合景悠活
KWG LIVING

KWG Living Group Holdings Limited
合景悠活集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3913)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

SUMMARY OF ANNUAL RESULTS

- Revenue for the year ended 31 December 2022 amounted to approximately RMB4,025.7 million, representing a year-on-year increase of 23.7%.
- Gross profit for the year ended 31 December 2022 amounted to approximately RMB1,240.6 million, representing a year-on-year slightly increase of 1.2%.
- Profit for the year ended 31 December 2022 amounted to approximately RMB59.9 million, while the core net profit[note 1] was approximately RMB564.6 million, representing a year-on-year decrease of approximately 19.1%.
- As at 31 December 2022, the aggregate GFA under management amounted to approximately 215.5 million sq.m., the aggregate contracted GFA amounted to approximately 287.0 million sq.m., representing a year-on-year increase of 4.5% and 3.3% respectively.

Note 1: It refers to the core net profit, excluding the impairment provision for receivables, fair value losses on financial liabilities and impairment provision for goodwill.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The board (the "**Board**") of directors (the "**Directors**") of KWG Living Group Holdings Limited (the "**Company**" or "**we**" or "**KWG Living**") is pleased to announce its consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2022, together with the comparative figures for the year ended 31 December 2021, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	Notes	**2022** *RMB'000*	2021 *RMB'000*
REVENUE	*4*	**4,025,711**	3,255,446
Cost of sales		**(2,785,151)**	(2,029,338)
Gross profit		**1,240,560**	1,226,108
Other income and gains	*5*	**84,177**	26,606
Selling and distribution expenses		**(4,598)**	(4,795)
Administrative expenses		**(542,838)**	(333,176)
Other expenses, net		**(634,166)**	(22,842)
Finance costs		**(22,906)**	(261)
Share of profit and loss of:			
A joint venture		**1,164**	(836)
An associate		**2,040**	1,949
PROFIT BEFORE TAX	*6*	**123,433**	892,753
Income tax expense	*7*	**(63,582)**	(208,436)
PROFIT FOR THE YEAR		**59,851**	684,317
Attributable to:			
Owners of the parent		**3,412**	674,843
Non-controlling interests		**56,439**	9,474
		59,851	684,317
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
Basic and diluted (express in RMB cents per share)	*8*	**—**	33

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022 *RMB'000*	2021 *RMB'000*
PROFIT FOR THE YEAR	**59,851**	684,317
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(117,159)**	23,473
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company	**203,564**	(69,322)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**86,405**	(45,849)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**146,256**	638,468
Attributable to:		
Owners of the parent	**89,817**	628,994
Non-controlling interests	**56,439**	9,474
	146,256	638,468

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**87,868**	8,762
Investment properties		**6,300**	—
Right-of-use assets		**14,807**	7,363
Goodwill		**1,599,744**	699,775
Other intangible assets		**698,583**	223,353
Investment in a joint venture		**2,778**	1,614
Investment in an associate		**7,438**	9,903
Deferred tax assets		**141,243**	18,873
Other financial asset		**—**	16,500
Other non-current assets		**1,725**	—
Prepayment for acquisition of subsidiaries		**—**	1,316,000
Total non-current assets		**2,560,486**	2,302,143
CURRENT ASSETS			
Trade receivables	*9*	**2,052,449**	1,062,032
Prepayments, other receivables and other assets		**464,843**	397,109
Restricted cash		**19,412**	7,189
Cash and cash equivalents		**1,847,501**	1,233,598
Total current assets		**4,384,205**	2,699,928
CURRENT LIABILITIES			
Trade payables	*10*	**575,369**	245,830
Other payables and accruals		**1,288,325**	857,583
Contract liabilities	*4*	**225,945**	101,967
Lease liabilities		**8,571**	6,137
Dividend payable	*11*	**109,000**	5,560
Interest-bearing bank and other borrowings		**174,244**	—
Tax payable		**367,044**	213,466
Financial liabilities at fair value through profit or loss		**211,809**	—
Total current liabilities		**2,960,307**	1,430,543
NET CURRENT ASSETS		**1,423,898**	1,269,385
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,984,384**	3,571,528

	2022	2021
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Lease liabilities	**6,221**	1,393
Interest-bearing bank and other borrowings	**377,306**	—
Deferred tax liabilities	**172,338**	54,249
Total non-current liabilities	**555,865**	55,642
Net assets	**3,428,519**	3,515,886
EQUITY		
Share capital	**17,568**	17,493
Reserves	**3,124,045**	3,449,015
Equity attributable to owners of the parent	**3,141,613**	3,466,508
Non-controlling interests	**286,906**	49,378
Total equity	**3,428,519**	3,515,886

NOTES TO FINANCIAL STATEMENTS

31 December 2022

1. CORPORATE AND GROUP INFORMATION

General information

The Company is a limited liability company incorporated in the Cayman Islands on 11 September 2019. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's shares became listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 30 October 2020.

The Company is an investment holding company. During the year ended 31 December 2022, the Group was involved in the provision of residential property management services and non-residential property management and commercial operational services in the People's Republic of China (the "**PRC**").

In the opinion of the directors, the immediate and ultimate holding company of the Company was Plus Earn Consultants Limited, which was incorporated in the British Virgin Island ("**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, 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. 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 Group for the year ended 31 December 2022. 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.

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.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The adoption of the above revised standards has had no significant financial effect on these consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into two reportable operating segments as follows:

(a) Residential property management services; and

(b) Non-residential property management and commercial operational services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment 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 interest income, finance costs, as well as head office and corporate income and expenses are excluded from such measurement.

The revenue from external customers reported to management is measured as segment revenue, which is the revenue derived from the customers in each segment.

No analysis of segment assets and segment liabilities is presented as this information is not regularly provided to management for review.

The following is an analysis of the Group's revenue and results by operating and reportable segment:

Year ended 31 December 2022

	Residential property management services *RMB'000*	Non-residential property management and commercial operational services *RMB'000*	Total *RMB'000*
Segment revenue	**1,875,125**	**2,150,586**	**4,025,711**
Segment result	**477,276**	**379,510**	**856,786**
Reconciliation:			
Interest income and unallocated income			**84,177**
Unallocated expenses			**(794,624)**
Finance costs			**(22,906)**
Profit before tax			**123,433**
Income tax expense			**(63,582)**
Profit for the year			**59,851**

	Residential property management services *RMB'000*	Non-residential property management and commercial operational services *RMB'000*	Total *RMB'000*
Other segment information			
Share of profit and loss of:			
A joint venture	**—**	**1,164**	**1,164**
An associate	**—**	**2,040**	**2,040**
Depreciation of property, plant and equipment			**22,024**
Amortisation of other intangible assets			**119,730**
Depreciation of right-of-use assets			**8,624**
Impairment losses on goodwill, net			**143,415**
Impairment losses on trade receivables, net			**435,576**
Reversal of impairment losses on other receivables, net			**(9,480)**
Fair value losses on financial liabilities			**10,723**
Capital expenditure*	**16,903**	**177,259**	**194,162**
Unallocated amounts of capital expenditure			**519,637**
			713,799

Year ended 31 December 2021

	Residential property management services *RMB'000*	Non-residential property management and commercial operational services *RMB'000*	Total *RMB'000*
Segment revenue	1,936,591	1,318,855	3,255,446
Segment result	603,233	353,097	956,330
Reconciliation:			
Interest income and unallocated income			26,606
Unallocated expenses			(89,922)
Finance costs			(261)
Profit before tax			892,753
Income tax expense			(208,436)
Profit for the year			684,317

	Residential property management services *RMB'000*	Non-residential property management and commercial operational services *RMB'000*	Total *RMB'000*
Other segment information			
Share of profit and loss of:			
A joint venture	—	(836)	(836)
An associate	—	1,949	1,949
Depreciation of property, plant and equipment	2,197	1,600	3,797
Amortisation of other intangible assets			32,369
Depreciation of right-of-use assets			7,645
Impairment losses on trade receivables, net	6,288	4,401	10,689
Impairment losses on other receivables, net	6,367	471	6,838
Capital expenditure*	3,750	98,681	102,431
Unallocated amounts of capital expenditure			8,276
			110,707

* Capital expenditure consists of additions to property, plant and equipment, right-of-use assets and other intangible assets including additions from the acquisition of subsidiaries.

