591</u>	<u>20,591</u>
Total revenue from contracts with customers	<u><u>1,285,503</u></u>	<u><u>263,440</u></u>	<u><u>160,699</u></u>	<u><u>1,709,642</u></u>

4. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the year ended 31 December 2022

<u>Segments</u>	Property management business <i>RMB'000</i>	Cleaning and greening business <i>RMB'000</i>	Other businesses <i>RMB'000</i>	Total <i>RMB'000</i>
Types of goods or services				
Rendering of services	1,322,093	216,691	154,143	1,692,927
Sale of goods	–	–	9,468	9,468
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenue from contracts with customers	<u>1,322,093</u>	<u>216,691</u>	<u>163,611</u>	<u>1,702,395</u>
Geographical markets				
Mainland China	<u>1,322,093</u>	<u>216,691</u>	<u>163,611</u>	<u>1,702,395</u>
Timing of revenue recognition				
Revenue recognised over time	1,322,093	216,691	143,887	1,682,671
Revenue recognised at a point of time	–	–	19,724	19,724
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenue from contracts with customers	<u>1,322,093</u>	<u>216,691</u>	<u>163,611</u>	<u>1,702,395</u>

For the year ended 31 December 2023

<u>Segments</u>	Property management business <i>RMB'000</i>	Cleaning and greening business <i>RMB'000</i>	Other businesses <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from contracts with customers				
External customers	1,285,503	263,440	160,699	1,709,642
Intersegment sales	8,251	146,083	66,778	221,112
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Intersegment adjustments and eliminations	(8,251)	(146,083)	(66,778)	(221,112)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenue from contracts with customers	<u>1,285,503</u>	<u>263,440</u>	<u>160,699</u>	<u>1,709,642</u>

4. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the year ended 31 December 2022

<u>Segments</u>	Property management business <i>RMB'000</i>	Cleaning and greening business <i>RMB'000</i>	Other businesses <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from contracts with customers				
External customers	1,322,093	216,691	163,611	1,702,395
Intersegment sales	<u>10,038</u>	<u>96,084</u>	<u>84,325</u>	<u>190,447</u>
Intersegment adjustments and eliminations	<u>(10,038)</u>	<u>(96,084)</u>	<u>(84,325)</u>	<u>(190,447)</u>
Total revenue from contracts with customers	<u><u>1,322,093</u></u>	<u><u>216,691</u></u>	<u><u>163,611</u></u>	<u><u>1,702,395</u></u>

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2023
	<i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Property management services (<i>note 15</i>)	<u><u>135,689</u></u>
	2022
	<i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Property management services (<i>note 15</i>)	<u><u>261,505</u></u>

4. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Provision of property management services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 90 days from the date of billing.

Provision of cleaning and greening services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 90 days from the date of billing.

Sales of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from customer acceptance of delivered goods.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2023 and 31 December 2022 are as follows:

	2023	2022
	RMB'000	RMB'000
Within one year	167,867	128,284
Over one year	—	7,405
	167,867	135,689

4. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(ii) Performance obligations (Continued)

Sales of goods (Continued)

All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Other income		
Bank interest income	8,504	6,510
Other interest income from financial assets at fair value through profit or loss	1,171	931
Rental income	10,626	9,942
Government grants	13,830	17,903
Others	13,252	12,139
	<u>47,383</u>	<u>47,425</u>
Gains		
Gain on disposal of subsidiaries	–	8,369
Net foreign exchange gain	1,898	–
	<u>1,898</u>	<u>8,369</u>
	<u>49,281</u>	<u>55,794</u>

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	<i>Notes</i>	2023 RMB'000	2022 <i>RMB'000</i>
Cost of services provided		1,351,086	1,337,145
Cost of goods sold		7,998	7,895
Employee benefit expense (excluding directors' and chief executive's remuneration)			
Salaries and other benefits		724,902	682,627
Retirement benefit scheme contributions		43,391	37,502
		768,293	720,129
Depreciation of items of property and equipment		27,746	27,507
Depreciation of right-of-use assets		3,909	2,682
Amortisation of other intangible assets		10,240	11,917
Impairment of financial assets, net			
Net impairment losses recognised on trade receivables		26,196	19,320
Net impairment losses recognised on other receivables	<i>13</i>	32,466	20,670
Impairment of goodwill		–	14,987
Fair value loss on investment properties	<i>10</i>	1,556	49
Gross rental income		(10,626)	(9,942)
Foreign exchange (gains)/loss		(1,898)	727
Lease payments not included in the measurement of lease liabilities		6,359	6,267
Fair value adjustment of contingent consideration		4,715	4,452
Bank interest income		(8,504)	(6,510)
(Gains)/loss on disposal of items of property and equipment		(327)	164
Auditor's remuneration		2,500	4,162
Other interest income from financial assets at fair value through profit or loss		(1,171)	(931)
Gain on disposal of subsidiaries		–	(8,369)
Reversal of inventories to net realisable value		–	(875)
Government grants*		(13,830)	(17,903)

* Government grants include various subsidies received by the Company's subsidiaries from relevant government bodies. There are no unfulfilled conditions or contingencies related to these grants.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Interest on bank borrowings	2,694	2,453
Interest on lease liabilities	<u>685</u>	<u>430</u>
	<u><u>3,379</u></u>	<u><u>2,883</u></u>

7. INCOME TAX

A provision for PRC corporate income tax (the “CIT”) has been provided at the applicable income tax rate of 25% for the year ended 31 December 2023 (2022: 25%) on the assessable profits of the Group’s subsidiaries in Mainland China, except for those subsidiaries which enjoyed a lower tax rate as a benefit.

