Fineland Living Services Group Limited
方圓生活服務集團有限公司

(formerly known as Fineland Real Estate Services Group Limited 方圓房地產服務集團有限公司)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9978)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

Reference is made to the annual report of Fineland Living Services Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2023 (the "**2023 Annual Report**"). Unless otherwise defined, capitalised terms used herein shall have the same meanings as defined in the Annual Report.

In addition to the information provided in the 2023 Annual Report, the Board would like to provide further information in relation to (i) the provision for Impairment Losses (as defined below); and (ii) the updates on the Yikang Acquisition.

(I) SUPPLEMENTAL INFORMATION IN RELATION TO THE IMPAIRMENT LOSSES

As disclosed under the section headed "Management Discussion and Analysis" in the 2023 Annual Report, the Company's trade receivables, amounts due from fellow subsidiaries and related companies were mainly receivables attributable to the provision of the Group's property management services, real estate agency services and earnest money paid to the property developers to entitle to an exclusive agency right to sell properties in the primary market projects during an agreed period.

For the year ended 31 December 2023, the net impairment losses on financial assets of the Group were approximately RMB101.1 million, representing an increase of approximately 987.1% as compared to approximately RMB9.3 million for the year ended 31 December 2022. The increase was primarily attributed to the significant increase in provision for impairment loss on trade receivables, amounts due from fellow subsidiaries and amounts due from related parties (the "**Impairment Losses**") of approximately RMB24.2 million, RMB56.5 million and RMB19.9 million, respectively. The increase in the provision of the Impairment Losses was mainly based on the assessments using the HKFRS 9 "Financial Instruments" simplified approach, taking into account factors, including but not limited to: (i) the slowdown in collecting trade receivables from major customers; (ii) the increased credit risk due to financial difficulties of property developers; and (iii) Guangzhou Fineland's inability to redeem its US dollar-denominated senior notes of US$340 million and to pay interest by the maturity date, and the suspension of trading of its listed notes with a principal amount of RMB918 million as announced by Guangzhou Fineland on 23 August 2023 and 13 November 2023, respectively.

Valuation Report

In addition, Cushman & Wakefield Limited, an independent professional valuer was also engaged to assist with the assessment of ECL allowance for the Impairment Losses and produced a valuation report (the "**Valuation Report**"). Cushman & Wakefield Limited is an international valuation advisory firm that has provided valuation services to many listed companies for their financial reporting purposes. Details of the Valuation Report are as follows:

(i) the valuation method

The independent valuer adopted the expected credit loss model to estimate the lifetime expected credit loss of the financial instruments (i.e., the Group's trade receivables and related party receivables) in accordance with HKFRS 9. For the Group's trade receivables and related party receivables without expected repayment schedule, the expected credit loss rate is estimated based on the corporate default rate, loss given default and forward-looking adjustments. For the Group's trade receivables and related party receivables with expected repayment schedule, the expected credit loss is estimated based on the discounted repayment cash flow.

The same valuation method had been consistently applied on the assessment of ECL allowance for the Impairment Losses as at 31 December 2023 and, as at the date of this announcement, there have been no subsequent changes to the valuation method used.

(ii) the value of inputs, bases and key assumptions

Expected Credit Loss of Trade Receivables as at 31 December 2023

	Historical Loss Rate	**Forward-looking Adjustment**	**Expected Loss rate**	**Gross carrying amount** *(RMB)*	**Loss allowance** *(RMB)*	**Net carrying amount** *(RMB)*
Assessed collectively						
Past due						
Within 1 year	11%	11%	12%	73,650,371	9,194,550	64,455,821
1 year to 2 years	23%	11%	26%	44,347,675	11,370,574	32,977,101
2 years to 3 years	50%	11%	56%	14,692,067	8,117,337	6,514,730
Over 3 years			100%	9,520,065	9,520,065	—
Assessed individually						
Full expected loss			100%	388,537	388,537	—
Total				**142,598,715**	**38,651,063**	**103,947,652**

Expected Credit Loss of Related Party Receivables as at 31 December 2023

	Probability of Default	Loss Given Default	Forward-looking Adjustment	Expected Loss rate	Gross carrying amount *(RMB)*	Loss allowance *(RMB)*	Net carrying amount *(RMB)*
Fellow subsidiaries							
— non-pledged	35%–100%	10%–53%	11%	21%–56%	105,461,826	58,212,955	47,248,871
— pledged				0%	15,230,598	3,046	15,227,552
Total					**120,692,424**	**58,216,001**	**62,476,423**
Related companies							
— non-pledged	35%–100%	10%–64%	11%	25%–45%	45,236,878	20,111,744	25,125,134
— pledged				2%	19,938,284	496,463	19,441,821
Total					**65,175,162**	**20,608,207**	**44,566,955**
Non-controlling interests				5%-10%	1,660,000	116,000	1,544,000

The assumptions made in the Valuation Report included the following: (i) according to the Company's policy, trade receivables for real estate agency services over two years and for property management services over three years are assumed to be treated as 100% provisions; (ii) there will be no material change in the political, legal, fiscal, technological, market and economic conditions that will materially affect the operation of the Company; and (iii) the information provided by the management of the Company is true and accurate.