Geographical information

The Group's revenue from customers is derived solely from its operations and services rendered in Mainland China, and the non-current assets of the Group are located in Mainland China.

Information about major customers

For the year ended 31 December 2022 and 2021, approximately RMB860.3 million and RMB1,201.0 million of revenue were derived from KWG Group Holdings Limited and its subsidiaries (collectively the "**KWG Group**") and its joint ventures, associates and other related parties, respectively.

4. REVENUE AND CONTRACT LIABILITIES

Revenue from contracts with customers

Revenue comprised proceeds from residential property management services and non-residential property management and commercial operational services during the reporting period. An analysis of revenue is as follows:

(a) Disaggregated revenue information

	2022	2021
	RMB'000	*RMB'000*
Types of services by segment		
Residential property management services		
Pre-sale management services	**260,427**	383,669
Property management services	**1,283,538**	948,241
Community value-added services	**331,160**	604,681
	1,875,125	1,936,591
Non-residential property management and commercial operational services		
Pre-sale management services	**31,397**	30,218
Property management services	**1,866,277**	1,057,253
Commercial operational services	**134,455**	133,860
Other value-added services	**118,457**	97,524
	2,150,586	1,318,855
Total revenue from contracts with customers	**4,025,711**	3,255,446
Timing of revenue recognition		
Revenue from contracts with customers recognised over time	**3,576,094**	2,553,241
Revenue from contracts with customers recognised at a point in time	**449,617**	702,205
Total	**4,025,711**	3,255,446

Contract liabilities

The Group recognised the following revenue-related contract liabilities:

	2022	2021
	RMB'000	*RMB'000*
Third parties	**223,113**	100,175
Related parties	**2,832**	1,792
	225,945	101,967

Contract liabilities of the Group mainly arise from the advance payments received from customers for services yet to be provided. The increase in contract liabilities as at 31 December 2022 was mainly due to the increase in short term advances received from customers in relation to the provision of property management services at the end of the year.

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

	2022	2021
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Residential property management services	**83,722**	58,385
Non-residential property management and commercial operational services	**16,442**	13,344
	100,164	71,729

(b) Performance obligations

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

For residential property management services and non-residential property management and commercial operational services, the Group recognised revenue in the amount that equals to the rights to invoices which corresponds directly with the value to the customers of the Group's performance to date. The Group has elected the practical expedient for not to disclose the remaining performance obligations for these types of contracts because the performance obligation is part of a contract that has an original expected duration of one year or less, and there was unsatisfied performance obligation at the end of the respective periods.

5. OTHER INCOME AND GAINS

	2022 *RMB'000*	2021 *RMB'000*
Interest income	**28,238**	6,042
Government grants	**15,803**	5,856
Gain on disposal of property, plant and equipment, net	**515**	134
Late penalty income	**5,596**	1,832
Tax incentives on value-added tax	**23,359**	6,268
Realised income from wealth management financial products	**1,914**	2,011
Others	**8,752**	4,463
	84,177	26,606

6. PROFIT BEFORE TAX

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

	2022 *RMB'000*	2021 *RMB'000*
Cost of services provided	**2,785,151**	2,029,338
Depreciation of property, plant and equipment	**22,024**	3,797
Depreciation of right-of-use assets	**8,624**	7,645
Amortisation of other intangible assets	**119,730**	32,369
Auditor's remuneration	**4,528**	3,800
Gain on disposal of property, plant and equipment, net	**(515)**	(134)
Fair value losses on financial liabilities	**10,723**	—
Employee benefit expense (excluding directors' and chief executive's remuneration)		
Wages and salaries	**1,263,601**	1,157,952
Share-based compensation expense	**6,093**	2,882
Pension scheme contributions	**129,908**	100,810
	1,399,602	1,261,644
Impairment losses on goodwill, net	**143,415**	—
Net impairment losses recognised/(reversed) on financial assets		
— Trade receivables	**435,576**	10,689
— Other receivables	**(9,480)**	6,838
	426,096	17,527
Rental expense:		
Short-term leases and low-value leases	**11,803**	16,087

7. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, the entities within the Group incorporated in the Cayman Islands and BVI are not subject to any income tax. The Group's subsidiaries incorporated in Hong Kong are not liable for income tax as they did not generate any assessable profits arising in Hong Kong during the year ended 31 December 2022.

The income tax provision of the Group's subsidiaries established in the PRC in respect of its operation in Mainland China was calculated at the tax rate of 25% on their assessable profits for the year, if applicable, based on the existing legislation, interpretations and practice in respect thereof. Certain subsidiaries of the Group operating in the PRC enjoyed a preferential corporate income tax rate of 15% for the year ended 31 December 2022.

	2022	2021
	RMB'000	*RMB'000*
Current	**199,975**	216,419
Deferred	**(136,393)**	(7,983)
	63,582	208,436

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

The calculation of the basic and diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,020,657,644 (2021: 2,017,611,329) in issue during the year ended 31 December 2022.

The calculations of basic and diluted earnings per share are based on:

	2022	2021
Earnings		
Profit attributable to ordinary equity holders of the parent *(RMB'000)*	**3,412**	674,843
Shares		
Weighted average number of ordinary shares in issue during the year in the basic and diluted earnings per share calculation	**2,020,657,644**	2,017,611,329
Earnings per share		
Basic and diluted *(RMB cents per share)*	**—**	33

9. TRADE RECEIVABLES

	2022	2021
	RMB'000	*RMB'000*
Related parties	**1,387,036**	540,336
Third parties	**1,255,874**	539,156
Trade receivables	**2,642,910**	1,079,492
Less: Allowance for impairment of trade receivables	**(590,461)**	(17,460)
	2,052,449	1,062,032

An ageing analysis of the trade receivable as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2022	2021
	RMB'000	*RMB'000*
Within 1 year	**1,356,263**	1,028,083
1 to 2 years	**579,389**	20,612
2 to 3 years	**107,517**	12,249
Over 3 years	**9,280**	1,088
	2,052,449	1,062,032

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

	2022	2021
	RMB'000	*RMB'000*
At beginning of year	**17,460**	12,800
Acquisition of subsidiaries	**141,386**	—
Impairment losses recognised, net *(note 6)*	**435,576**	10,689
Amount written off as uncollectible	**(3,961)**	(6,029)
At end of year	**590,461**	17,460

10. TRADE PAYABLES

	2022	2021
	RMB'000	*RMB'000*
Related parties	**6,665**	9,689
Third parties	**568,704**	236,141
	575,369	245,830

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

	2022	2021
	RMB'000	*RMB'000*
Within 1 year	**507,502**	229,947
1 to 2 years	**56,755**	11,038
2 to 3 years	**7,277**	1,891
Over 3 years	**3,835**	2,954
	575,369	245,830

Trade payables are unsecured, interest-free and normally settled on terms of 30 to 90 days.

