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OVERVIEW

We are a comprehensive property management service provider in the PRC, with a primary focus in Shandong Province by upholding our strategy of “Shandong Focus (精耕山東)”. A majority of our managed projects are located in Shandong Province and a few are located in first-tier cities, such as Beijing and Shenzhen. According to the F&S Report, we had a market share of approximately 0.1% in the overall PRC property management industry in terms of the total revenue generated from property management services in 2021, in particular, we ranked third and accounted for approximately 1.0% in the property management services market in Shandong Province.

We, through our operating subsidiaries and branches, provide a wide range of property management services and other ancillary services. The services we provide can be broadly divided into four business segments in terms of their nature, namely (i) property management services; (ii) property engineering and landscape construction services; (iii) property leasing services; and (iv) other services. The below table sets out the breakdown of our revenue by types of services for the Track Record Period:

	FY2019		FY2020		FY2021		1H2021		1H2022	
	% of total Revenue		% of total Revenue		% of total Revenue		% of total Revenue		% of total Revenue	
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
Property management services	366,970	92.4	402,198	82.8	542,838	90.3	250,679	95.8	307,244	95.6
Property engineering and landscape construction services	16,866	4.2	74,863	15.4	49,301	8.2	7,052	2.7	9,358	2.9
Property leasing services	6,173	1.6	8,442	1.7	5,942	1.0	3,005	1.2	3,268	1.0
Other services ^(Note)	7,087	1.8	592	0.1	3,217	0.5	884	0.3	1,521	0.5
Total	397,096	100.0	486,095	100.0	601,298	100.0	261,620	100.0	321,391	100.0

Note: Other services mainly include (i) patient nursing and post-natal caring services; and (ii) sales of software supporting systems developed by us and daily server maintenance services.

In respect of the property management services, with over 25 years of experience and by our professional expertise, we have a comprehensive understanding of our customers’ daily operation and specific requirements and needs to provide high-quality services to hospitals and public properties. For FY2021, we had 46 hospitals and 104 public properties under our management. According to the F&S Report, we ranked second in hospital sector and third in non-residential (including hospitals, public properties and commercial properties) sector among property management service providers in Shandong Province in terms of the revenue generated from the respective sectors in 2021, representing market share of approximately 7.2% and 2.1%, respectively. In terms of the revenue generated from respective sectors in PRC property management industry, we had a market share of approximately 0.6% in hospital sector and 0.3% in non-residential (including hospitals, public properties and commercial properties) sector, respectively.

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We are dedicated to the utilisation and development of digitalisation and operation automation systems and have employed technological solutions to strengthen our competitiveness, improve our service quality and customer satisfaction, reduce our reliance on manual labour, and reduce costs and expense to be incurred by providing our services. In March 2019, we launched an online information technology operation centre, namely OSCS Service Centre, serving the hospitals under our management by offering diversified and tailored hospital logistics services in aspects of cleaning management, centralised logistic management, clinical waste management, facilities management, patient companion and operation management, which are comprehensive and professional solutions to manage, support and optimise the entire operation process of the hospitals under our management. By utilising the OSCS Service Centre, we are able to facilitate our daily operation in hospital sector and provide 24-hour services to hospital staff and/or patients of the hospitals under our management. For details of our hospital logistics services and information technology systems, please refer to the paragraphs headed “Property Management Services — Scope of our property management services — Hospital logistics services” and “Our Information Technology Systems” in this section.

We have achieved diversified coverage in property portfolio, by providing property management services to both non-residential and residential properties. During the Track Record Period, our managed projects can be grouped into four categories, which comprised (i) hospitals; (ii) public properties; (iii) commercial and other non-residential properties (including office buildings, industrial parks and car parks); and (iv) residential properties. The below table sets forth the breakdown of our revenue generated from providing property management services by the types of properties for the Track Record Period:

	FY2019		FY2020		FY2021		1H2021		1H2022	
	Number of managed projects	Revenue	Number of managed projects	Revenue	Number of managed projects	Revenue	Number of managed projects	Revenue	Number of managed projects	Revenue
		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i> (unaudited)		<i>RMB'000</i>
Hospitals	31	143,776	39.2	30 144,715	36.0	46 215,941	39.8	33 98,786	39.4	46 129,569
Public properties	75	140,554	38.3	95 150,840	37.5	104 192,624	35.5	95 93,222	37.2	105 108,835
Commercial and other non-residential properties	37	42,865	11.7	49 64,519	16.0	61 86,112	15.9	52 38,051	15.2	66 44,300
Residential properties	20	39,775	10.8	20 42,124	10.5	22 48,161	8.8	20 20,620	8.2	22 24,540
Total	163	366,970	100.0	194 402,198	100.0	233 542,838	100.0	200 250,679	100.0	239 307,244

The majority of our revenue was generated from customers who are independent third parties, which accounted for approximately 88.6%, 80.3%, 87.8% and 93.8% of our total revenue for FY2019, FY2020, FY2021 and 1H2022, respectively. We were mainly engaged by them as an independent property management company for the provision of our property management services to their properties in the PRC. Our Group obtains new property management agreements from them mainly by way of open tendering. For FY2019, FY2020, FY2021 and 1H2022, our tender success rate for securing property management agreements recorded approximately 28.4%, 32.5%, 48.1% and 40.7%, respectively; and the renewal rate of our property management agreements was approximately 87.4%, 90.6%, 90.8% and 87.4% for the corresponding period, respectively. We pride ourselves for having a relatively high renewal rate for our property management agreements, which is a reflection of high customer satisfaction.

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With years of steadfast practise and establishment, we have committedly endeavoured to provide comprehensive, sophisticated and specialised services to our customers by continually diversifying our services and enhancing our capabilities on serving different types of properties, and our Group has been accredited with GB/T19001-2016/ISO 9001:2015 (Quality management system certification), GB/T 20647.9-2006/ZMCC-TC-10-2018 (5-star service certification), GB/T24001-2016/ISO 14001:2015 (Environmental management system certificate), GB/T45001-2020/ISO45001-2018 (Occupational safety management system certificate), ISO 56002-2019 (Innovation management system certificate), ISO50001:2018 RB/T 107-2013 (Energy management system certificate), Jinan City Property Comprehensive Service Standardization Pilot Enterprise^(Note 1) and Good Standardising Practice Certificate Grade AAA^(Note 2).

COMPETITIVE STRENGTHS

We believe our success and potential for further growth are attributable to our competitive strengths as set out below:

We have established strong presence in the property management industry in Shandong Province, and built up stable business relationship with our major customers in result of our satisfying services and market reputation in the industry

The property management industry in the PRC is highly regionalised and featured by high level of fragmentation. Established in 1996, we have an operating history of over 25 years, with a primary focus in Shandong Province by upholding our strategy of “Shandong Focus (精耕山東)”. By building upon our brand, “Runhua Property” (潤華物業), and the reputation we earned throughout the years of our operation, our Directors believe that our Group has become one of the established service providers in the mid-to-high-end property management service industry, especially in hospital and public sectors, in Shandong Province. For FY2019, FY2020, FY2021 and 1H2022, our revenue generated from Shandong Province accounted for approximately 94.9%, 95.3%, 93.2% and 92.3% of our total revenue, respectively. According to the F&S Report, we ranked third among property management service providers in Shandong Province in terms of total revenue in 2021, representing a market share of approximately 1.0%. In recognition of our strength and market position, we were awarded several highly regarded honours in the industry such as:

- TOP500 Property Management Companies of China in 2020 (2020年物業服務企業綜合實力測評TOP500);
- Shandong Premium Brand — Service Category* (山東優質品牌 — 服務類);
- High and New Technology Enterprise* (高新技術企業);
- Shandong Famous Brand* (山東知名品牌);
- Key Service Enterprises in Shandong* (山東省重點服務業企業); and
- High-end Cultivation Enterprise in Service Industry in Shandong* (山東省服務業高端培育企業).

For further details, please refer to the paragraph headed “Awards, Accreditations and Certifications” in this section.

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According to the F&S Report, it is rather difficult for new entrants to shape their own brand reputation in short time and obtain a similar level of experience and expertise to compete against the leading services providers like us in Shandong. Comparing to our competitors in the industry, we have a more deep-rooted presence in the property management industry in Shandong Province, expanding our geographic presence from Jinan, the provincial capital of Shandong Province to cover 15 of the 16 prefecture-level cities in Shandong Province. As at Latest Practicable Date, we had 14 operating subsidiaries and 24 branches in the PRC, providing property management services to over 200 projects. In 2010, we obtained the Property Management Enterprise Qualification Certificate Level One* (物業服務企業資質證書一級), which has enabled us to undertake property management projects across the PRC, irrespective of property size, business scale and location. Given the reliable quality of our services and long history in the industry, we believe our market position and industry recognition have translated into a word-of-mouth reputation and increased customer’s confidence in our services, which in turn secure new business opportunities, maintain existing customers and consolidate our market share.

We have built a strong rapport with our major customers over the years. Apart from our related parties, the business relationship between our Group and most of our top five customers during the Track Record Period ranges from seven years to 18 years. Our Directors believe that customers’ satisfaction is fundamental in maintaining good and long-term relationships between our Group and our customers, which enables our Group to secure new agreements or renew the existing agreements with these customers in the future. Also, with the long-term cooperation with our major customers, we are able to develop our capability with reference to high-level standards in terms of safety and quality assurance and enhance our chance to obtain high-profile agreements. For details of our customers, please refer to the paragraph headed “Our Customers” in this section.

Our expertise and experience in managing hospitals and public properties allow us to strengthen our property management capabilities to cater for the customers’ high-standard requirement of specialised services and thus position ourselves as an established service provider in hospital sector as well as public sector

With the long-term professional operation and brand cultivation, we have achieved an active position in providing property management services to hospitals and public properties in Shandong Province. For FY2019, FY2020, FY2021 and 1H2022, our revenue generated from the hospitals accounted for approximately 39.2%, 36.0%, 39.8% and 42.2% of our revenue generated from providing property management services and approximately 38.3%, 37.5%, 35.5% and 35.4% of our revenue generated from providing property management services was from the public properties. For FY2021, we had 46 hospitals and 104 public properties under our management. According to the F&S Report, we ranked second in hospital sector and third in non-residential (including hospital, public properties and commercial properties) sector among the respective property management service providers in Shandong Province in terms of the revenue generated from the respective sectors in 2021, representing the market share of approximately 7.2% and 2.1%, respectively. In terms of the revenue generated from the respective sectors in PRC property management industry, we had a market share of approximately 0.6% in hospital sector and 0.3% in non-residential (including hospitals, public properties and commercial properties) sector, respectively.

According to the F&S Report, the management of hospitals and public properties generally requires the property management service providers, like our Group, to have a high brand reputation, standard of services as well as operation and management capacity. In respect of hospital sector, we have been providing property management services to five out of the Top 10 Grade 3A Hospitals in terms of outpatients visits in Shandong

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Province in 2020 and the total number of outpatient visits of the hospitals we served exceeded 13.6 million in 2020. To distinguish ourselves from other service providers, we focus on provision of our services to provincial-level and prefectural-level hospitals, who require higher quality and standard of services. According to the “Top 100 Hospitals in China” (中國頂級醫院100強) in 2021, we served five among the Top 100 Grade 3A Hospitals in the PRC during the Track Record Period. In respect of public sector, we served Baotu Spring Park (趵突泉公園) — an AAAAA Tourist Attraction of PRC, Shandong Provincial Capital Culture and Art Center Grand Theatre (山東省會文化藝術中心大劇院), Linyi Grand Theatre (臨沂大劇院) and Shenzhen Guangming Culture and Arts Centre (深圳光明文化藝術中心), all of which are well-known landmark cultural facilities, as well as railway stations in seven cities across Shandong Province, including Jinanxi Railway Station. Our Directors are of the view that unlike traditional property management service providers who focus on providing services to residential and commercial properties, we have developed and have been strengthening our strong property management capabilities in environmental hygiene management, crowd control and emergency response by having a proven track record in managing hospitals and public properties. Our Directors also believe that with the in-depth cooperation, customers in hospital and public sectors are also willing to enter into additional ancillary service agreements to their existing services providers on top of the typical property management services.

According to the F&S Report, high customer stickiness is one of the main characteristics in the hospital logistics market, whilst the hospitals will not change their services providers easily mainly as the successful cooperation between the hospitals and their services providers requires long-term accumulation. If the property management services providers are changed frequently, it will increase the costs of hospitals in the management, coordination and communication with services providers as well as the risk of affecting its daily operation given that hospital logistics services is deeply integrated into hospital’s operation chain. Therefore, customers in hospital sector are more cautious when selecting service providers and have high requirements for past experience as well as operation and management capability. On top of typical property management services, we provide an integrated platform to the hospitals under our management by offering diversified and tailored hospital logistics services, which are comprehensive and professional solutions to manage, support and optimise the entire operation process of the hospitals under our management. In view of our participation and support in the anti-epidemic works in the hospitals under our management during the outbreak of COVID-19, we were accredited as “Epidemic prevention and control work in Jinan City — Advanced Property Services Company* (濟南市疫情防控工作 — 先進物業服務企業)” in June 2020.

Meanwhile, public properties, in particular public transportation properties, are characterised with public, openness and security, with high standards and strict requirements on the environment, facilities and service qualities which require higher expertise for property management services providers. Therefore, once the customers in public transportation industry have built a successful cooperation with the property management services providers, the customers generally have the preference to their existing suppliers and property management services providers can enjoy higher customer stickiness in managing public transportation.

Notes:

1. Jinan City Property Comprehensive Service Standardization Pilot Enterprise was nominated by Jinan City Market Supervision Administration and approved by Shandong Provincial Market Supervision Administration, the official agency directly in charge of regulating areas such as market competition, monopolies, intellectual property, and drug safety.
2. Good Standardizing Practice Certificate Grade AAA was awarded by China Association of Standardisation (中國標準化協會), which is an association managed by the Standardization Administration of the PRC (國家標準化管理委員會).

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Our Directors believe that our Group’s commitment to quality of service has set a benchmark for high-quality property management in the market, which forms the crux to achieving customer loyalty and retention. Hence, the renewal rate of our property management agreements sustained at a relatively high level of approximately 87.4%, 90.6%, 90.8% and 87.4% for FY2019, FY2020, FY2021 and 1H2022, respectively. We pride ourselves for having a relatively high renewal rate for our property management agreements which is a reflection of high customer’s satisfaction.

We have a diversified customer base which encourages us to continuously develop our property portfolio and types of services and thus expand our revenue streams

Our Group has strived to strengthen and develop our customer base since our establishment. During the Track Record Period, the majority of our revenue was generated from customers who are independent third parties, which accounted for approximately 88.6%, 80.3%, 87.8% and 93.8% of our total revenue for FY2019, FY2020, FY2021 and 1H2022, respectively. We were engaged by them as an independent property management company for the provision of professional and quality property management services to their properties in the PRC. As an independent service provider, we have full management autonomy in our business development and operation to develop a wide range of our services and property portfolio. Our Directors believe that independent property management companies are more innovative and flexible to cater for the requests of each individual customer and the constantly changing market trends.

Besides, we have maintained a stable business relationship with our related parties. During the Track Record Period, we provided a variety of our services, including property management services and property engineering and landscape construction services, to them, which our revenue contributed by them accounted for approximately 11.4%, 19.7%, 12.2% and 6.2% of our total revenue for FY2019, FY2020, FY2021 and 1H2022, respectively. Our Directors believe that the collaboration enables us to secure a stable source of revenue in the future.

Our Directors are of the view that various types of services can create synergies with each other and generate diversified revenue streams. By leveraging our local network, industry experience and our understanding of different types of customers, we have also achieved a diversified coverage in property portfolio by providing property management services to different kinds of non-residential and residential properties, including hospitals, transport terminals, railway stations, office buildings, governmental buildings, exhibition and convention centres, residential properties, universities and schools, industrial parks and tourist attractions. Having considered our qualification, diversified service coverage and experience, our Group is capable to undertake for the property management agreements for different types of properties, diversify our customer base and enhance our capability to generate revenues from various property portfolios.

Besides, our service offering is multi-faceted to serve customers’ multifarious needs. During the Track Record Period, our Group has provided more than one type of service to the same customers (including both related parties and independent third customers) attributable to our capabilities to meet the various needs of our customers. On top of typical property management services, we provide an integrated platform to the hospitals under our management by offering diversified and tailored hospital logistics services, which are comprehensive and professional solutions to manage, support and optimise the entire operation process of the hospitals under our management. We established Jinan Runwu Landscape in 2014 and Jinan Runwu Construction in 2015, to offer property engineering and landscape construction services. We have also been providing leasing services to

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generate rental income as additional recurring revenue stream. Our Directors consider that, under most of the circumstances, we came to know the customers’ needs for property engineering and landscape construction services whilst providing daily on-site property management services to them and thus were able to reach the customers and introduce the business opportunity to the responsible departments in our Group in the first place. For FY2019, FY2020, FY2021 and 1H2022, there were 10, 13, 12 and seven independent customers who were in business relationship with us for more than one type of services, respectively.

We achieved operational and cost efficiency improvement through our standardised property management methodologies as well as utilisation of advanced information technology in our daily operation, and improved customer satisfaction

We focus on streamlining and standardising our property management services with advanced information system and standardised property management methodologies to strengthen our internal reporting system and operational efficiency as well as control on our operating costs. During the Track Record Period, we have formed numerous on-site management teams, comprising of project managers and supervisors, who are designated to our managed projects for ensuring those projects to be managed in a proper manner and with a quality standard acceptable to our customers. In order to streamline and standardise our property management services, we established a set of operation booklets covering different kinds of property management services to all types of properties under our management.

According to the F&S Report, the wide application of new technologies can improve operation capability and comprehensive strength of property management service providers. We are dedicated to the utilisation and development of digitalisation and operation automation systems and have employed technological solutions to strengthen our competitiveness, improve our service quality and customer satisfaction, reduce our reliance on manual labour, and reduce costs and expense to be incurred by providing our services. In March 2019, we launched an information technology operation centre, namely OSCS Service Centre, which is a centralised management platform providing 24-hour services to manage, support and optimise the entire operation process of the hospitals under our management. In line with the trend in the development of mobile technology, we established Runzhiyun and QR Code Pass to provide fast and convenient access to OSCS Service Centre to the hospital staff who can submit their requests for our services. Meanwhile, through Runzhiyun and QR Code Pass, our frontline workers can respond promptly to the customers’ orders, review work schedule as well as attend online study and assessment on work-related technique and skill. Through the OSCS Service Centre, We handle over 11,000, 30,000, 62,000 and 59,000 service orders in FY2019, FY2020, FY2021 and 1H2022, respectively. Our Directors believe that the application of these technologies allows us to improve our cost effectiveness and profitability of property management services for hospitals. The gross profit margin of our property management services for hospitals improved from approximately 10.9% for FY2019 to 15.6%, 13.3% and 16.3% for FY2020, FY2021 and 1H2022, respectively. Apart from the hospitals under our management, we also developed a series of management supporting systems for other properties with special features, such as public transportation properties and schools, to facilitate our daily operation activities. For details, please refer to the paragraph headed “Our Technology Information Systems” in this section.

In light of the practical application of standard property management methodology methodologies and utilisation of advanced technology in our daily operation, our Directors believe that it will enhance our competitiveness and capability for securing new property management agreements.

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We have stringent quality control and high safety standard and environmental impact control

We place emphasis on providing consistently high-quality services and have adopted a “three-tier quality assurance system” to supervise and maintain the quality of our services. For details of the quality assurance measures adopted by us, please refer to the paragraph headed “Quality Assurance” in this section. Our Group has been accredited with GB/T19001-2016/ISO 9001:2015 (Quality management system certification), GB/T 20647.9-2006/ZMCC-TC-10-2018 (5-star service certification), GB/T24001-2016/ISO 14001:2015 (Environmental management system certificate) and GB/T45001-2020/ISO45001-2018 (Occupational safety management system certificate), ISO 56002-2019 (Innovation management system certificate), ISO50001:2018 RB/T 107-2013 (Energy management system certificate) and Good Standardising Practice Certificate Grade AAA. Our Directors believe that these certifications can enhance our public image, credibility and customers’ confidence in our Group.

To enhance the service quality and safe awareness of our staff and workers of our subcontractors, we provide them with trainings tailored to the needs of their position and duties and provide online training courses and assessment to them to improve their professional knowledge and skills. Our Directors are of the view that both our staff and customers have benefited from our stringent quality control system especially during the COVID-19 when our customers improved their awareness of safety and increased the standard of our services (especially environmental hygiene management) whilst our staffs were able to satisfy their demands as well as protect themselves in the process of delivering professional service.

Our Directors also believe that the continued success of our business primarily depends on our ability to meet our customers’ requirements, particularly in respect of safety, environment and quality aspects, and that our certified status will continue to bring us more business opportunities and uphold our competitiveness in the market.

We have experienced and competent management team

We have an experienced and competent management team with extensive operational expertise and in-depth understanding of the property management industry in the PRC, which is invaluable to the development of our business.

Mr. Yang, the chairman of our Board and executive Director, has joined Runhua Group since June 1993 and started to work for our Group since January 2011. His insights and strategic visions have allowed us to develop and pursue sustainable business strategies as well as seize profitable market opportunities, thus contributing to our success to date. Mr. Fei, our executive Director, has over 10 years of experience in the property management industry. Four of our deputy general managers, who are members of our senior management, also have solid experience in the property management industry in the PRC. For details of the qualifications and experience of our Directors and senior management, please refer to the section headed “Directors and Senior Management” in this document.

In light of the experience and technical knowledge of our executive Directors and senior management, our Directors are confident that our Group will remain competitive and reputable in the industry owing to the in-depth industry knowledge of our senior management. The leadership of our Directors and senior management will continue to bring business growth and profitability, thereby strengthening our market position in the property management industry in the PRC.

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BUSINESS STRATEGIES AND FUTURE PLANS

The principal business objective of our Group is to further strengthen our market position, increase our market share and capture the growth in the property management industry in the PRC. We intend to achieve our business objective by implementing the following strategies:

Further expand our business scale, increase our market share and bolster our geographic presence in Shandong Province and tap into other developed neighbouring regions

Since our establishment, we have been primarily focusing in the provision of our services in Shandong Province and upholding our strategy of “Shandong Focus (精耕山東)”. In view of the PRC’s continuous growth in the economy and urbanisation, as well as the expected increase in the number of new properties, both in residential and non-residential, apart from growing our business through organic growth initiatives, we plan to increase our market share in cities where we have presence in Shandong Province, via acquisitions as well as business collaboration with business partners, as well as penetrate into the market in other developed neighbouring regions, such as Yangtze River Delta Region and Beijing-Tianjin-Hebei Region, via acquisitions of well-established local property management companies.

Selectively pursue merger and acquisition opportunities within the property management industry

We envision and strive to be one of the leading property management service providers based in Shandong Province. The degree of concentration of the property management services market is increasing in recent years as a result of policy environment, market competition and information technology. Especially, a few of the leading property management services companies begin to raise management standards and core competitiveness through mergers and acquisitions. Moreover, property management services companies are making efforts to develop alliance and consolidation to achieve economies of scale resulting in the increasing concentration level of China’s property management services market in the future. Many property management companies use mergers and acquisitions as tools to mitigate risks when expanding into new markets, helping new entrants to access the local market by leveraging the established resources and goodwill of the merged or acquired entity. According to the F&S Report, the trend of the mergers and acquisitions activities of the property management companies will continue and will remain as the dominant method for the expansion of their business. As a result, the PRC property management industry will be increasingly consolidated, with major industry players tapping into new markets and diversifying their business to further strengthen their presence.

After having established a strong footprint in Shandong Province, we have expanded our business to first-tier cities with a high population in the PRC such as Beijing and Shenzhen. As at the Latest Practicable Date, we had five and one properties under our management located in Beijing-Tianjin-Hebei Region and Yangtze River Delta Region, respectively. Leveraging our strategic presence in the Yangtze River Delta Region and Beijing-Tianjin-Hebei Region, we expect to further penetrate target markets across China.

Therefore, we believe that the potential acquisitions will provide us with efficient access to new geographic markets and support our strategy to expand our operations. We plan to capture new business opportunities and increase our geographical coverage by seeking and considering suitable acquisition opportunities to enhance our capabilities in undertaking different types of property management projects or acquiring local knowledge or connections. We primarily target medium sized property management service companies located in cities in Shandong Province with better economic development or industrial foundation,

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such as Jinan and Qingdao, and in other developed neighbouring regions, such as Yangtze River Delta Region and Beijing-Tianjin-Hebei Region, with a focus on providing property management services for non-residential properties, including hospitals, governmental buildings, tourist attractions, theatres, cultural venues, stadiums and exhibition halls and schools. As at the Latest Practicable Date, we had not identified any target company for acquisition. For further details of the selection criteria relating to the target companies, please refer to the section headed “Future Plans and [REDACTED]” in this document.

Continuously expand our property portfolio to cover more types of public properties via business collaboration with business partners

Leveraging our extensive experience in Shandong Province, we actively explore and pursue opportunities to expand our property portfolio and bolster our geographic presence across Shandong Province by securing more projects, with a specific interest in high-end hospitals and public properties for improving our Group’s profile and exposure in the market. In October 2020, we have formed business collaboration with a state-owned medical research and property management company (“**Business Partner A**”). Detailed ways of cooperation shall be finalised in separate formal agreements. The cooperation agreement can be renewed and extended for a further term by mutual consent. Pursuant to the cooperation agreement, Business Partner A would introduce us to manage the properties operated by it. The background of Business Partner A and major terms of the cooperation agreement are as follows:

Background

A state-owned enterprise registered in Jinan, established to provide medical research and property management services solely for the properties located in a biomedical industrial park in Jinan City with the total size of approximately 45 square kilometer. As confirmed with Business Partner A, they did not provide property management services to the properties outside the said biomedical industrial park during the Track Record Period.

As confirmed with the Business Partner A, their property management services mainly involved the management of conferences and exhibitions in the biomedical industrial park operated by them. Due to the lack of professional property management talents and internal resources, they generally outsource the typical property management services, such as cleaning, security and repair and maintenance works, which are labour intensive works, to the suppliers like us.

Scope of cooperation

Both parties will cooperate in exchanging of information regarding business development in healthcare industry and market trend and exploring the areas of integrated marketing and promotion; and carry out in-depth cooperation in various aspects focusing on staff training, building of corporate culture and business operation.

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As advised by our PRC Legal Advisers, the information we shared with the Business Partner A is in compliance with the Personal Information Protection Laws (《個人資訊保護法》) and the Data Security Laws (《數據安全法》).

Term

19 October 2020 to 18 October 2022

Conditions of termination

The parties can terminate the framework agreement immediately in case of material breaches of the framework agreement and/or the formal property management agreement(s)

In FY2021 and 1H2022, we provided property management services including cleaning, security and repair and maintenance works to Business Partner A for the said biomedical industrial park and a property selling center, which generated an aggregate revenue of approximately RMB4.3 million and RMB0.6 million, respectively; and gross profit of approximately RMB0.3 million and RMB0.1 million, respectively. Our Directors believe that serving such medical research company can allow us to diversify the types of our managed property portfolio and enlarge our customer base.

According to the F&S Report, under the government support on developing urban agglomerations, growing numbers of non-residential properties are expected to be constructed, such as office buildings, industrial parks and public properties, which has stimulated the increasing demands for non-residential property management services and bring new development opportunities to companies that can provide professional non-residential property management services. For instance, according to China Association of Metros, the number of cities that operate subways increased from 30 in 2016 to 50 in 2021, with the length of subways increasing from 3,168.7 kilometres to 7,209.7 kilometres, with a CAGR of 17.9% from 2016 to 2021. The accelerated construction of public transportation infrastructures has stimulated the increasing demands for property management services.

During the Track Record Period, we provided our property management services to different public transportation properties, such as railway stations in seven cities across Shandong Province (including Jinanxi Railway Station), airports and metro as well as some of the tollbooths in Shandong highway. In view of the continuous development of airports and highways in Shandong Province and our successful cooperation with these public transportation properties, we plan to explore business opportunities to further increase the number of public transportation properties under our management by both actively participating in tendering and establishing business cooperation relationships with business partners. In November 2020, we established Shandong Yongyuan with our business partner, a state-owned airport operator, and as at the Latest Practicable Date, we have undertaken three property management agreements for Heze Mudan Airport (菏澤牡丹機場), with the aggregate contract value of approximately RMB5.8 million. Our Directors believe that investment in new business collaboration is cost effective and has a high growth potential. Moreover, serving these key public transportation properties could enhance our corporate image and demonstrate our property managements prowess in the industry.

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Develop advanced information technology and mobile application functions to optimise our business model to increase our cost effectiveness

Our current information technology systems mainly focus on serving the hospitals under our management. In March 2019, we have launched OSCS Service Centre to facilitate our daily operation in hospital sector and provide 24-hour services to hospital staff and patients of the hospitals under our management. The OSCS Service Centre can gather different kinds of data, such as service data (e.g. number of handled orders and customer satisfaction score); environmental data (e.g. lighting, temperature and humidity); architectural data (e.g. floor plan, physical features of a building and security patrolling route); facilities data (e.g. elevators, fire service system and sewage system); and human data (e.g. staff training record, attendance rate and details of supervisors in each service segment). Based on the data collected from OSCS Service Centre, our on-site management teams can implement or adjust our property management plan accurately. We handled service orders, through our systems, for over 11,000, 30,000, 62,000 and 59,000 tasks in FY2019, FY2020, FY2021 and 1H2022, respectively. The gross profit margin of our property management services for hospitals increased from approximately 10.9% for FY2019 to 15.6%, 13.3% and 16.3% for FY2020, FY2021 and 1H2022. Therefore, our Directors believe that the continuous development and penetration of the information technology into our operation could improve our profitability and cost control in the long term. For FY2019, FY2020, FY2021 and 1H2022, we incurred expenses for information technology development of approximately RMB2.3 million, RMB1.9 million, RMB1.3 million and RMB1.4 million, respectively. We plan to continue to develop information technology system on the property management level and headquarter management level in order to strengthen our operational efficiency and control our costs effectively.

Property management level

We intend to integrate the data collection function and develop an upgraded operational and decision analysis platform that would utilise updated technologies, such as Internet of Things (IoT), big data and cloud computing, to consolidate our property management system and accounting system and analyse key data in respect of human resource, procurement, project budgeting, cost control and financial reporting, and thereby assist senior management in identifying and responding to key trends rapidly and efficiently. The new system is expected to collect the operation data and transfer them to the headquarters and regional branch offices, such that we can monitor and observe the real-time status and energy consumption levels of each of our managed properties and facilities through screens, computers, mobile application and other devices. In particular, through connecting facilities with the system, data can be stored and analysed in order to detect any potential equipment hazards and failures in advance. New system will help us to achieve remote operation of the facilities in our managed properties from our operation centre. This will lower the cost of manual inspection, and ensure standardisation and automation of inspections. The system enables us to reduce labour costs in patrolling the premises and inspecting our equipment and operation cost by monitoring energy consumption. We also plan to develop a visitor registration system to achieve visitors' access control management and track on their sign-in and sign-out records for security purpose.

Our Directors believe that a wide array of information technology systems would build up our competitive advantages. Our database contains updated property and facility management including existing site information. Appropriate strategies and tailored service packages can be devised for project bids through the analysis of such data. We plan to upgrade our existing tender management system by linking up with our database. In addition, marketing tools and materials such as presentation kits and management proposal

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templates for different types of properties and facilities can be deployed through our database to assist our Group in securing property management agreements.