No provision for Hong Kong profits tax has been made in the financial statements as no assessable profit was derived from Hong Kong during both years.

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Current — Mainland China:		
Charge for the year	53,134	46,500
Deferred tax	<u>(12,397)</u>	<u>(2,936)</u>
Total tax charge for the year	<u><u>40,737</u></u>	<u><u>43,564</u></u>

8. DIVIDENDS

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Proposed final dividend — HKD2.5 cents (2022: HKD2.5 cents) per ordinary share	<u><u>19,307</u></u>	<u><u>17,869</u></u>

During 2023, a dividend of HKD2.5 cents per share in respect of the year ended 31 December 2022 was declared by the directors of the Company and approved in the Company’s annual general meeting on 31 May 2023. Dividends amounting to approximately RMB19,307,000 were paid on 7 July 2023 (2022: RMB17,869,000).

The directors of the Company has resolved to recommend the payment of a final dividend of HKD2.5 cents per share for the year ended 31 December 2023 (2022: HKD2.5 cents) to the shareholders whose names appear on the register of members of the Company on 11 June 2024. The proposed final dividend for the year is subject to the approval of the Company’s shareholders at the forthcoming annual general meeting.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the parent for the year, and the weighted average number of ordinary shares of 854,550,000 shares (2022: 854,550,000 shares) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculation of the basic earnings per share amount is based on:

	2023	2022
	RMB'000	RMB'000
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent	80,054	76,907
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year	854,550,000	854,550,000

For the years ended 31 December 2023 and 2022, the computation of diluted earnings per share did not include the exercise of the share options of the Company since the exercise price of the share options was higher than the average market price of the Company's shares during the years ended 31 December 2023 and 2022.

10. INVESTMENT PROPERTIES

	2023	2022
	RMB'000	RMB'000
Carrying amount at 1 January	180,713	178,012
Additions	1,900	1,227
Transfer from owner-occupied property	–	1,523
Disposal	(20,052)	–
Net loss from fair value adjustments	(1,556)	(49)
Carrying amount at 31 December	161,005	180,713

Certain investment properties are leased to third parties under operating leases.

10. INVESTMENT PROPERTIES (Continued)

The Group's investment properties are all situated in Mainland China. The directors of the Company have determined that all the investment properties are commercial properties, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2023 based on valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of professionally qualified valuers, using the market approach, as at 31 December 2023. Each year, the Group's property manager and the directors decide, after approval from the audit committee, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the directors have discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The Group's investment properties with a carrying value of RMB98,981,000 (2022: RMB99,567,000) were pledged to secure general banking facilities granted to the Group as at 31 December 2023.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

Fair value measurement as at 31 December 2023 using				
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Recurring fair value measurement for:	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Commercial properties	–	–	161,005	161,005
Fair value measurement as at 31 December 2022 using				
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Recurring fair value measurement for:	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Commercial properties	–	–	180,713	180,713

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2022: Nil).

10. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	2023	2022
	RMB'000	RMB'000
Carrying amount at 1 January	180,713	178,012
Additions	1,900	1,227
Transfer from owner-occupied property	–	1,523
Disposal	(20,052)	–
Net loss from fair value adjustments	(1,556)	(49)
	<hr/>	<hr/>
Carrying amount at 31 December	161,005	180,713
	<hr/> <hr/>	<hr/> <hr/>

Below is a summary of the valuation technique used and the key input to the valuation of investment properties:

	Valuation technique	Significant unobservable input	Range	
			2023	2022
Commercial properties	Direct comparison method	Market unit price (RMB/sq.m.)	7–24	7–27

A significant increase/decrease in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase/decrease in the fair value of the investment properties. A significant increase/decrease in the long term vacancy rate and the discount rate in isolation would result in a significant decrease/increase in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long term vacancy rate.

11. PREPAYMENTS FOR ACQUISITION OF PROPERTIES

As at 31 December 2023, the Group had deposits of RMB12,125,000 (2022: RMB14,092,000) in relation to the acquisition of properties situated in Mainland China paid to property developers.