11. DIVIDENDS

The Board does not recommend any final dividend for the year.

The 2021 final dividend of RMB12 cents per share, totalling RMB242,053,000, was approved by the Company's shareholders (the "**Shareholder(s)**") at the annual general meeting held on 2 June 2022.

CHAIRMAN'S STATEMENT

Dear Shareholders,

Thanks for your continued support for the Group's development, I am pleased to present the business review and outlook of the Group for the year ended 31 December 2022.

In 2022, the international political and economic environment was complicated and the COVID-19 pandemic broke out in multiple places, and countries around the world faced different challenges. With the normalisation of the pandemic, property management enterprises have accelerated their integration into grassroots governance and become an imperative part of the prevention and control system. A large number of ordinary employees of property management enterprises took the responsibility of prevention and control to protect the lives and properties of customers and property owners in the face of the pandemic.

With the extension of the value chain of the real estate industry, it has become a trend for property management enterprises to release the value of multiple sectors. In addition, many property management enterprises have gradually expanded into new fields such as urban services. There are corresponding plans and policy guidance and support from the people's Republic of China ("**China**" or "**PRC**"), such as the "14th Five-Year Plan" that affirms the importance of property management enterprises as part of urban governance and life services. During the year ended 31 December 2022, the Ministry of Housing and Urban-Rural Development and the State Administration for Market Regulation also issued documents to provide guidance for further standardisation of urban service-related businesses, which not only made room for the industry for further development, but also raised higher market requirements and service standards for enterprises.

Despite the extremely challenging market environment during the year ended 31 December 2022, the Group actively undertook social responsibilities, assisted customers and the government in resuming work and production, overcome difficulties, and achieved steady and high-quality development. During the year ended 31 December 2022, the Group achieved a revenue of approximately RMB4,025.7 million, representing an increase of 23.7% as compared with the corresponding period in 2021. Meanwhile, with the continuous enrichment of the Group's business coverage and the continuous improvement of management efficiency, the Group achieved a gross profit of approximately RMB1,240.6 million and a core net profit of approximately RMB564.6 million.

While continuing to consolidate the cornerstone businesses such as property management services and commercial operational services, the Group also accelerated the extension of industrial and ecological layout and was able to further expand its service content and scale, while serving customers and fulfilling the transformation and upgrade of urban management. As of 31 December 2022, the Group has established presence in 132 cities across 21 provinces, autonomous regions and municipalities in China, with GFA under management and contracted GFA of 215.5 million square meters ("**sq.m.**") and 287.0 million sq.m., respectively. Among them, the GFA under management of third-party projects reached 189.7 million sq.m., accounting for 88.0% of the total GFA under management, and the independence and brand appeal were further enhanced.

1. Multi-licensing and full ecological presence to achieve high-quality development

As a result of the weak market environment of the incremental real estate market, the Group has actively deployed strategies, accelerated the expansion of its business and industrial layouts, and deeply explored new business opportunities in non-residential property management segment. In January 2022, the Group acquired Guangdong Telijie Environment Engineering Co., Ltd. (廣東特麗潔環境工程有限公司) ("**Guangdong Telijie**") to participate in the urban service sector. As of 31 December 2022, the Group rapidly integrated its market expansion with a gross increase of GFA under management of over 29.7 million sq.m., of which residential properties accounted for 51.5% and non-residential properties accounted for 48.5%, achieving growth under the weak cycle of the real estate industry through a balanced business portfolio.

After years of market-oriented development and multi-property types deployment, the Group possesses differentiated qualifications and certifications, which have formed competitive barriers and advantages with professional qualifications and certifications corresponding to services, such as property management, sanitation cleaning, landscaping, aerial work, municipal sanitation, medical waste treatment and waste disposal etc. With the establishment of professional capabilities, the Group will not only be able to increase the breadth of coverage of various business segments, but also be able to explore the depth of service content, strengthen the full-cycle service advantages, and enhance the professionalism and influence of various brands under various business segments.

During the year ended 31 December 2022, the Group incubated the city empowerment system of "Enjoy Life in Wonderful Cities", comprehensively integrated the advantages of its business segments, and built a smart and integrated urban operation and life service system to realise from serving "property" to serving "city". Leveraging on the Group's brand empowerment, financial support and management upgrade, its city service brand, Guangdong Telijie, has expanded from Guangdong Province to other parts of the country. It has entered the city service markets of Henan Province, Guangxi Province and Sichuan Province, and continued to penetrate the Greater Bay Area. Among them, the water sprinkling settlement project in the key area of Daliang Street, Shunde is the first benchmark project in Shunde District for using environmentally friendly new energy facilities, helping to build an "intelligent" and "efficient" service system and create a zero-waste city.

2. Integrating member companies and regional penetration to build strong endogenous capacity

The property management industry has experienced several rounds of acceleration in the past, and the market has gradually moved toward stage of deeper integration. Through the construction of a smart operation and management platform, the Group optimised the authorization system, shared middle and back office resources, realised the internal management system, integrated all-round resources, and improved the operating efficiency of member companies. At the same time, the Group sorted out and formulated a cross-brand market expansion mechanism, facilitated resource sharing among member companies, standardised the operation process with the mechanism, innovated the cooperation model, and polished all-round capabilities such as professional skills of personnel, road shows and tender proposals. Meanwhile, it fully empowered the member companies in terms of licensing, brand building, and benchmark project creation, significantly improving their market competitiveness.

The Group tenders bids for a number of commercial, hospital, public property, government authority, and other business projects during the year ended 31 December 2022. Leveraging on its existing commercial properties and operational advantages, the Group developed projects such as Shanghai Jiayu Yunjing, Shaoxing Zhongfu Building and Shanghai Yongye Shopping Centre successfully. Leveraging the advantages of deep cultivation in special areas, the Group successfully renewed projects such as Guangzhou Women and Children Medical Centre and Foshan Nanhai Women and Children Hospital. In addition, the Group successfully expanded the hospital sector such as Dinghai Guanghua Hospital and Dinghai Guanghua Nursing Home. The Group forged ahead to break through the gap in the field of public transportation and successfully built public properties such as Nanning Metro Line 5 and Pu'er Railway Station. As a result of the demonstration effect of existing projects and high customer satisfaction, the Group has successfully expanded into the government authority sector, such as the Guangzhou General Station of Exit and Entry Frontier Inspection and the Shanghai Jiading District Office Complex.

In the meantime, the Group adhered firmly to its established strategies, continued to invest in developing cities, further developed its own projects, and expanded its scale and density in the region. Taking Shanghai Yinwan Management Co. Ltd. ("**Shanghai Yinwan Management Co. Ltd.**"), a subsidiary of the Group, as an example, its projects are concentrated in Guangxi, Jiangxi, Jiangsu and Zhejiang regions, and are widely replicated to surrounding projects with its own projects as the starting point, resulting in the expansion of a number of residential and office buildings. Meanwhile, the Group also enhanced its regional density, consolidated its existing advantages in existing regions and broadened its business segments. Taking Shanghai Shenqin Property Management Service Co., Ltd. ("**Shanghai Shenqin**"), a public service brand under the Group, as an example, Shanghai Advanced Technical School debuted during the pandemic. With its professional services, the project was well-regarded and opened up the college market. The Group also succeeded in developing projects such as Shanghai Industrial and Commercial Information School during the year ended 31 December 2022.