Given that we adopt the “lump sum basis” for our revenue model, our profitability is basically dependent largely upon our ability of cost control and budgeting. We intend to develop a budgeting system to monitor and adjust the budget planning of each of our managed projects. The budgeting system can monitor the status of our budget implementation based on the details of project staffing and project execution progress as well as the amount of revenue recognised and expense incurred. If the budget amount reaches our preset threshold rules, the system will automatically issue an alert notification to our business department and on-site management team. Request for adjustment of budget amount shall be submitted, through our system, to our headquarters for approval and the revised budget amount will be updated in our system to reduce the time consumption in communications.

Headquarter management level

Given a large number of frontline workers to be assigned to our managed projects, our Directors consider that it is essential to integrate the operation data between our business departments and human resource department in order to monitor the availability of our human resources to ensure sufficient and timely allocation of resource to projects to minimise idle capacity and fully utilise our resources efficiently. Such data integration could streamline our Group’s operation and administration including but not limited to enhance relevant employees’ efficiency in managing and handling their respective functions which could in turn enhance their capacity in undertaking increasing tasks and mitigate the risk of manual error to cope with our Group’s business expansion. We also plan to invest in the improvement of our existing management system in aspect of human resource and contract management. The upgraded system is able to calculate the salaries and overtime payments of our staff based on their time card records, and achieve payroll automation.

In respect of contract management, we expect our staff can, through the upgraded system, review the amount of trade receivables of each contract to prepare our bills and/or demand letters. We expect such upgrade can improve our standardisation, centralisation, digitisation and automation level in our operations in relation to calculate and analyse financial data for our operations and enhance the communication between our business departments and finance department in collection of our service fees. We also plan to develop online payment functions for individual customers and outstanding payment alerts, to optimise our management capacity.

Continue to improve staff motivation mechanism to attract, cultivate and retain talents

Success in the market requires a professional team in both management and technology as well as a stable talent development mechanism. Further, our success depends, to a large extent, on our ability to continually provide quality services to our customers by our employees and those of our subcontractors; and our ability to maintain a committed professional and dedicated team of management and employees who are committed to our corporate spirit which was instrumental in our growth over the past 25 years. To support our business expansion set out above, it is important for us to develop and attract more talent for filling up various positions in our Group.

We plan to adhere to the “talent-oriented” management policy and will respond quickly to the human resource demands and adopt measures to optimise the allocation of human resources. In order to enhance the

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morale of our employees and provide more incentives for them to work with us, we intend to promote our internal staff members to managerial level positions. In view that our employee training programmes primarily consist of induction training and on-the-job training, we plan to enhance our training programmes by developing a promotion assessment programme to provide career development opportunities to our employees and promote them internally. If necessary, the promoted staff will be sponsored to attend professional qualification trainings conducted by external organisations or professionals, in relation to the overall property management knowledge and skill.

To cope with our business expansion, we will recruit property management talents in the market to supervise our managed projects as well as improve our capabilities in sales and marketing and quality control. As we plan to execute further acquisitions, we will also selectively retain appropriate talent who specialise in locating quality property management projects in the relevant regions. We believe that having a sufficient pool of talented employees provides crucial support to our planned business growth and maintain our service quality.

Enhance project execution efficiency and service quality by acquiring suitable new automated cleaning machineries and equipment

According to the F&S Report, the property management market is a labour-intensive industry and requires substantial manpower to carry out the daily works and some property management service companies tend to use advanced equipment to reduce labour costs. Project execution efficiency is mainly reflected by our ability to meet work schedule and our budget control. We plan to acquire suitable new automated cleaning machineries and equipment mainly for rendering cleaning and disinfection services. Our Directors consider that it is necessary to acquire new automated machineries and equipment in order to meet the contract obligations to render the cleaning services promptly and efficiently to meet our customers' needs. For example, our cleaning activities of the railway station platforms are required to be done within a limited time between the internals of trains to minimise disruption to passengers as well as maintain the safety of all users of the railway network.

Aiming at the characteristics of hospitals and high standard in cleaning management, we provide intensified disinfection and sterilisation services covering the hospital areas of wards, operating theatres, clinics and laboratories. Therefore, we also intend to deploy some intelligent sterilisation robots to the key hospitals under our management for disinfecting environmental air and subject surface, via automatic robot with ultra-violet light, hydrogen peroxide and filtering. Our Directors believe that equipping ourselves with intelligent sterilisation robots to maintain the quality consistency will allow us to enhance our competitiveness during the stage of tender bidding and negotiation for renewal.

OUR BUSINESS MODEL

During the Track Record Period, the services we provide can be broadly divided into four business segments in terms of their nature. Details of our business segments are summarised as follows:

- **Property management services:** We provide (a) typical property management services, such as (i) cleaning and disinfection services, including the regular cleaning and disinfection of common areas of our managed projects, waste management, pest control, floor waxing maintenance, regular greening and gardening maintenance on the greening areas in the properties under our management; (ii) security services, including 24-hour surveillance, patrolling, guarding, access control, crowd control, visitor handling, emergency handling and fire drilling; (iii) general repair

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and maintenance services, including daily inspection, repair and maintenance of facilities and equipment in common areas, fire facilities and safety signs, utilities facilities and security facilities; and (iv) customer services, including value-added services (including concierge services, ushering services, catering services, housekeeping services, vehicle cleaning services and delivery services), carpark management services, canteen management services conference services, elevator operations services and chauffeur services; and (b) hospital logistics services, which are comprehensive and professional solutions to manage, support and optimise the entire operation process of the hospitals under our management.

- **Property engineering and landscape construction services:** Our services include (i) the major maintenance services for building components and systems, interior renovation services, alteration and addition work of existing buildings and facilities and installation of elevators, in order to enhance the quality of the property management systems of our customers; and (ii) the sales, leasing and planting of trees, shrubs and flowers, modification of the shape and elevation of terrain used for landscaping, instalment of related equipment and landscape maintenance work during/ after the provision of our landscape construction services;
- **Property leasing services:** We rent out our investment properties to satisfy our customers’ needs; and
- **Other services:** Our other services mainly include (i) patient nursing and post-natal caring services; and (ii) sales of software supporting systems developed by us and daily server maintenance services.

The below table sets out the breakdown of our revenue by types of services for the Track Record Period:

	FY2019		FY2020		FY2021		1H2021		1H2022	
	Revenue RMB'000	% of total revenue	Revenue RMB'000	% of total revenue	Revenue RMB'000	% of total revenue	Revenue RMB'000 (unaudited)	% of total revenue	Revenue RMB'000	% of total revenue
Property management services	366,970	92.4	402,198	82.8	542,838	90.3	250,679	95.8	307,244	95.6
Property engineering and landscape construction services	16,866	4.2	74,863	15.4	49,301	8.2	7,052	2.7	9,358	2.9
Property leasing services ...	6,173	1.6	8,442	1.7	5,942	1.0	3,005	1.2	3,268	1.0
Other services ^(Note)	7,087	1.8	592	0.1	3,217	0.5	884	0.3	1,521	0.5
Total	397,096	100.0	486,095	100.0	601,298	100.0	261,620	100.0	321,391	100.0

Note: Other services mainly include (i) patient nursing and post-natal caring services; and (ii) sales of software supporting systems developed by us and daily server maintenance services.

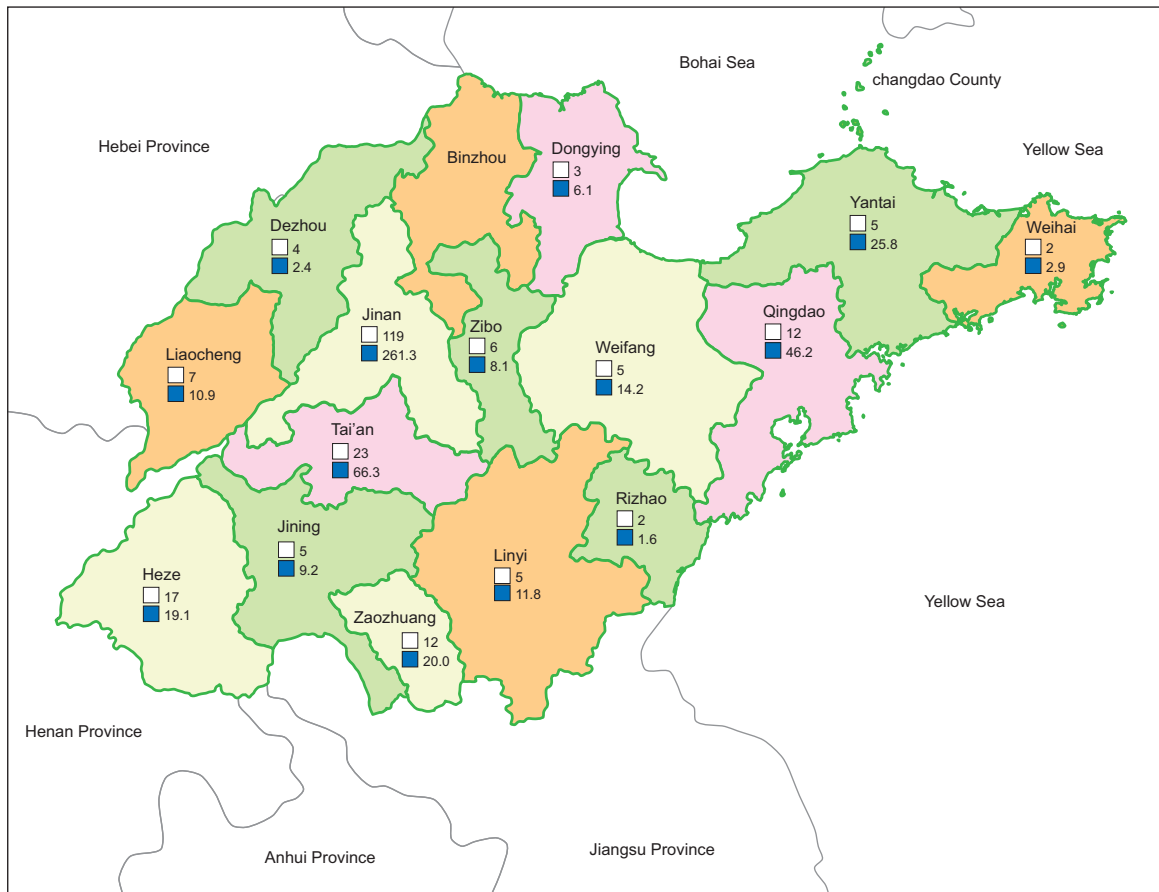
PROPERTY MANAGEMENT SERVICES

Our Group has been providing property management services since the establishment of our first operating subsidiary, Shandong Runhua, in 1996. We have achieved a diversified coverage in property portfolio by providing property management services to non-residential and residential properties. In particular, we have a comprehensive understanding of their daily operation and sufficient project experiences to provide high-quality services to the hospitals and public properties. For FY2019, FY2020, FY2021 and 1H2022, our revenue generated from providing property management services was approximately RMB367.0 million, RMB402.2 million, RMB542.8 million and RMB307.2 million, representing approximately 92.4%, 82.8%, 90.3% and 95.6% of our total revenue, respectively. The number of our managed projects was 163, 194, 233 and 239 for FY2019, FY2020, FY2021 and 1H2022, respectively.

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Geographic Presence

Since our establishment, we have been primarily focusing in the provision of our services in Shandong Province and upholding our strategy of “Shandong Focus (精耕山東)”. Over the years, we have gradually expanded our geographic presence from Jinan to cover 15 of the 16 prefecture-level cities in Shandong Province. The map below illustrates the locations of our managed projects in Shandong Province for FY2021:



□ Number of our managed projects which contributed to our revenue in FY2021

■ Revenue contributed in FY2021 (RMB in millions)

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Apart from the above properties located in Shandong Province, we had managed projects located in Beijing, Shenzhen, Hebei Province, and Jiangsu Province. The below tables set forth the breakdowns of the number of our managed projects and our revenue from providing property management services by geographical locations for the Track Record Period:

	FY2019			FY2020			FY2021			1H2021			1H2022		
	Number of managed projects	% of total revenue from providing project management services		Number of managed projects	% of total revenue from providing project management services		Number of managed projects	% of total revenue from providing project management services		Number of managed projects	% of total revenue from providing project management services		Number of managed projects	% of total revenue from providing project management services	
		Revenue			Revenue			Revenue			Revenue			Revenue	
		RMB'000		RMB'000			RMB'000			RMB'000 (unaudited)			RMB'000		
Shandong Province															
- Jinan region . . .	94	203,790	55.5	105	230,857	57.4	119	261,331	48.1	105	137,268	54.7	127	150,819	49.1
- Other regions	65	144,636	39.4	84	152,525	37.9	106	244,648	45.1	89	100,905	40.3	104	132,778	43.2
Beijing	3	18,265	5.0	4	18,006	4.5	5	21,975	4.1	5	10,052	4.0	5	13,086	4.3
Other regions ^(Note) . . .	1	279	0.1	1	809	0.2	3	14,884	2.7	1	2,454	1.0	3	10,561	3.4
Total	163	366,970	100.0	194	402,198	100.0	233	542,838	100.0	200	250,679	100.0	239	307,244	100.0

Note: Other regions include (i) Shenzhen; (ii) Shijiazhuang, Hebei Province; (iii) Baoding, Hebei Province; and (iv) Nanjing, Jiangsu Province.

Portfolio of properties under our management

We manage a diversified portfolio of properties including non-residential and residential properties. Based on the nature and type of the properties under our management, it can be broadly divided into four categories (i) hospitals; (ii) public properties; (iii) commercial and other non-residential properties (including office buildings, industrial parks and car parks); and (iv) residential properties.

The below tables set forth the breakdowns of the number of managed projects and our revenue from providing property management services by types of properties for the Track Record Period:

	FY2019			FY2020			FY2021			1H2021			1H2022		
	Number of managed projects	% of total revenue from providing property management services		Number of managed projects	% of total revenue from providing property management services		Number of managed projects	% of total revenue from providing project management services		Number of managed projects	% of total revenue from providing property management services		Number of managed projects	% of total revenue from providing property management services	
		Revenue			Revenue			Revenue			Revenue			Revenue	
		RMB'000		RMB'000			RMB'000			RMB'000 (unaudited)			RMB'000		
Hospitals	31	143,776	39.2	30	144,715	36.0	46	215,941	39.8	33	98,786	39.4	46	129,569	42.2
Public properties	75	140,554	38.3	95	150,840	37.5	104	192,624	35.5	95	93,222	37.2	105	108,835	35.4
Commercial and other non-residential properties . . .	37	42,865	11.7	49	64,519	16.0	61	86,112	15.9	52	38,051	15.2	66	44,300	14.4
Residential properties	20	39,775	10.8	20	42,124	10.5	22	48,161	8.8	20	20,620	8.2	22	24,540	8.0
Total	163	366,970	100.0	194	402,198	100.0	233	542,838	100.0	200	250,679	100.0	239	307,244	100.0

(i) Hospitals

We position ourselves as one of the major service providers in the hospital sector in Shandong Province. Our Directors believe that our strong management and operation capability, our expertise in hospital logistics services and our deep understanding of the operation of hospitals allow us to cater for the demands of our customers in the PRC. During the Track Record Period, our revenue generated from hospitals remained stable, which amounted to approximately RMB143.8 million, RMB144.7 million, RMB215.9 million and RMB129.6

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million, representing approximately 39.2%, 36.0%, 39.8% and 42.2% of our revenue generated from providing property management services, respectively. During the Track Record Period, all our customers in hospital sector are independent third parties. According to the F&S Report, we ranked second in the hospital sector among property management service providers in Shandong Province in terms of the revenue generated from hospital sector in 2021, representing market share of approximately 7.2%.

To distinguish ourselves from other service providers, we focus on provision of our services to high-end provincial-level and prefectural-level hospitals. For FY2021, we provided property management services to 46 Grade 3A Hospitals, including Shandong Provincial Hospital (山東省立醫院), The Affiliated Hospital of Qingdao University (青島大學附屬醫院), Shandong University Qilu Hospital (山東大學齊魯醫院), Shandong Provincial Qianfoshan Hospital (山東省千佛山醫院) and China-Japan Friendship Hospital (中日友好醫院). According to the F&S Report, we have been providing property management services to five out of the Top 10 Grade 3A Hospitals in terms of outpatients visits in Shandong Province in 2020 and the total number of outpatient visits of the hospitals we served exceeded 13.6 million in 2020. According to the “Top 100 Hospitals in China” (中國頂級醫院100強) in 2021, we served five among the Top 100 Grade 3A Hospitals in the PRC during the Track Record Period.

During the Track Record Period, all the properties under our management in hospitals were owned or developed by independent third parties.

Photos of some of the key hospitals managed by our Group are shown below:



Shandong Provincial Qianfoshan Hospital
(山東省千佛山醫院)



Shandong Provincial Hospital
(山東省立醫院)



The Affiliated Hospital of Qingdao University
(青島大學附屬醫院)



China-Japan Friendship Hospital
(中日友好醫院)

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Shandong University Qilu Hospital
(山東大學齊魯醫院)

(ii) *Public properties*

For FY2019, FY2020, FY2021 and 1H2022, our revenue generated from the public properties amounted to approximately RMB140.6 million, RMB150.8 million, RMB192.6 million and RMB108.8 million, representing approximately 38.3%, 37.5%, 35.5% and 35.4% of our revenue generated from providing property management services, respectively. During the Track Record Period, all our customers in public sector are independent third parties. The public properties under our management can be divided into the following sub-categories:

- *Public arenas:* We provided property management services to public arenas, such as tourist attractions, theatres, cultural venues, stadiums and exhibition halls, which are characterised by their openness to the public with high level of visitor flow. During the Track Record Period, we have provided services to a number of public properties, such as Baotu Spring Park (趵突泉公園), Shandong Provincial Capital Culture and Art Center Grand Theatre (山東省會文化藝術中心大劇院), Linyi Grand Theatre (臨沂大劇院), Impressions Jinan Spring World (印象濟南·泉世界) and Shenzhen Guangming Culture and Arts Centre (深圳光明文化藝術中心);
- *Public transportation properties:* The public transportation properties to which we provided property management services include railway stations in seven cities across Shandong Province (including Jinanxi Railway Station), airports, metro, and some of the tollbooths in Shandong highway. Besides, by securing the main contracts with the transportation service providers, the tenants of retail shops and restaurants located therein would also enter into separate service agreements with us for the provision of daily cleaning services of their responsible surrounding public areas;
- *Government institutions:* We provide property management services to government properties, such as government office buildings, public affairs centres and subdistrict offices and prisons; and
- *Universities and schools:* We serve a wide range of education institutions in Shandong Province, from local primary schools, secondary schools to sizeable universities.

During the Track Record Period, all the public properties under our management were owned or developed by independent third parties.

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Photos of some of the key public properties managed by our Group are shown below:



Jinanxi Railway Station
(濟南西站)



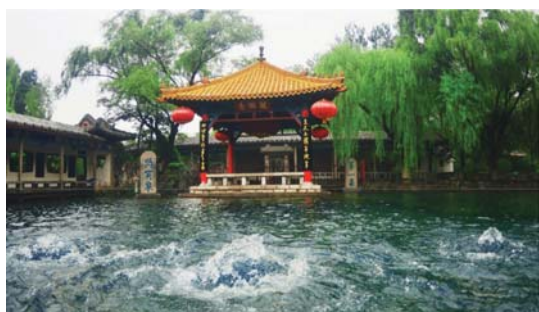
Shandong Provincial Capital Culture and Art Center Grand Theatre
(山東省會文化藝術中心大劇院)



Linyi Grand Theatre
(臨沂大劇院)



Impressions Jinan Spring World
(印象濟南·泉世界)



Baotu Spring Park
(趵突泉公園)



Shenzhen Guangming Culture and Arts Centre
(深圳光明文化藝術中心)

(iii) Commercial and other non-residential properties

For FY2019, FY2020, FY2021 and 1H2022, our revenue generated from commercial and other non-residential properties amounted to approximately RMB42.9 million, RMB64.5 million, RMB86.1 million and RMB44.3 million, representing approximately 11.7%, 16.0%, 15.9% and 14.4% of our revenue generated from providing property management services, respectively. The commercial and other non-residential properties to which we provided property management services were mainly office buildings, industrial parks and car parks in Shandong Province.

During the Track Record Period, certain of the commercial properties under our management were developed by the Controlling Shareholders Group. The table below sets forth a breakdown of our revenue

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generated from the provision of property management services attributable to the commercial and other non-residential properties developed by the Controlling Shareholders Group and third-party property developers for the Track Record Period:

	FY2019		FY2020		FY2021		1H2021		1H2022	
	% of total revenue from commercial and other non-residential properties		% of total revenue from commercial and other non-residential properties		% of total revenue from commercial and other non-residential properties		% of total revenue from commercial and other non-residential properties		% of total revenue from commercial and other non-residential properties	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
Commercial and other non-residential properties										
- Developed by the Controlling Shareholders Group	22,617	52.8	29,582	45.9	33,635	39.1	14,006	36.8	16,331	36.9
- Developed by independent third parties	20,247	47.2	34,937	54.1	52,477	60.9	24,045	63.2	27,969	63.1
Total	42,865	100.0	64,519	100.0	86,112	100.0	38,051	100.0	44,300	100.0

During the Track Record Period, the commercial and other non-residential properties developed by the Controlling Shareholders Group mainly included automobile industrial parks while the commercial and other non-residential properties developed by independent third parties mainly included office buildings and car parks. For FY2019, FY2020, FY2021 and 1H2022, the revenue generated from the commercial and other non-residential properties developed by the Controlling Shareholders Group was approximately RMB22.6 million, RMB29.6 million, RMB33.6 million and RMB16.3 million, representing approximately 52.8%, 45.9%, 39.1% and 36.9% of the total revenue from providing property management services to commercial and other non-residential properties under our management, respectively. The Controlling Shareholders Group, as the property owners, has a discretion to decide the property management service providers for the commercial and other non-residential properties developed by them.

(iv) Residential properties

Apart from the above properties, we also provide property management services to various residential properties in Shandong Province. For FY2019, FY2020, FY2021 and 1H2022, our revenue generated from residential properties amounted to approximately RMB39.8 million, RMB42.1 million, RMB48.2 million and RMB24.5 million, representing approximately 10.8%, 10.5%, 8.9% and 8.0% of our revenue generated from providing property management services, respectively.

During the Track Record Period, certain of the residential properties under our management were developed by the Controlling Shareholders Group. The table below sets forth a breakdown of our revenue generated from the provision of property management services attributable to the residential properties

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developed by the Controlling Shareholders Group and third-party property developers for the Track Record Period.

	FY2019		FY2020		FY2021		1H2021		1H2022	
	% of total revenue from residential properties		% of total revenue from residential properties		% of total revenue from residential properties		% of total revenue from residential properties		% of total revenue from residential properties	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
Residential properties										
- Developed by the Controlling Shareholders Group	16,889	42.5	17,324	41.1	19,898	41.3	7,143	34.6	10,357	42.2
- Developed by independent third parties	22,886	57.5	24,800	58.9	28,263	58.7	13,477	65.4	14,183	57.8
Total	39,775	100.0	42,124	100.0	48,161	100.0	20,620	100.0	24,540	100.0

For FY2019, FY2020, FY2021 and 1H2022, the revenue generated from the residential properties developed by the Controlling Shareholders Group was approximately RMB16.9 million, RMB17.3 million, RMB19.9 million and RMB10.4 million, representing approximately 42.5%, 41.1%, 41.3% and 42.2% of the total revenue from providing property management services residential properties under our management, respectively. The Controlling Shareholders Group has a discretion to decide the property management service providers for the residential properties developed by them. During the development phase of the properties, the Controlling Shareholders Group, as the property developers, entered into preliminary property management services agreements with us on behalf of property owners, which shall be reflected in the property purchase agreement entered into by the property developer and the purchaser who later becomes the property owner. Shall property owners wish to engage another property management services provider at a later stage, they may establish a property owners' committee to act on their behalf, who will enter into a property management services agreement with the new property management services provider. However, it is not mandatory under applicable PRC laws and regulations that a property owners' association is established. As at the Latest Practicable Date, none of the residential properties developed by the Controlling Shareholders Group has established a property owners' committee.

Our managed properties' GFA

During the Track Record Period, we generally charge our customers with property management fees for our property management services, which are mainly calculated without reference to the GFA of the properties under our management but based on a fixed agreed price with reference to the stipulated number of employees and workers to be deployed for each position. These are generally referred to as the fees related to non-revenue-bearing GFA. On the other hand, during the Track Record Period, we charged property management fees for a public properties, certain commercial properties, and all residential properties at a pre-determined fixed lump sum price per sq.m. on a monthly basis. These are generally referred to as the fees related to revenue-bearing GFA. In this connection, the GFA of our managed properties can be broadly divided into revenue-bearing GFA and non-revenue bearing GFA. For details of pricing strategy, please refer to the paragraph headed “Sales and

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Marketing — Pricing strategy” in this section. The table below sets forth a breakdown of revenue generated from revenue-bearing GFA and non-revenue-bearing GFA during the Track Record Period:

	FY2019		FY2020		FY2021		1H2021		1H2022	
	Revenue RMB\$'000	% of total revenue from providing project management services	Revenue RMB\$'000	% of total revenue from providing project management services	Revenue RMB'000	% of total revenue from providing project management services	Revenue RMB'000 (Unaudited)	% of total revenue from providing project management services	Revenue RMB'000	% of total revenue from providing project management services
<i>Non-revenue-bearing GFA</i>										
- Hospitals	143,776	39.2	144,715	36.0	215,941	39.8	98,786	39.4	129,569	42.2
- Public properties	124,248	34.0	135,250	33.6	178,555	32.9	84,999	33.9	100,785	32.8
- Commercial and other non-residential properties	39,118	10.6	61,652	15.3	81,363	15.0	35,220	14.0	42,233	13.7
Sub-total	307,142	83.8	341,617	84.9	475,859	87.7	219,005	87.3	272,587	88.7
<i>Revenue-bearing GFA</i>										
- Public property	16,306	4.4	15,590	3.9	14,069	2.6	8,223	3.3	8,051	2.6
- Commercial and other non-residential properties	3,747	1.0	2,867	0.7	4,749	0.9	2,831	1.1	2,066	0.7
- Residential properties	39,775	10.8	42,124	10.5	48,161	8.8	20,620	8.3	24,540	8.0
Sub-total	59,828	16.2	60,581	15.1	66,979	12.3	31,674	12.7	34,657	11.3
Total	366,970	100.0	402,198	100.0	542,838	100.0	250,679	100.0	307,244	100.0

During the Track Record Period, most of our revenue were generated from non-revenue-bearing GFA which experienced a steady growth from approximately RMB306.1 million in FY2019 to RMB474.8 million in FY2021 due to the increase in number of property management projects for public properties and commercial and other non-residential properties. Since a significant portion of revenue-bearing GFA was from the residential properties, the revenue generated from revenue-bearing GFA increased from approximately RMB60.8 million in FY2019 to RMB68.1 million in FY2021 mainly because we secured two new residential properties in FY2021 and most of the existing residential properties were delivered to the relevant property owners and tenants.

The table below sets forth a breakdown of the GFA of our managed properties during the Track Record Period:

	FY2019		FY2020		FY2021		1H2021		1H2022	
	GFA '000 sq.m.	% of total GFA	GFA '000 sq.m.	% of total GFA	GFA '000 sq.m.	% of total GFA	GFA	% of total GFA	GFA	% of total GFA
<i>Non-revenue-bearing GFA^(Note)</i>										
- Hospitals	1,759	14.0	1,538	11.5	2,345	14.0	1,988	13.0	2,393	15.3
- Public properties	5,915	47.2	6,516	48.7	8,027	47.7	7,254	47.6	7,676	49.2
- Commercial and other non-residential properties	1,073	8.6	1,305	9.8	1,898	11.4	1,810	11.9	1,716	11.0
Sub-total	8,747	69.8	9,359	70.0	12,270	73.1	11,052	72.5	11,785	75.5
<i>Revenue-bearing GFA</i>										
- Public property	295	2.4	295	2.2	295	1.8	295	1.9	295	1.9
- Commercial and other non-residential properties	250	2.0	453	3.4	564	3.4	557	3.7	578	3.7

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	FY2019		FY2020		FY2021		1H2021		1H2022	
	GFA ‘000 sq.m.	% of total GFA	GFA ‘000 sq.m.	% of total GFA	GFA ‘000 sq.m.	% of total GFA	GFA	% of total GFA	GFA	% of total GFA
- Residential properties	3,231	25.8	3,265	24.4	3,602	21.5	3,346	21.9	2,960	18.9
Sub-total	3,777	30.2	4,013	30.0	4,461	26.9	4,198	27.5	3,833	24.5
Total	12,523	100.0	13,372	100.0	16,731	100.0	15,250	100.0	15,618	100.0

Note: The GFA was calculated by the aggregate GFA under management as at the end of each month dividing by the number of months in the corresponding period. Such information is sourced from (i) the GFA set out in the property management agreements; (ii) the property information stated in official website; or (iii) the confirmations from our customers.

Non-revenue bearing GFA

The table sets forth (i) the number of employees and workers deployed by each type of properties under our management; and (ii) the average monthly property management fee per GFA, for illustration purpose only, which the fees charged for these properties referred to non-revenue-bearing GFA, during the Track Record Period:

	FY2019		FY2020		FY2021		1H2022	
	Number of employees and workers deployed ⁽¹⁾	Average monthly management fee per GFA ⁽²⁾	Number of employees and workers deployed ⁽¹⁾	Average monthly management fee per GFA ⁽²⁾	Number of employees and workers deployed ⁽¹⁾	Average monthly management fee per GFA ⁽²⁾	Number of employees and workers deployed ⁽¹⁾	Average monthly management fee per GFA ⁽²⁾
	RMB		RMB		RMB		RMB	
Hospitals	3,942	6.81	3,456	7.84	4,177	7.67	5,147	9.02
Public properties	3,266	1.75	3,172	1.73	3,775	1.85	3,896	2.19
Commercial and other non-residential properties	805	3.04	903	3.94	1,094	3.57	1,202	4.10
Overall	8,013	2.93	7,531	3.04	9,046	3.23	10,245	3.85

Notes:

- The number of employees and workers (including subcontractors’ workers) deployed is calculated by the total number of employees and workers (including subcontractors’ workers) deployed as at the end of each month divided by the number of months in the corresponding period.
- Most of the non-residential properties under our management during the Track Record Period were charged on a fixed contract amount i.e. non-revenue-bearing GFA. The property management fees charged under such agreements did not directly correspond to the actual GFA under our management, as they mainly reflected key factors such as the stipulated number of employees and worker required to service the property and service standards required for the type of property. Accordingly, the average monthly property management fee for such non-residential properties calculated as the relevant revenue divided by GFA under management is for illustration only and would not accurately reflect the financial aspect of the property management services provided by us to non-residential properties during the Track Record Period and therefore is not presented herein.

In FY2020, the total number of employees and workers deployed experienced a decrease mainly due to the temporary lockdown of some public arenas during the outbreak of COVID-19, there was a decrease in the number of employees and workers deployed to public properties in early 2020. The total number of employees and workers deployed increased in FY2021 which was in line with the number of additional non-residential projects secured in FY2021.