12. TRADE RECEIVABLES

	31 December 2023 RMB'000	31 December 2022 RMB'000
Trade receivables	671,760	603,590
Impairment	(133,426)	(107,430)
	<u>538,334</u>	<u>496,160</u>

Trade receivables mainly arise from property management service and other businesses income. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management and credit limits attributed to customers are reviewed once a year. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the date of demand note, net of loss allowance, is as follows:

	31 December 2023 RMB'000	31 December 2022 RMB'000
Within 1 year	405,796	399,039
1 to 2 years	69,879	52,712
Over 2 years	62,659	44,409
	<u>538,334</u>	<u>496,160</u>

13. PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2023 RMB'000	31 December 2022 RMB'000
Payment on behalf of customers to utility suppliers	97,024	78,045
Deposits paid to utility suppliers	41,391	38,942
Other receivables	217,564	202,603
Prepayments	72,270	70,897
Other tax recoverable	340	340
	<u>428,589</u>	<u>390,827</u>
Less: Impairment allowance	(93,940)	(61,474)
Total	334,649	329,353
Less: non-current portion	(17,623)	(14,746)
Current portion	<u>317,026</u>	<u>314,607</u>

13. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

The movements in the loss allowance for impairment of other receivables are as follows:

	2023	2022
	RMB'000	RMB'000
At beginning of year	(61,474)	(40,804)
Impairment loss, net (<i>note 5</i>)	(32,466)	(20,670)
	(93,940)	(61,474)

Prepayments and other receivables mainly represents payment on behalf of customers for expenditure on communities' facilities, performance bonds, bidding deposit for contracts, business-related prepayments and balances with other independent third parties. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2023 ranged from 3% to 30%. (2022: 3% to 30%).

14. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	31 December	31 December
	2023	2022
	RMB'000	RMB'000
Within 60 days	92,672	80,712
Over 60 days and within 180 days	3,517	7,738
Over 180 days and within 365 days	6,022	2,899
Over one year	7,957	9,433
	110,168	100,782

The trade payables are non-interest-bearing and normally settled on terms of 30 to 90 days.

The fair values of trade payables approximate to their carrying amounts due to their relatively short term maturity.

15. OTHER PAYABLES AND ACCRUALS

		31 December 2023	31 December 2022
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contract liabilities	(a)	167,867	135,689
Receipts on behalf of community residents for utilities		246,474	245,133
Received in advance		14,533	17,218
Accruals		155,949	151,506
Other payables		15,003	10,443
Deposits received		57,523	63,059
Dividends payable to non-controlling shareholders of subsidiaries		1,046	–
Amounts due to non-controlling equity holders of subsidiaries		3,385	7,576
Due to the ultimate holding company		14,046	6,000
Other tax payables		26,904	34,865
		<u>702,730</u>	<u>671,489</u>

As at 31 December 2023 and 2022, the Group's amounts due to non-controlling equity holders of subsidiaries included outstanding consideration payables in respect of the Group's acquisition of the equity interests in the subsidiaries from those non-controlling equity holders which are unsecured, interest-free and have no fixed term of repayment.

Other payables are unsecured, non-interest-bearing and repayable on demand.

Details of contract liabilities as at 31 December 2023 and 2022 are as follows:

		31 December 2023	31 December 2022
		<i>RMB'000</i>	<i>RMB'000</i>
Advances received from customers			
Sale of goods and installation services		9,137	9,468
Property management services (<i>note 4</i>)		158,730	126,221
		<u>167,867</u>	<u>135,689</u>

Contract liabilities include advances received to deliver property management services and sales of goods.

16. SHARE CAPITAL

Shares

	Number of ordinary shares	Nominal value of HKD0.01 each <i>HKD'000</i>
Authorised:		
At 1 January 2023 and 31 December 2023	8,000,000,000	80,000
Issued and fully paid:		
At 1 January 2023 and 31 December 2023	<u>854,550,000</u>	<u>8,545</u>
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Issued and fully paid:		
Ordinary shares		
At 1 January and 31 December	<u>7,082</u>	<u>7,082</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is a leading independent property management company in China. In 2023, the Group received the following recognitions and awards.

In July 2023, the Group received the award, Excellence Award from the United Nations Development Programme (UNDP) 聯合國開發計劃署. The award was set up to identify, recognize and motivate corporates to drive the highest sustainability standards in implementing the United Nations Sustainable Development Goals (UN-SDGs) for the global environment, societies and corporate governance (ESG) for our upcoming generations.

In December 2023, the Group received the following recognitions, namely, 2023大灣區物業服務品牌企業 (2023 Property Service Brand Enterprise in Guangdong-Hong Kong-Macao Greater Bay Area*)、2023廣東省物業服務綜合發展實力企業 (2023 Development Strength Enterprise in Guangdong Province*)、2023年度廣東省物業管理行業協會最佳會員 (2023 Annual Best Member of Guangdong Property Management Industry Institute*) from 廣東省物業管理行業協會 (Guangdong Property Management Industry Institute*).

In January 2024, the Group received 2023年廣東省住宅小區物業服務優秀示範項目 (2023 Excellent Project of Residential Property Service in Guangdong Province*) from 廣東省物業管理行業協會 (Guangdong Property Management Industry Institute*).

In February 2024, a subsidiary of the Group — 廣東華瑞環境工程有限公司 (Guangdong Huarui Environmental Engineering Company Limited*) (“**Guangdong Huarui**”) received the following recognitions, namely, 2023年優秀服務項目 (2023 Excellent Service Project*) and 2023年優秀新進會員單位 (2023 Excellent New Member*) from 佛山市環衛清潔產業協會 (Foshan Sanitary Cleaning Industry Association*).