3. Seizing the opportunity of consumption recovery, improving quality and efficiency for promoting operation

Changes in a century accelerated in 2022, long-term effect of the COVID-19 pandemic and the global trade and economic situation did not promise an optimistic outlook. China's economic recovery was under the dual pressure of supply-demand imbalance and expected weakening of consumption power. The growth of domestic residents' income has slowed down and preventive savings tend to be high. The pandemic prevention and control have entered a new phase, there are opportunities for consumption recovery in the market. China's ultra-large-scale market advantages and the characteristics of domestic demand dominating the national economic cycle have gradually emerged. The retail value of consumer goods in China has a relatively large gap as compared with that before the pandemic, which is urgently needed to be made up. By actively seizing the favourable opportunity of consumption recovery, the Group innovated the consumption scenarios, actively upgraded the brands and adjusted the business portfolio, improved the quality and efficiency of operations, and actively reserved the potential for business recovery.

With the rise of the middle-class population, Generation Z and the new aging population, the Group seized the growth opportunities under the trend and laid out its shopping malls in advance. At the retailing end, the Group will match the main customer groups of the project, introduce iconic brands, and reinforce the memory of consumers for the project. On the catering side, the Group seized the trend of chains and diversified categories, and optimised the brand to stimulate consumption among the consumer groups in surrounding areas. In terms of life and supporting facilities, in line with increasing consumers' awareness on health, pets, mental health and the silver economy, etc. in the post-pandemic era, the Group aspired to meet people's needs and desire for a better life in advance. Guangzhou Knowledge City U Fun began operations on schedule and with high quality during the year. As the first commercial project of over 100,000 sq.m. in Knowledge City, the project creates scenario power with a unique scenario atmosphere, builds commercial power with differentiated brand certification, and creates innovation with a localised activity experience.

In 2022, under the situation of recurring pandemic outbreaks, the Group continued to help customers resume work and production and return to the physical office scene. In response to the changes in customers' needs, the Group's office buildings not only meet the protection needs of customers' life, health and safety, but also maintain solid operations and strive for the preservation and appreciation of assets, so as to achieve sustainable operation and risk resistance of assets under different economic cycles. At the same time, the Group's office buildings actively optimised the structure of customer groups in accordance with national policies and industrial changes, targeted high-quality customers, deployed in advance and actively met the diverse needs of potential customers. During the year ended 31 December 2022, a number of well-known corporate customers from emerging industries such as finance, 5G communication and intelligent technology industries entered the market, laying a new growth point for the Group's business development.

4. Returning to the essence of property services and refining management and control

The market environment is constantly changing but the genes of property services remain unchanged. The Group adheres to the lifeline of service quality, continues to invest in hardware, continues to optimise soft services, and implements dynamic management and control with refined operation capabilities to achieve operational efficiency with digital escort. During the year ended 31 December 2022, in terms of intelligent services and technology enhancement, the Group accelerated the construction of a smart community platform, and collaborated with partners in the technology ecosystem to enrich digital touchpoints at the front end, quantify and improve efficiency at the centre, promote organisational reform, and achieve business closed-loop at the back end.

At the organisational level, the Group adhered to its core values, focused on strengthening its internal skills and continued to promote organisational optimisation. The Group will refine its headquarters, strengthen its regional operations, and specialise in projects, while it will focus on nurturing expert talents and building a virtual team at headquarters. It optimises regional authorization, streamlines administration and delegate powers, and improves management capabilities. In terms of projects, the Group will improve the service capabilities of personnel, and activate the momentum of business innovation and revenue generation. Taking butlers as an example, the Group relies on the digital learning platform to consolidate its business capabilities, build a hierarchical training mechanism for professional butlers, senior butlers and experienced butlers, explore the backbone strength of reserve, focus on cultivating and retaining high-quality talents, and realise the inheritance of business capabilities and culture. During the year ended 31 December 2022, such training covered more than 4000 front-line employees and more than 10 live lectures, covering more than 2000 employees.

At the business level, the Group is firmly committed to improving efficiency with intelligence. Through the intelligent launch of project work orders, front desk personnel are empowered to improve their per capita management efficiency. For specific business needs, the Group upgraded technologies, optimised processes and innovated management practices to ensure stable operation and management efficiency. In terms of the industrial chain, the Group explores partners and new business opportunities with upstream and downstream suppliers to achieve value-adding and revenue-generating.

5. Future Outlook

As the Group continues to grow and expand its business portfolio, it has a strong market position and clear strategies. In 2023, the Group will continue to consolidate the rigid residential market, deepen the development of high-end residential and commercial markets, expand the market share of non-residential property business, accelerate the urban service sector layout, increase the market share in core areas, and strengthen the penetration rate in core sub-segments. In particular, the Group will further integrate public service and urban services businesses, seize development opportunities, actively seek high-quality market opportunities, polish urban service products, and maintain the healthy growth of the business.

The Group also adheres to the long-term principle with the goal of maximising long-term value. In 2023, the Group will continue to deepen its digital transformation and upgrade its intelligent operation and management platform, achieve self-driven business, manpower efficiency enhancement and empowerment of business, and achieve improvement in both service quality and operating efficiency.

BUSINESS REVIEW

Overview

We are a comprehensive smart service operator in China with sound reputation and quality development. In 2022, thanks to our forward-looking and comprehensive business strategy, fast-growing non-residential property management services and specialised brand positioning, we were awarded the titles of the "2022 China Listed Companies in terms of Property Service Scale TOP 9", "2022 Non-Residential Property Service of China Property Service Listed Companies TOP 3" and "2022 Property Enterprise Service Excellence TOP 8" by China Index Academy and Guandian Index Academy.

As at 31 December 2022, the Group provided property management services, commercial operational services and value-added services in 132 cities in China, with a contracted GFA of approximately 287.0 million sq.m. and GFA under management of approximately 215.5 million sq.m. The Group's operations cover a variety of properties, including management services for residential and non-residential properties (such as office buildings, shopping malls, schools, government buildings, hospitals and urban services), commercial operational services and related value-added services.

Upholding the philosophy of "Enjoy Life Everywhere", we strive to provide an all-round and attentive professional property management services to our customers, and develop product and service systems that cater for different customer portfolios and different segments. In connection with the residential property projects, we forge four major product systems, namely "Zhen Service (臻享)", "Jun Service (駿享)", "Ning Service (寧享)" and "You Service (悠享)", to provide customers with a more secured, comfortable and assured experience in residential property management services. For commercial operational projects, we focus our efforts on establishing our shopping mall brand system mainly based on the brand names of "Ufun", "M • CUBE" and "Ufun Walk", and our office building brand system with "ifp", "imp" and "icp" as the signature brands at the prime locations in first-tier and second-tier cities. During the year ended 31 December 2022, the Group's strengths in product, service and brand received market recognition and the honour of "TOP 14 Property Management Companies in China in terms of Comprehensive Strength in 2022" from EH Consulting.

Business Model

The Group generates revenue primarily from two principal business segments: (i) residential property management services; and (ii) non-residential property management and commercial operational services.