The average monthly property management fee per GFA for the hospitals increased from RMB6.81 in FY2019 to RMB7.84 in FY2020 due to the termination of a sizeable hospital project located in Hebei Province in FY2019, which its GFA was approximately 200,000 sq.m. and only contributed a revenue of approximately

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RMB0.3 million in FY2019; and the average monthly property management fee per GFA for the commercial and other non-residential properties increased from RMB3.04 in FY2019 to RMB3.94 in FY2020 mainly attributable to the increase in our revenue by offering additional value-added property management services since FY2020.

Revenue-bearing GFA

The table sets forth the average monthly property management fee per GFA by each type of properties under our management, which the fees charged for these properties referred to revenue-bearing GFA, during the Track Record Period:

	FY2019	FY2020	FY2021	1H2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<i>Revenue-bearing GFA</i>				
- Public property	4.61	4.40	3.97	4.55
- Commercial and other non-residential properties	1.25	0.53	0.70	0.60
- Residential properties	1.03	1.08	1.11	1.38
Overall	1.31	1.28	1.25	1.51

Note: The average property management fee was calculated by the revenue for the period divided by the aggregate GFA under management as at the end of each month in the corresponding period. Most of the non-residential properties under our management, i.e. non-revenue-bearing GFA, during the Track Record Period were charged on a fixed contract amount. The property management fees charged under such agreements did not directly correspond to the actual GFA under our management, as they mainly reflected key factors such as the stipulated number of employees and worker required to service the property and service standards required for the type of property. Accordingly, the average property management fee for such non-residential properties calculated as the relevant revenue divided by GFA under management would not accurately reflect the financial aspect of the property management services provided by us to nonresidential properties during the Track Record Period and therefore is not presented herein.

The average monthly property management fee per GFA for a public property referred to revenue-bearing GFA decreased from RMB4.61 per sq.m. in FY2019 to RMB4.40 per sq.m. in FY2020 and further decreased to RMB3.97 per sq.m. in FY2021 because the public property were newly developed in late 2018 and most of the units were under decoration. As an incentive arrangement for property management company, the owner agreed to pay the property management fees for the vacant units until the overall occupancy rate of the public property was over 80%. In FY2021, the occupancy rate reached 80% and the owner did not provide property management fees for the vacant units. For FY2019, FY2020, FY2021 and 1H2022, we received the property management fees from the owner of approximately RMB11.0 million, RMB9.2 million, RMB2.8 million and nil, respectively. The average monthly property management fee per GFA increased to RMB4.55 per sq.m. in 1H2022 due to the relatively higher occupancy rate of such public property.

In FY2020, the average monthly property management fee per GFA for commercial and other non-residential properties referred to revenue-bearing GFA experienced a decrease due to the fact that we secured a new commercial property project in November 2019 and most of the units were pending for rent in FY2020 and FY2021. As stipulated in the relevant contracts, the property management fees of that commercial property were borne by the tenants and hence we did not receive property management fees during the period where these units were vacant in FY2020 and FY2021.

Throughout the Track Record Period, the average monthly property management fee per GFA for residential properties experienced a stable growth from RMB1.03 per sq.m. in FY2019 to RMB1.08 in FY2020 and RMB1.11 in FY2021. Such growth trend was due to the delivery of certain higher-end residential properties

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charging relatively higher property management fees from property owners and tenants during the Track Record Period, which led to higher average monthly property management fees charged by our Group in FY2020 and FY2021. The average monthly property management fee per GFA increased to RMB1.38 because two higher-end residential properties were sold and delivered to purchasers in around the end of 2021 and early 2022.

Scope of our property management services

Our property management services include (a) typical property management services, such as cleaning and disinfection services, security services, general repair and maintenance services and customer services; and (b) hospital logistics services, which are comprehensive and professional solutions to manage, support and optimise the entire operation process of the hospitals under our management.

Typical property management services

We focus on streamlining and standardising our property management services with advanced automation and standardised property management methodologies to strengthen our internal reporting system and operational efficiency as well as control on our operating costs. According to the F&S Report, there is no uniform standard for governing the typical property management services provided by property management services companies in the PRC. As a result, the quality of property management services from different companies could be vary significantly. In order to streamline and standardise our property management services, we established a set of operation booklets covering different kinds of property management services provided by us.

(a) Cleaning and disinfection services

Our cleaning services generally include the regular cleaning and disinfection of common areas, waste management, pest control, floor waxing maintenance, regular greening and gardening maintenance on the greening areas in the properties under our management. Our hygiene management system is designed according to the system guidelines of GB/T24001-2016/ISO 14001:2015 (Environmental management system certificate) in order to ensure that our managed projects are in a hygienic condition and uphold environmental conservation.

Hygiene management is important to hospitals and public properties with high level of visitor flow. Therefore, our Group has established strict cleaning and disinfection standard and requirements for such properties. For instance, to minimise disruption to passengers as well as maintain the safety of all users of the railway network, our on-site management teams will prepare the cleaning schedule based on the timetable of train arrivals. Our cleaning activities of the railway station platforms are required to be done within a limited time between the intervals of trains. We also provide overnight cleaning services to conduct intensive cleaning of the railway station platforms. For the details of the hygiene management measures for hospitals, please refer to the paragraph headed “Hospital logistics services - Cleaning management module” below in this section.

Reducing the risk of exposure to COVID-19 by cleaning and disinfection is an important task that will require us to prepare a careful cleaning plan for each of our managed projects. We evaluate the workplace and the usage of each property to determine the cleaning method and frequency. For example, most surfaces and objects will need normal routine cleaning. Frequently touched surfaces and objects, like light switches and doorknobs, will need to be cleaned and then disinfected by diluted bleach once an hour to further reduce the risk

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of germs on surfaces and objects. Given our reliable cleaning and disinfection services provided during the outbreak of COVID-19, we were accredited as “Epidemic prevention and control work in Jinan City — Advanced Property Services Company* (濟南市疫情防控工作 — 先進物業服務企業)” in June 2020 in respect of epidemic prevention and control in Jinan City.

(b) Security services

The security services provided by our Group primarily include 24-hour surveillance, patrolling, guarding, access control, crowd control, visitor registration, emergency handling and fire drilling. We provide security services in ensuring that the managed properties and their tenants and users are safe and well protected. Additional manpower will be engaged in the public properties with high level of visitor flow or for the activities or events organised in the properties.

We have developed a security operation system integrated with the mobile devices carried by our security guards which enables us to track the whereabouts of our security guards on a real time basis and digitalise the patrolling records at each patrolling checkpoint when the security guard passes the checkpoint. These automated records will be uploaded to our system under the monitor of our on-site management team instead of traditional paper records. We have also adopted on-site standing instructions to provide clear guidelines and workflows to our security staff in handling daily operation matters, event support and emergency cases in each of our managed projects.

(c) General repair and maintenance services

We are generally responsible for the inspection, repair, maintenance and management of (i) common area facilities, such as elevators, escalators, central air conditioning system, lighting system, communication system and ventilation system; (ii) fire facilities and safety signs, such as fire alarm system, smoke sensors and fire extinguisher; (iii) utilities facilities, such as power distribution system, drainage and sewage systems, water supply system, water pump and tank systems as well as heating system; and (iv) security facilities, such as entrance barrier and surveillance cameras in common areas. We also actively monitor energy consumption levels and devise ways of achieving operational savings, such as (i) reviewing operating hours of elevators, escalators and lighting system; and (ii) introducing energy efficient materials such as energy saving light bulbs.

Our in-house technicians perform routine management and inspections of certain systems and equipment and take charge of planning equipment maintenance and maintaining records to ensure the normal operation of the equipment in the serviced areas. We employ competent personnel with requisite qualifications to perform the repair and maintenance works of fire-service, air-conditioning, and elevator and escalator systems.

(d) Customer services

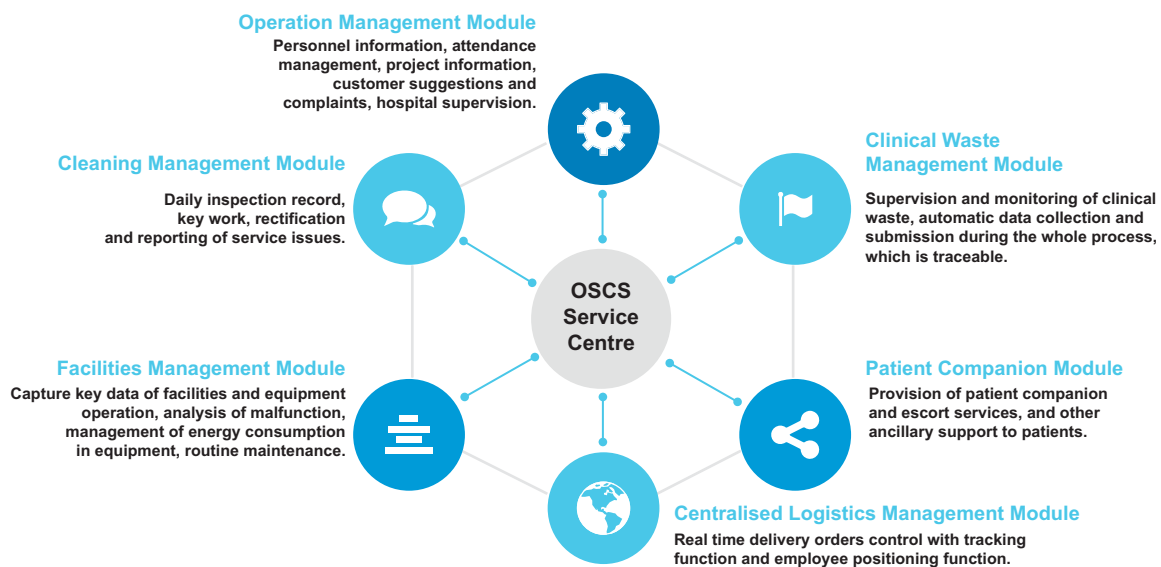
We are fully aware that our customers have different needs and preferences. As such, we also provide a wide range of additional tailored customer services as may be required by our customers for their properties or in relation to particular areas or facilities of their properties to address their specific needs. Our customer services include value-added services (including concierge services, ushering services, catering services, housekeeping services, vehicle cleaning services and delivery services), carpark management services, canteen management services, conference services, elevator operation services, chauffeur services. Our Directors believe that these tailored customer services can enhance our competitiveness as compared with other traditional property management service providers and allow us to charge higher fees.

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Hospital logistics services

According to the F&S Report, hospital logistics services are a crucial foundation to support and ensure the normal operation of hospitals including medical treatment, scientific research, disease prevention, health care, etc.. Professional knowledge and strong management and operation capability are required for hospital logistics services providers to provide high-quality and a full range of hospital logistics services.

To cater for the needs of hospitals, we provide an online information technology operation centre to the hospitals under our management by offering diversified and tailored hospital logistics services, which are comprehensive and professional solutions to manage, support and optimise the entire operation process of the hospitals under our management. Also, in view of the characteristics of timeliness, contingency and uncertainty in hospital’s operation and the essential of ensuring the continuity of logistics services in terms of facility configuration, staffing, and rules and regulations, we have launched an online information technology operation centre, namely OSCS Service Centre, which is a centralised management system, to manage, support and optimise the entire operation process of the hospitals under our management by utilising a series of information technology management systems in the following areas:



- Cleaning management module

Aiming at the characteristics of hospitals and high standard in cleaning management, we provide intensified disinfection and sterilisation services covering the hospital areas of wards, operating theatres, clinics and laboratories in accordance with the scope, frequency, standards and requirements prescribed in the Hospital Infection Management Specifications* (醫院感染管理規範) and Disinfection Technical Specifications for Medical Institutions* (醫療機構消毒技術規範), both of which were published by the National Health Commission of the PRC. For example, the cleaning services of operating theatres shall be performed at between surgery cases, end-of-day and end-of-week and we have to strictly monitor the cleanliness of operating theatres by the level of microbiological (like bacteria and moulds) and indoor air dust.

To avoid leakage of pathogens and harmful substances, we require our frontline workers to perform surface cleaning for the used medical devices, equipment and consumables and deliver them to the central

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sterile services department, which is an integrated place that performs sterilisation on medical devices, equipment and consumables, in accordance with strict disinfection, isolation and protection systems. In practice, we will use different methods, such as approved disinfectants and sterilants, pressure steam, ethylene oxide sterilisers and ultraviolet, for the purpose of disinfection and sterilisation. Each of the sterilised medical devices, equipment and consumables will then be packed in an individual sealed package and delivered to the wards, operating theatres, clinics or laboratories, based on stock level in our system or request from hospital staff.

- Centralised logistics management module

Our centralised logistics management module involves (i) planning, designing, implementing and managing logistic flows within the hospital and inventory control of material stock; (ii) collecting and delivering documents, specimens, medicines, disinfected medical equipment and clinical waste; and (iii) bookkeeping medical records and other documentation. We require our on-site management teams and frontline workers to strictly follow the standard and requirements of Hospital Infection Management Specifications* (醫院感染管理規範) ensuring the materials being transported safely and without infection by hazardous materials.

The following chart shows the major steps involved for delivery orders:



Our system allows hospital staff to input delivery orders, including delivery of various items (such as documents, specimens, medicines, disinfected medical equipment and clinical waste). By utilising the positioning system and intelligent task allocation system, delivery orders will be showed on the mobile devices of our frontline workers nearby and open for them to catch the orders in time. The responsible worker shall arrive at the pick-up point and complete the task within the requested time. For each of the completed orders, hospital staff can, through our system, submit their feedback, comment or even complain in relation to our services. In order to motivate our own staff being more proactive in providing high-quality services, we reward our staff based on the number of orders captured by them and the feedback from hospital staff. In addition, our on-site management teams can input the recurring orders into our system. The recurring orders will be distributed to our frontline workers regularly according to the planned cycle.

By having consents from our customers, our system can also connect to their intranet so that we can closely monitor the stock level of medical consumables and distribute them to different departments in the hospital as requested. It allows us to reduce human error of hospital staff when placing delivery orders and enhance our work efficiency.

- Clinical waste management module

Hospitals frequently produce a large amount of hazardous clinical waste every day. The clinical waste shall be segregated from municipal solid waste and sealed separately to prevent clinical waste entering other

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disposal chains. Therefore, we have set up a clinical waste management module by using our information technology to manage clinical waste, which allows us to (i) locate the clinical waste to prevent potential risks caused by the loss of clinical waste as well as to ensure the safety of hospital against hazardous clinical waste; (ii) upload the records to our system and analyse the data for formulation of management plans; and (iii) reduce the manpower and resource involved. The following flow chart shows the major steps involved in our clinical waste management module:



Each of the garbage bags in clinical waste disposal rooms and temporary containers will have a QR code posted for scanning. The collection, transportation, storage and handover processes as well as the data of number, weight and status of clinical waste will be recorded in our system. We conduct video surveillance on the temporary storage of clinical waste, which is trackable to prevent potential risks caused by the loss of clinical waste as well as to ensure the safety of hospitals against hazardous clinical waste. In addition, hospital staff and on-site management team can generate daily report from our system to analyse and improve the clinical waste management plan.

- Facilities management module

Our engineering management module covers facilities and equipment inspection, repair and maintenance. To enhance our work efficiency, we labelled the major facilities with QR codes and through scanning the QR codes, we can get the details of operating status and life cycle of the facilities.

Our system will remind our staff to conduct periodic inspection as scheduled by the on-site management teams. The inspection report will be uploaded to our system and a list of issues identified, together with the relevant photos of the issues, will be sent to our technicians. After the rectification of such issues, our technicians shall inform the on-site management teams by filing the proof to our system.

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Hospital staff and our on-site management teams can also initiate repair orders so that our technicians can respond to the orders in time.

- Patient companion module

In order to offer comprehensive services to hospitals, we also devote ourselves to patient caring. For the patients who are without family companions, our nursing staff will provide patient companion services and assist patients in making appointments via the green channel for timely treatment to them.

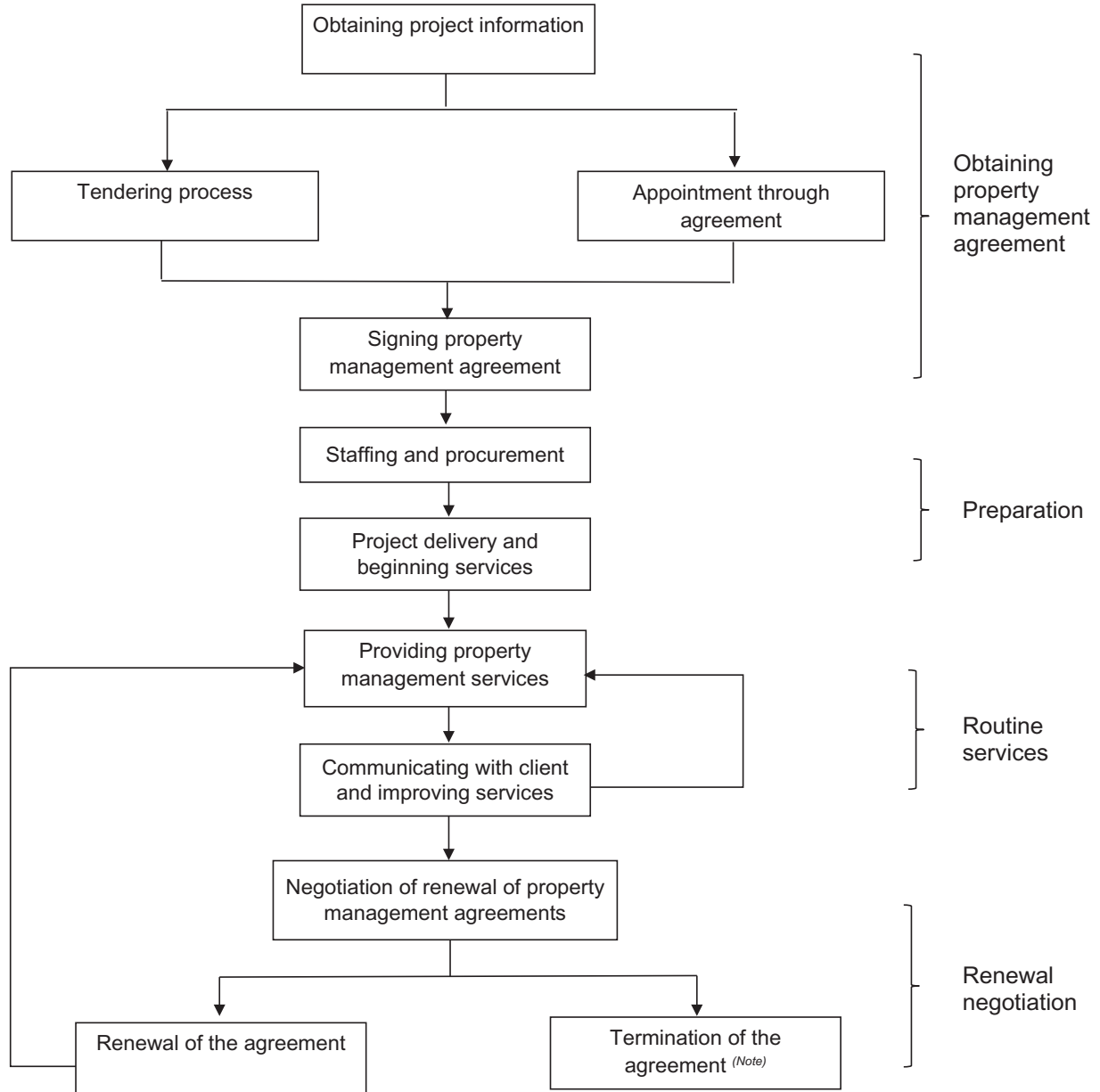
- Operation management module

The OSCS Service Centre focuses on, among others, gathering data for application in other systems. The data gathered on this level includes service data (e.g. number of handled orders and customer satisfaction score); environmental data (e.g. lighting, temperature and humidity); architectural data (e.g. floor plan, physical features of a building and security patrolling route); facilities data (e.g. elevators, fire service system and sewage system); and human resource data (e.g. staff training record, attendance rate and details of supervisors in each service segment). Based on the data collected from OSCS Service Centre, our on-site management team can implement or adjust our property management plan accurately. We can also enhance the user experience of hospital staff by allowing them to submit their suggestions and feedback to our system.

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Operation flow

The following flow chart illustrates a brief process of our property management services, from identifying a project to renewal/termination of a service agreement:



Note: Sometimes we choose to terminate our property management agreement voluntarily based on our internal consideration such as projected profitability.

Obtaining property management agreement

Our Group obtains new property management agreements mainly by way of open tendering. Our marketing department actively explores new tender opportunities in the market. After identifying the opportunity, we would conduct a feasibility study on the tender, taking into account factors such as the size of

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the project, the resource and qualification requirement and the scope of services. Once the feasibility study is completed and approved by the management, we will start to prepare the tender documents and file the tender documents within the required time frame.

For the properties developed by our related parties, we may undergo the tender process or directly enter into property management agreements. We consider that such arrangement was primarily attributable to, among others, our ability to provide quality property management services and our historical cooperation relationship with the related parties of our Group, which enabled us to better understand and fulfil their needs and requirements.

The following table sets out the statistics of our tenders for property management services to customers during the Track Record Period:

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>1H2022</u>
Number of tenders submitted ^(Note 1)	81	120	270	108
Number of projects awarded ^(Notes 1&2)	23	39	130	44
Tender success rate ^(Note 2)	28.4%	32.5%	48.1%	40.7%

Notes:

1. For FY2019, FY2020 and FY2021, we submitted two, two and three tender(s) to our related parties, respectively, all of which were awarded to us. Our Group did not submit tender to our related parties in 1H2022.
2. Success rate for a financial year was calculated based on the number of successful tenders (whether awarded in the same financial year or subsequently) in respect of the tenders submitted during that financial year.

With respect to our Group’s tendering strategy, we take into account the manageability and profitability of projects with reference to our resources and capacity. As such, we may decline to respond to certain tender and quotation invitations after our internal feasibility study and evaluation. The number of tenders submitted, number of projects awarded, tender success rate boosted up throughout the Track Record Period due to our manpower allocation measures by engaging subcontractors for undertaking the low-skilled works, such as daily cleaning and security services, which allows us to focus on project management and to respond to additional tender invitations. Such trend was also in line with our business growth throughout the Track Record Period.

Preparation

Once our engagement is confirmed, we will form an on-site management team which comprises a project manager and/or one or more supervisor(s), depending on the size and complexity of the property. The on-site management team will perform internal assessment, check the scope of services, prepare the allocation of frontline workers and equipment to be assigned to the property, and liaise with our operation department in relation to procurement and subcontracting arrangements. A handover meeting may be convened with the customer and other parties to inspect the status quo of the property and discuss on the particular management arrangements and customer’s requirements.

Routine services

We, through our frontline staff and workers of our subcontractors, carry out the property management services according to the scope of services set out in the agreement entered into between the customer and us.

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Our on-site management team is responsible to review the daily progress and quality of our services and to resolve any problems encountered.

We adopted a “three-tier quality assurance system” to supervise and maintain the quality of our services. Our regional branch offices regularly communicate with the on-site management teams in their region and report to the relevant business departments in charge. Our business departments regularly report to our quality assurance director at the headquarters level and our quality assurance director is responsible for overseeing the overall quality assurance function.

During the ordinary course of our business operations, we may receive suggestions and complaints from our customers, tenants or visitors from time to time regarding our services. We encourage our customers to lodge their suggestions and complaints through Runzhiyun or our regional branch offices, business departments and headquarters directly. For details, please refer to the paragraph headed “Quality Assurance” in this section.

Renewal negotiation

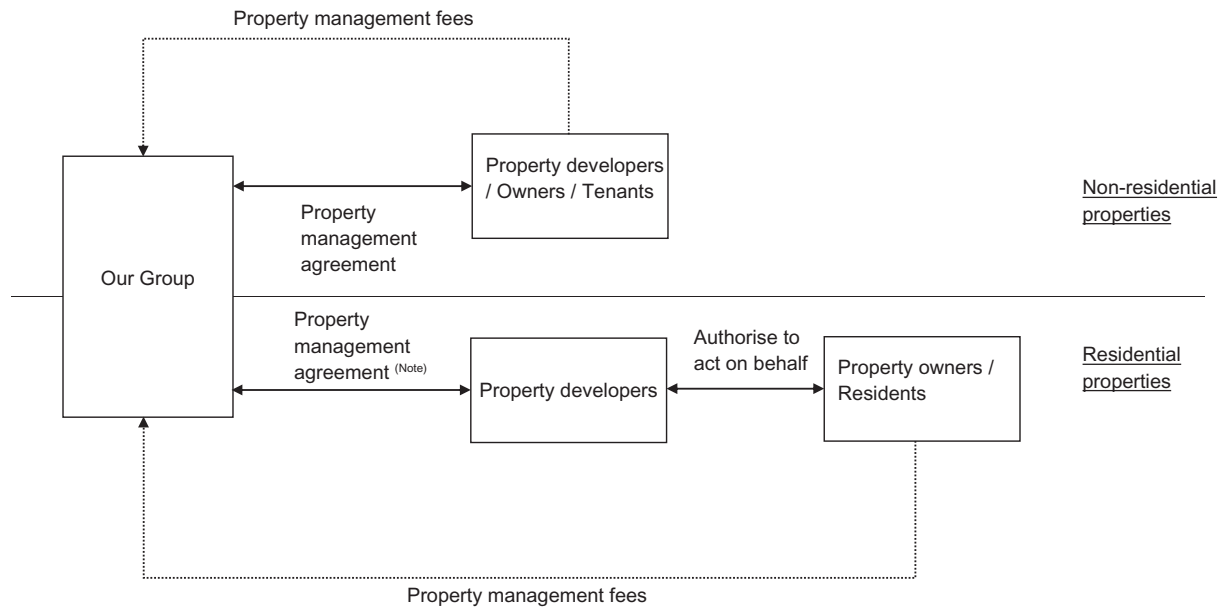
The terms of our engagement generally range from one to five years and subject to a renewal for an extension up to two years upon mutual consent. We usually begin negotiations with customers or begin preparation for tenders, which are mandatory processes for certain projects, within three months before expiration of the existing property management agreement. Our business departments will review the financial performance of the existing engagement and evaluate the projected profitability for the renewal. Sometimes we choose to terminate our property management agreement voluntarily based on our internal consideration. The agreements provide that the term thereof may be extended, either through a formal contract renewal or automatically for an additional term.

For FY2019, FY2020, FY2021 and 1H2022, the renewal rates (calculated based on the number of renewed property management agreements in a given year divided by the number of expiring property management agreements in the same year) of our property management agreements were approximately 87.4%, 90.6%, 90.8% and 87.4%, respectively. We pride ourselves for having a relatively high renewal rate for our property management agreements, which is a reflection of high customer satisfaction and a high customer retention rate, especially considering that the customers in public sector are more cautious when selecting services providers and have high requirements for past experience as well as operation and management capability.

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Key terms of our property management agreements

If we are successful in obtaining the tender, we will then enter into property management agreement with the contracting party and complete the subsequent necessary filings with the relevant government authorities. The following diagram illustrates our relationship with various contracting parties under our property management agreements:



Note: As advised by our PRC Legal Advisers, a property management agreement entered into between a property developer and us, before the owners' committee of the property is established and/or the property is delivered to property owners, is legally binding on the future property owners in accordance with the applicable PRC laws.

The terms of each property management agreement are different, whilst some of our customers prefer entering into a master property management agreement with all services to be provided by us, other customers prefer entering into a separate agreement with us, with respect to different services to be provided by us. We have summarised and generalised the usual key terms as follows:

Duration : The duration ranges from one to five years and subject to a renewal for an extension up to two years upon mutual consent. Some agreements provide that the term thereof may be extended, either through a formal contract renewal or automatically for an additional term.

We usually begin negotiations with customers or begin preparation for tenders, which are mandatory processes for certain projects, within three months before expiration of the existing property management agreement.

Scope of services : The scope of our services generally includes cleaning services, security services, general repair and maintenance services, and customer services. Upon customers' requests and needs, we also provide a wide range of hospital logistics services for the hospitals under our management.

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- Property management fees* : Our customers pay us based on lump sum basis. For details, please refer to the paragraph headed “Property Management Services — Revenue model” below in this section.
- Area and facilities to be managed by us* : The agreement would specify the serviced areas to be managed by us, which are mainly the common areas of the properties (including the roof-top, corridors and easements, lobbies, restrooms, car parks, canteen and private roads etc.) and the facilities (generally including water pipes, elevators, escalators, water plumbing systems, lightings, electricity power systems, air conditioning systems and fire systems in the properties etc.).
- Performance standards* : The agreement sets forth the standards that we are expected to attain. It will also specify the areas where we need to provide our services as well as the time and duration expected of our services and responses, such as the time expected for our response to an urgent repair work request.
- Termination* : The agreement is generally voluntarily terminable by a party serving a three-month prior written notice on the counterparty at their expiry.

Our Directors confirmed that the property management agreements entered into with the related parties of our Group are generally in line with the ones between independent customers and us.

Backlog of property management agreements

During the Track Record Period, the total number of property management agreements entered into between our customers and us grew from 173 as at 1 January 2019 to 570 as at 30 June 2022. The following table indicates the movement of the total number of property management agreements and backlog revenue related to our managed projects (including the agreements which had expired but we continued to provide property management services) during the Track Record Period and up to Latest Practicable Date:

	FY2019		FY2020		FY2021		1H2022		From 1 July 2022 to the Latest Practicable Date	
	Number of agreements	RMB'000	Number of agreements	RMB'000	Number of agreements	RMB'000	Number of agreements	RMB'000	Number of agreements	RMB'000
Opening number of agreements / Opening value of backlog	173	158,392	185	141,534	224	237,054	413	258,376	570	283,673
Add: New agreements secured / Contract value awarded ^(Note)	303	350,112	368	497,718	471	564,160	290	332,541	26	30,703
Less: Agreements completed / Revenue recognised	(291)	(366,970)	(329)	(402,198)	(282)	(542,838)	(133)	(307,244)	(40)	(113,555)
Closing number of agreements / Closing value of backlog ^(Note)	185	141,534	224	237,054	413	258,376	570	283,673	556	200,821

Note: An aggregate annual contract value of approximately RMB37.8 million, RMB46.3 million, RMB67.4 million and RMB74.3 million was included for the agreements without a definite expiration date, but will expire pending the establishment of property owners' associations and agreements which are terminable by agreement between the parties for FY2019, FY2020, FY2021 and 1H2022, respectively.

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The following table sets forth the revenue to be recognised for the property management agreements of our Group from the Latest Practicable Date to 31 December 2022, in the year ending 31 December 2023 and the period after 31 December 2023:

	Number of agreements	Revenue to be recognised RMB'000
From the Latest Practicable Date to 31 December 2022 ^(Note 1)	225	59,422
In the year ending 31 December 2023 ^(Note 2)	110	113,610
Period after 31 December 2023 ^(Note 2)	40	27,789
Properties we provided services to beyond agreement expiration ^(Note 3)	181	N/A
Total	556	200,821

Notes:

1. Includes approximately RMB28.8 million revenue to be recognised from the property management agreements, in respect of mainly residential properties, without a definite expiration date, but will expire pending the establishment of property owners' associations and a few agreements which are terminable by agreement between the parties. The revenue to be recognised is equal to the aggregate annual contract value of these agreements of approximately RMB92.5 million multiplied by the number of calendar days from the Latest Practicable Date to 31 December 2022 (i.e. 117 days) and divided by the total number of calendar days for the year of 2022 (i.e. 365 days).
2. Revenue to be recognised from property management agreements without a definite expiration date but will expire pending the establishment of property owners' associations and agreements which are terminable by agreement between the parties are excluded for prudence purpose.
3. This refers to the property management agreements, in respect of mainly public properties, which have expired but are still ongoing pending the signing of formal property management agreements.