As at 31 December 2023, the Group had a total contracted gross floor area (“**GFA**”) of approximately 67 million square meters (“**sq.m.**”) where it was contracted to manage 604 properties across 41 cities in China.

* For identification purpose only

The Group's main business line is property management business. Under the property management business line, the Group is engaged in the provision of property management services, provision of cleaning and greening services, and other services.

Property management services

The Group primarily provides property developers and property owners with a broad range of property management services to mainly residential properties, commercial and government buildings. Services provided by the Group include standard property management services and also ancillary services such as cleaning, gardening, property facilities repair and maintenance and butler services. Through its butler services, the Group provides personalised and premium property management services to residents with its trained butlers onsite. While its primary and long-term business focus is on the residential property market, the Group also provides services to non-residential properties, including both stand-alone non-residential properties and properties associated with residential properties, such as schools and commercial buildings.

The Group believes that service quality is fundamental to establish a solid foundation to support the growth of the Group's business. The Group holds various qualifications and licenses in respect of property management services, namely CMS31950, IEC27001, ISO50001, ISO 9001, ISO 14001, OHSAS 18001.

As of 31 December 2023, the Group had maintained its presence in 41 cities in China where it was contracted to manage a total of 604 residential properties and non-residential premises such as commercial or government buildings with an aggregate contracted GFA of approximately 67 million sq.m. This represents a decrease of approximately 4.3% compared to the aggregate contracted GFA of approximately 70 million sq.m. as at 31 December 2022. In relation to the delivered contracted GFA of approximately 62 million sq.m. as at 31 December 2023, it represents a decrease of approximately 3.1% compared to the delivered contracted GFA of approximately 64 million sq.m. as at 31 December 2022.

The Group strives to develop new business relationships from its existing customer base and network in order to provide strong organic growth to the Group. In addition to organic growth, the Group continues to identify appropriate acquisition targets to strengthen its portfolio and increase geographic presence across China.

Geographic Presence

The Group will continue to strategically select markets to enter into, focus on those with more developed economies and comparatively high per capita GDP. Once the Group has established presence in a new city, it will seek to expand its business within the same city or neighboring cities with a view to maximising its economies of scale.

The map below illustrates the cities in which properties the Group was contracted to manage were located and the number of projects in each city as of 31 December 2023.



- | | | | |
|-----------------------------|------------------|------------------|-----------------|
| ■ Eastern and Central China | ■ Southern China | ■ Northern China | ■ Western China |
|-----------------------------|------------------|------------------|-----------------|
-
- | | | | |
|-------------------|--------------------|---------------------|----------------|
| 1. Changde (1) | 27. Cenxi (9) | 38. Baotou (7) | 40. Lhasa (1) |
| 2. Chengzhou (1) | 28. Foshan (19) | 39. Zhangjiakou (2) | 41. Urumqi (3) |
| 3. Chongqing (1) | 29. Guangzhou (10) | | |
| 4. Chuzhou (3) | 30. Guilin (2) | | |
| 5. Fuyang (1) | 31. Jiangmen (2) | | |
| 6. Hangzhou (50) | 32. Laibin (3) | | |
| 7. Heze (4) | 33. Nanning (19) | | |
| 8. Huai'an (1) | 34. Qingyuan (4) | | |
| 9. Huanggang (1) | 35. Sanya (7) | | |
| 10. Huzhou (19) | 36. Wuzhou (7) | | |
| 11. Kaifeng (2) | 37. Zhaoqing (2) | | |
| 12. Nantong (13) | | | |
| 13. Nanyang (1) | | | |
| 14. Ningbo (317) | | | |
| 15. Quzhou (7) | | | |
| 16. Shanghai (18) | | | |
| 17. Shaoxing (7) | | | |
| 18. Suzhou (38) | | | |
| 19. Taizhou (2) | | | |
| 20. Wenzhou (3) | | | |
| 21. Wuxi (8) | | | |
| 22. Xuancheng (2) | | | |
| 23. Yueyang (1) | | | |
| 24. Zhengzhou (2) | | | |
| 25. Zhenjiang (3) | | | |
| 26. Zhoukou (1) | | | |

Note: Numbers in parentheses represent the number of contracted projects.

The table below sets forth the delivered contracted GFA and the number of properties under management as of the dates indicated.

	As of 31 December 2023		As of 31 December 2022	
	<i>Sq.m. in thousands</i>	<i>No.</i>	<i>Sq.m. in thousands</i>	<i>No.</i>
<i>Residential properties</i>				
Eastern and Central China ⁽¹⁾	39,409	337	42,198	333
Southern China ⁽²⁾	14,288	80	13,967	72
Northern China ⁽³⁾	1,371	9	2,168	9
Western China ⁽⁴⁾	542	4	108	1
Subtotal	55,610	430	58,441	415
<i>Non-residential properties</i>	6,423	155	5,967	150
Total	62,033	585	64,408	565

As of 31 December 2023, the Group's contracted GFA of undelivered properties amounted to approximately 5 million sq.m. (2022: 6 million sq.m.)