(iii) the significant change(s) in the value of inputs/assumptions

As at 31 December 2023, there was a significant change in the default rate inputs in the expected loss rate of the Group's trade receivables, and amounts due from fellow subsidiaries and related parties that are in real estate sector compared to those as at 31 December 2022.

Set out below are the expected loss rate of the Group's trade receivables, and amounts due from related parties as at 31 December 2022 and 31 December 2023.

	As at 31 December 2023	As at 31 December 2022
Expected Loss Rate of Trade Receivables		
Assessed collectively		
Past due		
Within 1 year	12%	3.99%
1 year to 2 years	26%	10.82%
2 years to 3 years	56%	30.98%
Over 3 years	100%	100%
Assessed individually		
Full expected loss	100%	100%
Expected Loss Rate of Related Party Receivables		
Fellow subsidiaries		
non-pledged	21%–56%	0%–5%
pledged	0%	not applicable
Related companies		
non-pledged	25%–45%	1%
pledged	2%	not applicable

This change was primarily driven by (i) a notable increase in trade receivables aged exceeding one year as at 31 December 2023; (ii) the persistent weakness and uncertainty in the PRC property market and the shortage of financing resources to PRC property developers; and (iii) in relation to the amounts due from fellow subsidiaries and related companies, Guangzhou Fineland's inability to redeem its US dollar-denominated senior notes of US$340 million and to pay interest by the maturity date, and the suspension of trading of its listed notes with a principal amount of RMB918 million as announced by Guangzhou Fineland on 23 August 2023 and 13 November 2023, respectively.

Measures taken by the Group to Recover the Outstanding Receivables

In efforts to recover the Company's trade receivables, and amounts due from fellow subsidiaries and related companies (including the Outstanding Earnest Money Balance), the Group has regularly and consistently requested payments through oral communications and electronic means, organised physical meetings with debtors to address and resolve outstanding receivables, and issued formal letters and legal demand letters to debtors.

Additionally, during 2023, the Group entered into settlement transactions to offset certain amounts of receivables with properties to immediately reduce exposure to credit risks. For details, please refer to the paragraphs headed "Notifiable transaction" and "Connected transactions" on pages 38 and 39 of the 2023 Annual Report.

Furthermore, the Group initiated a civil legal proceeding against Guangzhou Fangyuan Huijin Real Estate Development Limited* (廣州方圓匯金房地產發展有限公司), a company ultimately non-wholly owned by Mr. Fong, regarding the Outstanding Earnest Money Balance of approximately RMB14.2 million in March 2024. The hearing for this case is scheduled for August 2024. For detailed information, please refer to the paragraph headed "Outstanding Earnest Money Balance" on page 43 of the 2023 Annual Report.

As at the date of this announcement, the Company is still communicating and negotiating with the relevant debtors to recover the remaining balance of the outstanding receivables. The Company has taken, and will continue to take, legal actions to recover its outstanding receivables where necessary.

(II) SUPPLEMENTAL INFORMATION IN RELATION TO THE YIKANG ACQUISITION

Consideration of the Yikang Acquisition

As disclosed on page 10 of the 2023 Annual Report, on 25 October 2021, the Group, as purchaser, entered into a share purchase agreement with Shanghai Lvbaoyuan Business Management Partnership (Limited Partnership)* (上海綠保源企業管理合夥企業 (有限合夥)) as vendor (the "**Vendor**") who is ultimately owned by independent third parties in relation to the acquisition of 60% of the equity interests in Guangdong Yikang Property Service Co., Ltd.* (廣東益康物業服務有限公司) ("**Yikang**") by cash payable by instalments. The third, fourth and fifth payment instalments of the consideration are subject to adjustments depending on whether the net profit (after deducting non-recurring profit and loss combined tax) targets (the "**Guaranteed Profit**") of Yikang for each of the three years ending 31 December 2021, 31 December 2022 and 31 December 2023 could be met respectively.