Revenue model

During the Track Record Period, we charged our customers on a lump sum basis, pursuant to which, our customers pay us the “all-inclusive” fee for our property management services and at the same time, we bear all related costs and expenses involved in the property management. If any excessive expenditure is incurred, we are generally not entitled to request that our customers to pay us the shortfall. Hence, under the lump sum basis, our costs saving ability through the course of our provision of the property management services, has a direct correlation to our profitability.

Therefore, under the agreements where our fee is calculated and paid to us on lump sum basis, the costs involved in the ordinary management of a property or facility would be borne by our Group after receiving a payment covering the relevant expenditure. The gross profit margin of these projects depends on our ability to control costs, which is recognised as cost of services through the accounts of our Group. For FY2019, FY2020, FY2021 and 1H2022, the gross profit margin for our property management services was 15.8%, 20.5%, 18.4% and 20.7%, respectively.

To avoid loss-making agreements, we have established various internal measures. Before entering into a lump sum basis agreement, we would normally analyse the risk and costs of the potential project to prepare the tender quotation or negotiate appropriate property management fees. In general, we will not enter into an

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agreement if our Directors anticipated that the projected profitability would fall below our minimum requirement. After we have signed a lump sum basis agreement with our customer, our business department would establish a financial budget for the project and finance department would review the revenue and cost of each project on a monthly basis. We would also actively implement cost saving measures, such as allocating labour-intensive works to our subcontractors, standardising facilities management methodologies and implementing energy management system. In addition, we negotiate with our customers to increase the property management fees when the costs involved in project management increase or upon renewal of agreement.

For FY2019, FY2020, FY2021 and 1H2022, we incurred losses on 20, 18, 29 and 23 managed projects for which we charged on a lump-sum basis, respectively. For details of our loss-making projects, please refer to the paragraph headed “Sales and Marketing — Pricing strategy” in this section.

PROPERTY ENGINEERING AND LANDSCAPE CONSTRUCTION SERVICES

Property engineering and landscape construction services

Our service offering is multi-faceted to serve customers’ multifarious needs. Our Directors consider that, under most of the circumstances, we came to know the customers’ needs for property engineering and landscape construction services whilst providing daily on-site property management services to them and thus were able to reach the customers and introduce the business opportunity to the responsible departments in our Group in the first place. We commenced our property engineering and landscape construction services in 2014, through our operating subsidiaries, Jinan Runwu Construction and Jinan Runwu Landscape, based on genuine needs of our customers in the property management business. For FY2019, FY2020, FY2021 and 1H2022, the revenue generated from providing property engineering services was approximately RMB16.9 million, RMB74.9 million, RMB49.3 million and RMB9.4 million, representing approximately 4.2%, 15.4%, 8.2% and 2.9% of our total revenue, respectively, of which approximately RMB11.8 million, RMB62.5 million, RMB38.9 million and RMB4.0 million was generated from our related parties, representing approximately 70.2%, 83.5%, 78.9% and 43.2% of total revenue from providing property engineering and landscape construction services, respectively. For FY2019, FY2020, FY2021 and 1H2022, approximately RMB0.2 million, RMB1.1 million, RMB0.9 million and RMB0.5 million were generated from Runhua Group, respectively; and approximately RMB11.6 million, RMB54.7 million, RMB35.3 million and RMB3.5 million were generated from Hang Qian Group for the corresponding years, respectively. Our property engineering and landscape construction services include:

- the major maintenance services, involving the upkeep, restoration and improvement of existing buildings components and systems;
- the interior renovation services of re-roofing, external and internal walls refurbishment, floor screeding and retiling, spalling repair, repairing and replacement of existing facilities, plastering, painting, improvement of fire services system, plumbing and drainage works;
- the alteration and addition work of building layout and structural works;
- the installation of elevators;
- sales, leasing and planting of trees, shrubs, flowers, hedgerows and seedlings;
- modifying the shape and elevation of terrain used for landscaping through grading, backfilling, mounding and terracing;

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- carrying out related equipment installation such as water sprinkler system, water well pipeline, inspection well and water metre; and
- providing landscape maintenance work such as irrigation, pruning, fertilisation, pest control and weed removal during/after the provision of our landscape construction services.

During the Track Record Period, we completed 185 property engineering and landscape construction agreements, with the aggregate contract value of approximately RMB158.7 million. As at 30 June 2022, we had 62 property engineering and landscape construction agreements on hand, with the aggregate contract value of approximately RMB38.2 million and the outstanding contract value of which recorded approximately RMB15.1 million.

During the Track Record Period, a significant amount of revenue from the provision of property engineering and landscape construction services were related to a large-scale property development project (“**XTJD Project**”) developed by Hang Qian Group, which amounted to approximately RMB6.6 million, RMB61.5 million, RMB25.1 million and RMB0.9 million, representing approximately 39.0%, 82.2%, 50.8% and 9.4% of the total revenue generated from the provision of property engineering and landscape construction services, respectively. According to the construction planning approved by the relevant government authorities, XTJD Project has four construction sites, with an aggregate GFA of approximately 632,000 sq.m., involving the developments of 17 residential buildings, 12 commercial buildings and seven ancillary buildings and facilities. The estimated construction schedule of XTJD Project is from August 2017 to October 2023. We mainly provided landscape construction, pipeline renovation and elevator installation works in the XTJD Project. Most of the construction works undertaken by us for the XTJD Project were substantially completed in around the end of FY2021, which led to a drop in our revenue generated from the provision of property engineering and landscape construction services in 1H2022.

To the best knowledge of our Directors, Hang Qian Group engaged us to provide property engineering and landscape construction services in the XTJD Projects primarily due to the fact that (i) our Group has a valid Construction Enterprise Qualification Certificate (Level 2), which allows us to undertake property construction and building decoration engineering projects with contract value of a single project not more than RMB20 million; (ii) our operating subsidiaries, Jinan Runwu Construction and Jinan Runwu Landscape, have solid experience in the provision of landscape construction, pipeline renovation and elevator installation works for certain property development projects of Hang Qian Group before and hence Hang Qian Group engaged us to be one of the contractors among many others with different expertise in the large scale property development project; (iii) we have an experienced engineering team with members equipped with valid qualifications and licences, such as registered electrical workers, welding operators, bricklayers, joiners and gardeners, to supervise the specific site works; (iv) the principal businesses of Hang Qian Group are mainly property development and hotel operations, they could not perform the property engineering and landscape construction services due to the lack of internal human resources and requisite licences. As advised by the F&S, it is not uncommon for small and medium sized property developers, like Hang Qian Group, to engage construction companies for the provision of property engineering and landscape construction services.

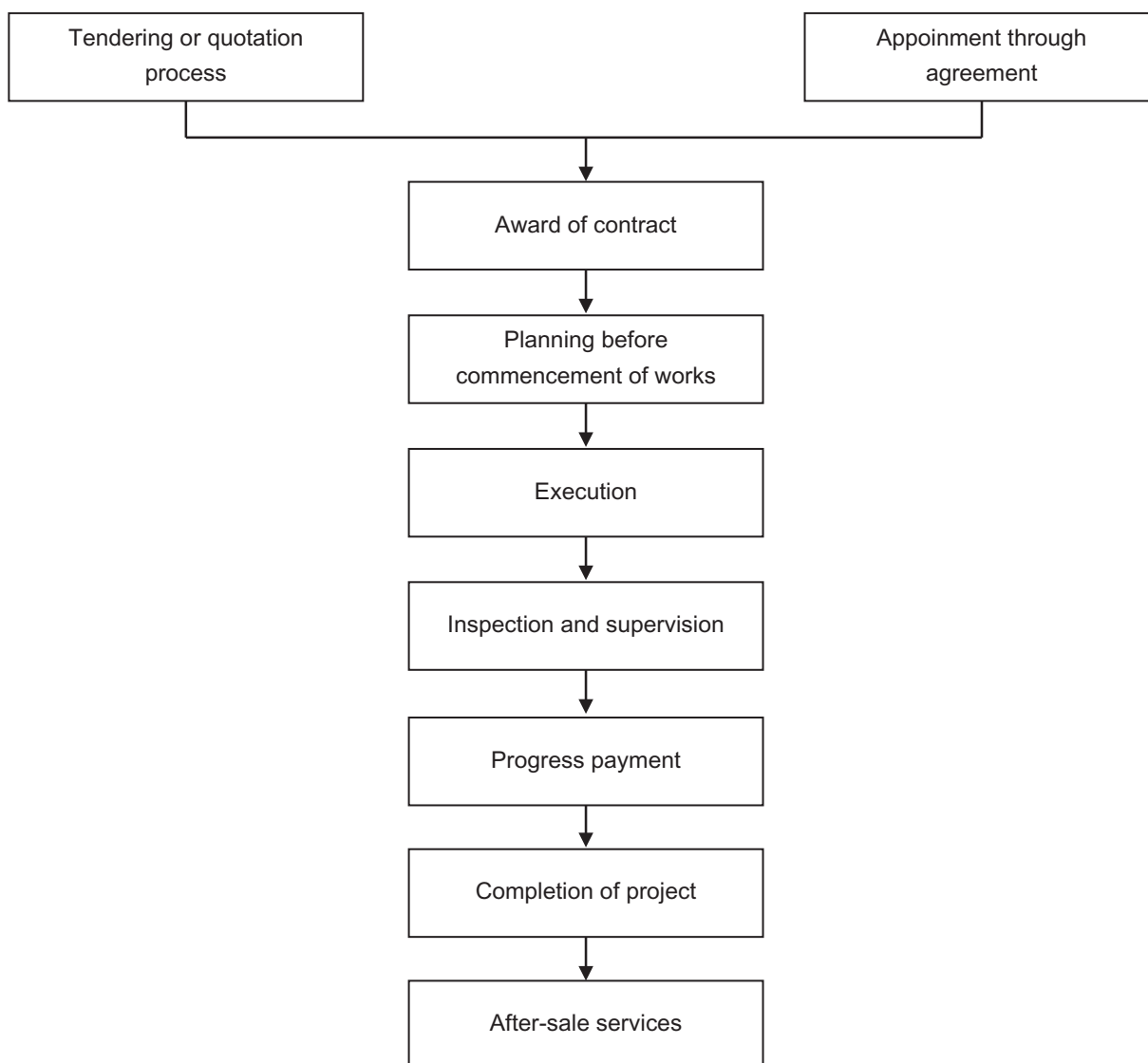
Apart from the property engineering and landscape construction services provided to our related parties, we have served not less than 40 independent customers during the Track Record Period. For FY2019, FY2020, FY2021 and 1H2022, there were 10, 13, 12 and seven independent customers who were in business relationship with the Group for both property management services and property engineering and landscape construction services, respectively, which generated revenue of approximately RMB30.9 million, RMB39.9 million,

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RMB50.1 million, RMB59.8 million, respectively. It is evident that the property engineering and landscape construction services is a complementary service of property management services and offering of such property engineering and landscape construction services can better satisfy the various needs of customers and bring in additional revenue to the property management companies. Therefore, our Directors believe that our Group is capable to provide property engineering and landscape construction services.

Operation flow

The operation flow of our typical property engineering and landscape construction project is set out below:



Obtaining property engineering and landscape construction project

We may receive from third party customers an invitation to quote or tender for a project of property engineering and landscape construction services, after which our marketing department will review the tender

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documents and/or project requirements and prepare the tender documents. For some sizeable projects, we may engage external pricing consultant to assist us in (i) tender preparation and contract negotiation; (ii) implementation of cost allocation and selection of construction materials and technique to be used in the potential project; (iii) participation of project meeting with customer; and (iv) measurement of the value of works done by our subcontractors. Pricing consultant is a licensed engineering professional firm which is responsible for the evaluation of contract value, budgeting the project costs, examining the value of works completed and verifying or adjusting the amount of the final accounts and setting estimated contract value in the tendering or quotation process based on market price. As advised by F&S, it is not uncommon for small and medium-sized construction and engineering companies to engage external pricing consultants for the evaluation of contract value and estimation of project costs. For public projects, it is essential for the property developers or construction companies to engage pricing consultant to justify the contract value. Once our engagement is confirmed, we will enter into a formal agreement with our customers. On the other hand, our related parties engaged us through directly entering into a property engineering and landscape construction service agreement. During the Track Record Period, apart from our related parties, we have responded to 13 tender/quotation invitations for property engineering and landscape construction projects from third party customers and secured seven out of 13 property engineering and landscape construction projects.

Planning and design

We will (i) liaise with the customer in relation to the planning and execution of the project according to the specifications and designs provided by our customers; (ii) prepare the schedule to be executed and the resources required at each stage; (iii) procure and arrange with suppliers for the required materials for the project; and (iv) negotiate on finalising the subcontract, if necessary.

For details of the procurement of materials and subcontracting arrangements, please refer to the paragraph headed “Our suppliers” in this section.

Execution and completion

We will (i) monitor, inspect and test the quality of the projects from time to time during the execution; (ii) arrange for customer inspection and acceptance of our works; and (iii) arrange for payment, which is generally due upon achieving certain milestones or successful completion of the projects. As at 31 December 2019, 2020 and 2021 and 30 June 2022, we had 10, 12, 15 and 13 staff in our engineering team, who are responsible for overseeing the project execution, identifying on-site issues, seeking for possible remedial actions and reporting working progress to our customers on a regular basis.

We normally engage subcontractors to carry out all site works under close supervision and management by our engineering team and we oversee and supervise the works conducted by our subcontractors to ensure their conformity to contractual specifications and that projects are completed on time and within budget. As advised by F&S, the engagement of subcontractors to carry out the execution of property engineering and landscaping construction services is in line with the industry practice. Subject to the negotiation with our subcontractors, we may require our subcontractors to bear the cost of construction materials or the materials may be procured by us on our own account for the use of our subcontractors. For sizeable projects, we may require external pricing consultant to (i) set the estimated contract value in the tendering process based on the market price; or (ii) measure the value of the works done by our subcontractors and reach settlement on the final accounts.

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The entire process from the time of entering into a contract to completion of a typical property engineering and landscape construction project takes one week to 12 months. The length of completion for a project varies according to a number of factors, including the size of the project site, technical features and complexity of the project, progress of the site construction, timelines specified by our customers and timing of approvals.

Similar to the arrangement between our subcontractors and us, our customers may also engage pricing consultants to examine the value our portion of works completed and reach settlement on the final accounts with us.

After-sales services

We typically provide a warranty period of one to two years for our customers which we are liable to performing the rectification work on construction defects subsequently identified by our customers. For waterproof engineering projects, the warranty period will be five years. In general, we require our subcontractors to provide us the same warranty period as we granted to our customers. Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we did not experience any material financial or operational impact in rectification of project defects.

Key terms of our property engineering and landscape construction agreements

The key terms of our property engineering and landscape construction agreement are summarised as follows:

- Work specifications* : The contract contains work scope, quality standards, materials required, staffing requirements and the expected date of delivery of the works or service period.
- Contract price* : The contract price is expressed in a fixed total amount for undertaking the project or in a tentative total amount with the final total amount determined upon issuance of a settlement report by our customers.
- Payment terms* : We normally claim for the final contract price (other than the retention money) when the work undertaken by us is completed, inspected and accepted by our customers. For agreements with a larger contract price, we generally claim 30%-80% of the total contract price as prepayment upon the agreement taking into effect and the outstanding payment (other than the retention money) shall become payable upon issuance of the settlement report.
- Retention money* : The contract provides for the entitlement of our customer to retain a pre-fixed percentage (normally ranging from 3% to 5%) of the total contract price as retention money, which will be released to us upon expiry of the warranty period.
- Quality assurance* : We provide quality assurance in respect of works undertaken by us. The contract normally provides for warranty period for one to two years, pursuant to which we are responsible for rectifying any defects caused by us. The cost of rectifying any defective work is borne by us.

We are required to remedy any defects identified by our customers within a specified time, failing which our customers may deduct costs incurred for undertaking such repairs from the retention money.

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During the Track Record Period, we did not incur any costs of significant amount to rectify any defective work.

Events of default : The contract contains clause imposing the liability on the default party in case of project delay, sub-standard work quality or other events of breach of contract.

Our Directors confirmed that the property engineering and landscape construction agreements entered into with the related parties of our Group are generally in line with the ones between third-party customers and us.

PROPERTY LEASING SERVICES

With an intention to establish an alternative recurring revenue stream, since 2018, we have started to acquire and/or rent certain commercial properties located in Jinan, Shandong Province, from our related parties and third parties. Such properties were leased out to satisfy our customers’ daily needs for commercial purpose. For FY2019, FY2020, FY2021 and 1H2022, the revenue generated from our property leasing services was approximately RMB6.2 million, RMB8.4 million, RMB5.9 million and RMB3.3 million, representing approximately 1.6%, 1.7%, 1.0% and 1.0% of our total revenue, respectively.

As at the Latest Practicable Date, we had 35 owned investment properties, all of which were located in one commercial building and developed by Hang Qian Group and we entered into the respective sale and purchase agreements in June 2017 and May 2019, respectively. The total consideration of the above acquisitions was approximately RMB14.5 million which was determined with reference to the market value and we settled the consideration by our working capital and bank loans. As at the Latest Practicable Date, we also had four leased properties, each rented from (i) Runhua Group, (ii) a commercial services company which its parent company is listed on Shanghai Stock Exchange, (iii) a state-owned enterprise ultimately controlled by the State Council and (iv) a state-owned enterprise ultimately controlled by Shandong State-owned Assets Supervision and Administration Commission, respectively.

During the Track Record Period, we had 35 owned investment properties located in one commercial building and six leased investment properties. The following table sets out, by way of illustration only, the details of our investment properties and their respective rental yield as compared to the market yield during the Track Record Period:

Owned investment properties

Property	Year of acquisition	Usage	Tenants	Total gross floor area ⁽¹⁾				Total acquisition cost attributable to our Group	Total market value ⁽²⁾ of the rented out units at the year end				Total annual rent of the rented out units at the year end				Rental yield ⁽³⁾				Market yield								
				FY2019	FY2020	FY2021	1H2022		FY2019	FY2020	FY2021	1H2022	FY2019	FY2020	FY2021	1H2022	FY2019	FY2020	FY2021	1H2022	FY2019	FY2020	FY2021	1H2022					
				sq.m.	sq.m.	sq.m.	sq.m.	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Unit 307 on 3/F, whole floors of S/F and 17/F, Building No. 1-2 Lemeng Center, No. 28988 Jingshi Road, Huaiyin District, Jinan City	2017 and 2019 ⁽⁴⁾	Office	Related Parties Independent third parties	2,205.40	401.05	401.05	307.92	307.92	14,532	3,580	3,600	2,573	2,500	300	300	200	200	8.4	8.3	7.8	8.0	5-9	5-9	5-9	5-9	5-9	5-9	5-9	5-9
				1,804.35	1,629.27	1,589.47	1,629.03		17,770	16,220	14,872	14,680	1,100	1,100	1,100	1,200	6.2	6.8	7.4	8.2									

Notes:

- The difference between total gross floor area and total gross floor area rented out represents the gross floor area that were self-use by us.

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- The rental yield for FY2019, FY2020, FY2021 and 1H2022 was calculated by the total annual rent of the rented out units set out in the tenancy agreements at the end of the corresponding years divided by the market value of the rented out units at the end of the corresponding periods.
- We acquired whole floors of 5/F and 17/F in 2017, and Unit 307 on 3/F in 2019.

Leased properties

Property	Usage	Landlord	Tenants	Total gross floor area rented by us ⁽¹⁾				Total gross floor area rented out ⁽¹⁾				Annual rental cost attributable to our Group set out in the last tenancy agreement	Total reference market value ⁽²⁾ of the rented out units at the year end				Total annual rent of the rented out units at the year end				Rental yield ⁽³⁾				Market yield			
				FY2019	FY2020	FY2021	1H2022	FY2019	FY2020	FY2021	1H2022		FY2019	FY2020	FY2021	1H2022	FY2019	FY2020	FY2021	1H2022	FY2019	FY2020	FY2021	1H2022	FY2019	FY2020	FY2021	1H2022
				sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Nos. 111, 102, 201, Building No. 11 (Now Unit 1 of Building No. 9) Guanzhaying Piansu, Tian Cheng Road/ Street, Tianqiao District, Jinan City	Commercial	Independent	Independent third parties	5,236.4	5,236.4	5,236.4	5,236.4	4,387.76	4,387.76	4,387.76	4,387.76	3,017	36,270	36,300	36,760	33,950	2,500	2,600	2,600	2,600	6.9	7.2	7.1	7.7	5-12	5-12	5-13	5-13
Building No. 1-2 Lemeng Center, No. 28988 Jingshi Road, Huaiyin District, Jinan City ⁽⁴⁾	Office	Independent	Independent third parties	711.52	382.6	N/A	N/A	56.82	56.82	N/A	N/A	137	447	454	N/A	N/A	28	28	N/A	N/A	6.2	6.1	N/A	N/A	5-9	5-9	N/A	N/A
No. 2, Danfeng Street, Dong Gongshang Helu, Tianqiao District, Jinan City	Commercial	Independent	Independent third parties	1,674.34	1,674.34	1,674.34	1,674.34	1,674.34	1,674.34	1,674.34	1,674.34	320	4,480	4,320	4,120	3,970	400	400	400	500	8.9	9.3	9.7	12.6	5-12	5-12	5-13	5-13
West of the middle section of Mingbu East Road, Zhangqiu District Development Zone, Jinan City ⁽⁵⁾	Industrial	Related party	Independent third parties	N/A	13,089.1	10,480.02	10,480.02	N/A	13,089.1	10,480.02	10,480.02	1,761	N/A	30,270	27,030	24,210	N/A	2,400	2,000	2,000	N/A	7.9	7.4	8.3	N/A	7.3-13	7-13	7-13
Nos. 113, 114, 115, 219, 220, 305-313, 403-415 and 5-24/F, The Door Of Qilu, Qi Zhou Lu, Huai Yin District, Jinan City, Shandong Province, the PRC ⁽⁶⁾	Office	Independent	Independent third parties	N/A	N/A	38,327.16	38,327.16	N/A	N/A	N/A	7,038	13,989	N/A	N/A	N/A	50,300	N/A	N/A	N/A	4,500	N/A	N/A	N/A	8.9	N/A	N/A	5-9	5-9
No. 239, Jingshi West Road, Jinan City, Shandong Province, the PRC ⁽⁷⁾	Industrial	Related party / Independent	Related third parties	41,728	41,728	N/A	N/A	29,718	28,983	N/A	N/A	515	6,500	6,300	N/A	N/A	800	800	N/A	N/A	12.3	12.7	N/A	N/A	7.3-13	7-13	N/A	N/A
		Independent	Independent third parties					7,877	8,612	N/A	N/A	1,700	1,900	N/A	N/A	200	200	N/A	N/A	11.8	10.5	N/A	N/A					

Notes:

- The difference between the total gross floor area rented by us and the total gross floor area rented out represents the gross floor area that were self-use by us.
- Reference market value has been assigned as at the valuation date for illustration purpose, assuming the property could be freely transferred in the market.
- The rental yield for 2019, 2020 and 2021 was calculated by the annual rent of the rented out units set out in the tenancy agreements at the end of the corresponding years divided by the reference market values of the rented out units at the end of the corresponding years.
- The tenancy agreement was terminated in December 2020.
- We started to rent the property in March 2020.
- We started to rent the property in December 2021.

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7. The tenancy agreement was terminated in December 2020.
8. The property was transferred from related parties to independent third party in May 2019.

The property valuer is of the view that the rental yield of the owned investment properties and leased properties were in time with the market yield of the relevant property in the region as the rental yield of each of the owned and leased investment property was within the range of the respective market yield during the Track Record Period.

During the Track Record Period, we entered into lease agreements with tenants with terms ranged from six months to nine years. In a typical lease agreement, we require the tenants to provide a security deposit that amounts up to one month’s rent. We are entitled to terminate the lease agreement with a tenant under circumstances including, among other things, that the tenant has defaulted the rental payment for more than 10 days.

For the leased investment properties, we offer to renovate or decorate by our own engineering team in order to subsequent sublease to multiple tenants for the purpose of maximising the income to be generated. As confirmed with Runhua Group, the subleasing arrangement allows them to enhance their cashflow, reduce the cost for renovation and ease their burden on sourcing tenants since the Group was responsible for the renovation costs of the leased investment properties and also the sourcing, selecting and managing of tenants for these leased investment properties. As confirmed with Runhua Group, apart from the investment properties leased to our Group, there was no other investment property held by Runhua Group as at the Latest Practicable Date. As advised by the property valuer, our Directors confirmed that (i) the purchase prices for our owned properties were comparable to the prevailing market prices at the material time; and (ii) all of the tenancy agreements and lease agreements were conducted in the ordinary course of business under normal commercial terms and on arm’s length basis.

OTHER SERVICES

During the Track Record Period, we provided ancillary services in respect of (i) patient nursing and post-natal caring services; and (ii) sales of software supporting systems developed by us and daily server maintenance services. The revenue generated from these services was approximately RMB7.1 million, RMB0.6 million, RMB3.2 million and RMB1.5 million, representing approximately 1.8%, 0.1%, 0.5% and 0.5% of our total revenue for FY2019, FY2020, FY2021 and 1H2022, respectively. Such decrease was mainly due to (i) the reduced sales volume of our software supporting systems; and (ii) change of our focus to develop in-house software supporting systems for our property management business.

OUR INFORMATION TECHNOLOGY SYSTEMS

We are dedicated to the utilisation and development of digitalisation and operation automation systems and have employed technological solutions to strengthen our competitiveness, improve our service quality and customer satisfaction, reduce our reliance on manual labour, and reduce costs and expense to be incurred by providing our services.

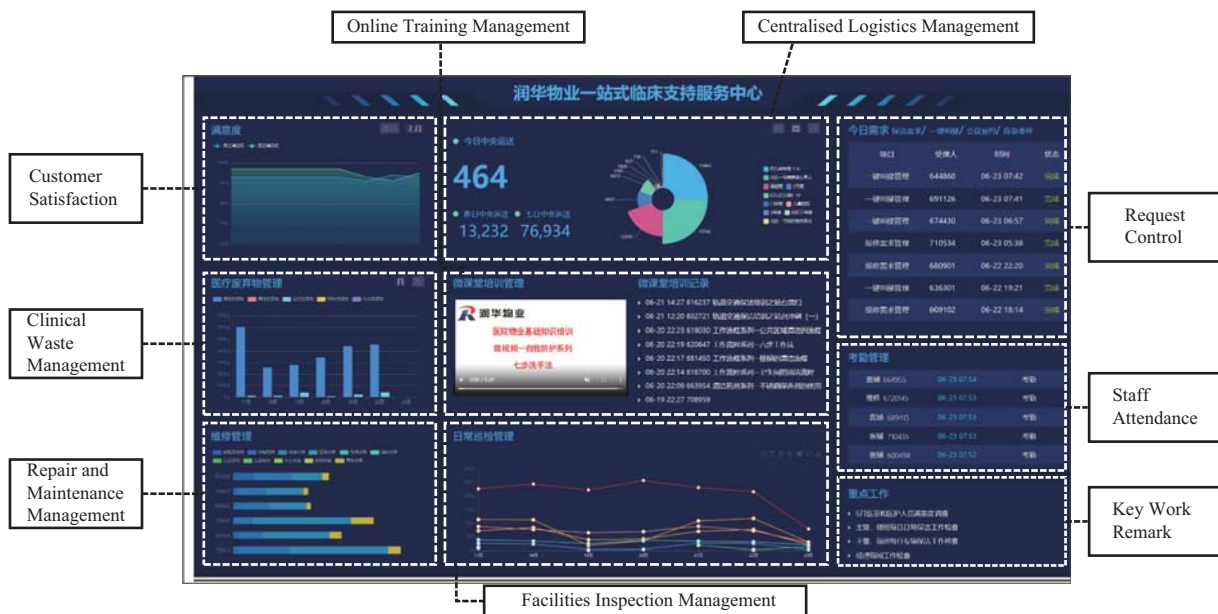
OSCS Service Centre (一站式臨床支持服務中心)

According to the F&S Report, along with the development of hospital logistics services market in China, hospital logistics services providers have utilised a series of new technologies such as Internet technology,

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Internet of Things (IoT), big data and cloud computing in various application scenarios including cleaning services, medical auxiliary transportation and patrol and inspection services to reduce costs, improve management efficiency and promote the transformation and upgrading of traditional hospital logistics which primarily relies on large number of work force. In March 2019, we have launched an online information technology operation centre, namely OSCS Service Centre, which is a centralised management system developed by our Group, to manage, support and optimise the entire operation process of the hospitals under our management. The service orders handled by us through OSCS Service Centre were over 11,000, 30,000, 62,000 and 59,000 in FY2019, FY2020, FY2021 and 1H2022, respectively. For details, please refer to the paragraph headed “Property Management Services — Scope of our property management services — Hospital logistics services” in this section.

The following screenshot illustrates the user interface and key functions of our OSCS Service Centre:



Runzhiyun (潤之雲)

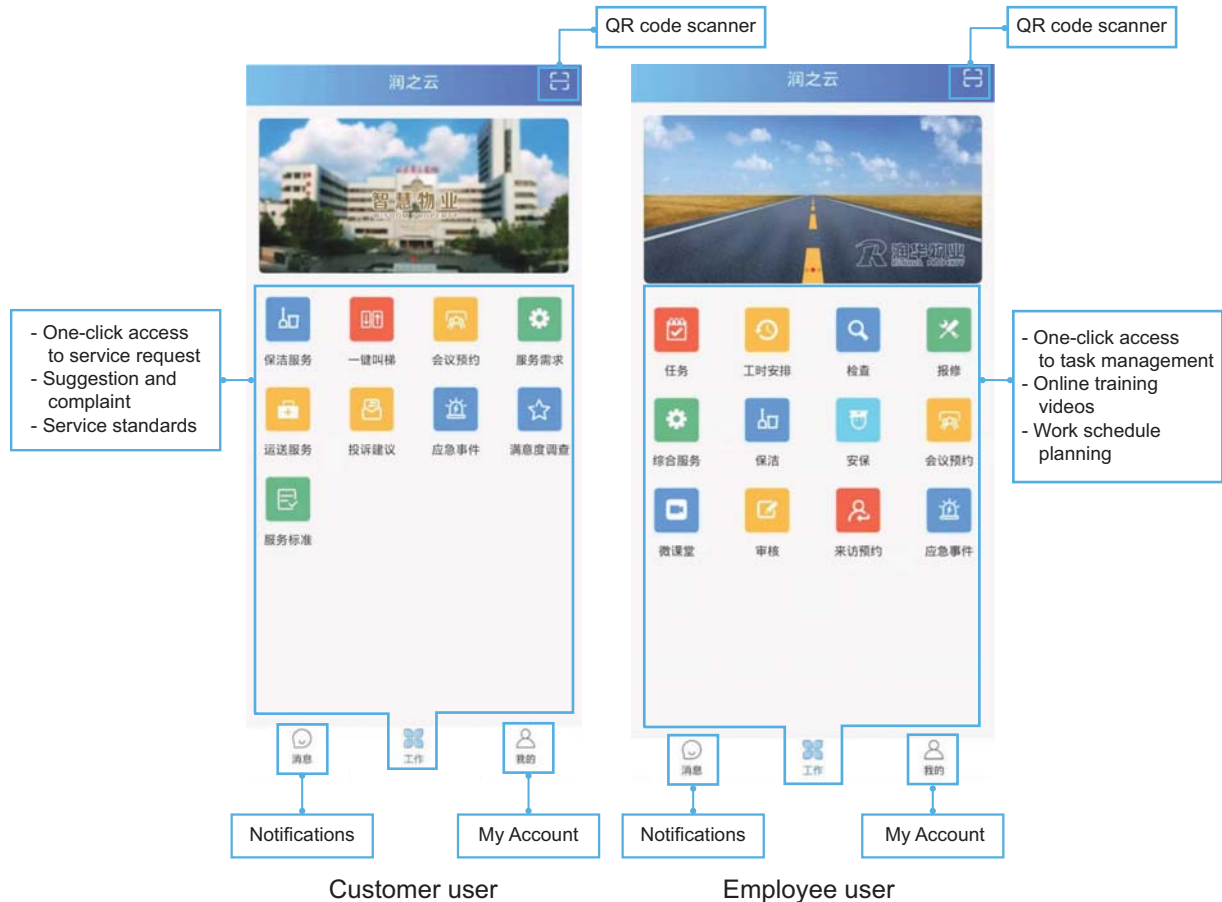
In line with the trend in the development of mobile technology, we also established Runzhiyun based on our understanding of the preferences and habits of our customers through our frequent interactions with them with the aim to provide fast and convenient access to OSCS Service Centre for our hospital logistics services. Apart from the functions opened to hospital staff and patients, our mobile application also allows users from different kinds of properties to submit requests for our typical property management services. Runzhiyun has multiple functions for the customer users including:

- (i) *Request of services:* Users can place orders for our services. They can also review the standards and scope of our services online;
- (ii) *Booking conference room:* Customers can check the availability and seating capacity of each of the conference rooms in the properties under our management and reserve the conference rooms as well as our hosting services and booking multimedia equipment;

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- (iii) *Emergency elevator service:* In order to prioritise the emergency and surgical patients, hospital staff can call for elevator in advance; and
- (iv) *Service feedback:* Users can score and comment on our services through Runzhiyun and review our investigation result and/or response accordingly.