Notes:

- (1) Including Changde , Chengzhou , Chongqing, Chuzhou, Fuyang, Hangzhou, Heze, Huai'an, Huanggang, Huzhou, Kaifeng, Nantong, Ningbo, Quzhou, Shanghai, Shaoxing, Suzhou, Taizhou, Wenzhou, Wuxi, Xuancheng, Yueyang, Zhengzhou, Zhenjiang and Zhoukou.
- (2) Including Cenxi, Foshan, Guangzhou, Guilin, Jiangmen, Laibin, Nanning, Qingyuan, Sanya, Wuzhou and Zhaoqing.
- (3) Including Baotou and Zhangjiakou.
- (4) Including Lhasa and Urumqi.

The Group will continue to expand its business through obtaining new service engagements and acquisition of other property management companies. The table below indicates the movement of the total contracted GFA and the number of properties the Group was contracted to manage during the year.

	As of 31 December 2023		As of 31 December 2022	
	<i>Sq.m. in thousands</i>	<i>No.</i>	<i>Sq.m. in thousands</i>	<i>No.</i>
As at beginning of year	70,000	631	72,283	637
New engagements ⁽¹⁾	2,024	23	1,924	38
Terminations ⁽²⁾	(5,271)	(50)	(4,207)	(44)
As at end of year	<u>66,753</u>	<u>604</u>	<u>70,000</u>	<u>631</u>

Notes:

- (1) In relation to properties the Group manages, new engagements primarily include service engagements for new constructions developed by property developers and service engagements for residential properties replacing their existing property management companies.
- (2) Including the contracted GFA and the number of properties the Group ceased to manage, which were primarily due to non-renewal of certain property management contracts and mutual termination prior to expiration for commercial reasons.

Cleaning and greening business

The Group provides property developers and property owners with a series of indoor and outdoor environmental cleaning, greening and maintenance services. This business division also provides services to the property developers and property owners of the property management business division. Accordingly, segment results of the cleaning and greening division is evaluated by the Group's management on services as subcontracted from the property management business division. The Group holds various qualifications and licenses in respect of cleaning services, namely 國家一級環衛清潔服務企業資質 (National Level One Environmental Hygiene Cleaning Service Qualification*), E315甲級高空外牆清洗服務企業 (E315 A Grade High-altitude Exterior Wall Cleaning Services Enterprise*), ISO 14001, ISO 9001 and ISO 45001.

Other businesses

Other businesses comprise shuttle bus and maintenance services in the PRC, engineering services related to elevators, engineering services, the sale of engineering spare parts, canteen operations as well as catering services, providing sales assistance services and consulting and agency services to property developers and property owners.

Prospects and Future Plans

The Group will continue to maintain its own advantage as an independent property management company and compete with counterparts in the market by its high quality service and operational efficiency. The Group will actively establish stable partnerships with leading property developers and/or property management service providers in all regions and explore potential projects under development. The Group will strive to develop new business relationships from its existing customers base and own network in order to provide strong organic growth to the Group. The Group also targets to expand its portfolio of customers by pursuing properties with established owners' association. Furthermore, when right opportunities arise, the Group will accelerate its expansion by expanding its business scope and coverage in China by means of acquisitions and cooperation.

Reference is made to the announcements of the Company dated 1 August 2022 and 17 April 2023. 廣東中奧物業管理有限公司 (Guangdong Zhong Ao Property Management Company Limited*) (“**Guangdong Zhong Ao**”), a wholly-owned subsidiary of the Group, had demanded 梁錫偉 (Liang Xiwei*) (“**Mr. Liang**”) from time to time to (i) pay the remaining balance of the Option Price; and (ii) complete the registration procedures for mortgaging the remaining 183 Tianyu Garden Car Parking Spaces. Mr. Liang has still not settled and completed the registration procedures for mortgaging, which constitutes a breach of the Second Supplemental Agreement.

Guangdong Zhong Ao has commenced civil lawsuit and submitted a claim (the “**Claim**”) against Mr. Liang to the People’s Court of Qingxiu District, Nanning City, the PRC for, among others, (i) the remaining balance of the Option Price of RMB20 million and all accrued interest; (ii) penalties for breach of contract; and (iii) an order that Guangdong Zhong Ao shall have the right to be compensated in priority by the proceeds from the auction or sale of the mortgaged properties (including a house and 227 Tianyu Garden Car Parking Spaces). On 14 April 2023, Guangdong Zhong Ao has received from the Court an acceptance notice in relation to the Claim. For further details, please refer to the announcements of the Company dated 18 August 2021, 22 October 2021, 31 January 2022, 1 August 2022 and 17 April 2023. The Company will keep the Shareholders and potential investors of the Company informed of any further material developments in connection with the Claim by way of further announcement(s) as and when appropriate.

FINANCIAL PERFORMANCE REVIEW

Revenue

During the year ended 31 December 2023, the Group recorded revenue of approximately RMB1,709.6 million, representing an increase of 0.4% over the year 2022.

Decrease in the Group's revenue was primarily attributable to the decrement in property management business revenue from approximately RMB1,322.1 million for the year ended 31 December 2022 to approximately RMB1,285.5 million for the year ended 31 December 2023 and represented approximately 2.8% decrease over the corresponding year. In addition, the Group's revenue generated from cleaning and greening business has increased by approximately RMB46.7 million or 21.6% and from other businesses has decreased by approximately RMB2.9 million or 1.8%.