Residential property management services

The Group provides residential property management services to afford various services meeting the needs of households and residents in the community under different daily-living scenarios, including:

- pre-sale management services such as cleaning, security and maintenance services for pre-sale display units and sales offices to property developers during their pre-sale activities. The Group charges a fixed service fee for such services;

- property management services such as cleaning, security, gardening and repair and maintenance services to (i) property developers for the undelivered portion of the properties; and (ii) property owners, property owners' associations or residents for properties sold and delivered. The Group collects property management fees for such services; and

- community value-added services such as (i) home-living services — the provision of a wide range of services catered to the personalised needs of owners through the integration of industrial and ecological resources; (ii) property agency services — property agency services provided to property owners, residents and property developers; and (iii) common area value-added services — aiming to provide daily-living convenience to property owners and residents and enhance the owners' sense of pleasant accommodation by utilising the community space. The Group typically charges a commission-based fee or a fixed fee depending on the nature of services rendered.

Non-residential property management and commercial operational services

The Group manages and operates a diversified portfolio of non-residential properties, provides property management and commercial operational services to commercial properties such as shopping malls, office buildings and industrial parks, and provides property management services to schools, hospitals, government authorities and other public properties. The Group's services include:

- pre-sale management services such as cleaning, security and maintenance services for pre-sale display units and sales offices to property developers. The Group charges a fixed service fee for such services;

- property management services such as file management, cleaning, security, gardening and repair and maintenance services provided to property owners or tenants. The Group charges property management fees for such services. In particular, non-residential property management services can be categorised into the following by business segment;

  — property management services for commercial properties: the Group charges property management fees for property management services provided to commercial properties (including shopping malls and office buildings);

  — public property services and urban services: the Group charges corresponding management fees for property management services provided to public properties (including schools, hospitals, government authorities, industrial parks and transportation hubs) and for urban cleaning services provided to urban spaces (including urban roads and rivers);

- commercial operational services such as preliminary planning and consultancy services, tenancy sourcing services, tenancy management services and marketing and promotion services to property owners and property developers. The Group typically charges (i) a commission-based fee with respect to the operation of shopping malls; (ii) a profit mark-up on top of the costs with respect to the operation of office buildings; and (iii) a fixed service fee on a per sq.m basis for its preliminary planning and consultancy services and tenancy sourcing services; and

- other value-added services such as primarily common area value-added services. The Group typically charges a commission-based fee or a fixed fee depending on the nature of services rendered.

The table below sets forth the breakdown of the Group's total revenue by business segment for the reporting periods indicated:

	Year ended 31 December			
	2022		2021	
	RMB'000	*%*	*RMB'000*	*%*
Residential property management services				
Pre-sale management services	**260,427**	**6.5**	383,669	11.8
Property management services	**1,283,538**	**31.9**	948,241	29.1
Community value-added services	**331,160**	**8.2**	604,681	18.6
Sub-total	**1,875,125**	**46.6**	1,936,591	59.5
Non-residential property management and commercial operational services				
Pre-sale management services	**31,397**	**0.8**	30,218	0.9
Property management services				
— Commercial property	**414,443**	**10.3**	388,765	11.9
— Public property and urban area	**1,451,834**	**36.1**	668,488	20.6
Commercial operational services	**134,455**	**3.3**	133,860	4.1
Other value-added services	**118,457**	**2.9**	97,524	3.0
Sub-total	**2,150,586**	**53.4**	1,318,855	40.5
Total	**4,025,711**	**100.0**	3,255,446	100.0

Business Growth

Thanks to the growth strategies of "focus on key regions + expansion of third-party projects + service extension", the business scale and comprehensive operational capabilities of the Group realized high-quality growth. We firmly focused on key regions with large market potential and abundant customer resources and fully explored market segments. New expansion projects in first-tier and second-tier cities accounted for 71.3% of the GFA under management of total new expansion projects. Thanks to the Group's market reputation and service capabilities, as of 31 December 2022, the Group's third-party projects accounted for 88.0% of the GFA under management, further demonstrating its marketisation capabilities.

Expansion to the independent third-party market is an important development strategy of the Group. During the year, the Group managed to continue expanding the third-party market by virtue of its high-quality services, professional marketing team, wide service coverage, diversified channels and good standing and reputation. During the year ended 31 December 2022, 235 new third-party projects were obtained with an additional GFA of 27.3 million sq.m..

In 2022, thanks to our outstanding service quality in residential property management and brand influence, we secured premium residential projects such as Eldo Garden (銀都花園). Meanwhile, benefiting from our integrated commercial property management service and operation capabilities, we obtained prime commercial projects such as Shanghai Jiayu Yunjing (上海嘉譽雲景), Shaoxing Zhongfu Building (紹興中富大廈) and Shanghai Yongye Shopping Centre (上海永業購物中心). Owing to our professional, refined and standardised service capacities in the public property sector, we were granted premium public property projects such as Dinghai Guanghua Hospital (定海廣華醫院), Dinghai Guanghua Nursing Home (定海廣華頤養院), Nanning Metro Line 5 (南寧地鐵5號線), Pu'er Railway Station (普洱高鐵站), Guangzhou General Station of Exit and Entry Frontier Inspection (廣州出入境邊防檢查總站) and Shanghai Jiading Office Complex (上海嘉定區綜合辦公樓).

Under the guidance of national policies, the property management industry has gradually extended in the direction of smart urban management, resulting in increasing market potential. The Group incubated the urban empowering system of "Enjoy Life in Wonderful Cities", shifting its service targets from "properties" to "cities". During the year, the Group seized market opportunities and followed the calls of policies to expand our service offerings to urban services. Our urban service brand Guangdong Telijie continued to explore the market in the Greater Bay Area and expanded its coverage from Guangdong to the whole country by entering the urban service markets in Henan, Guangxi and Sichuan provinces.

Residential Property Management Services

Overview

The Group provides management services for the residential properties developed by KWG Group Holdings Limited and its subsidiaries and the residential properties developed by the third-party property developers. During the year, the Group has actively expanded its business scale through expansion of third-party services, and mergers and acquisitions to provide property management services to an increasing number of residential properties developed by third-party property developers. As of 31 December 2022, the GFA under the management of third-party residential properties accounted for 80.1% of the total GFA under management of residential properties, representing a year-on-year increase of 1 percentage point, the further improvement of marketisation capability has empowered the robust development of the Group's property management scale. During the year ended 31 December 2022, the Groups's revenue from the residential property management service segment decreased to approximately RMB1,875.1 million from approximately RMB1,936.6 million for the last year, representing a year-on-year decrease of 3.2%.

Growth in Scale of Residential Property Management Services Portfolio

As at 31 December 2022, the Group's contracted GFA of residential properties was approximately 154.7 million sq.m., representing an increase of 6.0% as compared to that as at 31 December 2021. As at 31 December 2022, GFA under management of residential properties was approximately 108.5 million sq.m., representing an increase of 9.4% as compared to that as at 31 December 2021.

The table below sets forth the movements of the Group's residential contracted GFA and GFA under management as at the dates indicated:

	Year ended 31 December			
	2022		2021	
	Aggregate contracted GFA ***('000 sq.m.)***	**GFA under management** ***('000 sq.m.)***	Aggregate contracted GFA *('000 sq.m.)*	GFA under management *('000 sq.m.)*
At the beginning of the period	**145,940**	**99,234**	39,371	29,121
New additions	**8,715**	**9,302**	106,569	70,113
At the end of the period	**154,655**	**108,536**	145,940	99,234

Geographic Presence of Residential Property Management Services Portfolio

During the year ended 31 December 2022, the Group continued to focus on its residential property management services, concentrated on its existing advantageous regions, replicate successful project experience in surrounding areas and optimised its national geographic presence. As of 31 December 2022, the Group managed a total of 836 residential properties.