The following pictures illustrate the interface for customer user and employee user:



QR Code Pass (一碼通)

We posted QR codes at different departments of the hospitals under our management. Through scanning the QR codes, hospital staff and patients can, without installing Runzhiyun, access to our OSCS Service Centre. For the centralised logistics management module under our hospital logistics services, we require our frontline workers to scan the QR codes at pick-up point and end point so that we can inspect the delivery time for each of them to complete a delivery order. All the data will be collected and uploaded to our OSCS Service Centre for our follow-up actions. In addition, our frontline workers can scan the QR codes to login to our training programme to learn the relevant knowledge and skills for the respective department.

We have also established an internal learning programme at our system, which is accessible by Runzhiyun and QR Code Pass, to provide online training courses to our employees and workers of our subcontractors any time and anywhere to improve their professional knowledge and skills. As at the Latest

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Practicable Date, there were over 200 training videos and materials available to our employees at our system. Our Directors believe that this new technology trend in mobile technology will enhance our competitiveness and capability for securing new property management agreements as compared to the traditional property management service providers in the market.

Operation Automation and Technology Solutions

In addition, we utilised other information technology systems in our business in order to improve operational efficiency, ensure consistent service quality, help develop a scalable business model and alleviate the pressure of increasing labour cost. Apart from the hospitals under our management, we also developed a series of software supporting systems for other properties with special features, such as public transportation properties and schools, to facilitate our daily operation activities. Moreover, we employed standardised management solutions in the following aspects to enhance operational efficiency, ensure consistent service quality and improve customer experience:

- *Security operation:* Our system integrated with the mobile devices carried by our security guards which enables us to track the whereabouts of our security guards on a real time basis and digitalise the patrolling records at each patrolling checkpoint when the security guard passes the checkpoint. These automated records will be uploaded to our system under the monitor of our on-site management team instead of traditional paper records;
- *Facilities inspection:* Our system generates metre reading route and tasks, including metre reading data of current and voltage and operating frequency, etc), for our frontline workers to follow up;
- *Conference room management:* The information about the availability and seating capacity of each of the conference rooms in the properties under our management would be uploaded to our system and customers can reserve the conference rooms as well as our hosting services and booking multimedia equipment through our system;
- *Repair request management:* Similar to our OSCS Service Centre, customers can initiate repair orders to us through our hotline and Runzhiyun;
- *Internal communication management:* Our on-site management teams can, through our system, confirm that our frontline workers have read and accepted the request for our services;
- *Complaint management:* We posted a QR Code at each property under our management. Customers can submit their suggestion and complaints to us through scanning the QR Code;
- *Work schedule planning:* For planned works, such as daily inspection, monthly inspection, quarterly inspection, and equipment maintenance, our system can automatically distribute the work orders to our employees and formulate their work schedule; and
- *Visitor management:* A registered users can make appointment for visitors including, among others, families and delivery men, property agency, handymen, through our system and our receptionists will confirm the visitors' identification through scanning their identity cards.

Having considered that the growing concern for energy saving and a smooth and efficient building operation has become a top priority in the PRC property management market, as at the Latest Practicable Date, we developed an energy consumption monitoring system as a trial for a residential project and therefore, we can

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closely monitor and analyse the energy consumption and efficiency of such property, and develop energy consumption control and management solutions in order to reduce energy costs to be incurred and manpower to be involved.

Leveraging on our strong technological capabilities, we have also developed a variety of software supporting systems, including Customer Management Systems and PSI (Purchase, Sales and Inventory) Management Systems, for our related parties and third party customers and provided server maintenance services to them during the Track Record Period.

As confirmed by our Directors, taking into account that our Group has not received any revenue from our information technology systems and mobile application, we are thus not supposed to be required to obtain any licences for the use of our information technology systems and mobile application.

RESEARCH AND DEVELOPMENT

Our operation department is responsible for the planning research and development activities, monitoring the research and development services provided by third party service providers and providing users feedback to them. Their duties also involve the supervision and monitoring the operation of OSCS Service Centre, Runzhiyun and operational systems for our property management services. As at the Latest Practicable Date, our operation department had a team of six research and development personnel, of which four have obtained bachelor’s degree. Our total expenditure for research and development amounted to approximately RMB5.4 million, RMB2.0 million, RMB2.3 million and RMB1.1 million for FY2019, FY2020, FY2021 and 1H2022, respectively, which was mainly for the wages of our research and development personnel, depreciation of fixed assets and procurement of software and systems from third party.

OUR CUSTOMERS

Our customers include hospitals, governmental bodies, private enterprises, property owners, property developers and tenants. Most of them were located in Shandong Province.

During the Track Record Period, the majority of our revenue was generated from customers who are independent third parties. We also provided our services to our Group’s related parties. The table below sets forth a breakdown of our total revenue by types of customers for the Track Record Period:

	FY2019		FY2020		FY2021		1H2021		1H2022	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	RMB'000		RMB'000		RMB'000		RMB'000 (unaudited)		RMB'000	
Independent third parties	351,742	88.6	390,177	80.3	527,897	87.8	244,940	93.6	301,416	93.8
Our related parties	45,354	11.4	95,918	19.7	73,401	12.2	16,680	6.4	19,975	6.2
Total	397,096	100.0	486,095	100.0	601,298	100.0	261,620	100.0	321,391	100.0

During the Track Record Period, our revenue generated from the third party customers remained a stable growth from approximately RMB351.7 million in FY2019 to approximately RMB527.9 million in FY2021,

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which was in line with the increase in the number of non-residential properties (i.e. hospitals, public properties and commercial and other non-residential properties) from 143 in FY2019 to 211 in FY2021.

We experienced a significant increase in revenue generated from our related parties from approximately RMB45.3 million in FY2019 to approximately RMB95.9 million in FY2020, mainly due to the growth of revenue contribution from five relatively sizeable property engineering and landscape construction projects, with the aggregate revenue contribution of approximately RMB50.7 million in FY2020. For details of these property engineering and landscape construction projects, please refer to the paragraph headed “Our Customers — Sales to Hang Qian Group” in this section and the section headed “Financial Information — Selected Items from Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue” in this document.

Apart from our related parties, we have maintained a stable relationship with most of our top five customers during the Track Record Period ranging from seven years to 18 years. The sales to our top five customers for FY2019, FY2020, FY2021 and 1H2022 accounted for approximately 32.1%, 33.7%, 25.5% and 21.3% of our total revenue, respectively, while the sales to our largest customer accounted for approximately 8.2%, 13.1%, 7.0% and 5.3% of our total revenue of the corresponding period, respectively. During the Track Record Period, our customers generally pay us by bank transfer and the payment terms granted to our customer were within 120 days.

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The following tables set forth details of our top five customers during the Track Record Period:

For FY2019

Rank	Customer	Main services provided to the customer	Relationship with our Group	Number of years of relationship	Approximate amount of revenue	Approximate percentage of total revenue of our Group	Settlement method	Credit terms
					<i>RMB'000</i>	%		
1	Customer Group A ^(Note 1)	Property management services	Independent third party	17	32,671	8.2	Bank transfer	20 business days
2	Shandong Provincial Hospital ^(Note 2)	Property management services	Independent third party	15	27,908	7.0	Bank transfer	10 business days
3	Runhua Group ^(Note 3)	Property management services	Related party	18	24,711	6.2	Bank transfer	5 days
4	The Affiliated Hospital of Qingdao University ^(Note 4)	Property management services	Independent third party	8	22,106	5.6	Bank transfer	90 days
5	Hang Qian Group ^(Note 5)	Property management, and property engineering and landscape construction services	Related party	7	20,270	5.1	Bank transfer	Property management services: 10 days; Property engineering and landscape construction services: progress payment
Five largest customers combined					127,666	32.1		
All other customers					269,430	67.9		
Total revenue					397,096	100.0		

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For FY2020

Rank	Customer	Main services provided to the customer	Relationship with our Group	Number of years of relationship	Approximate amount of revenue	Approximate percentage of total revenue of our Group	Settlement method	Credit terms
					<i>RMB'000</i>	<i>%</i>		
1	Hang Qian Group	Property management, and property engineering and landscape construction services	Related party	7	63,681	13.1	Bank transfer	Property management services: 10 days Property engineering and landscape construction services: progress payment
2	Shandong Provincial Hospital	Property management services	Independent third party	15	27,720	5.7	Bank transfer	30 days
3	Runhua Group	Property management services	Related party	18	25,382	5.3	Bank transfer	5 days
4	Customer Group A	Property management services	Independent third party	17	24,135	4.9	Bank transfer	120 days
5	The Affiliated Hospital of Qingdao University	Property management services	Independent third party	8	22,892	4.7	Bank transfer	90 days
					Five largest customers combined	33.7		
					All other customers	66.3		
					Total revenue	100.0		

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For FY2021

Rank	Customer	Main services provided to the customer	Relationship with our Group	Number of years of relationship	Approximate amount of revenue	Approximate percentage of total revenue of our Group	Settlement method	Credit terms
					<i>RMB'000</i>	<i>%</i>		
1	Hang Qian Group	Property management, and property engineering and landscape construction services	Related party	7	42,315	7.0	Bank transfer	Property management services: 10 days Property engineering and landscape construction services: progress payment
2	Customer Group A	Property management services	Independent third party	17	30,140	5.0	Bank transfer	120 days
3	Runhua Group	Property management services	Related party	18	28,278	4.7	Bank transfer	5 days
4	Shandong Provincial Hospital	Property management services	Independent third party	15	28,022	4.7	Bank transfer	30 days
5	The Affiliated Hospital of Qingdao University	Property management services	Independent third party	8	24,502	4.1	Bank transfer	90 days
					Five largest customers combined	153,257	25.5	
					All other customers	448,041	74.5	
					Total revenue	601,298	100.0	

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For 1H2022

Rank	Customer	Main services provided to the customer	Relationship with our Group	Number of years of relationship	Approximate amount of revenue	Approximate percentage of total revenue of our Group	Settlement method	Credit terms	
					RMB'000	%			
1	Customer A	Property management services	Independent third party	17	17,128	5.3	Bank transfer	30 days	
2	Shandong Provincial Hospital	Property management services	Independent third party	15	13,947	4.4	Bank transfer	30 days	
3	Runhua Group	Property management services	Related party	18	13,802	4.3	Bank transfer	30 days	
4	The Affiliated Hospital of Qingdao University	Property management services	Independent third party	8	12,529	3.9	Bank transfer	90 days	
5	Customer B (Note 6)	Property management services	Independent third party	7	11,015	3.4	Bank transfer	30 days	
Five largest customers combined					68,421	21.3			
All other customers					252,970	78.7			
Total revenue					321,391	100.0			

Notes:

- Customer Group A is a group of state-owned enterprises, established in the PRC with limited liability, in which their business activities include railway passenger and freight transportation services covering railway networks within and around Shandong Province.
- Shandong Provincial Hospital is a comprehensive public Grade 3A Hospital located in Jinan City and ranked 29th in “Top 100 Hospitals in China” (中國頂級醫院100強) in 2021.
- A group of entities owned by Runhua Group, a company incorporated with limited liability in the PRC on 18 June 1993, which is owned as to approximately 52% by Mr. Luan as of the Latest Practicable Date. The principal business activities of which includes sale and service of motor vehicles, car rental, finance investment, pharmaceutical and other comprehensive business.
- The Affiliated Hospital of Qingdao University is a comprehensive public Grade 3A Hospital located in Qingdao City and ranked 47th in “Top 100 Hospitals in China” (中國頂級醫院100強) in 2021.
- A group of entities owned by Hang Qian Holdings, a company incorporated with limited liability in Hong Kong on 18 December 2007, which is wholly owned by Mr. HQ Luan as of the Latest Practicable Date. The principal business activities of which includes property development, property marketing and hotel operations.
- Customer B is a comprehensive public Grade 3A Hospital located in Jinan City.

Our Directors confirmed that, save for Runhua Group and Hang Qian Group, during the Track Record Period and up to the Latest Practicable Date, none of our Directors or Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company), or their respective close associates, had any interest in any of our top five customers during the Track Record Period.

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Sales to Runhua Group

Background of Runhua Group. Runhua Group refers to Runhua Group Company, a company incorporated with limited liability in the PRC on 18 June 1993, which is owned as to approximately 52% by Mr. Luan as at the Latest Practicable Date, and a group of entities owned by Runhua Group Company as its subsidiaries. The principal business activities of Runhua Group include sale and service of motor vehicles, car rental, finance investment, pharmaceutical and other comprehensive business.

Business relationship with Runhua Group. We have long-standing business relationship with Runhua Group for over 18 years. During the Track Record Period, we mainly provided Runhua Group with our property management services to the automobile industrial parks managed by them. For FY2019, FY2020, FY2021 and 1H2022, revenue from Runhua Group remained stable at approximately RMB24.7 million, RMB25.4 million, RMB28.3 million and RMB13.9 million, representing approximately 6.2%, 5.3%, 4.7% and 4.3% of our total revenue, respectively. For details of relationship with Runhua Group, please refer to the section headed “Relationship with our Controlling Shareholders” in this document.

Sales to Hang Qian Group

Background of Hang Qian Group. Hang Qian Group refers to Hang Qian Holdings, a limited liability company incorporated in Hong Kong on 18 December 2007, which is wholly owned by Mr. HQ Luan, and a group of entities owned by Hang Qian Holdings as its subsidiaries. The principal business activities of Hang Qian Group include property development, property marketing and hotel operations.

Business relationship with Hang Qian Group. We have built up business relationship with Hang Qian Group for over six years. During the Track Record Period, we mainly provided Hang Qian Group with our property management services to the residential properties developed by them and the relevant property selling centres as well as property engineering and landscape construction services. For FY2019, FY2020, FY2021 and 1H2022, revenue from Hang Qian Group amounted to approximately RMB20.3 million, RMB63.7 million, RMB42.3 million and RMB5.9 million, representing approximately 5.1%, 13.1%, 7.0% and 1.8% of our total revenue, respectively. The increase in FY2020 was primarily due to four relatively sizeable property engineering and landscape construction projects commenced in FY2020 and contributed an aggregate revenue of approximately RMB44.0 million in FY2020, which involved outdoor landscape construction, pipeline construction, modification of shape and elevation of terrains and planting of trees, shrubs, flowers, hedgerows and seedlings. The abovementioned four projects were related to a large-scale property development project (“**XTJD Project**”) developed by Hang Qian Group. The decrease in 1H2022 was mainly due to most of the construction works undertaken by us for the XTJD Project were substantially completed in around the end of FY2021. For details of XTJD Project and relationship with Hang Qian Group, please refer to the paragraph head “Property Engineering and Landscape Construction Services” in this section and the section headed “Relationship with our Controlling Shareholders” in this document.

Our major customers also our suppliers

Runhua Group and Hang Qian Group

During the Track Record Period, we rented from Runhua Group and Hang Qian Group certain properties for (i) being our branch offices and storage of facilities and equipment for carrying out our property

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management services; and (ii) leasing to third party customers for our property leasing business. Our Directors are of the view that such arrangements allow us to (i) enhance our service efficiency by having our own office in the managed properties to respond to our customers’ requests promptly; (ii) generate rental income as additional recurring revenue stream; and (iii) manage our investment properties effectively as most of our investment properties are under our management.

For FY2019, FY2020, FY2021 and 1H2022, the purchase amount attributable to Runhua Group was approximately RMB0.1 million, RMB1.2 million, RMB2.7 million and RMB0.8 million, representing approximately 0.3%, 1.2%, 1.2% and 0.6% of our total purchase amount, respectively; and the gross profit generated from Runhua Group amounted to approximately RMB8.5 million, RMB11.9 million, RMB13.4 million and RMB6.4 million for the corresponding period, respectively. The purchase amount attributable to Hang Qian Group was approximately RMB0.2 million, nil, nil and nil for FY2019, FY2020, FY2021 and 1H2022, representing approximately 0.4%, nil, nil and nil of our total purchase amount, respectively; and the gross profit generated from Hang Qian Group amounted to approximately RMB6.7 million, RMB14.9 million, RMB13.4 million and RMB1.1 million for the corresponding period, respectively.

Our Directors confirmed that all of our sales to and our purchases with Runhua Group and Hang Qian Group were conducted in the ordinary course of business under normal commercial terms and on arm’s length basis. For details of the future transactions with Runhua Group and Hang Qian Group, please refer to the section headed “Connected Transactions” in this document.

Others

During the Track Record Period, we also rented carpark from Shandong Provincial Hospital for providing carpark management services. Such arrangement allows us to generate additional revenue on top of the typical property management services and satisfy our customers’ needs by undertaking the management of their ancillary facilities.

The purchase amount attributable to Shandong Provincial Hospital was approximately RMB0.7 million, RMB2.0 million and RMB1.0 million for FY2020, FY2021 and 1H2022, representing approximately 0.7%, 0.9% and 0.8% of our total purchase amount, respectively; and the gross profit generated from Shandong Provincial Hospital amounted to approximately RMB4.0 million, RMB3.6 million and RMB2.4 million for the corresponding period, respectively.

To the best knowledge and belief our Directors, apart from the abovementioned, none of our major customers during the Track Record Period was also a supplier of our Group.

SALES AND MARKETING

When we were established, we primarily focused in development of our business in Shandong Province by upholding our strategy of “Shandong Focus (精耕山東)”. Over the years, we have gradually expanded the coverage of our services to 15 of the 16 prefecture-level cities in Shandong Province and first-tier cities in the PRC, such as Beijing and Shenzhen. Our marketing department actively explores new tender opportunities in the market and focuses primarily on our overall marketing strategy as well as maintains and strengthens our relationships with existing customers. As at the Latest Practicable Date, our marketing department consisted of nine staff who are dedicated to sales and marketing of our services.

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We continually provide our existing customers with diversified and quality services and maintain a good communication channel with them with a view to obtaining future property management agreements or extend our existing agreements upon expiration. To enhance our connection with existing customers and improve the customer experience, we also developed Runzhiyun to receive feedback, suggestion and complaint from customers.

To enhance our corporate image, we invite our existing and potential customers to visit our managed projects to deepen their understanding of our Group in relation to the quality of services we provide. We have established an official account at social media platform to promote our business model and publish our Group’s business updates. We believe that our marketing efforts have successfully increased customers’ familiarity with our brand and our service capacities.

Pricing strategy

For our property management services, we generally charge our customers on a lump-sum basis and determine our price by adopting a cost-plus pricing model. According to the F&S Report, lump sum basis for property management fees is the dominant model in the property management services market for both residential and non-residential buildings in the PRC. During the Track Record Period, all of the hospitals and substantially all of the public properties and commercial and other non-residential properties were charged by a fixed and all-inclusive fee for our property management services, which we provide through our own employees and third-party subcontractors. When we bid for a new property management agreement or negotiate for the renewal of an existing one with our customers, including related parties and independent third parties, we generally price our services with reference to the stipulated/expected number of employees and workers to be deployed for each position and consider a number of factors, including (i) the size, location and type of the properties, (ii) the expected standards for our property management services and the frequency of performing our services, (iii) budgeted operational expenses (including but not limited to labour, materials and administrative expenses), (iv) targeted profit margins, (v) pricing of comparable properties, (vi) evaluation of our competitors’ pricing, and (vii) the potential growth of business of our Group in general. In addition, we review and evaluate our property management fees charged regularly and compare them against our financial performance to ensure our targeted profit margins can be sustained and to assess whether we should revise the property management fees charged when we renew our property management services agreements.

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On the other hand, for a public property, certain commercial properties and all residential properties under our management, the fees of which are related to the revenue-bearing GFA, i.e. we will receive property management fees from our customers which are generally calculated based on the property size in GFA and management fee per sq.m.

The below table sets out (i) the range of monthly management fee per sq.m. charged for the properties related to revenue-bearing GFA; (ii) the range of monthly management fee per sq.m. charged for the properties related to non-revenue bearing GFA, for illustration purpose only; and (iii) the market range of monthly management fee per GFA during the Track Record Period:

	FY2019	FY2020	FY2021	1H2022
	<i>RMB per sq.m.</i>	<i>RMB per sq.m.</i>	<i>RMB per sq.m.</i>	<i>RMB per sq.m.</i>
Revenue-bearing				
Public property ^(Note 1)	4.56 to 7.6	4.56 to 7.6	4.56 to 7.6	4.56 to 7.6
Commercial properties ^(Note 2)	1.54 to 2.4	1.54 to 2.4	1.54 to 2.4	1.54 to 8.2
Residential properties				
— Developed by related parties ^(Note 3)	2.05 to 2.36	2.05 to 2.36	2.05 to 2.36	2.05 to 2.36
— Developed by independent third parties	0.5 to 2.6	0.5 to 2.6	0.48 to 2.6	0.48 to 2.6
Non-revenue-bearing ^(Note 4)				
Hospitals ^(Note 5)	1.26 to 11.45	1.26 to 15.68	1.36 to 16.68	1.36 to 16.68
Public properties	1.2 to 4.42	1.2 to 4.46	1.22 to 4.5	1.22 to 4.5
Commercial properties				
— Developed by related parties ^(Note 6)	2.18 to 6.38	2.06 to 6.78	1.17 to 7.39	1.17 to 8.90
— Developed by independent third parties	0.38 to 7.69	0.3 to 8.53	0.3 to 8.53	0.31 to 8.53

Market range of monthly management fee per GFA during the Track Record Period

	<i>RMB</i>
Hospital	3.0 – 8.0
Public properties	1.2 – 4.5
Commercial and other non-residential properties ^(Note 7)	0.3 – 9.0
Residential properties	0.4 – 3.5

Notes:

- During the Track Record Period, we charged a public property with relatively high property management fees by reason of the mixed public and commercial features of such property.
- For FY2019, FY2020 and FY2021, the commercial properties managed by us with the fees related to the revenue-bearing GFA were industrial parks only. In May 2022, we secured a property management project for an office building with the management fee of RMB8.2 per sq.m..
- The management fee per sq.m. charged for the residential properties developed by related parties is generally higher as compared to those developed by independent third parties is mainly attributable to the fact that the residential properties developed by related parties are generally higher-end residential properties that are newly developed. Nearly all the residential properties developed by our related parties were rated at level five while the residential properties developed by the independent third parties were rated among level three to level five. The range of management fee per sq.m. excluded the fee we charged for a villa project for RMB6.0 sq.m. During the Track Record Period, such villa project contributed revenue to us of approximately RMB1.9 million, RMB0.8 million, RMB1.5 million and RMB0.6 million, respectively; and gross profit of approximately RMB1.5 million, RMB0.3 million, RMB0.7 million and RMB0.1 million, respectively. As advised by the F&S, the management fee per sq.m. charged for such villa project is in line with market rate.
- The property management fees charged under such agreements did not directly correspond to the actual GFA under our management, as they mainly reflected key factors such as the stipulated number of employees and worker required to service the property and service standards required for the type of property. Accordingly, the monthly property management fee for such non-residential

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properties calculated as the relevant contract value divided by GFA under management is for illustration only and would not accurately reflect the financial aspect of the property management services provided by us to non-residential properties during the Track Record Period and therefore is not presented herein.

5. During the Track Record Period, the management fees per sq.m. charged for nine hospital projects, ranging from RMB1.26 to RMB2.82, were below the market range mainly due to the fact that we only provided regular cleaning services for these projects; while the monthly management fees per sq.m. charged for six hospital projects, ranging from RMB8.44 to RMB16.68, were above the market range due to the fact that we have provided a comprehensive hospital logistics services on top of the typical property management services for these projects, which allowed us to charge a relatively higher management fee.
6. The range of monthly management fee per sq.m. excluded the fees we charged for property selling centers, ranging from RMB27.5 to RMB91.96, which were substantially higher than the market range due to the fact that the size of property selling centers is limited and we were required to deploy a number of hosting staff to serve the visitors, which allowed us to charge a relatively higher management fee.
7. The market range of property management fee per sq.m. for office buildings and industrial parks in Shandong Province was from RMB2.0 to RMB9.0 and from RMB0.3 to RMB3.3 during the Track Record Period, respectively.

According to the “Property Service Charge Management Measures of Shandong Province”(山東省物業服務收費管理辦法), the government-guided price is implemented for the property management fees of residential properties in the preliminary stage. The management fee shall be determined based on various factors, such as the level of the property, service standards, service quality and service cost.

The following table sets out our property management fees charged for residential properties and the headroom for further increase based on the respective government guidance prices as compared to the management fee charged per sq.m.:

Number	Address	City	Relationship with Property developer	Property level ⁽¹⁾	Range of monthly management fee ⁽¹⁾ we charged during the Track Record Period	Maximum Government guidance price ^(1&2)	Headroom for further increase in the monthly management fee
					RMB per sq.m.	RMB per sq.m.	RMB per sq.m.
1	Intersection of Lashanhe Dong Road and Laiwu Road, Huaiyin District	Jinan	Related party	Five	2.05	2.36	0.31
2	Intersection of Lashanhe Dong Road and Yantai Road, Huaiyin District	Jinan	Related party	Five	2.15	2.36	0.21
3	Intersection of Yantai Road and Dongying Road, Huaiyin District	Jinan	Related party	Five	2.36	2.36	—
4	Intersection of Yantai Road and Binzhou Road, Huaiyin District	Jinan	Related party	Five	2.36	2.36	—

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Number	Address	City	Relationship with Property developer	Property level ⁽¹⁾	Range of monthly management fee ⁽¹⁾ we charged during the Track Record Period	Maximum Government guidance price ^(1&2)	Headroom for further increase in the monthly management fee
					RMB per sq.m.	RMB per sq.m.	RMB per sq.m.
5	South of Taiping Henan Road, North of Hongxi Ganqu, Huaiyin District	Jinan	Related party	Five	2.36	2.36	—
6	25 Shifan Road, Tianqiao District	Jinan	Independent third party	Three	1.62	1.7	0.08
7	Fuyang Street, Jiyang County	Jinan	Independent third party	Three	1.2	1.7	0.5
8	Intersection of Jingwu Road and Weiqi Road, Huaiyin District	Jinan	Independent third party	Three	0.9	1.7	0.8
9	Intersection of Jingwu Road and Weiqi Road, Huaiyin District	Jinan	Independent third party	Three	1.0	1.7	0.7
10	2866 Longding Road, Lixia District	Jinan	Independent third party	Three	1.28	1.7	0.42
11	Intersection of Jiefang Road and Shanguo Road	Zaozhuang	Independent third party	Three	0.85	1.32	0.47
12	288 Tasi Bei Road	Zaozhuang	Independent third party	Three	0.5 – 0.9	0.84 – 1.32	0.34 – 0.42
13	777 Tasi Bei Road	Zaozhuang	Independent third party	Three	0.9	1.32	0.42
14	1677 Beixin Road	Zaozhuang	Independent third party	Three	0.9	1.32	0.42
15	91 Yingsheng Road	Tai’an	Independent third party	Five	1.9 – 2.1	2.28	0.18 – 0.38
16	3 Nanhuang Road, Daiyue District	Tai’an	Independent third party	Four	1.6	1.8	0.2
17	3 Nanhuang Road, Daiyue District	Tai’an	Independent third party	Four	1.6	1.8	0.2
18	Yingsheng Dong Road, Taishan District	Tai’an	Independent third party	Five	2.6	2.28	N/A ⁽³⁾
19	Intersection of Haili Street and Jinyang Street, Ningyang County	Tai’an	Independent third party	Three	1.0	1.2	0.2
20	Longteng Road, Daiyue District	Tai’an	Independent third party	Four	1.8	1.8	—

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Number	Address	City	Relationship with Property developer	Property level ⁽¹⁾	Range of monthly management fee ⁽¹⁾ we charged during the Track Record Period	Maximum Government guidance price ^(1&2)	Headroom for further increase in the monthly management fee
					RMB per sq.m.	RMB per sq.m.	RMB per sq.m.
21	5 Changcheng Road, Daiyue District	Tai’an	Independent third party	Four	1.6	1.8	0.2
22	Jinyuan Road, Weishan County	Jining	Independent third party	Four	0.9 – 1.4	1.43	0.03 – 0.53
23	Huyuan Road, Liangshan County	Jining	Independent third party	Three	1.1	1.1	—
24	6887 Fangshan Road, Changle County	Weifang	Independent third party	Five	1.3	1.68	0.38
25	966 Changjiang Road, Mudan District	Heze	Independent third party	Four	0.7	1.56	0.86
26	1 Xi’an Road, Mudan District	Heze	Independent third party	Four	0.96	1.56	0.6
27	991 Baihua East Road, Lianchi District	Baoding	Independent third party	Three	0.48	0.74	0.26

Notes:

1. Our Directors confirmed that there was no adjustment on our property management fees charged for residential properties and the respective applicable government guidance prices during the Track Record Period.
2. According to the “Property Service Charge Management Measures of Shandong Province” (山東省物業服務收費管理辦法), the property management fees for preliminary residential property projects shall be guided by the government and charged by hierarchical pricing. Under the local government’s pricing guidance applicable to the residential properties under our management, the residential properties are classified into five grades and level five is the highest tier.
3. We overcharged property management fees from the property owners and/or residents at this residential property. For details, please refer to the paragraph headed “Risk Factors — Our property management fees may be subject to the government guidance price, which may adversely affect our profit margin” in this document.

Save for the overcharged property management fees for the residential property located at Yingsheng Dong Road, Taishan District, Tai’an City, based on the advice from our PRC Legal Advisers, our Directors confirm that there was no material non-compliance on the property management fees charged by us in relation to such government price controls.