Breakdown of Revenue by business line and services

	For the year ended		Change	
	2023	2022		
	RMB'000	RMB'000	RMB'000	%
Property management business	1,285,503	1,322,093	(36,590)	-2.8
Cleaning and greening business	263,440	216,691	46,749	21.6
Other businesses	160,699	163,611	(2,912)	-1.8
	<u>1,709,642</u>	<u>1,702,395</u>	<u>7,247</u>	<u>0.4</u>

Property Management Business

The Group's property management business includes the provision of property management services, cleaning and greening services and other services. Details of analysis of each service are as follows:

Property management services

Revenue from property management services decreased by approximately RMB36.6 million or 2.8% over 2022 primarily due to slowdown in overall economy of the property management industry in the PRC and decrease in the contracted GFA during 2023.

Cleaning and greening business

Revenue from cleaning and greening business for the year ended 31 December 2023 was approximately RMB263.4 million, comparing to RMB216.7 million for the year ended 31 December 2022, representing an increase of approximately RMB46.7 million or 21.6%. The increase was primarily due to development in new projects.

Other businesses

Revenue from other businesses decreased from approximately RMB163.6 million for the year ended 31 December 2022 to approximately RMB160.7 million for the year ended 31 December 2023. The decrease of approximately RMB2.9 million or 1.8% over the year was mainly due to non-recurrence of revenue generated by 廣州諾登電梯服務有限公司 (Guangzhou Nuodeng Elevator Services Company Limited*) (“**Guangzhou Nuodeng Elevator**”) and 廣東金盾正安保安服務有限公司 Guangdong Jindun Zheng'an Security Services Company Limited (“**Guangdong Jindun**”) during 2023. Guangzhou Nuodeng Elevator and Guangdong Jindun were disposed in March 2022 and May 2022 respectively.

Cost of Sales and Services

The Group’s cost of sales and services primarily comprises (i) sub-contracting costs, representing the expenses paid to sub-contractors for various services under the property management services and sales assistance services; (ii) staff costs; (iii) depreciation expenses associated with equipment and property used in providing services; (iv) costs of other services and sale of goods such as salaries cost of the technicians in the provision of elevator engineering services and weak-current engineering services; costs of the spare parts sold and operating costs in running the catering services and (v) costs of cleaning and greening products and utensils as well as commission paid for the real estate and property agency services.

Cost of sales and services increased by 1.0% from approximately RMB1,345.0 million for the year ended 31 December 2022 to approximately RMB1,359.1 million for the year ended 31 December 2023. The increase was due primarily to the growth of the cleaning and greening business and the corresponding increase in the labour costs.

Gross Profit and Gross Profit Margin

The tables below sets forth the Group's gross profit and gross profit margins by services for the years indicated:

	For the year ended 31 December			
	2023		2022	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
Property management business	308,540	24.0	301,650	22.8
Cleaning and greening business	26,346	10.0	22,623	10.4
Other businesses	15,672	9.8	33,082	20.2
Overall	350,558	20.5	357,355	21.0

The Group's gross profit for the year ended 31 December 2023 was approximately RMB350.6 million, comparing to approximately RMB357.4 million in 2022, representing a decrease of approximately RMB6.8 million, or 1.9%. The Group's gross profit margin decreased from 21.0% for the year ended 31 December 2022 to 20.5% in 2023.

Other Income and Gains

The Group's other income and gains for the year ended 31 December 2023 was approximately RMB49.3 million, comparing to approximately RMB55.8 million for the year ended 31 December 2022, representing a decrease of approximately RMB6.5 million or 11.7%. The decrease was primarily due to the non-recurrence of gain on disposal of subsidiaries in 2022.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the year ended 31 December 2023 were approximately RMB6.5 million, comparing to approximately RMB5 million for the year ended 31 December 2022, which represented an increase of approximately RMB1.5 million. The increase was primarily due to the corresponding selling expenses for development in new projects in cleaning and greening business.

Administration Expenses

The Group's administrative expenses for the year ended 31 December 2023 was approximately RMB192.3 million, comparing to approximately RMB210.1 million for the year ended 31 December 2022, represented a decrease of approximately RMB17.8 million or 8.5%. The decrease was primarily due to the net effect of (i) headcount control in property management business of approximately RMB9.0 million; (ii) the non-recurrence of depreciation of approximately RMB3.0 million was fully depreciated in 2022; and (iii) the non-recurrence of administrative expenses generated from Guangzhou Nuodeng Elevator and Guangdong Jindun during 2022 of approximately RMB3.0 million. The disposal of them was completed in March 2022 and May 2022 respectively.

Net Impairment Losses Recognised on Financial Assets

The Group's net impairment losses on financial assets were approximately RMB58.7 million for the year ended 31 December 2023, comparing to net impairment losses on financial assets of approximately RMB54.1 million for the year ended 31 December 2022, representing an increase of approximately RMB4.6 million in the provision for impairment losses on financial assets which was primarily due to the deteriorated liquidity crisis of the real estate sector in the PRC, accompanied by slowdown in overall economy of the property management industry in the PRC. As a result, the increase in impairment loss on account receivables and other receivables were made.