Third and fourth payment instalments of the consideration

As disclosed in the announcement of the Company dated 30 August 2022, for the year ended 31 December 2021, the deduction amount (as defined in the announcement) exceeded the consideration payable for the third payment instalment by Guangzhou Fangrun Living Services Limited* (廣州方潤生活服務有限公司), an indirectly wholly-owned subsidiary of the Company (the "**Purchaser**"), for the Yikang Acquisition. As a result, the Vendor was obliged to pay approximately RMB5.6 million (the "**Amount Due from Vendor**") to the Purchaser on or before 31 August 2023.

As disclosed in the announcement of the Company dated 30 March 2023, for the year ended 31 December 2022, the fourth payment instalment of the consideration after adjustment was approximately RMB0.9 million (the "**Fourth Instalment Amount**"), payable by the Purchaser to the Vendor. The Purchaser and the Vendor mutually agreed to partially offset the Amount Due from Vendor with the Fourth Instalment Amount. Consequently, the remaining balance of the Amount Due from Vendor was approximately RMB4.7 million (the "**Remaining Balance**").

As at the date of this announcement, the Vendor had not yet paid the Remaining Balance to the Purchaser despite the Purchaser's reminders. Given the impending release of the Yikang's Actual Profit (as defined below) for the year ended 31 December 2023, which is essential for calculating the fifth payment instalment of the consideration, the Vendor has agreed to streamline the settlement process and settle the Remaining Balance together with the fifth payment instalment.

Fifth payment instalment of the consideration

As disclosed in the 2023 Annual Report, for the year ended 31 December 2023, Yikang recorded a net profit (before deducting non-recurring profit and loss combined tax) of approximately RMB5.3 million. Based on the information currently available to the Board, it is expected that the actual profit of Yikang (the "**Actual Profit**"), being the net profit after deducting non-recurring profit and loss combined tax for the year ended 31 December 2023, shall not meet the 2023 Guaranteed Profit, being RMB6,153,800. In the event that the Actual Profit does not meet the 2023 Guaranteed Profit, the Company is entitled to deduct an amount from the consideration for the fifth payment instalment for the Yikang Acquisition.

As at the date of this announcement, the Purchaser and the Vendor (in collaboration with an external auditor it engaged to cross check against the Actual Profit calculated by the Purchaser) are still in the process of negotiating and finalising the Actual Profit, with a focus on determining a mutually acceptable amount for (i) the amortization of certain facilities and equipment maintenance expenses; (ii) the impairment losses of certain trade receivables; and (iii) those received for the recovery of trade receivables incurred prior to the Yikang Acquisition.

The Board expects the Actual Profit to be mutually agreed by the parties by the end of September 2024 and the outstanding balance (together with the Remaining Balance) to be settled by the end of 2024. In the event that no agreement can be reached, the Company will not preclude the possibility of taking legal action against the Vendor. Further announcement(s) will be made as and when appropriate in compliance with the Listing Rules.

Performance Commitment Percentage

As disclosed in the announcement of the Company dated 25 October 2021, the Purchaser shall pay the Vendor any deducted amount from previous instalments (as part of the fifth payment instalment of the consideration) if the total actual profit of Yikang for the three years ended 31 December 2021, 31 December 2022 and 31 December 2023 over the sum of the guaranteed profit for the same period (the "**Performance Commitment Percentage**") is not less than 100% (i.e. depending on whether or not the Vendor is able to meet the guaranteed profit over the three-year period taken as a whole). However, as indicated above, since the total profit of Yikang for three years ended 31 December 2021, 31 December 2022 and 31 December 2023 falls short of the sum of the guaranteed profit for the same period, the Performance Commitment Percentage is less than 100%. Therefore, no previously deducted amount shall be payable by the Purchaser to the Vendor as part of the fifth payment instalment of the consideration.

Performance Undertaking

As disclosed in the announcement of the Company dated 25 October 2021, the Vendor had committed to ensure that Yikang's total revenue for the three years ending 31 December 2021, 31 December 2022 and 31 December 2023 would not fall below approximately RMB76 million failing which it shall pay a penalty of 5% of the total consideration to the Purchaser. The Board confirms that Yikang's total revenue for such period has exceeded RMB76 million, thereby absolving the Vendor of any penalty obligations to the Purchaser in this regard.

The supplemental information above does not affect other information contained in the 2023 Annual Report and save as disclosed above, all other information in the 2023 Annual Report remains unchanged.

By Order of the Board
Fineland Living Services Group Limited
FONG Ming
Chairman

Hong Kong, 25 July 2024

As at the date of this announcement, the executive Directors are Mr. HAN Shuguang and Ms. TSE Lai Wa; the non-executive Director is Mr. FONG Ming; and the independent non-executive Directors are Mr. LEUNG Wai Hung, Mr. TIAN Qiusheng and Mr. DU Chenhua.