Loss-making projects

In the event that our cost of services is higher than anticipated, we would not be able to collect additional amounts from our customers to sustain our profit margins. For FY2019, FY2020, FY2021 and 1H2022, we incurred losses on 20, 18, 29 and 23 projects. The total losses generated from the management of the aforesaid loss-making projects amounted to RMB2.0 million, RMB2.6 million, RMB7.6 million and RMB1.3 million for FY2019, FY2020, FY2021 and 1H2022, respectively. During the Track Record Period, all of the loss-making projects were related to independent third parties.

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The loss incurred in the abovementioned loss-making projects are mostly from (i) newly secured Grade 3A hospital projects; (ii) AAAAAA tourist attraction; and (iii) certain projects which commenced operation in around the end of relevant years. Our Directors consider that the loss was primarily due to the fact that (i) we secured some of our property management agreements with a relatively competitive price, for the purpose of entering into new markets and/or establishing business relationship with well-known customers to build up our profile and brand image for future business growth; (ii) we spent additional costs on management staff and frontline staff to meet our service standard for the projects outside Shandong Province; and (iii) based on our previous experience, relatively higher costs would be incurred in the early stage of a project to satisfy staff cost, subcontracting fees, costs of materials and procurement of equipment, before we receive any payment from our customers. For 1H2022, 16 out of 20 projects, 12 out of 18 projects and 20 out of 29 projects, which were loss-making for FY2019, FY2020 and FY2021 respectively, turned to profit-making as a result of selection of the potential projects to be tendered cautiously and our implementation of various cost control measures, including, among others, making budget plans, adopting OSCS Service Centre, streamlining and standardising our property management services, and undertaking energy-saving measures. We may also choose to terminate our property management agreement voluntarily based on our internal consideration such as projected profitability. As of the Latest Practicable Date, we have voluntarily terminated three out of 20, four out of 18, seven out of 29 and none of 23 loss-making projects for FY2019, FY2020, FY2021 and 1H2022, respectively.

We constantly look for better bargains with subcontractors who can provide quality services at competitive prices. Before taking over a new project, we will conduct due diligence work on potential projects and assess various factors, including but not limited to the risks, costs, and estimated turnover in connection with the potential projects. After entering into the property management agreement, we will set budget on annual and monthly basis and review the overall performance regularly. In the event that we experience unexpected increases in our cost of services, we may negotiate with our customers to increase the property management fees. We intend to improve the profitability of our projects in the future through (i) various cost-saving measures including automation and hardware upgrade to improve our operational efficiency and lower our operational cost; (ii) optimising our staffing structure by the reduction of number of our own low-skilled labour and seeking for subcontractors of quality services at competitive price; and (iii) upgrading our existing equipment which allows us to automate our key business operations to greater degrees.

We charge our property engineering and landscape construction services based on (i) nature, scope and complexity of the work involved; (ii) estimated costs and expenses to be incurred; (iii) the completion time requested by our customers; (iv) estimated tender prices of our competitors; (v) the availability of our manpower and resources; and (vi) relationship with our customers. Payments are usually due monthly or quarterly, upon achieving certain milestones or upon successful completion of our projects. During the Track Record Period, our customers, including related parties and independent third parties, would generally engage external pricing consultants to examine the value of our portion of works completed and adjust the amount of the final accounts based on the view of such external pricing consultants.

For property leasing services, the rental prices of our investment properties vary by the size of investment properties, taking into account several factors, including the market demand, prevailing local market prices and the outlays spent on the investment properties. Therefore, we may adjust the rental prices from period to period according to local market demand. As advised by the property valuer, the rental fees we charged for the investment properties leased or subleased to our customers are in line with the market yield of the relevant property sector in the region.

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Credit policy

For our property management and other services, our fee is generally payable to us within 120 days. For our property engineering and landscape construction services, we generally issue our invoices to our customers based on the project progress. We require the customers under our property leasing services to make the payment in advance. We perform credit evaluation on our customers by taking into account the type of services provided, the type of property under our management, the past payment history, and the business relationship and the background of the respective customer. During the Track Record Period, the credit terms and payment terms granted to our related parties were on normal commercial terms as compared with other customers who are independent third parties. In general, our customers settle the payments to us by bank transfer.

In order to minimise our credit risk, our finance department is responsible for monitoring the payment from our customers. When the payment falls overdue, our business department will deliver payment notices to our customers and follow up with payment reminders where necessary. If our customers continue to fail to settle the fees, we will try to negotiate with our customers and may issue demand letters to our customers, failing which we may resolve the dispute through court proceedings.

OUR SUPPLIERS

During the Track Record Period, our suppliers primarily included (i) vendors of materials, consumables, equipment and uniforms needed for our daily operations; (ii) subcontractors providing cleaning, and property engineering and landscape construction services; (iii) consultants for property engineering and landscape construction projects and (iv) property owners of properties used as our branch offices and for our property leasing business. We have established stable business relationships with most of our major suppliers.

Basis of selecting suppliers

We evaluate our suppliers taking into account quality of their products and services, capacity, pricing, past experience with us, professional qualifications and regulatory licences, reliability and creditworthiness. Our operation department conducts evaluation for existing and potential suppliers regularly and compiles the list first by collecting preliminary background information of suppliers through physical visits and online enquiries. We will then shortlist qualified suppliers into a preliminary list for a trial period of three months by our on-site management teams. After the proposed supplier is approved, we will add the supplier to our approved supplier list, and only those suppliers from our approved list will be invited by our Group to submit tenders or quotations.

Once an engagement is confirmed by our customer, we will negotiate the terms of the procurement with our suppliers and discuss with the suppliers our scope of services to ensure they will deliver their products or services on time and in accordance with the customers' requirements.

During the Track Record Period, we have engaged not less than 130 suppliers and most of them were located in the Shandong Province. To negotiate with a better price and manage our purchase orders efficiently, our operation department will collect the requests from each regional branch office and place purchase orders to our suppliers once a month. With our diverse base of suppliers, we did not experience a shortage or delay in the supply of goods or services which had imposed a material impact on us during the Track Record Period and up to the Latest Practicable Date.

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Principal terms of engagement of suppliers

In general, quotations from our suppliers of products contain terms relating to the unit price, type and specifications of the materials, payment terms and delivery. For our material purchases, we place purchase orders directly to the suppliers, suppliers will then issue invoices to us. The credit terms offered to us are generally up to 90 days.

Our subcontractors

Subject to the specific services requested by our customers and manpower allocation in the cities outside Shandong Province, we may engage subcontractors to carry out the labour-intensive works, such as general cleaning, and property engineering and landscape construction services, under close supervision and management by our own staff to ensure that the quality of our services can meet our customers' expectation and requirements. Our regional branch offices conduct regular assessment on our subcontractors by reviewing their performance in different aspects, including (i) the timeliness of the services provided; (ii) the quality of the services; (iii) whether there are any complaints from customers; and (iv) customer satisfaction. If the grades attributable to the subcontractor falls below a certain standard, we will withhold part of the services fee payable to them until they have rectified the problems.

We take into account a number of factors, which are similar to our suppliers, when selecting our subcontractors. Our headquarters is responsible for overseeing and supervising the selection and evaluation of potential subcontractors conducted by our regional branch offices. We generally require our subcontractors to bear the labour costs of their own staff and the material costs for the execution, depending on our agreements with our subcontractors on a case-by-case basis, and we will take a supervisory role to regularly monitor the works performed by the subcontractors. Typically, the agreements entered into between us and the subcontractors include the following terms:

- *Term.* Our subcontracting agreements generally are signed for a specific period in line with the agreements between our customers and us and do not contain automatic renewal clauses.
- *Scope of services and standards.* The subcontracting agreements will set out the scope, frequency and location of the services required from subcontractors. We will include the expected service standards by making reference to market standards or official standards implemented by governmental or professional bodies where applicable.
- *Procurement of raw materials.* Our subcontractors are generally responsible for procuring raw materials and equipment for the discharge of their obligations under the subcontracting agreements.
- *Indemnity.* The subcontracting agreements generally contain indemnity clauses whereby the subcontractors are required to indemnify us against damages or losses incurred as a result of (i) their breach of government regulations and policies; (ii) their lack of qualifications; (iii) any loss or damage caused to third parties; and (iv) damage caused to equipment provided by us.
- *Retention money and warranty period.* For property engineering and landscape construction projects, we require our subcontractors to provide us the retention money and warranty period as we granted to our customers.
- *Termination.* We monitor and assess the performance of subcontractors on a regular basis and can terminate the subcontracting agreement in the event of repeated substandard performance.

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For FY2019, FY2020, FY2021 and 1H2022, our Group’s subcontracting fees amounted to approximately RMB34.1 million, RMB77.8 million, RMB168.6 million and RMB74.7 million, representing approximately 10.3%, 20.3%, 34.6% and 29.3% of our total cost of services, respectively.

Subcontracting arrangement to replace part-time workers

During the Track Record Period, we have deployed a pool of part-time workers to carry out low-skilled works, such as daily cleaning and security services, having considered that (i) most of our project management team members had an increasing workload in terms of number of projects during the Track Record Period and the work capacity of our project management team was gradually occupied due to our business expansion; (ii) it takes much effort and time for the management to arrange and allocate the regular work to part-time workers, each of whom has unfixed and irregular working hours and/or can resign without notice; (iii) it may probably incur additional administrative expenses for recruitment and resignation of part-time workers due to high turnover rate of them; (iv) additional manpower of on-site management team shall be included in a project to supervise the part-time workers and ensure that the quality of their works meets our and our customers’ standard and requirements; and (v) the PRC Labour Contract Law imposes stricter requirements in respect of signing of labour contracts with part-time employees, our Group has gradually deployed the use of subcontracting arrangements instead of part-time workers.

In addition, our Directors believe that the subcontracting arrangement could save efforts on certain administrative works while maintaining the continuing provision of quality property management services by the frontline workers, enhance our management efficiency in business operation and flexibility in manpower allocation and enable our management to focus on other aspects of our business to maximise the managerial benefit and profitability of our Group in whole.

In assessing whether to engage subcontractors to replace the deployment of part-time workers, we conducted the cost and benefit analysis by comparing the estimated total costs of labour required in providing the property management services with and without deployment of subcontracting arrangement to replace part-time workers and have found that the relevant costs under both options were comparable. In FY2021, we incurred an additional subcontracting fees of approximately RMB89.1 million for the deployment of subcontracting arrangement to replace part-time workers; while the costs of part-time workers required is estimated to be approximately RMB86.7 million. Our Directors are of the view that there is no material difference in the costs in relation to (i) deploying subcontractors to replace our part-time workers; or (ii) recruiting our own part-time workers. Considering the aforementioned benefits and reasons for engaging subcontractors to replace our part-time workers, our Directors are of the view that the slightly higher costs of approximately 2.8% incurred for the use of subcontracting arrangement is commercially justifiable and engaging subcontractors to replace our part-time workers would be more favourable to the Group’s operations in the long run. According to the F&S Report, subcontracting labour-intensive services such as daily cleaning and security services by property management service providers is in line with the industry norm.

In FY2021, we have engaged several subcontractors, who are independent third parties to our Group, to replace the deployment of part-time workers, which provide timely and efficient alternative access to manpower resources and support our business growth.

Our Directors are of the view that the subcontractors have solid experience in provision of general cleaning and garbage collection services and capable to allocate enough manpower to carry out our daily

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cleaning services and we have allocated certain experienced on-site management team for each managed property to ensure the consistency of satisfying service quality upon transferring to subcontracting arrangements. For details, please refer to the paragraph headed “Quality Assurance” in this section.

Our subcontracting fees for FY2021 substantially increased as compared with FY2020. However, our Directors believe that such arrangement allows us to enhance our flexibility in manpower allocation and thus enable us to manage costs more effectively. We can also focus on the supervision and monitor of the projects and reduce our administrative expenses in recruitment of part-time employees.

Top five suppliers

We have maintained a stable relationship with our major suppliers during the Track Record Period. As of the Latest Practicable Date, we had business relationships ranging from one to five years with our top five suppliers. We consider that it is not difficult to replace any of our suppliers in the market with comparable quality and prices.

For FY2019, FY2020, FY2021 and 1H2022, the total purchase amount from our Group’s largest supplier was approximately 9.9%, 7.3%, 22.3% and 17.4% of our Group’s total purchase amount, respectively, while the total purchase amount from our Group’s five largest suppliers was approximately 27.2%, 21.6%, 49.6% and 49.4% of our Group’s total purchase amount, respectively.

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The following tables set forth details of our top five suppliers during the Track Record Period:

For FY2019

Rank	Supplier	Main products/ services provided to our Group	Relationship with our Group	Number of years of relationship	Approximate purchase amount <u>RMB'000</u>	Approximate percentage of total purchase amount of our Group %	Settlement method	Credit terms
1	Supplier A ^(Note 1)	Subcontracting for property engineering and landscape construction projects	Independent third party	4	4,087	9.9	Bank transfer	Progress payment
2	Supplier B ^(Note 2)	Supply of plastic products, packaging materials and cleaning supplies	Independent third party	6	2,630	6.2	Bank transfer	60 days
3	Supplier C ^(Note 3)	Supply of packaging materials and cleaning supplies	Independent third party	4	1,663	4.0	Bank transfer	60 days
4	Supplier D ^(Note 4)	Subcontracting for property engineering and landscape construction projects	Independent third party	3	1,581	3.8	Bank transfer	30 days
5	Supplier E ^(Note 5)	Supply of packaging materials and cleaning supplies	Independent third party	4	1,348	3.3	Bank transfer	60 days
Five largest suppliers combined					11,309	27.2		
All other suppliers					30,312	72.8		
Total purchase amount					<u>41,621</u>	<u>100.0</u>		

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For FY2020

Rank	Supplier	Main products/ services provided to our Group	Relationship with our Group	Number of years of relationship	Approximate	Approximate	Settlement method	Credit terms
					purchase amount	percentage of total purchase amount of our Group		
					RMB'000	%		
1	Supplier F ^(Note 6)	Supply of food, food additives and flavouring	Independent third party	2	7,228	7.3	Bank transfer	Upon invoice
2	Shandong Zhixin ^(Note 7)	Subcontracting for property engineering and landscape construction projects	Related party	2	4,200	4.3	Bank transfer	Progress payment
3	Supplier G ^(Note 8)	Subcontracting for property engineering and landscape construction projects	Independent third party	2	4,164	4.1	Bank transfer	Progress payment
4	Supplier A	Subcontracting for property engineering and landscape construction projects	Independent third party	4	2,954	3.0	Bank transfer	Progress payment
5	Supplier H ^(Note 9)	Pricing consulting services for property engineering and landscape construction projects	Independent third party	2	2,900	2.9	Bank transfer	Progress payment
Five largest suppliers combined					21,446	21.6		
All other suppliers					77,763	78.4		
Total purchase amount					99,209	100.0		

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For FY2021

Rank	Supplier	Main products/ services provided to our Group	Relationship with our Group	Number of years of relationship	Approximate	Approximate	Settlement method	Credit terms
					purchase amount	percentage of total purchase amount of our Group		
					RMB'000	%		
1	Supplier I ^(Note 10)	Cleaning services	Independent third party	1	47,655	22.3	Bank transfer	Upon invoice
2	Supplier J ^(Note 11)	Cleaning services	Independent third party	1	34,949	16.4	Bank transfer	Upon invoice
3	Supplier K ^(Note 12)	Cleaning services	Independent third party	1	12,054	5.6	Bank transfer	Upon invoice
4	Supplier L ^(Note 13)	Cleaning services	Independent third party	1	5,831	2.8	Bank transfer	Upon invoice
5	Supplier F	Supply of food, food additives and flavouring	Independent third party	2	5,381	2.5	Bank transfer	Upon invoice
Five largest suppliers combined					105,870	49.6		
All other suppliers					107,656	50.4		
Total purchase amount					213,526	100.0		

For 1H2022

Rank	Supplier	Main products/ services provided to our Group	Relationship with our Group	Number of years of relationship	Approximate	Approximate	Settlement method	Credit terms
					purchase amount	percentage of total purchase amount of our Group		
					RMB'000	%		
1	Supplier J	Cleaning services	Independent third party	1	37,165	29.5	Bank transfer	Upon invoice
2	Supplier I	Cleaning services	Independent third party	1	16,049	12.7	Bank transfer	Upon invoice
3	Supplier L	Cleaning services	Independent third party	1	3,975	3.2	Bank transfer	Upon invoice
4	Supplier F	Supply of food, food additives and flavouring	Independent third party	2	2,820	2.3	Bank transfer	Upon invoice
5	Supplier M ^(Note 14)	Property leasing	Independent third party	1	2,180	1.7	Bank transfer	Payment in advance
Five largest suppliers combined					62,189	49.4		
All other suppliers					63,824	50.6		
Total purchase amount					126,013	100.0		

Notes:

- Supplier A is a private entity established in the PRC with limited liability and registered capital of RMB1.0 million as at the Latest Practicable Date. Its business activities include general contracting of construction works; landscaping works, wholesale and retail: building materials, decorative materials, metal materials, textiles; machinery and equipment leasing, slag removal.
- Supplier B is a private entity established in the PRC with limited liability and registered capital of RMB2.0 million as at the Latest Practicable Date. Its business activities include sales of plastic products, packaging materials, cleaning supplies, hotel supplies, office supplies, paper products, daily-use department stores.

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3. Supplier C is a private entity established in the PRC with limited liability and registered capital of RMB12.0 million as at the Latest Practicable Date. Its business activities include wholesale and retail of office supplies, daily necessities, laundry supplies, handicrafts, machinery and equipment and accessories, instruments and metres, decorative materials, building materials, rubber products.
4. Supplier D is a private entity established in the PRC with limited liability and registered capital of RMB5.0 million as at the Latest Practicable Date. Its business activities include subcontracting of construction labour services; landscaping works; leasing of construction machinery and equipment.
5. Supplier E is a private entity established in the PRC with limited liability and registered capital of RMB2.0 million as at the Latest Practicable Date. Its business activities include sales of cleaning supplies, machinery and equipment, construction materials, office supplies and general merchandise.
6. Supplier F is a private entity established in the PRC with limited liability and registered capital of RMB5.0 million as at the Latest Practicable Date. Its business activities include sales of packaged food, bulk food, vegetables, fruit, grain, cold meat, aquatic products and daily necessities.
7. Shandong Zhixin is a private entity established in the PRC with limited liability and registered capital of RMB5.0 million as at the Latest Practicable Date, which is indirectly owned as to 90% by Ms. Liang, one of our Controlling Shareholders. Its business activities include professional contracting of building decoration works; general contracting of construction works; landscaping works; professional contracting of waterproofing, anti-corrosion and insulation works.
8. Supplier G is a private entity established in the PRC with limited liability and registered capital of RMB1.0 million as at the Latest Practicable Date. Its business activities include subcontracting of construction labour services; landscaping works; leasing of construction machinery and equipment; general freight transport.
9. Supplier H is a private entity established in the PRC with limited liability and registered capital of RMB1.25 million as at the Latest Practicable Date, which is indirectly own as to 20% by Ms. Liang. Its business activities include property consulting, property leasing, property management, conference services, market operation management and vehicle leasing.
10. Supplier I is a private entity established in the PRC with limited liability and registered capital of RMB3.0 million as at the Latest Practicable Date. Its business activities include labour dispatch services, construction labour subcontracting services, human resources consultation services, and cleaning and disinfection services.
11. Supplier J is a private entity established in the PRC with limited liability and registered capital of RMB15 million as at the Latest Practicable Date. Its business activities include labour dispatch services.
12. Supplier K is a private entity established in the PRC with limited liability and registered capital of RMB10.0 million as at the Latest Practicable Date. Its business activities include human resource consultation services, labour dispatch services, construction labour subcontracting services, property services, conference services, exhibition services, housekeeping services.
13. Supplier L is a private entity established in the PRC with limited liability and registered capital of RMB30.0 million as at the Latest Practicable Date. Its business activities include labour dispatch services, insurance business, technical training and corporate management.
14. Supplier M is an entity established in the PRC with limited liability and indirectly wholly owned by a public company listed on the Shanghai Stock Exchange, the principal business activities of which include real estate, property development, construction, property investment, real estate financing.

Our major supplier also our customer

Shandong Zhixin was established as a project company in June 2018 to undertake refined renovation works projects under the XTJD Project, a large-scale property development project developed by Hang Qian Group with an aggregate GFA of approximately 632,000 sq.m. involving the development of 17 residential buildings, 12 commercial buildings and seven ancillary buildings and facilities. For details of the XTJD Project, please refer to the paragraph headed “Our Customers — Sales to Hang Qian Group” in this section.

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During the Track Record Period, Shandong Zhixin was also our customer and we managed refined renovation projects for Shandong Zhixin, which generated revenue to us of approximately RMB6.9 million; and the gross profit generated from Shandong Zhixin was approximately RMB0.2 million. As confirmed with Shandong Zhixin, such arrangement was due to its lack of internal resources for sizeable projects and the tight project schedule committed to the property developer. In particular, in September 2019, Shandong Zhixin secured a sizeable refined renovation contract for nine residential buildings in XTJD Project with contract value of approximately RMB74.8 million and did not have enough resources to manage the whole project at the same time. Therefore, Shandong Zhixin engaged us to manage a refined renovation works for one among the nine residential buildings considering that our Group is familiar with the site operation of the XTJD Project and our quotation was acceptable to them.

In January 2020, our Group, as the customer of Shandong Zhixin, faced a shortage of construction project managers due to the fact that the construction activities of the XTJD project were suspended by the local authority several times as a safety and social health measure for air pollution problems. Such construction activities were resumed and expedited in February 2020, together with other works in pipeline, all of which have an established schedule of progress and deadline to meet. Therefore, we engaged Shandong Zhixin, as our subcontractor, to monitor the execution of certain of our projects in the XTJD Project and had incurred subcontracting costs of approximately RMB4.2 million for FY2020. Our Directors confirmed that such contracting arrangement was an one-off arrangement.

During the Track Record Period, Shandong Zhixin was engaged to provide refined renovation services for XTJD Project only; while our Group focused on the provision of property engineering and landscape construction services as ancillary services to our existing customers in property management business in order to maximise the synergy effect with the property management business as well as to generate additional revenue on top of the typical property management services. Considering the project nature and the different business focus of Shandong Zhixin and our Group, they engaged us to undertake property engineering and landscape construction projects, involving outdoor landscape construction, pipeline construction, modification of shape and elevation of terrains and planting of trees, shrubs, flowers, hedgerows and seedlings; while Shandong Zhixin was engaged to carry out indoor refined renovation services. For details of business delineation between Shandong Zhixin and us, please refer to the section headed “Relationship with our Controlling Shareholders” in this document. Our Directors confirmed that all of our sales to and our purchases with Shandong Zhixin were conducted in the ordinary course of business under normal commercial terms and on arm’s length basis. The shareholders of Shandong Zhixin have further confirmed that Shandong Zhixin has ceased to participate in tendering or bidding activities and to engage in new project since 30 June 2021 and they will proceed to deregister Shandong Zhixin upon completion of the inspection and acceptance work related to Shandong Zhixin in the XTJD Project.

Save as the abovementioned, none of our Directors or Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company), or their respective close associates, had any interest in any of our five largest suppliers during the Track Record Period. To the best knowledge and belief our Directors, apart from Shandong Zhixin, none of our major suppliers during the Track Record Period was also a customer of our Group. During the Track Record Period, we had not received any material claims or complaints by our customers in respect of the quality of raw materials purchased from our suppliers.

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Inventory management

We make procurement of consumables on monthly basis and our suppliers deliver such consumables to each of our property management projects for their daily usage. As such, during the Track Record Period, we did not keep material amount of inventory.

COMPETITION

The degree of concentration of the property management services market is increasing in recent years as a result of policy environment, market competition and information technology. Especially, a few of the leading property management services companies begin to enhance management standards and core competitiveness through mergers and acquisitions. Moreover, property management services companies are making efforts to develop alliance and consolidation to achieve economies of scale resulting in the increasing concentration level of China’s property management services market in the future.

According to the F&S Report, the growth of the PRC property management industry is attributable to key drivers such as the accelerated industry concentration, the growing awareness of service quality and expanding service scope and provision of value-added services. Nowadays, property owners pursue better living conditions and are more willing to pay premiums for high quality property management services. In the future, increasing number of property management services companies are expected to keep up with this trend by optimising their traditional property management services, upgrading the quality of their services by applying information technologies and expanding their service scope.

From 2016 to 2021, the total revenue of property management service companies in Shandong Province increased from RMB27.8 billion to RMB49.1 billion, with a CAGR of 12.0%. In 2026, the total revenue of property management services in Shandong Province is expected to reach RMB78.4 billion, with a CAGR of 9.8% from 2021 to 2026. In 2021, the top five local property management service providers in Shandong accounted for approximately 5.9% in terms of the total revenue generated from property management services. Among those service providers, our Group ranked third and accounted for 1.0% in property management services market in Shandong while the top two players accounted for 1.9% and 1.2%, respectively.

For details of the competitive landscape of the property management industry, please refer to the section headed “Industry Overview” in this document.

QUALITY ASSURANCE

We place strong emphasis on high quality services to cope with the customers’ requirements, which is the key to our continuous success. We have therefore formulated a set of policy manual covering quality management systems, environmental management systems and occupational, health and safety management systems. A series of measures are imposed to establish a quality control framework.

As at Latest Practicable Date, we had a quality assurance department comprising of five staff, who are responsible for maintaining and enhancing our service standards, standardising service procedures and ensuring service quality at both our corporate level and subcontractor level. Our quality assurance director is responsible for overseeing the overall quality assurance function, and has more than 10 years of experience in quality

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assurance in the property management industry. We adopted a “three-tier quality assurance system” to supervise and maintain the quality of our services. Our regional branch office will designate a project manager or supervisor to each managed property for daily supervision and report to the business department in charge for all related matters. Our business departments regularly report to our quality assurance director at the headquarters level.

Formulating service standards

In order to provide satisfactory and high-quality standards on our services to preserve our reputation, our quality assurance department, with the participation of business departments, designed different instruction manuals covered all kind of services provided to our customers. We require our employees and the subcontractors we engage to strictly follow our quality standards. Our management system was certified to be in accordance with the requirements of GB/T19001-2016/ISO 9001:2015 (Quality management system certification) and GB/T 20647.9-2006/ZMCC-TC-10-2018 (5-star service certification) accreditations. Our Directors believe that these certifications can enhance our public image, credibility and customers’ confidence in our Group.

Quality inspection

At the on-site level, we have assigned to each of our managed projects an on-site management team, who is responsible for monitoring the quality and progress of our services on a daily basis. Our on-site management team will report outstanding issues to the regional branch office for instruction and advice.

Our regional branch offices are responsible for overseeing the properties under their management and conducts weekly on-site inspection. The assessment covers (i) service execution; (ii) record keeping; (iii) complaint records; and (iv) internal management. The assessment will also list out the issues identified and the responsible employees or subcontractors, and follow up on the issues discovered in the previous assessment as to whether they have been rectified.

Our business departments will conduct monthly inspection for each of our managed projects and attend the assessments quarterly conducted by each of regional branch offices under their supervision. The inspection results are linked to performance appraisal of the responsible employees. The business department directors will also attend the monthly inspection for major properties to review the performance of frontline workers and communicate with our customers in relation to the quality of our services.

Our quality assurance department is responsible to carry out annual on-site quality inspection for major properties managed by each business department and to conduct risk identification and customer satisfaction investigation. The inspection findings, together with the quality improvement recommendations, will be delivered to the responsible on-site management team, regional branch office and business department. The responsible on-site management team and regional branch office shall handle and resolve the problem within five days and report to the quality assurance department and business department. Such rectification will be inspected by the business department and recorded by the quality assurance department for the follow-up inspection in the next year.

In view of that our security services include 24-hour surveillance, patrolling, guarding and access control, the above assessments and inspections will also be carried out at midnight to ensure that our staff report their duties as required.

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Training to staff and workers of our subcontractors

We provide various systematic and extensive training programmes to our employees and workers of our subcontractors. Our training programmes cover our corporate history, corporate culture, personal development of work efficiency, anti-stress and self-responsibility, and the key areas in our business operations, which provide continuous training to our employees and workers of our subcontractors at different levels to specialise and strengthen their skill sets. The training programmes are primarily classified into the following categories:

1. *Induction training for newcomers:* A detailed induction training is offered to newcomers for them to familiarise themselves with company’s history, corporate culture, internal rules and policies and relevant knowledge with respect to property management services;
2. *Routine trainings:* All employees and workers of our subcontractors are required to attend continuing skills trainings. We provide them with trainings tailored to the needs of their position and duties. We have established an internal learning programme at our system, which is accessible by Runzhiyun and QR Code Pass, to provide online training courses to our employees and workers of our subcontractors to improve their professional knowledge and skills. In order to facilitate our employees and workers of our subcontractors to attend the online trainings anytime and anywhere, the length of our training videos is generally designed within one minute. As at the Latest Practicable Date, there were over 200 training videos and materials available to our employees at our system.
3. *Professional qualification trainings:* We offer professional qualification trainings toward our employees of professional expertise upon their application. We cooperate with industry association and local government to conduct training courses or send our employees to the training sessions and competitions organised by such organisations. The qualifications are in relation to the positions, among others, the property managers, electricians, plumber, customer receptionists and security guards.
4. *Continuing education:* We encourage our staff at management level to study in their spare time. During the Track Record Period, we cooperated with Nanjing University and China University of Geosciences to provide courses in aspects of business administration, labour and social security, finance, marketing and accounting etc.
5. *Five-tier assessment programme:* We primarily focus on the service quality of our typical property management services, including cleaning and disinfection services, security services, general repair and maintenance services and customer services. In order to motivate our frontline staff to provide high quality services, we introduced a five-tier assessment programme rating our own frontline workers from beginner (初級), intermediate (中級), advanced (高級), technician (技師) to chief technician (首席技師) who will be entitled to different amount of allowances. We evaluate their belonged tier every two years. Our Directors believe that the five-tier assessment programme improves the service quality of our frontline workers.

Feedback and complaint management

To understand our customers’ needs and enhance our quality, our general manager and business department directors will visit our customers to receive their feedbacks from time to time and the quality assurance department will conduct customer satisfaction investigation annually. The services to be improved will be listed out and delivered to the responsible staff for their rectification and follow-up.

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During the ordinary course of our business operations, we receive suggestions and complaints from our customers, tenants or visitors from time to time regarding our services. We encourage our customers to lodge their complaints through Runzhiyun or the following office/department directly:

Regional service office

Our customer service personnel in the regional service offices are responsible to register the suggestions and complaints and inform the responsible staff to resolve the issue. Our frontline staff are required to resolve or propose the solution in a timely manner in order to uphold the quality of services.

Business department

Subject to the preference of the complainant, we may introduce the complainant to contact the regional service office in charge or instruction the responsible staff to handle the complaint directly. The business department will request the responsible staff to resolve or propose the solution in a timely manner and to report the status of rectification accordingly.

Headquarters

Our customer service personnel at the headquarters will fill in the complaint form for the complainant and send the form to the responsible regional branch office and/or business department depending on the nature and seriousness. The regional branch office shall analyse the reason and responsibilities for the incident, formulate a rectification plan and, after approved by the business department, resolve the issue or propose the solution within 24 hours. All verbal and written complaints are recorded in the “complaint log-book” which is kept by the quality assurance department.

During the Track Record Period, we have received eight, nine, 12 and 10 valid complaints from our customers, tenants and visitors. Having considered the number of properties under our management and the scope of services provided by us, our Directors are of the view that the number of complaints remained relatively low. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group has not received any material complaint or claim for compensation from our customers due to quality issue in relation to the services carried out by our Group or subcontractors.