The table below sets forth a breakdown of the Group's total GFA under management with respect to residential properties as at the dates indicated, and total revenue generated from residential property management services for the periods indicated by regions:

	Year ended 31 December					
	2022			2021		
	Revenue *(RMB'000)*	***%***	**GFA under management *('000 sq.m.)***	Revenue *(RMB'000)*	*%*	GFA under management *('000 sq.m.)*
Greater Bay Area	**804,068**	**42.9**	**24,607**	721,521	37.2	24,666
Yangtze River Delta[(1)]	**349,496**	**18.6**	**28,168**	520,471	26.9	21,875
Midwest China and Hainan[(2)]	**632,450**	**33.7**	**52,163**	553,942	28.6	49,220
Bohai Economic Rim[(3)]	**89,111**	**4.8**	**3,598**	140,657	7.3	3,473
Total	**1,875,125**	**100.0**	**108,536**	1,936,591	100.0	99,234

Notes:

(1) Include Shanghai Municipality, Zhejiang Province, Anhui Province and Jiangsu Province.

(2) Include Sichuan Province, Yunnan Province, Hubei Province, Hunan Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Guizhou Province, Henan Province, Fujian Province, Hainan Province and Chongqing Municipality.

(3) Include Beijing Municipality, Tianjin Municipality and Shandong Province.

Non-residential Property Management and Commercial Operational Services

Overview

The Group provides property management services to non-residential properties, including commercial properties and public properties, as well as commercial operational services to commercial properties, including office building and shopping malls. In 2022, revenue from non-residential property management and commercial operational service segment amounted to RMB2,150.6 million, representing a significant year-on-year increase of 63.1%, and accounted for 53.4% of the Group's total revenue, up by 12.9 percentage points as compared with last year. Benefiting from the Group's increasingly strong marketization capability, as of 31 December 2022, the Group's GFA under management of third-party non-residential properties accounted for 96.1% of the total GFA under management of non-residential properties.

As for commercial property management and operation sector, the Group provides property management services to 235 shopping malls and office buildings, and provides commercial operational services to 21 shopping malls and office building projects. With a highly recognizable brand, digital operation capabilities and integrated management service capabilities, the Group continued to explore the market potential in commercial operations and property services.

As for public facilities and urban services sector, the Group provides property management and urban services to 934 projects. With the differentiated brands and high barriers in qualification, the Group promoted market expansion by offering benchmark projects and sharing channels and resources with member companies to deeply tap the potential for project acquisition, and has established a national presence and leading advantage in all-round business sectors such as universities, hospitals, government properties, urban public facilities, rail and transportation properties.

Growth in Scale of Non-residential Property Management Services Portfolio

As at 31 December 2022, the Group's contracted GFA of non-residential properties was approximately 132.3 million sq.m., representing an increase of 0.3% as compared to that as at 31 December 2021. As at 31 December 2022, GFA under management of non-residential properties was approximately 106.9 million sq.m., representing an increase of 0.1% as compared to that as at 31 December 2021.

The table below sets forth the movements of the Group's non-residential contracted GFA and GFA under management as at the dates indicated:

	Year ended 31 December			
	2022		2021	
	Aggregate contracted GFA ***('000 sq.m.)***	**GFA under management** ***('000 sq.m.)***	Aggregate contracted GFA *('000 sq.m.)*	GFA under management *('000 sq.m.)*
At the beginning of the period	**131,946**	**106,882**	14,043	12,450
New additions	**374**	**60**	117,903	94,432
At the end of the period	**132,320**	**106,942**	131,946	106,882

Geographic Presence of Non-residential Property Management Services Portfolio

During the year ended 31 December 2022, the Group continued to focus on its non-residential property management and commercial operational services business, optimised its business in advantageous regions, and established its presence in regions with high growth potential. As of 31 December 2022, non-residential properties managed were located in major cities such as Beijing, Shanghai, Guangzhou, Chengdu and Suzhou. As of 31 December 2022, there were 1,169 non-residential properties under the management of the Group.

The table below sets forth a breakdown of the Group's total GFA under management with respect to non-residential properties as at the dates indicated, and total revenue generated from non-residential property management and commercial operational services as of the periods indicated by regions:

	Year ended 31 December					
	2022			2021		
	Revenue *(RMB'000)*	*%*	**GFA under management** *('000 sq.m.)*	Revenue *(RMB'000)*	*%*	GFA under management *('000 sq.m.)*
Greater Bay Area	**999,739**	**46.5**	**50,977**	625,965	47.5	51,848
Yangtze River Delta[(1)]	**614,214**	**28.5**	**27,073**	300,977	22.8	26,170
Midwest China and Hainan[(2)]	**265,789**	**12.4**	**10,486**	259,884	19.7	10,492
Bohai Economic Rim[(3)]	**270,844**	**12.6**	**18,406**	132,029	10.0	18,372
Total	**2,150,586**	**100.0**	**106,942**	1,318,855	100.0	106,882

Notes:

(1) Include Shanghai Municipality, Zhejiang Province, Anhui Province and Jiangsu Province.

(2) Include Sichuan Province, Chongqing Municipality, Hubei Province, Hunan province, Henan Province, Sha'anxi Province, Jiangxi Province, Yunnan Province, Guizhou Province, Guangxi Zhuang Autonomous Region and Hainan Province.

(3) Include Beijing Municipality, Tianjin Municipality and Shandong Province.

FINANCIAL REVIEW

Revenue

The Group derived its revenue from two business segments, namely the residential property management service segment and non-residential property management and commercial operational service segment.

The table below sets forth the breakdown of revenue of the Group by business segments for the periods indicated:

	Year ended 31 December			
	2022		2021	
	RMB'000	*%*	*RMB'000*	*%*
Residential property management services	**1,875,125**	**46.6**	1,936,591	59.5
Non-residential property management and commercial operational services	**2,150,586**	**53.4**	1,318,855	40.5
Total	**4,025,711**	**100.0**	3,255,446	100.0

Residential Property Management Services

The following table sets forth a breakdown of the Group's revenue from residential property management services by service line for the periods indicated:

	Year ended 31 December			
	2022		2021	
	RMB'000	*%*	*RMB'000*	*%*
Pre-sale management services	**260,427**	**13.8**	383,669	19.8
Property management services	**1,283,538**	**68.5**	948,241	49.0
Community value-added services	**331,160**	**17.7**	604,681	31.2
Total	**1,875,125**	**100.0**	1,936,591	100.0

Pre-sale Management Services

Revenue generated from pre-sale management services under the Group's residential property management service segment decreased from approximately RMB383.7 million in 2021 to approximately RMB260.4 million in 2022. Such decrease was primarily due to the decrease in the number of sales offices under the Group's management as a result of the COVID-19 pandemic.

Property Management Services

Revenue generated from property management services under the Group's residential property management service segment increased from approximately RMB948.2 million in 2021 to approximately RMB1,283.5 million in 2022. Such increase was primarily due to the increase in the Group's GFA under management for residential properties from approximately 99.2 million sq.m. as at 31 December 2021 to approximately 108.5 million sq.m. as at 31 December 2022, resulting from the increase in the number of residential property projects under management from 801 as at 31 December 2021 to 836 as at 31 December 2022.