Other Expenses

The Group's other expenses for the year ended 31 December 2023 were approximately RMB17.3 million, comparing to approximately RMB12.9 million in 2022, representing an increase of approximately RMB4.4 million or 34.0%. The increase was primarily due to loss on disposal of investment properties.

Finance Costs

The Group's net finance costs amounted to approximately RMB3.4 million for the year ended 31 December 2023 comparing to net finance costs for the year ended 31 December 2022 of approximately RMB2.9 million, representing an increase of approximately RMB0.5 million or 17.2%. The increase was primarily due to lease liabilities during 2023.

Investment properties

Investment properties decreased from approximately RMB180.7 million as at 31 December 2022 to approximately RMB161.0 million as at 31 December 2023. The decrease of approximately RMB19.7 million or 10.9% was mainly due to disposal of four properties during 2023.

Trade Receivables

Trade receivables mainly arose from property management services and cleaning and greening services. As at 31 December 2023, total trade receivables of the Group amounted to approximately RMB538.3 million, representing an increase of approximately RMB42.2 million or 8.5% compared to approximately RMB496.2 million as at 31 December 2022. The increase was primarily due to collection rate become slower as the general atmosphere of the real estate industry environment and slowdown in overall economy in the PRC.

Prepayments and Other Receivables

Prepayments and other receivables mainly represents payment on behalf of customers for expenditure on communities' facilities, performance bonds, bidding deposit for contracts, business-related prepayments and other independent third parties. As at 31 December 2023, the Group's prepayments and other receivables amounted to approximately RMB317.0 million, representing a increase of approximately RMB2.4 million or 0.8% compared to approximately RMB314.6 million as at 31 December 2022. The increase was primarily due to prepayment on behalf to customers to utility suppliers.

Other receivables included RMB14.2 million (31 December 2022: RMB16.9 million) advanced to three independent third parties for business purpose. The loans were unsecured, and interest-free (except for one loan bearing interest at 7% per annum). Impairment provision of RMB0.8 million is required for these loans as at 31 December 2023 (31 December 2022: RMB0.4 million).

Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss of approximately RMB3.0 million mainly represented the fair value of the options to dispose the acquired equity interest in acquired subsidiaries to the non-controlling equity holders. Decrease in financial assets at fair value through profit or loss from approximately RMB7.7 million as at 31 December 2022 to approximately RMB3.0 million as at 31 December 2023. The decrease in amounting approximately RMB4.7 million or 61.4% mainly due to the expiration of the options during 2023.

Other Payables and Accruals

Other payables and accruals primarily comprise receipts on behalf of community residents for utilities, receipts in advances, accruals, deposits received and other payables. Other payables and accruals increased from approximately RMB671.5 million as at 31 December 2022 to approximately RMB702.7 million as at 31 December 2023. The increase in amounting approximately RMB31.2 million due to deposits received by customers.

Liquidity, Financial Resources and Capital Structure

The Group maintains a strong and healthy financial position. The Group's principal sources of funds to finance the working capital, capital expenditure and other capital requirements were internally generated by cash flows and bank loans. As at 31 December 2023, net working capital (calculated as current assets less current liabilities) was approximately RMB398.7 million, representing an increase of RMB68.5 million from RMB330.2 million as at 31 December 2022. The current ratio (calculated as current assets/current liabilities) was 1.4 times as at 31 December 2023 (2022: 1.4 times).

As at 31 December 2023 and 31 December 2022, the Group's borrowings were denominated in RMB. The bank borrowing balances of the Group bore interest at fixed rates at 31 December 2023 and 31 December 2022. The carrying amounts of the interest-bearing bank and other borrowings at fixed rates approximate to their fair values.

The Group principally focused on the operation in the PRC. Except for the cash, bank deposits and bank borrowings denominated in foreign currencies, the Group was not subject to any other material risk directly relating to the foreign exchange fluctuation. For the year ended 31 December 2023, despite the depreciation of RMB against USD and HKD, the Directors expected that fluctuations of the RMB exchange rate would not materially and adversely affect the operations of the Group. The management will continue to monitor foreign currency exchange exposure and will take prudent measures to minimise the currency translation risk.

Gearing Ratio

The gearing ratio is defined as total borrowings add amounts due to non-controlling equity holders of a subsidiary and net of bank balances and cash divided by total equity. As at 31 December 2023, the Group was in a strong financial position with a net cash position amounting to RMB479.2 million (2022: RMB389.5 million). Accordingly, no gearing ratio is presented.

Pledge of Assets

At 31 December 2023, investment properties and property and equipment of RMB99.0 million (2022: RMB99.6 million) were pledged to secure certain banking facilities granted to the Group.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2023 (2022: Nil).

Employees and Remuneration Policies

As at 31 December 2023, the Group had approximately 8,521 (2022: 8,241) employees. In order to enhance the morale and productivity of employees, employees are remunerated based on their performance, experience and prevailing industry practices. Compensation policies and packages of management staff and functional heads are being reviewed on a yearly basis. In addition to basic salary, performance related salary may also be awarded to employees based on internal performance evaluation. Moreover, the Company has adopted a share award scheme in June 2017 in order to retain elite personnel to stay with the Group and to provide incentives for their contribution to the Group.