Quality recognitions

We have obtained the following certifications in recognition of our service quality:

<u>Accreditation and certifications</u>	<u>Valid period</u>	<u>Scope</u>
GB/T19001-2016/ISO 9001:2015 (Quality management system certification)	11 January 2021 to 10 January 2024	Property management services
GB/T 20647.9- 2006/ZMCC-TC-10-2018 (5-star service certification)	17 July 2020 to 16 July 2023	Property management services

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LICENCES, PERMITS AND APPROVALS

We are subject to various laws, rules and regulations with regard to our business operations, and are required to obtain certain licences, approvals and permits from relevant government entities to operate our business. For details, please refer to the section headed “Regulatory Overview” in this document. The table below sets forth the key licences, permits and approvals necessary for our operations on top of the business licence of each operating entity:

Type of licences, permits and approvals	Number	Valid period
Labour Dispatch Business Permit* (勞務派遣經營許可證) ..	1	20 March 2020 to 19 March 2023
Food Business Certificate* (食品經營許可證)	1	10 November 2020 to 30 October 2022
Construction Enterprise Qualification Certificate* (建築業企業資質證書)	1	10 March 2019 to 11 December 2023
Security Service Permit* (保安服務許可證)	1	N/A
Filing Proof of Self-recruiting Security Guards* (保安員單位備案證明)	91	N/A
Special equipment production licence* (特種設備生產許可證)	2	27 March 2020 to 26 March 2024 and 16 December 2020 to 22 December 2024

As advised by our PRC Legal Advisers, our Group has obtained the requisite licences, permits and approvals in all material aspects which are necessary for its respective operations and there is no legal impediment for our Group to obtain or renew the required licences, approvals and permits provided that we are able to meet the relevant requirements and conditions imposed by the competent government authorities. Our PRC Legal Advisers also advised that save for the abovementioned, no additional qualification and/or licence is required for our Group to provide specialised property management services and value-added hospital logistic services.

We monitor the validity status of our licences, approvals and permits and make timely applications for the renewal of relevant licences, approvals and permits prior to their expiration date. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group has not experienced any difficulties in obtaining or renewing any of our licences, permits and approvals necessary for our operations, and we do not expect to have any material difficulty in renewing such licences, approvals and permits in the foreseeable future.

AWARDS, ACCREDITATIONS AND CERTIFICATIONS

Further to the accreditations and certificates disclosed in the paragraph headed “Quality Assurance – Quality recognitions” in this section, we have also received various awards, accreditations and certifications, among which are the following:

Year of first award	Awards, accreditations and certifications	Valid period	Awarding authority
2017	Key Service Enterprises in Shandong* (山東省重點服務業企業)	N/A	Shandong Development and Reform Commission
2019	Shandong Famous Brand* (山東知名品牌)	N/A	Shandong Council for Brand Development

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Year of first award	Awards, accreditations and certifications	Valid period	Awarding authority
2020	Good Standardising Practice Certificate Grade AAA	16 December 2020 to 16 December 2023	China Association of Standardisation (中國標準化協會)
2020	TOP500 Property Management Companies of China in 2020 (2020年物業服務企業綜合實力測評TOP500)	N/A	China Property Management Research Institution
2020	High-end Cultivation Enterprise in Service Industry in Shandong* (山東省服務業高端培育企業)	N/A	Shandong Administration for Market Regulation
2020	Shandong Premium Brand — Service* (山東優質品牌 — 服務類)	N/A	Quality Evaluation Association of Shandong Province
2021	High and New Technology Enterprise* (高新技術企業)	N/A	Department of Science & Technology of Shandong Province Shandong Provincial Department of Finance Shandong Provincial Tax Service, State Taxation Administration
2021	GB/T24001-2016/ISO 14001:2015 (Environmental management system certificate)	11 January 2021 to 10 January 2024	ShanDong ZhengMing Certification Service Co. Ltd.
2021	GB/T45001-2020/ISO 45001:2018 (Occupational safety management system certificate)	11 January 2021 to 10 January 2024	ShanDong ZhengMing Certification Service Co. Ltd.
2021	ISO 56002-2019 (Innovation management system certificate)	15 January 2021 to 14 January 2024	ShanDong ZhengMing Certification Service Co. Ltd.
2021	ISO 50001 RB/T 107-2013 (Energy management system certificate)	27 January 2021 to 26 January 2024	Beijing World Standards for Certification Centre Inc. (北京世標認證中心有限公司)

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Year of first award	Awards, accreditations and certifications	Valid period	Awarding authority
2021	Jinan City Property Comprehensive Service Standardization Pilot Enterprise	N/A	Jinan City Market Supervision Administration (濟南市市場監督管理局) Shandong Provincial Market Supervision Administration (山東省市場監督管理局)
2022	Top 10 Hospital Property Service Providers in 2022	N/A	CRIC Property Management (克而瑞物管) Shanghai Yiju Real Estate Research Institute (上海易居房地產研究院)

SOCIAL HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

We are subject to PRC laws and regulations in relation to labour, safety and environment protection matters and are committed to social responsibilities, and consider environmental, social and governance (“ESG”) essential to our continuous development. Our Directors actively take up the responsibility of designing ESG strategies and targets, monitoring and managing material ESG issues, with the assistance from the management. We may engage independent professional third parties from time to time to help us make necessary improvements.

After the [REDACTED], we will publish an ESG report each year pursuant to Appendix 27 of the Listing Rules to analyse and disclose important environmental, social and governance matters, risk management and the accomplishment of performance and objectives.

Governance

Our Directors are primarily responsible for setting up our Group’s overall ESG vision, direction and strategy, monitoring and reviewing our ESG performances on whether our Group fulfills the ESG vision. Our Directors closely follow and monitor the latest ESG-related laws and regulations, and in case there is any change in relevant laws and regulations, our Directors will instruct the management to update internal ESG measures to make sure that our Group complies with the latest regulatory updates. To ensure the effectiveness of our ESG measures and compliance with requirements, our Directors are responsible for overseeing the formulation and reporting of our ESG strategies and determining the ESG-related risks.

We have adopted and implemented ESG measures which provide guidelines to the management of our Group’s environmental, social and climate-related issues. With respect to the management of environmental, social and climate-related issues, we actively monitor the local environmental, social, and climate changes in regions where we operate and take timely measures to mitigate the risks associated with such volatile changes during our routine business operation. For instance, we have adopted policies in response to severe weather conditions. In particular, to deal with the increasing rate of extreme weather conditions such as typhoons and

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flooding due to climate change, we closely follow the latest weather news and advice released by the local government to ensure employee safety. We are actively seeking ways to increase our use of renewable energy, including by potentially contracting directly with renewable energy suppliers. We also actively promote recycling and energy conserving activities. We have established various policies to save energy and achieve a low carbon footprint, which guide the performance of our employees. We also actively guide property owners and residents to participate in efforts to save energy and improve the environment. For example, we have been introducing energy-saving LED lights and reclaimed waters for garden irrigation in several properties under our management. We have also actively promoted waste recycling in various communities and increased our efforts in introducing professional subcontractors to recycle and separate waste from the properties under our management.

Impact of Environmental, Social and Climate-related Issues and Opportunities

We acknowledge that climate-related issues pose a certain level of threat to us. Climate-related risks identified by us can be classified into two major categories: physical risk and transitional risk. We define physical risks as risks that potentially cause physical impact to us. We believe that climate-related issues may bring about the risk of increasingly severe extreme weather events, such as more frequent storms, typhoons and flooding. We may potentially be impacted by an increased operation and maintenance cost, as well as increased investment in insurance for protection. The health and safety of employees may also be endangered.

Due to climate change and climate-related issues, consumers may shift their preferences to a sustainable lifestyle, while regulators may require increasing disclosure on emission. Such transitional risks which require us to move towards a sustainable business model may potentially lead to impacts such as increased operational cost from change of operational practices. For example, we may need to switch to energy efficient lighting or increase greenery areas on our operational premises. With regard to increasing responsibilities on emission disclosure, we may be impacted by increased cost to execute more stringent monitoring measures on emissions and resource consumption.

Identification, Assessment and Management of Environmental, Social and Climate-related Risks and Opportunities

Based on our management’s judgement, we have identified the material ESG issues highly related to our business.

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On top of the risks regarding climate-related issues, we have identified the following material ESG issues and their potential impacts:

Material Topics

Potential Risks, Opportunities and Impacts

Transition to green building

Facilities and equipment of our operation sites may provide space for us to enhance our environmental performance through selecting more energy efficient equipment. While this may potentially incur a cost for new equipment and facilities in the short term and increased operational cost, our environmental performance may be enhanced.

Human capital development

The health and safety of employees may be put at risk due to climate-related issues, such as increasingly frequent extreme weather conditions. Meanwhile, strong human capital development may lead to a stronger employee base and a lower turnover rate.

Product design and lifecycle management

The maintenance of facilities and equipment at operation sites may incur additional costs if said facilities are not properly maintained.

Business ethics

Regulatory risks in failing to maintain good business ethics may cause compliance-based impacts. However, outstanding business ethics may help us yield a positive business image.

We have put in place various mitigation and measures to prevent the risks from causing unnecessary impact on our operations. We also regularly perform maintenance of our facilities and equipment to minimise the risk of unmaintained facilities and equipment causing damage to our properties and the health and safety of employees and staff.

To mitigate climate-related risks such as more frequent extreme weather conditions, we have put in place emergency plans against extreme weather conditions where employees and other personnel are notified promptly with any related measures. To ensure that all personnel are well prepared for such extreme weather conditions, regular evacuation drills are conducted.

Furthermore, we are willing to consult professional entities to improve its compliance and quality on emission disclosures, and regularly communicates with different stakeholders on their views on climate-related issues.

Environmental and Climate-related metrics and targets

We attach great importance to environmental protection and strictly comply with applicable laws and regulations to ensure compliance with the emission of three wastes. In addition, we continuously strengthen the management of energy and resources, actively adopt environmental protection measures for energy conservation and emission reduction, and practise the concept of green development.

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To ensure the effective implementation and efficient execution of environmental management measures, we have set four major environmental targets as the guiding direction and course of action for our future environmental management.

Environmental Targets

Details of the Targets

Action Initiatives

Emission Target

Actively explore and use low-carbon environmental protection methods to reduce emissions from our own operations, including greenhouse gas and air pollutants, while helping the industry chain to reduce emissions and alleviate the carbon footprint of enterprises.

To achieve the target, we plan to take the following measures:
Increasing the use of clean energy vehicles to reduce greenhouse gas emissions and air pollutants, adopting more environmentally friendly property management equipment (such as greening and gardening maintenance equipment) and other related initiatives to reduce greenhouse gas emissions.

Energy Use Efficiency Target

Improve the efficiency of energy use, increase the proportion of clean energy use, and strive to reduce the intensity of energy consumption.

To achieve the target, we plan to take the following measures:
Try to introduce photovoltaic power generation systems at corporate office buildings to obtain clean energy and advocate green office. Introduce energy-saving devices, such as energy-saving lights in our property management services to reduce unnecessary energy consumption. At the same time, we plan to strengthen the real-time monitoring of energy consumption and the whole process management of data with the help of smart metre renovation work, so as to capture abnormal energy consumption situations and deal with them in time.

Waste Management Target

100% waste disposal compliance and increasing the percentage of recyclable waste.

To achieve the target, we plan to take the following measures:
Strengthening the full cycle of waste management and strictly enforcing compliant disposal. Continuously explore and practise waste reduction initiatives to promote green office and encourage property owners to

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<u>Environmental Targets</u>	<u>Details of the Targets</u>	<u>Action Initiatives</u>
Water Efficiency Target	Improve the efficiency of water usage, conserve water and reduce the intensity of water consumption.	<p>focus on waste recycling to reduce waste generated.</p> <p>To achieve the target, we plan to take the following measures: Such as actively using natural water resources and adopting rainwater to irrigate the garden greenery in the property management services. Introducing water-saving irrigation equipment to reduce unnecessary waste of water usage and etc. At the same time, we would use the intelligent renovation of water metres to strengthen the real-time monitoring of water consumption, improve the efficiency of data management, and analyse the historical water consumption trend and predict the future water consumption and water saving more scientifically and effectively. In addition, enhance the employees’ awareness of saving water by providing water-saving signs.</p>

<u>Air pollutant emission</u> ^(Note)	<u>Unit</u>	<u>2021</u>
NO _x emission	KG	22.41
SO _x emission	KG	0.44
Particulate matter emission	KG	1.65

Note: Emissions of air pollutants are mainly generated by using of our own vehicles, calculated with reference to Vehicle Emission Calculation of EMFAC-HK and the MOBILE6.1 Particulate Emission Factor of United States Environmental Protection Agency, among other bases.

The air pollutants we generate are mainly nitrogen oxides, sulphur oxides and particulate matter emitted by our own vehicles. Currently, the vehicles are powered by gasoline, we will actively introduce clean energy vehicles to reduce the emissions of air pollutants and greenhouse gas caused by burning fossil energy. Meanwhile, we encourage our employees to commute by public transportation and promote green travel.

<u>Greenhouse gas emission</u> ^(Note)	<u>Unit</u>	<u>2021</u>
Total greenhouse gas emission	Tonnes CO ₂ equivalent	7,209.32
– Greenhouse gas emission-scope 1	Tonnes CO ₂ equivalent	66.12
– Greenhouse gas emission-scope 2	Tonnes CO ₂ equivalent	7,143.20
Greenhouse gas emission intensity	Tonnes CO ₂ equivalent/000 m ² GFA	0.43

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Note: GHG emission indicators are calculated with reference to the Greenhouse Gas Accounting Standard (GHG Protocol) issued by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), the 2006 IPCC Guidelines for National Greenhouse Gas Inventories issued by the Intergovernmental Panel on Climate Change (IPCC), and the Guidelines for Calculation Methods and Reporting of Greenhouse Gas Emissions from (Industrial and Other Industries Enterprises (Trial) issued by the National Development and Reform Commission of the People’s Republic of China, among other bases.

We are committed to reducing greenhouse gas emissions from our own operations by identifying the sources of greenhouse gas emissions, planning and analysing the effectiveness and operability of various greenhouse gas reduction initiatives, and gradually implementing greenhouse gas reduction measures. At present, our greenhouse gas emissions mainly come from the combustion of energy in our own vehicles and purchased electricity, so we plan to gradually increase the use of clean energy vehicles to reduce the greenhouse gas emissions generated by our own vehicles. We also plan to adopt more environmentally friendly property management equipment (such as greening and gardening maintenance equipment) to reduce the greenhouse gas emissions. At the same time, we will actively explore more effective ways to save electricity based on the existing initiatives and strive to promote the environmental protection plan to reduce electricity consumption.

For the property management service, we have gradually carried out intelligent transformation of water and electricity metres. By changing traditional water and electricity metres into intelligent water and electricity metres, we can achieve real-time supervision and precise control of water and electricity consumption, scientifically analyse the characteristics and levels of energy consumption, water consumption and greenhouse gas emission in each region, type and level, accurately measure the energy-saving and greenhouse gas -reducing potential of each segment, part and equipment. This will provide strong support for scientific decision-making and precise policy-making and empower the high-quality development of energy-saving work.

<u>Energy Consumption⁽¹⁾</u>	<u>Unit</u>	<u>2021</u>
Total comprehensive energy consumption	MWh	8,337.98
Total indirect energy consumption ⁽²⁾	MWh	8,077.81
Total direct energy consumption ⁽³⁾	MWh	260.17
Total energy consumption intensity	MWh/000 m ² GFA	0.50

Notes:

1. Energy consumption indicators are calculated with reference to the national standard of the People’s Republic of China “General Rules General rules for calculation of the comprehensive energy consumption” (GB2589-2020) and other bases.
2. Indirect energy consumption is mainly purchased electricity consumption, and the data does not include the electricity provided by property owners in property management services.
3. The direct energy source is mainly gasoline used in our own vehicles.

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We strictly comply with applicable laws and regulations such as the Energy Conservation Law of the PRC and formulate relevant internal management policies and systems to implement energy saving and consumption reduction initiatives. In our own office, we plan to introduce photovoltaic power generation systems at corporate office buildings, meanwhile, we promote the concept of environmental protection and emphasise the importance of environmentally friendly behavioural habits such as saving electricity. In our operational services, we have introduced energy-saving appliances such as energy-saving LED lights in some of our properties under management to achieve the environmental effect of reducing electricity consumption.

<u>Waste</u>	<u>Unit</u>	<u>2021</u>
Hazardous waste	KG	280
Hazardous waste intensity	KG/000 m ² GFA	0.017
Non-hazardous waste	KG	2,000
Non-hazardous waste intensity	KG/000 m ² GFA	0.120

In terms of waste management, we strictly follow the waste disposal requirements and treatment regulations of the relevant laws and regulations, such as the Law of the PRC on the Prevention and Control of Air Pollution and Law on the Prevention and Control of Environmental Pollution Caused by Solid Waste. We have formulated relevant policies to carry out standardised collection and treatment of hazardous and non-hazardous waste generated by our operations. Hazardous waste mainly includes the ink cartridges generated by the office work, and non-hazardous waste mainly includes paper generated by the office work. Based on compliant waste management, we aim to put efforts to reduce waste generation at source. We advocate a paperless office, while guiding employees to conserve resources and implement double-sided printing of documents to reduce waste and lower waste generation. In addition, we will encourage property owners to engage in waste recycling and waste reduction. We will continue to strengthen the level of waste management with our waste management target as our course of action.

<u>Water Consumption</u>	<u>Unit</u>	<u>2021</u>
Municipal water ^(Note)	m ³	55,303.35
Municipal water consumption intensity	m ³ /000 m ² GFA	3.31

Note: The data does not include municipal water that is provided by property owners in property management services.

We value the extraction and use of water resources and are committed to improving the efficiency of water use. We utilise water recycling and use reclaimed water to water the gardens and green plants in some of our property management services. We provide water-saving signs in our office areas to remind our employees to save water. We will strive to explore more ways to save water, improve efficiency of water usage and achieve our water efficiency target.

Work safety plan

We place emphasis on occupational health and work safety and provide safety training to our staff and subcontractors covering topics such as our safety measures. In practise, we prepare a safety plan for each managed property, which is conveyed to our employees before commencement of works. The purpose of the safety plan is to (i) assess and identify risks associated with the works and environments associated with our operations; and (ii) formulate appropriate measures and works procedures for implementation. Our business departments are responsible for overseeing our compliance with the relevant PRC laws and regulations,

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conducting regular reviews and inspections of our safety performance, conducting review of any material accidents, and ensuring that we maintain the necessary licences, approvals and permits to operate.

Our Group organises vocational training on a regular basis and it is our policy that all frontline staff are required to attend the training covering our safety policies and measures, relevant legal requirements, equipment operations, prevention measures and company protocols in the event of accidents.

Our safety management system includes a reporting and record system for safety accidents happened in our managed projects. All safety accidents must be immediately reported to the responsible business department. Personnel from the responsible on-site management team are required to arrive at the accident place immediately to oversee the handling of the safety accident and ensure evidence of the accident is kept intact. Investigation of the accident will be conducted to find out the underlying cause, to establish accountability and to identify improvement measures.

Fatal accident happened in March 2018

On 3 March 2018, a fatal accident (the “**Accident**”) occurred at the hospital site in Beijing which we were engaged to provide property management services. The deceased person, who was employed by us, failed to operate a crane properly according to our safety measures, such as (i) confirming the condition of the hanging on crane; and (ii) prohibiting to stand under a hanging object. In result, a garbage container hung on the crane got loose and hit the deceased person’s head. After the investigation by the PRC authorities, a penalty decision (“the “**Decision**”) by Beijing Chaoyang District Emergency Management Bureau (北京市朝陽區應急管理局) (the “**Bureau**”), with the penalty amount of RMB230,000, was issued against our Group alleging the breach of relevant laws and regulations under Production Safety Law of the PRC and our internal safety measures for (i) failing to avoid passing over any person during lifting operation; and (ii) failing to ensure the lifting gears are in good condition and function. On 9 September 2019, we received a notice from the Bureau to suspend the enforcement of the Decision. On 8 March 2021, we further received a notice from the Bureau to terminate the enforcement of the Decision. We have also reached consensus with the deceased person’s family to pay compensation and funeral expenses of approximately RMB1.0 million.

After the occurrence of the Accident, we have implemented the safety measures, such as (i) carrying out safety training to our frontline workers; (ii) reviewing the adequacy of operation manual for using crane, including checking the condition of lifting gears and lifting objects; and (iii) keeping our on-site management team to exercise effective safety supervision and enhance their safety awareness.

Having reviewed (i) the records of the Accident and safety non-compliance incident; (ii) the additional measures put in place by our Group to prevent recurrence of the Accident and safety non-compliance incident; and (iii) the current safety measures and procedures of our Group, our Directors are of the view, and the Sole Sponsor concurs, that (i) the Accident and safety non-compliance were not caused by any material deficiencies in the design of our safety measures and procedures; (ii) the additional safety measures put in place by our Group to prevent recurrence of the Accident were adequate and effective; and (iii) the current safety measures and procedures of our Group are in compliance with the regulatory requirements.

As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we had obtained the necessary qualification in connection with our business operations and were in compliance with the regulatory requirements in relation to work safety in the PRC in material respects and that

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we had not been penalised by government authority for any significant amount due to any failure to comply with any work safety requirements under the PRC laws and regulations.

Hygienic working environment against COVID-19

In view of the outbreak of COVID-19, we have also adopted a contingency plan in January 2020 whereby our employees and subcontractors shall take all practicable steps in our managed projects to maintain a hygienic environment in the interest of all personnel who may be present including property owners, occupiers, visitors and our employees and subcontractors. Our Directors confirmed that the contingency plan includes the following measures to be taken in our managed projects, which include:

- temperature screening at entry of properties;
- hand sanitising;
- personal protection control (respiratory protection);
- environmental disinfection to all potentially contaminated surfaces or items; and
- provision of face masks to our employees and subcontractors.

Accordingly, all staff and subcontractors are required to familiarise themselves with requirements of our contingency plan for pandemic outbreak and ensure that all the frontline staff under our supervision fully comply with the requirements. We also provided training to our frontline staff on the proper use of the personal protective equipment and on-site management teams will check whether such equipment are functional and clean, and frontline staff are using correctly. Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, our frontline staff did not experience any material disruption caused by the COVID-19 pandemic when carrying out their responsibilities for the provision of our services. To the best of our Directors’ knowledge, there had been no confirmed cases of COVID-19 infection of our frontline staff as at the Latest Practicable Date.

Environmental protection

We also consider the protection of environment important and have in place measures to ensure our compliance with all applicable requirements. Given that we are a service provider for property management, property engineering and landscape construction, and property leasing services, we believe that we are not subject to material environmental liability risk or costs for compliance. During the Track Record Period and up to the Latest Practicable Date, we have not had any incidents which have materially and adversely affected our operations, and no fines or penalties for non-compliance of PRC environmental laws had been imposed on us.

EFFECTS OF THE COVID-19 OUTBREAK

An outbreak of respiratory illness caused by a novel coronavirus, which has been named as COVID-19 by the World Health Organization (“WHO”) was identified in December 2019 and spread globally in early 2020. On 11 March 2020, the WHO declared COVID-19 outbreak a pandemic. In response to the outbreak of

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COVID-19, the PRC Government has imposed measures across the PRC including, but not limited to, lock-down measures, travel restrictions, restrictions on enterprises from resuming work, management and control over work places and the mandatory quarantine requirements on infected individuals and anyone deemed potentially infected.

Impact on Our Business Operation

In relation to the provision of our services in general, our Directors confirm that (i) prior arrangement had been made in ensuring sufficient workforce available for our business operations during and after the outbreak of the epidemic and that our on-site management teams and frontline staff did not experience material disruption in carrying out their responsibilities for the provision of our services; and (ii) our major suppliers and the workers assigned by our subcontractors to our managed projects did not experience material disruption in supply of their products and/or services following the outbreak of the epidemic.

The COVID-19 will promote property management service providers to pay more attention to high-quality, safe and healthy services, which will further improve the service standards in China’s property management service market and gain great brand reputation for themselves. Moreover, in response to the outbreak of COVID-19, public facilities which have high visitor flows demand cleaning and security services with higher standards. As professional property management service providers could assist local governments in controlling the spread of the pandemic, local governments have growing awareness of the importance of property management service providers.

Up to the Latest Practicable Date, certain residential properties under our management have been placed under lockdown to comply with government regulations and measures to combat the COVID-19 pandemic. In order to continue the delivery of our property management services, we assigned our frontline staff to stay in the restricted properties and procured sufficient masks and personal protective equipment for our frontline staff to carry out their works as usual. We believe our efforts to control the outbreak has earned us high degrees of trust and reliance from property owners, residents and tenants of properties under our management. As such, property management service providers are expected to have more opportunities in the PRC property management service industry, in particular, to participate in property management market. Given our reliable cleaning and disinfection services provided during the outbreak of COVID-19, we were accredited as “Epidemic prevention and control work in Jinan City — Advanced Property Services Company* (濟南市疫情防控工作— 先進物業服務企業)” in June 2020 in respect of epidemic prevention and control in Jinan City. Moreover, in order to meet the expectation of the customers in health protection and service experience after the outbreak of COVID-19, we commenced to provide additional value-added property management services since 2020. For FY2020, FY2021 and 1H2022, the revenue generated from the provision of additional value-added property management services amounted to approximately RMB3.6 million and RMB3.6 million and RMB1.7 million, respectively. In view of our solid experience in managing hospitals and reliable cleaning and disinfection services provided during the outbreak of COVID-19, we were engaged by the Government to provide property management services in Jinan Fangcang Hospital in April 2022 and recorded an aggregate revenue of approximately RMB2.7 million for 1H2022.

Since the outbreak of COVID-19, we have received relief of social security payments of approximately RMB2.7 million from local government and reduced rental costs of approximately RMB1.8 million of our leased property rented from PRC state-owned enterprises, all of which were recognised in FY2020; while we

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incurred an additional costs for implementation of hygiene and precautionary measures, such as procurement of masks, personal protective equipment and temperature sensors, of approximately RMB0.7 million, RMB0.1 million and RMB2.1 million for FY2020, FY2021 and 1H2022, respectively.

In April 2020, we received a notice from Customer Group A in relation to the reduction of their business subcontracting arrangements due to the travel restrictions. As a result, the revenue generated from Customer Group A decreased by approximately RMB8.6 million from approximately RMB32.7 million for FY2019 to approximately RMB24.1 million for FY2020, mainly due to the deduction of contract value of two property management agreements by an aggregate amount of approximately RMB5.9 million. However, our Directors believe that the impact to our business operation is minor by having considered that since April 2020 and up to the Latest Practicable Date, (i) the said two property management service agreements with Customer Group A have been renewed with an aggregate increase in the contract value of approximately RMB2.3 million; and (ii) we have secured three new property management projects from Customer Group A with the aggregate contract value of approximately RMB1.8 million.

Our average trade receivables turnover days slightly increased from 44.6 days in FY2019 to 47.4 days in FY2020 primarily as a result of longer settlement period for the trade receivables due to the longer settlement period of our customers impacted by the outbreak of COVID-19. The collection rate of property management fees for the non-residential properties under our management, calculated by dividing the property management fees we actually received from our property management services during a period by the total property management fees payable to us accumulated during the same period, was approximately 85.2%, 81.3%, 84.2% and 53.8% for FY2019, FY2020, FY2021 and 1H2022, respectively; while the collection rate of property management fees for the residential properties remained stable at approximately 84.0%, 85.2%, 89.0% and 67.8% for FY2019, FY2020, FY2021 and 1H2022, respectively. During the Track Record Period, the collection rate of property management fees for the non-residential properties was lower than those for the residential properties because we generally granted our customers for the non-residential properties a credit period within 120 days. Up to the Latest Practicable Date, the collection rate of property management fees for the non-residential properties for FY2019, FY2020, FY2021 and 1H2022 was at 100%, approximately 99.9%, 99.3% and 74.3%, respectively; and the collection rate of property management fees for the residential properties was at 98.5%, 96.7%, 90.2% and 70.2%, respectively. Our collection rate for non-residential properties was generally low in the middle of a year mainly due to the fact that we generally granted credit terms to the customers in non-residential sector and based on our past experience, Government and public institutions took a relatively longer time to process the settlement of the management fees. Also, in view of the background and historical settlement pattern of the customers in non-residential sector, our property management team usually facilitates the outstanding fee collection process and the Government and public institutions customers will settle the fees prior to the year end, which led to the collection rate for 1H2022 lower than those for FY2019, FY2020 and FY2021. The decrease in collection rate in 1H2022 for residential properties was primarily due to the fact that we did not actively collect management fee from property owners and tenants in a timely manner in view that (i) our property management team and frontline staff were responsible to assist on the implementation of the residential compound lockdown and hence we had fewer staff to follow up on fee collection work; and (ii) some of the property owners and tenants moved out from the residential properties under our management during COVID-19 pandemic due to lockdown and travel restriction arrangements.

Saved for the abovementioned, our Directors are confident that our Group is able to discharge the obligations under all existing agreements, and therefore, there is no financial damage to our Group or impact on our long-term relationship with our customers. The negative impact of COVID-19 to our property management

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services was and is expected to be minimal as we continued to record a steady growth of revenue, except for our less timeliness of collection of property management fees.

Unlike other industries such as retail and manufacturing which may be subject to extensive or even complete suspension of operations for a period of time as a result of the outbreak of COVID-19, given the nature of our business operations, our Directors believe that the risk of our Group having to suspend our operations is remote. Our Directors also consider that the quarantine restrictions encouraged property management service providers to accelerate the development of mobile applications, internet platforms and smart community technologies to maintain their services offered and appropriate social distance with others. Our OSCS Service Centre and Runzhiyun enable us to continuously provide services to our customers in an effective and safe manner during the outbreak of COVID-19. Based on the above, our Directors are of the view that no material adverse effect on our operations is expected to result from the recent outbreak of COVID-19.

Our contingency plan towards the COVID-19 Outbreak

In response to the COVID-19 outbreak, we have implemented a contingency plan to minimise the disruptions that may be caused to our business operations, including identification of and discussions with various suitable alternative service subcontractors and material suppliers which meet our demands and requirements to ensure the stability and consistency of our services, sourcing of additional quantities of materials needed for our operations to reduce any disruptions that may cause, and implementation of the flexible rotation arrangements for our staff across the PRC with an aim to control and minimise possible community transmission of COVID-19 to ensure a stable workforce available. Further, we have also adopted enhanced hygiene and precautionary measures across our managed projects since January 2020. For further details of these measures, please refer to the paragraph headed “Social Health, Safety and Environmental Matters — Hygienic working environment against COVID-19” in this section.