Community Value-added Services

Revenue generated from community value-added services under the Group's residential property management service segment decreased from approximately RMB604.7 million in 2021 to approximately RMB331.2 million in 2022. This decrease was primarily due to the delayed progress of certain community valued-added services as a result of the COVID-19 pandemic.

Non-residential Property Management and Commercial Operational Services

The following table sets forth a breakdown of the Group's revenue from non-residential property management and commercial operational services by service line for the periods indicated:

	Year ended 31 December			
	2022		2021	
	RMB'000	*%*	*RMB'000*	*%*
Pre-sale management services	**31,397**	**1.4**	30,218	2.3
Property management services	**1,866,277**	**86.8**	1,057,253	80.2
Commercial operational services	**134,455**	**6.3**	133,860	10.1
Other value-added services	**118,457**	**5.5**	97,524	7.4
Total	**2,150,586**	**100.0**	1,318,855	100.0

Pre-sale Management Services

Revenue generated from pre-sale management services under the Group's non-residential property management and commercial operational service segment slightly increased from approximately RMB30.2 million in 2021 to approximately RMB31.4 million in 2022. This increase was primarily due to the increase in the number of sales offices of non-residential properties under the Group's management.

Property Management Services

Revenue generated from property management services under the Group's non-residential property management and commercial operational service segment increased from approximately RMB1,057.3 million in 2021 to approximately RMB1,866.3 million in 2022. This increase was primarily due to the increase in the Group's GFA under management for public properties and urban area.

Commercial Operational Services

Revenue generated from commercial operational services under the Group's non-residential property management and commercial operational service segment increased from approximately RMB133.9 million in 2021 to approximately RMB134.5 million in 2022. Such increase was mainly due to the increase in preliminary planning and consultancy services and tenant souring services provided by the Group in 2022.

Other Value-added Services

Revenue generated from other value-added services under the Group's non-residential property management and commercial operational service segment increased from approximately RMB97.5 million in 2021 to approximately RMB118.5 million in 2022. This increase was primarily due to the increase in its value-added services provided by the Group.

Cost of Sales

The Group's cost of sales represents costs and expenses directly attributable to the provision of its services, which comprises (i) labor costs; (ii) subcontracting costs; (iii) utilities; (iv) office expenses; (v) cleaning expenses; (vi) rent and management fees for staff dormitory and car parks; (vii) security expenses; and (viii) others. For the year ended 31 December 2022, the total cost of sales of the Group was approximately RMB2,785.2 million, which was increased by approximately RMB755.9 million or 37.2% as compared to approximately RMB2,029.3 million for the year ended 31 December 2021.

Gross Profit and Gross Profit Margin

During the year ended 31 December 2022, the gross profit of the Group increased by approximately RMB14.5 million or 1.2% to approximately RMB1,240.6 million in 2022 from approximately RMB1,226.1 million in 2021. The Group reported gross profit margin of 30.8% for the year ended 31 December 2022 (2021: 37.7%).

Other Income and Gains

The other income and gains of the Group increased by approximately RMB57.6 million or 216.4% to approximately RMB84.2 million in 2022 from approximately RMB26.6 million in 2021, and mainly comprised interest income, tax incentive on value-added tax and government grants of approximately RMB28.2 million, RMB23.4 million and RMB15.8 million, respectively.

Administrative Expenses

Administrative expenses mainly consist of (i) salaries and allowances for the Group's administrative and management personnel; (ii) depreciation and amortisation costs; and (iii) office expenses. For the year ended 31 December 2022, the administrative expenses of the Group were approximately RMB542.8 million, which increased by approximately RMB209.6 million or 62.9% as compared to approximately RMB333.2 million for the year ended 31 December 2021. Such increase was mainly due to the Group's business expansion.

Other Expenses, Net

For the year ended 31 December 2022, other expenses of the Group increased by approximately RMB611.4 million or 2,681.6% to approximately RMB634.2 million in 2022 from approximately RMB22.8 million in 2021, and mainly comprised impairment losses on account receivables and impairment losses on goodwill of approximately RMB435.6 million and RMB143.4 million, respectively. The increase was primarily due to the increase in impairment losses made by the Group for trade receivables, based on the principle of prudence, as compared to that for the year ended 31 December 2021, taking into consideration the change in the credit risk resulting from the continuous downturn of the real estate industry during the year ended 31 December 2022. Due to the significant changes in real estate and property management market environment in 2022, the Group recorded appropriate impairment provisions on goodwill arising from acquisitions, based on the principle of prudence in current year.

Income Tax

For the year ended 31 December 2022, the income tax of the Group was approximately RMB63.6 million (2021: approximately RMB208.4 million). The decrease was primarily due to the decrease in taxable income.

FINANCIAL POSITION AND CAPITAL STRUCTURE

Total Assets, Total Liabilities and Current Ratio

As at 31 December 2022, the total assets of the Group was approximately RMB6,944.7 million (as at 31 December 2021: approximately RMB5,002.1 million), and the total liabilities was approximately RMB3,516.2 million (as at 31 December 2021: approximately RMB1,486.2 million). As at 31 December 2022, the current ratio of the Group was 1.48 (as at 31 December 2021: 1.89).

Cash and Cash Equivalents

As at 31 December 2022, the Group's cash and cash equivalents amounted to approximately RMB1,847.5 million, representing an increase of approximately 49.8% as compared with approximately RMB1,233.6 million as at 31 December 2021. All of the Group's cash and cash equivalents were denominated in RMB except for approximately RMB0.7 million and approximately RMB0.3 million which were denominated in HKD and USD, respectively.

Borrowings and Charges on the Group's Assets

As at 31 December 2022, the Group's total borrowings were approximately RMB551.6 million. Amongst which, approximately RMB174.2 million will be repayable within 1 year and approximately RMB377.3 million will be repayable between 2 and 5 years. The Group's bank and other loans were secured by trade receivables and property, plant and equipment of the Group with total carrying value of approximately RMB89.4 million, and equity interest of a subsidiary of the Group. The carrying amounts of all the Group's bank and other loans were denominated in RMB. All of the Group's bank and other loans were charged at floating interest rates except for loan balance of approximately RMB511.5 million which were charged at fixed interest rates as at 31 December 2022.

As at 31 December 2021, the Group did not have any outstanding borrowings.

Trade Receivables

The Group's trade receivables mainly represent receivables from residential property management services and non-residential property management and commercial operational services. The Group's trade receivables as at 31 December 2022 amounted to approximately RMB2,052.4 million, representing an increase of approximately RMB990.4 million or 93.3% as compared to approximately RMB1,062.0 million as at 31 December 2021.

Trade Payables

The Group's trade payables as at 31 December 2022 amounted to approximately RMB575.4 million representing an increase of approximately RMB329.6 million or 134.1% as compared to approximately RMB245.8 million as at 31 December 2021.

Gearing Ratio

The Group gearing ratio is calculated by dividing the net debt (total debt net of cash and cash equivalents and restricted cash) by total equity. As the Group was in a net cash position as at 31 December 2022 and 2021, the gearing ratio was not applicable to the Group.

Contingent Liabilities

As at 31 December 2022 and 2021, the Group did not have any material contingent liabilities.