The Group also invests in continuing education and training programmes for management staff and other employees with a view to upgrade their skills and knowledge. These training courses comprise internal courses run by the management of the Group and external courses provided by professional trainers and range from technical training for butlers to financial and administrative trainings for management staff.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

The Group had no material acquisition or disposal of subsidiaries or associates during the year ended 31 December 2023.

As at 31 December 2023, the Group has no specific plan for major investment or acquisition for major capital assets or other business. However, the Group will continue to identify new opportunities for business development.

EVENTS AFTER THE REPORTING PERIOD

On 28 March 2024, the Directors resolved to recommend the payment of a final dividend of HKD2.5 cents per share for the year ended 31 December 2023 (2022: HKD2.5 cents) to the shareholders whose names appear on the register of members of the Company on 11 June 2024. Subject to the approval by the shareholders of the Company at the forthcoming annual general meeting of the Company (the “AGM”), the final dividend is expected to be payable on or about 5 July 2024. The aggregate amount shall be paid out of the Company’s share premium account if the payment of the dividend is approved by the shareholders at the AGM.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HKD2.5 cents per share for the year ended 31 December 2023 (2022: HKD2.5 cents) to the shareholders whose names appear on the register of members of the Company on 11 June 2024, making the total dividend payment of approximately HKD21.4 million. Subject to the approval by the shareholders of the Company at the forthcoming AGM, the final dividend is expected to be payable on or about 5 July 2024. The aggregate amount shall be paid out of the Company's share premium account if the payment of the dividend is approved by the shareholders at the AGM.

ANNUAL GENERAL MEETING

The AGM is scheduled to be held on Friday, 31 May 2024 and a notice convening the AGM will be published and despatched in the manner as required by the Listing Rules in due course.

CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming AGM is scheduled to be held on Friday, 31 May 2024. To ascertain shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 27 May 2024 to Friday, 31 May 2024, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to attend and vote at the AGM, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by 4:30 p.m. on Friday, 24 May 2024.

To ascertain the entitlement to the proposed final dividend for the year ended 31 December 2023, the register of members of the Company will be closed from 6 June 2024 to 11 June 2024, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the proposed final dividend for the year ended 31 December 2023, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by 4:30 p.m. on 5 June 2024.

CORPORATE GOVERNANCE

The Board and the management of the Group are committed to the maintenance of good corporate governance practices and procedures. The Company has adopted the code provisions set out in the Corporate Governance Code (“**CG Code**”) as set out in Appendix C1 to the Listing Rules as its code of corporate governance. For the year ended 31 December 2023, the Board is of the view that the Company has complied with all code provisions set out in the CG Code in force during the reporting period save and except for the following code provisions:

Code Provision C.2.1 of Part 2 – Principle of good corporate governance code provisions and recommended best practices of the CG Code requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company has appointed Mr. Liu Jian as both the chairman and the chief executive officer of the Company. The Board believes that vesting the roles of the chairman and chief executive officer in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the senior management and Board, which comprises experienced and high-calibre individuals. The Board currently comprises four executive directors (including Mr. Liu Jian), two non-executive directors and three independent non-executive directors and therefore has a fairly strong independence element in its composition.

AUDIT COMMITTEE

The audit committee of the Board (“**Audit Committee**”) has been established with written terms of reference to, among other matters, review and supervise the financial reporting process and internal control system of the Group. The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Chan Wai Cheung, Admiral, Mr. Chan Ka Leung, Kevin and Mr. Yin Weizhong. Mr. Chan Wai Cheung, Admiral is the chairman of the Audit Committee. The annual results of the Group for the year ended 31 December 2023 have been reviewed by the Audit Committee.

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

During the year ended 31 December 2023, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix C3 to the Listing Rules as its code of conduct for Directors in their dealings in the Company’s securities. Having made specific enquiry to all the Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code for the year ended 31 December 2023.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITOR

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in this preliminary announcement have been agreed by the Group’s auditor, Ernst & Young (“**EY**”), to the amounts set out in the Group’s consolidated financial statements for the year ended 31 December 2023. The work performed by EY 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 EY on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.gdzawy.com). The annual report for the year ended 31 December 2023 of the Company together with all the information required by the Listing Rules, will be despatched to the shareholders of the Company and published on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to extend my sincere thanks to every shareholder and business partner for their constant support and trust of the Group, and also to every employee for their hard work and contribution to the Group over last year. I look forward to achieving greater success hand in hand with the Group in the coming year.

By order of the Board
Zhong Ao Home Group Limited
LIU Jian
Chairman and Chief Executive Officer

Hong Kong, 28 March 2024

As at the date of this announcement, the Board comprises Mr. Liu Jian, Ms. Chen Zhuo, Mr. Liang Bing and Mr. Long Weimin as executive Directors, Ms. Jin Keli and Ms. Xu Yaping as non-executive Directors, and Mr. Chan Wai Cheung, Admiral, Mr. Chan Ka Leung, Kevin and Mr. Yin Weizhong as independent non-executive Directors.

* *for identification purpose only*