Impact on our financial condition

In the unlikely event that we are forced to reduce or suspend part of our business operations, whether due to government policy or any other reasons beyond our control, due to the outbreak of COVID-19, we estimate our existing financial resources (including cash and bank balances) as at 31 July 2022 could satisfy our necessary costs for over 12 months. We also estimate that, in the unlikely event mentioned above and based on the assumptions below except that there would be the proceeds from the [REDACTED] as allocated for general business operations and working capital, our Group will remain financially viable for over 12 months. Our key assumptions of the worst case scenario where our business is forced to be suspended due to the impact of COVID-19 include: (i) we will not generate any income due to the suspension of business; (ii) all of our staff, including operational and administrative staff, are encouraged to take unpaid leave under mutual consent or dismissed upon proper notice in accordance with the employment contract and no significant compensation is incurred; (iii) we may incur one-month staff cost to dismiss frontline staff assuming no mutual consent to take unpaid leave is obtained from them; (iv) we will continue to incur the payments related to our investment properties, including management fees and other miscellaneous charges that are paid monthly; (v) minimal operating and administrative expenses will be incurred to maintain our operations at a minimum level (including basic headquarter office maintenance cost, utilities expenses, fees to be incurred as a listed company such as annual listing fee, annual audit fee, financial reports and compliance adviser fee); (vi) the expansion plan is delayed under such condition; (vii) there will be no further internal or external financing from our Shareholders

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or financial institutions; (viii) no further dividend will be declared and paid under such situation; (ix) our trade receivables will not be settled based on historical settlement pattern while trade payables will be settled when due; and (x) there are no material changes in the near future that would significantly affect the aforementioned key assumptions. The abovementioned extreme situation may or may not occur. The abovementioned analysis is for illustrative purpose only and our Directors currently assess that the likelihood of such situation is remote.

In light of the above, our Directors confirm that the outbreak of COVID-19 does not have a material adverse impact on our Group’s continuing business operation and sustainability as (i) the property management industry is an industry involving necessities services; (ii) except for the agreements entered into with Customer Group A, our Group is able to discharge our obligations under all existing agreements; and (iii) our Group has sufficient cash and cash equivalents to maintain our operation. Our Director also confirmed that during the Track Record Period and up to the Latest Practicable Date, our Group did not encounter any material disruptions of our supply chain given that (i) we maintained a sufficient level of storage of materials and consumables at the properties under our management; (ii) on top of the frontline workers provided by our subcontractors, our Group has own frontline staff to ensure the delivery of our property management services; and (iii) there was no material disruption to the operations of our suppliers and subcontractors to the best of our Directors’ information and knowledge. During the Track Record Period and up to the Latest Practicable Date, our frontline staff did not experience any material disruption caused by the COVID-19 pandemic when carrying out their responsibilities for the provision of our services. To the best of our Directors’ knowledge, there had been no confirmed cases of COVID-19 infection of our frontline staff as at the Latest Practicable Date.

Effects of the COVID-19 outbreak on our business strategies

According to the F&S Report, although the outbreak of COVID-19 is expected to cause certain short-term economic slowdown across the PRC, it will unlikely affect the regional macroeconomic development plan and talent attraction plan in the long run, and it is expected that once the outbreak is effectively controlled, the outlook for the demand of both residential and non-residential properties and related property management services will remain positive. Our Directors therefore confirm that the COVID-19 outbreak will not have adverse effect on our business strategies and our Group will utilise the [REDACTED] from the [REDACTED] in accordance with the section headed “Future Plans and [REDACTED]” in this document.

RISK MANAGEMENT AND INTERNAL CONTROL

Our Board is responsible for establishing our internal control and risk management systems and reviewing their effectiveness. We have procedures for maintaining our internal control and risk management systems, covering areas such as business operations, corporate governance, management, legal matters, finance and audit. We believe that our internal control and risk management systems are sufficient in terms of comprehensiveness, practicability and effectiveness.

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In addition, the following sets out the key measures adopted by us under our risk management and internal control systems for managing the more particular operational and financial risks relating to our business operation:

Risk of the increase in labour costs and other operational expenses

In respect of the operational risks associated with the increase in labour costs and other operational expenses, we have implemented the following measures to manage the risks:

- (i) our human resources department is responsible for controlling staff costs. Our operation department monitors the subcontracting fees for services which are evaluated in the tender budgeting assessment by our marketing department;
- (ii) our finance department investigates on and analyses any fluctuation in cost of our services and devises plans to control such costs;
- (iii) our Group has implemented of streamlining and standardising our operation process and information technology system with a view to enhance the automation of our operation so that our reliance on intensive labour can be minimised;
- (iv) our human resources department is responsible for monitoring the compliance with our internal rules and manuals by our employees designed to ensure service quality, efficiency and the image of our Group;
- (v) we have adopted stringent quality control and supervision measures and procedures to prevent risks. For details, please see the paragraph headed “Quality Assurance” in this section; and
- (vi) we have adopted necessary health and safety measures for the purpose of minimising occupational injuries and we have taken out third party liability insurance to mitigate such risks.

Risk of potential inaccurate cost estimation and shortfall for the agreements on lump sum basis

In respect of the risks inherent from the agreements on lump sum basis we enter into with individual customers, we have established the following internal measures to prevent or eliminate possible shortfall between the lump sum payments our customers paid to us and the actual cost incurred in the provision of property management services:

- (i) before entering into a new property management agreement with our fee calculated on lump sum basis, we would conduct a site visit to ascertain the condition of the property, the users thereof and customers’ expectation and work out a feasibility analysis on our projected profitability of the potential project. After we have signed a new agreement with our fee on lump sum basis, we would prepare a financial budget of the property on an annual basis taking into account its projected management fee and income and review the progress of the relevant property as measured against our financial budget on a regular basis;
- (ii) if necessary, we will seek to negotiate with our customers for an increase in property management fees to cover our shortfall as and when we consider appropriate or upon the renewal of the agreements on lump sum basis;

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- (iii) seeking to make up for the shortfall from excess working capital generated in subsequent periods, which we target through enhancing the collection of property management fees and reducing costs at the property level;
- (iv) implementing our standardisation, centralisation and automation measures to reduce costs; and
- (v) improving the collection of property management fees from the customers of the relevant properties by (a) reviewing the ageing analysis of property management fees receivable monthly; (b) taking legal action against the tenants to recover the outstanding property management fees if the ordinary collection measures, such as sending reminders and payment notices to the defaulting tenants, proved ineffective. We will review the effectiveness of our management fee collection methods and our finance department will discuss any additional measures with our on-site staff to further improve our collection rate on a regular basis.

Risk of our mergers and acquisitions

In respect of the strategic risks associated with our mergers and acquisitions, we have implemented the following measures to manage the risks:

- (i) seeking potential acquisition opportunities and investment candidates based on our industry experience and a number of selection criteria;
- (ii) our strategy is that we begin by acquiring minority equity interests in the target company to understand the operation of the target company and to ascertain if their management team and operation model can be integrated into our management team and business model before we capitalise on our brand equity and service quality;
- (iii) engaging professionals such as auditors and lawyers to perform due diligence to prevent potential liabilities from being overlooked; and
- (iv) engaging in frequent communication with the target company to ensure consistency in marketing and sales operations while retaining as much core competencies of the target company as possible.

Risk of occupational health and safety and environmental compliance

All employees and our subcontractors are required to familiarise themselves with requirements of our contingency plan for pandemic outbreak and workplace safety plan to ensure that the measures are properly implemented. Our Directors also consider that establishing and implementing sound environmental, social and governance (“ESG”) principles and practices will help increase the investment value of our Company and provide long-term returns to our stakeholders. To ensure the effectiveness of our ESG risk management measures and internal control systems, our Board will be responsible for overseeing the formulation and reporting of our ESG strategies and determining the ESG related risks. We intend to adopt the following approaches and strategies to evaluate and manage the material ESG related issues and ensure our compliance with the relevant rules and regulations, including but not limited to:

- (i) reviewing ESG reports of similar industry to identify the relevant ESG areas;

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- (ii) discussing with our key stakeholders on the material ESG areas identified; and
- (iii) discussing among our management to ensure all the material ESG areas which are important to our business development are being reported and complied with.

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we had implemented necessary internal policies and procedures for compliance with the PRC laws in relation to workplace safety in all material respects and save for the fatal accident in March 2018, we have not had any incidents which had materially and adversely affected our operations.

Risk of our information technology (“IT”) system

We have also formulated internal control measures with regards to our IT system in order to facilitate the daily work of our employees and create a safe internet environment. In particular, our administration and general management department and IT personnel will conduct an annual inspection on our IT system, covering the operating system, licensed software installation, anti-virus software installation and upgrade and general internet environment monitoring. We offer training to employees with an aim to enhance their awareness and to educate them on the importance of using licensed software.

We have also developed internal guidelines for the procurement of computer software and the use of licensed software. According to the internal guidelines, in addition to maintaining a control list of installed computer software and maintained software license as well as conducting annual review on the licenses of computer software, the administration and general management department is also responsible for procurement of computer software directly from manufacturers or indirectly from licensed authorised dealers.

Corporate governance

In order to strengthen our internal control and risk management systems, ensure compliance with the applicable laws and regulations (including the Listing Rules) upon [REDACTED], we have adopted the following additional measures:

- (i) our Board (including the audit committee of our Board) will continuously monitor, evaluate and review our internal control and risk management systems to ensure compliance with the applicable legal and regulatory requirements and will refine and enhance our internal control and risk management systems as appropriate;
- (ii) Mr. Ma Xun, our secretary to the Board, will be responsible for overseeing our internal control and risk management systems in general and will act as the chief coordinator of matters relating to legal, regulatory and financial reporting compliance. Upon receipt of any query or report relating to legal, regulatory and financial reporting compliance, Mr. Ma will look into the matter and, if considered necessary or appropriate, seek advice, guidance or recommendation from professional advisers and report to our Board. For the qualifications and experience of Mr. Ma, please refer to the section headed “Directors and Senior Management” in this document;
- (iii) we have appointed Zhongtai International Capital Limited as our compliance adviser upon [REDACTED] to advise us on matters relating to compliance with the Listing Rules;

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- (iv) we will continue to identify and assess our operational, business and financial risks on an on-going basis, implement sufficient measures to minimise and mitigate such risks, and ensure that all such measures remain effective;
- (v) if necessary, we may arrange our Directors, members of our senior management and relevant employees to attend training on the legal and regulatory requirements applicable to our business operations from time to time; and
- (vi) if necessary, we may consider appointing external legal advisers to advise us on matters relating to compliance with the Listing Rules and the applicable laws and regulations.

Enhanced internal control measures to prevent recurrence of non-compliance incidents

To prevent the recurrence of non-compliance incidents, we have implemented the following enhanced internal control measures:

Social insurance and housing provident fund contributions

We have established an internal procedure on monitoring of our on-going compliance with the relevant employment laws and regulations in the PRC, which includes (i) regularly communicating with relevant government authorities or agencies to ensure that our calculation and payment methods are in accordance with the relevant laws and regulations; (ii) regularly consulting external counsel to adequately understand and interpret the relevant PRC laws and regulations and timely identify any non-compliance issues; (iii) preparing periodic reports regarding our contribution progress, including contribution amounts, for review by our Board; and (iv) designation of our human resources manager to monitor and ensure our compliance with, and identify any updates to, such laws and regulations and to complete the monthly calculations of social insurance and housing provident funds, which shall then be approved by our executive Directors.

EMPLOYEES

Our Directors believe our employees are valuable assets to our business and we have maintained good relationship with our employees. As at the Latest Practicable Date, we had a total of 8,373 full-time employees (including our two executive Directors and three non-executive Directors but excluding three independent non-executive Directors) in the PRC, the majority of whom are based in Shandong Province, where our Group is headquartered and most of our managed projects are located. The following table sets out a breakdown of our full-time employees by function as at the Latest Practicable Date:

	Number of employees	% of total
Headquarters		
Directors	5	0.1
Accounting and finance	17	0.2
Marketing	9	0.1
Quality control	6	0.1
Research and development	7	0.1
Administration and general management	19	0.2
<i>Subtotal</i>	63	0.8

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	<u>Number of employees</u>	<u>% of total</u>
Frontline		
Project management	277	3.3
Cleaning	4,938	59.6
Security	902	10.9
Repair and maintenance	321	3.9
Customer services ^(Note 1)	989	11.9
Greening and gardening	115	1.4
Hospital logistics	621	7.5
Engineering	13	0.1
Others ^(Note 2)	47	0.6
<i>Subtotal</i>	<u>8,223</u>	<u>99.2</u>
Total	<u>8,286</u>	<u>100.0</u>

Notes:

1. It includes concierge staff, drivers, catering waiters and chefs, dormitory administrators and toll collectors.
2. It includes mailmen, printing clerks and handymen.

The following table sets forth a breakdown of our full-time employees by geographic location as of the Latest Practicable Date:

	<u>Number of employees</u>	<u>% of total</u>
Shandong Province	7,876	95.1
Beijing-Tianjin-Hebei Region	250	3.0
Yangtze River Delta Region	147	1.8
Shenzhen	13	0.1
Total	<u>8,286</u>	<u>100.0</u>

We generally recruit our employees through job advertisements on recruitment platforms and job fairs. Our employment contracts with our employees cover matters such as work location, scope of duties, work hours, wages, employee benefits, safety and sanitary conditions at the workplace, confidentiality obligations and grounds for termination. These employment contracts either have no fixed terms, or if there are fixed terms, the terms are generally up to five years, after which we evaluate renewals based on performance appraisals.

We seek to remunerate our employees on a market-competitive basis. We offer comprehensive compensation to our employees, including salary, bonuses and cash subsidies. We generally determine employees' compensation based on their qualification, position, seniority and performance. We also provide training to all our employees to help them become familiar with our business. Our induction training generally covers our corporate history, corporate culture, organisational structure and business activities, whereas our routine trainings generally include workplace safety as well as technical trainings that are specific to our employees' job duties.

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Pursuant to the applicable PRC laws and regulations, we are required to contribute to various social security insurance including pension insurance, medical insurance, work related injury insurance, maternity insurance and unemployment insurance, and housing provident fund for our employees in the PRC.

As at the Latest Practicable Date, our employees did not form any labour unions. Our Directors believe that we maintain a good relationship with our employees, and have not experienced any significant labour dispute over the Track Record Period. Our Directors confirmed that our Group has not experienced any work stoppage or labour strike and has not experienced any significant difficulty in recruiting or retaining qualified staff during the Track Record Period and up to the Latest Practicable Date.

INSURANCE

We are subject to the social insurance system of the PRC and are required to make contributions for our PRC employees towards five categories of insurance, including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. During the Track Record Period, our Group did not make full contribution to the social insurance for all employees as required under the relevant PRC regulations. For details, please refer to the paragraph headed “Legal Proceedings and Compliance” in this section.

We also maintain employer responsibility insurance, public responsibility insurance, internship responsibility insurance and property insurance, which are not mandatory under PRC laws. Our Directors consider that the above insurance plans and amounts insured are sufficient to cover the operational risks and protect us from any potential loss or damage and are in line with the industry norm. However, there is no assurance that the insurance policies we maintain are sufficient to cover all of our operational risks. For more information, please refer to the section headed “Risk Factors — Risks Relating to our Business — We may not have insurance coverage that is adequate to cover potential liabilities or losses” in this document.

PROPERTIES

Owned properties

As at the Latest Practicable Date, we owned 17 properties with an aggregate GFA of approximately 955.52 sq.m. for use as office and 35 investment properties with an aggregate GFA of approximately 2,205.40 sq.m. for our property leasing business. As at the Latest Practicable Date, we had obtained all title certificates for our own properties material to our operations. For details of our material investment properties, please refer to the Appendix III to this document.

Leased properties

As at the Latest Practicable Date, we leased four properties in various locations in the PRC with an aggregated GFA of approximately 55,844.61 sq.m. for use primarily as offices and investment properties for property management and property leasing businesses. We had not registered the lease agreements of our leased properties with the local housing administration authority as required under PRC law, primarily due to lack of cooperation from the landlords in registering the relevant lease agreements, which were beyond our control. According to the relevant PRC laws and regulations, we might be ordered to rectify this failure to register by

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competent authority and if we fail to rectify within a prescribed period, a penalty of RMB1,000 to RMB10,000 for each lease agreement may be imposed on us as a result. As at the Latest Practicable Date, our Directors confirm that we had not received any notice from any regulatory authority with respect to potential administrative penalties or enforcement actions as a result of our failure to file the lease agreements described above. Our Directors are of the view that such non-filing would not have a material impact on our business operations and the proposed [REDACTED].

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we have registered for a trademark in Hong Kong and registered for 11 trademarks, 32 software copyrights and three domain names in the PRC. For further details of our intellectual property rights which we consider to be material to our business, please refer to the paragraph headed “B. Further Information about our Business — 2. Intellectual property rights” in Appendix V to this document.

During the Track Record Period and up to the Latest Practicable Date, no material claims or dispute was brought against us in relation to any infringement of trademarks or other intellectual property rights. Our Directors are not aware of any use of our logo or brand by any third-party, and believe that there has been no infringement of our intellectual property rights that would result in a significant potential impact to our business.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We may be involved in legal, arbitrational or administrative proceedings from time to time during the ordinary course of business. During the Track Record Period and up to the Latest Practicable Date, we or our Directors were not involved in any legal, arbitrational or administrative proceedings that, being pending or have been threatened against us, which could have a material and adverse effect on our financial condition or operation results.

Historical Non-Compliance Incident

As advised by our PRC Legal Advisers, we had not been subject to any material fines or legal actions involving non-compliance with any PRC laws or regulations relating to our business during the Track Record Period and up to the Latest Practicable Date. Below summary sets out incident of historical non-compliance with applicable regulations during the Track Record Period. Our Directors believe that below non-compliance incident will not have any material operational or financial impact on us.

Contribution to social insurance fund and housing provident fund

Background for non-compliance incident

During the Track Record Period, some of our PRC subsidiaries and branches failed to register for and/or make full contribution to the social insurance and housing provident funds for some of our employees as required under PRC law. For details of the relevant PRC laws and regulations, please refer to the section headed “Regulatory Overview — Legal Supervision over Labour Protection in the PRC” in this document.

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Reasons for the non-compliance

This non-compliance incident was primarily because: (i) some of our employees requested us not to pay social insurance and housing provident funds for them because they had purchased new rural insurance, a type of social insurance for rural residents, or for other personal reasons; (ii) some of our employees requested us to make contribution to social insurance and housing provident funds for them based on a lower standard instead of their actual salaries, as they did not want to bear the full amount of their portion of the relevant contribution; and (iii) our responsible personnel at our subsidiaries and branches did not adequately understand relevant local regulatory requirements due to the lack of communication with the relevant authorities with regard to specific local practice.

Legal consequences and potential maximum penalties

According to the Social Insurance Law and the Interim Regulations on the Collection and Payment of Social Insurance Premiums, (i) each of our non-compliant subsidiaries, which did not complete the social insurance registration before the prescribed deadline, may be fined more than one time but less than three times the amount of contributions payable, and (ii) we may be subject to a late payment fee of 0.05% per day from the day the relevant contributions are due if we fail to make or make in full social insurance contribution before the prescribed deadline. If we fail to make contribution before the prescribed deadline, we may be fined one to three times the outstanding contribution. According to the Housing Provident Fund Management Regulations, (i) each of our non-compliant subsidiaries, which did not complete the housing provident fund payment registration and housing provident fund account establishment procedures before the prescribed deadline, may be fined RMB10,000 to RMB50,000, and (ii) we may be ordered by the Housing Provident Fund Management Center to make the relevant payments if we fail to make or make in full housing provident fund contribution before the prescribed deadline. Failure to make such contribution before the prescribed deadline may lead to apply for the enforcement by the People’s Court.

Our Directors believe that such failure to register for and/or make full contribution to the social insurance and housing provident funds would not have any material and adverse effect on our business and results of operations, considering that: (i) during the Track Record Period and up to the Latest Practicable Date, we had not received any notifications from the relevant PRC authorities requiring us to pay material shortfalls or the penalties with respect to social insurance and housing provident funds; (ii) we had not been subject to any administrative penalties during the Track Record Period and up to the Latest Practicable Date; (iii) all entities within our Group that registered for social insurance and/or housing provident funds during the Track Record Period have obtained written confirmations from competent local social insurance and housing provident funds authorities, stating that there was no due and unpaid social insurance and housing provident funds or no administrative penalty has been imposed on us during the Track Record Period; (iv) we have made full provisions for the shortfall of contribution to social insurance and housing provident funds in the total amount of RMB10.9 million, RMB7.9 million, RMB9.8 million and RMB3.3 million, respectively, on our financial statements of FY2019, FY2020, FY2021 and 1H2022; (v) our Controlling Shareholders have undertaken that in the event that we receive requests from the relevant authorities to pay the overdue social insurance and housing provident funds contributions, or that we are required to pay any late charges or penalties as a result of such overdue contributions, they will indemnify us against our payments of overdue contributions and any late charges or penalties imposed by the relevant authorities, to the extent that any such payment is not covered by the provisions we made for our shortfall of contribution to social insurance and housing provident funds; and

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(vi) our PRC Legal Advisers advise that the risk of being penalised for the non-compliances in relation to social insurance and housing provident funds is remote, on the ground that, under the relevant PRC laws and regulations, the relevant PRC authorities would need to provide a prescribed period to rectify the abovementioned shortfall in social insurance and housing provident funds before imposing any administrative penalties.

Remedies and rectification measures taken and internal control measures adopted

As at the Latest Practicable Date, we had established accounts for social insurance and housing provident funds for all entities within our Group that had employees and were in the processing of adjusting the contribution base of social insurance and housing provident funds for our employees in an effort to fully comply with the relevant PRC laws and regulations. Since May 2021, we have begun making social insurance and housing provident fund contributions in full for certain eligible employees based on their actual salary levels. Based on the communications with the relevant government authorities, the adjustment of the contribution base is usually made in a designated time each year and such time varies in different regions. Therefore, we expect to make full contributions of social insurance and housing provident funds for all of our employees on an adjusted contribution base upon the [REDACTED].

In addition, we adopted various internal policies and procedures to ensure that we establish the relevant accounts and make full contribution relating to social insurance and housing provident funds under the relevant PRC laws and regulations in the future. For details, please refer to the paragraph headed “Risk Management and Internal Control — Enhanced internal control measures to prevent recurrence of non-compliance incidents — Social insurance and housing provident fund contributions” in this section.

RECENT REGULATORY DEVELOPMENT

The Proposed Three Red-Line Regulation

In 2020, the Ministry of Housing and Urban-Rural Development, together with the People’s Bank of China, proposed to issue the “three red-line” regulation for real estate companies, with intention to accelerate the deleveraging process of real estate companies and facilitate the healthy development of China’s real estate industry. The “three red-line” regulation refers to: (i) the liability-to-asset ratio (excluding prepayments) of a real estate company shall not exceed 70%; (ii) the net gearing ratio of a real estate company shall not exceed 100%; and (iii) cash over short-term interest-bearing loans shall not be lower than 1.0. In particular, if a real estate company complies with all of the above-mentioned three limits (also known as green real estate companies), its annual growth rate of interest-bearing liabilities will be capped at 15%; if a real estate company fails to comply with one of the above-mentioned three limits (also known as the yellow real estate companies), its annual growth rate of interest-bearing liabilities will be capped at 10%; if a real estate company fails to comply with two of the above-mentioned three limits (also known as the orange real estate companies), its annual growth rate of interest-bearing liabilities will be capped at 5%; and if a real estate company fails to comply with all of the above-mentioned three limits (also known as the red real estate companies), it will not be allowed to increase its interest-bearing liabilities.

In the event that the above-mentioned standard comes into effect, based on the audited financial statements of Shandong Diping Real Estate Co., Limited* (山東地平置業有限公司) (“**Shandong Diping**”), the

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main operating subsidiary of Hang Qian Group and the only member of the Controlling Shareholders Group whose principal business activities involve property development, prepared in accordance with PRC GAAP issued by the local auditor and using the above-mentioned calculation methods, Shandong Diping’s liability-to-asset ratio (excluding prepayments), net gearing ratio and cash over short-term interest-bearing loans amounted to 36.4%, 24.2% and nil as at 31 December 2021, respectively, which comply with all of the “three red-line” regulation. As a result, the ability of Shandong Diping to obtain additional debt financing will not be materially affected as per the “three red-line” regulation.

Having considered that (i) during the Track Record Period, we generated revenue from the provision of property management services to the properties developed by our related parties of approximately RMB39.5 million, RMB46.9 million, RMB53.5 million and RMB26.7 million, representing approximately 10.8%, 11.6%, 9.9% and 8.7% of the total revenue generated from the provision of property management services, respectively; (ii) none of the properties developed by the Controlling Shareholders Group was delayed or terminated for delivery due to the above regulations; and (iii) as advised by our PRC Legal Advisers, as at the Latest Practicable Date, local government in Shandong Province where we generated substantially all of our revenue has not released any regulations or standards at provincial and/or local level pursuant to the “three red-line” regulation, our Directors are of the view, and the Sole Sponsor concurs, that to their best knowledge, the “three red-line” regulation will not have any material adverse impact on our operations, business and financial condition.

Recent Changes in Provision of Mortgage Loans to Property Purchasers

On 28 December 2020, PBOC and China Banking and Insurance Regulatory Commission jointly promulgated the Notice on Establishing a Centralisation Management System for Real Estate Loans of Banking Financial Institutions (《關於建立銀行業金融機構房地產貸款集中度管理制度的通知》) (the “**Notice**”), which put forward certain limitation for the proportion of real estate loans and the personal housing loans to all RMB loans in banking financial institutions (excluding overseas branches). Taking into account the asset scale and types of banking financial institutions and other factors, the Notice sets different upper limits on the ratio of individual housing loans and ratio of real estate loans of banking financial institutions at different levels, and the banking financial institutions exceeding such upper limit shall have a transition period of two or four years to comply with the requirements.

Instead of raising the interest rates of individual housing loans, the Notice only limits the proportion of individual housing loans of various commercial banks. Similar to the interest rate adjustment of individual housing loans, this is also PRC government’s control means to curb the overheated real estate market and help the real estate market develop in a healthy and stable way. In view that the revenue generated from the provision of property management services to the residential properties developed by our related parties remained at an insignificant level during the Track Record Period and amounted to approximately RMB16.9 million, RMB17.3 million, RMB19.9 million and RMB10.4 million, representing approximately 4.6%, 4.3%, 3.7% and 3.4% of the total revenue generated from the provision of property management services, respectively, we believe that the Notice do not have any material adverse impact on our operation or financial conditions.

Recent Changes in Property Management Service Regulations

On 25 December 2020, MOHURD and other nine competent government departments issued Notice on Strengthening and Improving Residential Property Management (《關於加強和改進住宅物業管理工作的通知》)

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(the “**Property Notice**”) with the purpose of accelerating the development of the property management service industry. Most rules in the Property Notice are non-mandatory and are related to the deployment of the governmental work, there are few rules applicable to property enterprises, which are as follows: (1) the quality of property service should be improved; (2) the pricing mechanism for property management services should be reasonable; (3) the merger and reorganisation of property management service enterprises are encouraged; (4) the credit management system for property service enterprises should be established. Therefore, as advised by our PRC Legal Advisers, the function of foresaid rules is to standardise property companies rather than imposing punishments. Considering that (i) the property management committee would merely fulfil a property owners’ association’s responsibilities primarily by overseeing the quality of property management service provision, renewing property management service agreements with existing service providers or selecting new ones, and representing property owners and residents to communicate with property management service providers prior to the establishment of property owners’ associations; (ii) the administrative department of real estate of the people’s government of the district or county, the street community office or the people’s government of the township or town is responsible for facilitating the establishment of property owners’ association, and for communities which are not prepared to establish property owners’ associations, the communities may first establish the property management committee composing of members mainly including people from the residents’ committee and property owners’ representatives, among other people, and serving as a provisional property owners’ committee; and (iii) to our best knowledge, we had not been imposed any material administrative punishment for violation of the Property Notice by the competent authorities and our Directors are of the view that we have complied with the regulatory requirements in the Property Notice, and it is unlikely that we would incur any material extra operational burden or costs to comply with the property management committee system. Therefore, we do not expect the Property Notice would have a material impact on our operation.

On 13 July 2021, MOHURD and other seven departments promulgated the Notice on Continued Rectification and Standardisation of the Real Estate Market Order (《住房和城鄉建設部等8部門關於持續整治規範房地產市場秩序的通知》) (the “**Regulatory Notice**” and together with the Property Notice, the “**Notices**”) to continue to rectify and standardise the real estate market order in the fields of real estate development, property sale and purchase, housing leasing and property management services. The following items are the key points of rectification in the fields of property management services: failing to provide services in accordance with the agreed content and standards of the property management contract; failing to publicise the property management charging item standards, the operation and income of the owner’s common part, the use of maintenance funds and other relevant information in accordance with the regulations; charging fees beyond the contractual agreement or publicising the charging item standards; unauthorised use of the owner’s shared part to carry out business activities, infringement and misappropriation of the owner’s shared part of the operating income; refuse to withdraw from the property management project without proper reason after the property management contract is terminated lawfully. For property management enterprise that violate laws and regulations within their respective jurisdictions, measures such as warning and interview, suspension of business for rectification, revocation of business licence and qualification certificate etc. shall be adopted pursuant to the laws and regulations, and shall be exposed to the public; any case constituting a criminal offence shall be referred to the public security and judicial authorities for investigation and punishment pursuant to the law.

After the promulgation of the Regulatory Notice, we conducted self-inspection and the PRC Legal Advisers carried out its due diligence inspection as appropriate, and no material violation of the Regulatory Notice was found. Based on the results of our self-inspection and due diligence inspection carried out by the

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PRC Legal Advisers, and the fact that each operating subsidiary of our Company has obtained the compliance letter from the administrative authority of property management services confirming that there is no major administrative penalty imposed by the administrative authority of the property management services during the Track Record Period, the PRC Legal Advisers are of the view that, we are in compliance with the requirements in relation to property management services in the Regulatory Notice in all material aspects.

To ensure continuous compliance with the requirements set out in the Notices, we have already formulated and implemented, and perfected in accordance with the Notices, the relevant internal policy and system, requiring the subsidiaries providing property management services to continuously and strictly comply with the relevant requirements in the Notices; as well as established a supervisory mechanism to conduct examination regularly. Based on the above, the PRC Legal Advisers are of the view that the Company has established corresponding internal policy and mechanism to ensure the continuous compliance with the relevant requirements in Notices going forward. Nevertheless, the Group remains susceptible to regulatory changes relating to the property development and property management industries in the PRC.

On the basis of the above, our Directors are of the view, and the Sole Sponsor concurs, that the Notices do not have any material adverse impact on our Group’s operation and financial performance.

The Proposed Real Estate Tax Reform

On 23 October 2021, the SCNPC adopted the Decision to Carry out a Pilot Programme of Real Estate Tax Reform in Certain Areas (《全國人民代表大會常務委員會關於授權國務院在部分地區開展房地產稅改革試點工作的決定》) (the “**Decision**”), authorising the State Council to carry out a pilot programme of real estate tax reform in certain areas. The Decision clarifies that the real estate tax shall be levied on various types of real estate for residential and non-residential use in urban areas, and that the holders of land use rights and owners of such real estate shall pay for the real estate tax. The Decision authorises the State Council to formulate specific measures for the real estate tax pilot programme, determine the list of cities for the pilot programme and file the record with SCNPC. The Decision also authorises the local governments of the pilot areas to formulate and implement specific rules.

According to the Decision, the period for the real estate tax pilot programme shall be five years from the date when the measures for the pilot programme are officially issued by the State Council. It is not clear when the detailed measures for the real estate tax pilot programme will be formally introduced. As of the Latest Practicable Date, the pilot cities of real estate tax are Shanghai and Chongqing.

Therefore, as of the Latest Practicable Date, the Decision is not expected to affect cities where we and our related parties operate. In addition, our Directors confirm that we were not involved in any investigation on real estate tax by regulatory authorities as of the Latest Practicable Date. Our Directors also confirm that we will (i) monitor the latest updates of the Decision; and (ii) comply with the relevant real estate tax regulations and requirements when they are implemented. As such, as advised by our PRC Legal Advisers, our Directors are of the view that the real estate tax will have no material adverse impact on the business operations or financial performance of our related parties and us.