Foreign Exchange Risk

The Group mainly operates in the PRC and most of its operations are denominated in RMB. The Group will closely monitor the fluctuations of the RMB exchange rate and give prudent consideration as to entering into currency swap arrangement as and when appropriate for hedging corresponding risks. During the year ended 31 December 2022, the Group had not engaged in hedging activities for managing foreign exchange rate risk.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Acquisition of Guangdong Telijie

On 10 January 2022, Guangdong Hejing Youhuo Holdings Group Co., Ltd. (an indirect wholly-owned subsidiary of the Company) entered into an equity acquisition agreement with HOU Wenqing and CHENG Naizhen to acquire 50% equity interests in Guangdong Telijie at a cash consideration of RMB165.0 million. Guangdong Telijie is principally engaged in urban and rural environmental sanitation service. As at the date of this announcement, the acquisition has been completed and Guangdong Telijie has become a non-wholly owned subsidiary of the Group. Its financial results has been consolidated into the Group's financial statements. For details, please refer to the announcement of the Company dated 10 January 2022.

Save as disclosed above, there were no other significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures, nor was there any plan authorised by the Board for other material investments or additions of capital assets during the year ended 31 December 2022.

USE OF NET PROCEEDS FROM THE LISTING

The ordinary shares of the Company (the "**Share(s)**") were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 30 October 2020 by way of Global Offering (as defined in the prospectus of the Company dated 19 October 2020, the "**Prospectus**"), raising the total net proceeds (after deducting professional fees, underwriting commissions and other related listing expenses) of approximately Hong Kong dollars ("**HK$**") 2,913.1 million (the "**Net Proceeds**"). For details of the original proposed allocation of the Net Proceeds, please refer to the section headed "Future Plans and Use of Proceeds — Use of Proceeds" in the Prospectus.

On 29 June 2021, the Group resolved to revise the allocation of the Net Proceeds to apply the unutilised and unplanned Net Proceeds as follows: (i) approximately HK$705.7 million for pursuing strategic acquisitions and investment opportunities to further develop strategic alliances, expand its business scale and increase its market shares in residential property management service market and other non-residential property management and commercial operational service market; (ii) approximately HK$241.3 million for upgrading the intelligent service systems in order to further enhance its operational efficiency and service quality; (iii) approximately HK$145.6 million for further diversifying its value-added services; and (iv) approximately HK$72.8 million for its general corporate purposes and working capital. Details of the re-allocation are set out in the Company's announcement dated 29 June 2021.

The Group continues to keep abreast with the latest market trends, explore market opportunities in depth with its full business layout, to consistently broaden the breadth and depth of its business and enhance its overall competitiveness in continuous creation of value for its shareholders (the "**Shareholders**"). Based on the aforementioned considerations as well as the following reasons, in order to improve the efficiency of the use of the Net Proceeds and to capture market opportunities for business development in a timely manner, on 10 January 2022, the Board resolved to further adjust the allocation proportion of the Net Proceeds. As set out in the announcement of the Company dated 10 January 2022 (the "**Announcement**"), the unutilised and unplanned Net Proceeds were intended to be allocated and used as follows: (i) approximately HK$250 million for pursuing strategic acquisitions and investment opportunities to further develop strategic alliances, expand its business scale and increase its market shares in residential property management service market and other non-residential property management and commercial operational service market; (ii) approximately HK$120.6 million for upgrading the intelligent service systems in order to further enhance its operational efficiency and service quality; (iii) approximately HK$36.4 million for further diversifying its value-added services; and (iv) approximately HK$52.7 million for its general corporate purposes and working capital.

As at 31 December 2022, an analysis of the utilisation of Net Proceeds is as follows:

Use of the Net Proceeds as set out in the Announcement	Revised allocation as stated in the Announcement *HK$ million*	Unutilised Net Proceeds as at the date of the Announcement *HK$ million*	Utilised Net Proceeds during the year ended 31 December 2022 *HK$ million*	Unutilised or unplanned Net Proceeds as at 31 December 2022 *HK$ million*
To pursue strategic acquisitions and investment opportunities	2,703.4	250.0	250.0	—
To upgrade the intelligent service systems:				
— to purchase and upgrade hardware, establish smart terminal equipment and Internet of Things Platform	84.2	84.2	9.1	75.1
— to develop and upgrade the intelligence service systems	36.4	36.4	31.8	4.6
Diversification into value-added services:				
— to cooperate with companies that provide complementary community products and services	36.4	36.4	—	36.4
For general corporate purposes and working capital	52.7	52.7	52.7	—
Total	2,913.1	459.7	343.6	116.1

Barring unforeseen circumstances, based on the Directors' best estimation, the unutilised or unplanned Net Proceeds will be applied according to the intentions disclosed above before 31 December 2023. However, the actual timing for utilising the Net Proceeds may change.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2022, the Group had approximately 18,000 employees (2021: approximately 18,000 employees). Compensation for employees of the Group is made with reference to the market as well as individual performance and contributions, and extensive use of bonuses to link performance with reward is adopted. The Group reviews the remuneration policies and packages on a regular basis and make necessary adjustments that accommodate the pay levels in the industry. In addition to basic salaries, the Group also provides a comprehensive benefit package and career development opportunities, including performance-based bonus payments, share options, retirement schemes, medical benefits, and both internal and external training appropriate to individual needs.

FINAL DIVIDEND

The Board does not recommend any payment of final dividend for the year ended 31 December 2022 (2021: RMB12 cents per Share).

ANNUAL GENERAL MEETING

The 2023 annual general meeting of the Company ("**2023 AGM**") will be convened and held on Thursday, 1 June 2023 and the notice of the 2023 AGM will be published on the Company's website (www.kwgliving.com) and the HKEXnews website (www.hkexnews.hk) and despatched to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining Shareholders' entitlement to attend and vote at the 2023 AGM, the register of members of the Company will be closed from Monday, 29 May 2023 to Thursday, 1 June 2023 (both days inclusive) during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the 2023 AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Thursday, 25 May 2023.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of our Shareholders and to enhance corporate value and accountability. During the year ended 31 December 2022, the Company has applied the principles of good corporate governance and complied with the code provisions as set out in Part 2 of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), save for the deviations for reasons set out below. The Company will continue to review and monitor its corporate governance practices to ensure the compliance of the CG Code.

Code provision C.1.6 of Part 2 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings and code provision F.2.2 of Part 2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting. Mr. KONG Jianmin, a non-executive Director and the Chairman, was unable to attend the annual general meeting of the Company held on 2 June 2022, due to his other engagements.

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 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. In response to specific enquiry made by the Company, all Directors have confirmed that they have complied with the Model Code during the year ended 31 December 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2022.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises three members who are independent non-executive Directors.

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2022.

SCOPE OF WORK OF 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 2022 as set out in this announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year ended 31 December 2022. The work performed by Ernst & Young 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 Ernst & Young on this announcement.

ANNUAL REPORT

The 2022 annual report of the Company containing all the financial and other related information of the Group required by the Listing Rules will be published on the Company's website (www.kwgliving.com) and the HKEXnews website (www.hkexnews.hk), and printed copies will be sent to the Shareholders before the end of April 2023.

By order of the Board
KWG Living Group Holdings Limited
KONG Jianmin
Chairman

Hong Kong, 30 March 2023

As at the date of this announcement, the Board of Directors of the Company comprises Mr. KONG Jianmin (Chairman) as Non-executive Director; Mr. KONG Jiannan (Chief Executive Officer) and Ms. YANG Jingbo as Executive Directors; and Ms. LIU Xiaolan, Mr. FUNG Che Wai, Anthony and Ms. NG Yi Kum as Independent Non-executive Directors.